

CVB FINANCIAL CORP  
Form 10-Q  
November 04, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2005**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-10140**

**CVB FINANCIAL CORP.**

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of incorporation  
or organization)

95-3629339

(I.R.S. Employer Identification No.)

701 North Haven Ave, Suite 350, Ontario, California

(Address of Principal Executive Offices)

91764

(Zip Code)

(909) 980-4030

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock of the registrant: 61,128,724 outstanding as of November 2, 2005.

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**PART I FINANCIAL INFORMATION (UNAUDITED)**  
**ITEM 1. FINANCIAL STATEMENTS**  
**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

**Dollar amounts in thousands**

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Investment securities available-for-sale	\$ 2,255,176	\$ 2,085,014
Interest-bearing balances due from depository institutions	8,905	
Investment in stock of Federal Home Loan Bank (FHLB)	69,994	53,565
Loans and lease finance receivables	2,375,226	2,140,074
Allowance for credit losses	(24,237)	(22,494)
<b>Total earning assets</b>	<b>4,685,064</b>	<b>4,256,159</b>
Cash and due from banks	132,741	84,400
Premises and equipment, net	39,823	33,508
Intangibles	13,062	6,136
Goodwill	28,735	19,580
Cash value life insurance	71,232	68,233
Accrued interest receivable	22,203	18,391
Deferred tax asset	16,977	4,409
Other assets	10,327	20,195
<b>TOTAL ASSETS</b>	<b>\$ 5,020,164</b>	<b>\$ 4,511,011</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 1,424,623	\$ 1,322,255
Interest-bearing	1,788,715	1,552,784
<b>Total deposits</b>	<b>3,213,338</b>	<b>2,875,039</b>
Demand Note to U.S. Treasury	1,529	6,453
Short-term borrowings	557,000	356,000
Long-term borrowings	755,000	830,000
Accrued interest payable	9,977	8,809
Deferred compensation	7,098	7,685
Junior subordinated debentures	82,476	82,476
Other liabilities	56,571	27,066
<b>TOTAL LIABILITIES</b>	<b>4,682,989</b>	<b>4,193,528</b>

**COMMITMENTS AND CONTINGENCIES**

Stockholders' Equity:

Preferred stock (authorized, 20,000,000 shares without par; none issued or outstanding)		
Common stock (authorized, 97,656,250 shares without par; issued and outstanding 61,107,359 (2005) and 60,464,579 (2004))	252,208	236,277
Retained earnings	93,252	72,314
Accumulated other comprehensive income (loss), net of tax	(8,285)	8,892
Total stockholders' equity	337,175	317,483
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 5,020,164</b>	<b>\$ 4,511,011</b>

See accompanying notes to the consolidated financial statements.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(unaudited)**

**Dollar amounts in thousands, except per share**

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Interest income:				
Loans, including fees	\$ 38,777	\$ 30,061	\$ 107,089	\$ 83,447
Investment securities:				
Taxable	18,994	17,823	56,594	48,250
Tax-preferred	4,989	3,636	13,874	11,262
Total investment income	23,983	21,459	70,468	59,512
Dividends from FHLB stock	675	500	1,813	1,460
Federal funds sold		1	2	3
Interest bearing deposits with other institutions	74		207	
Total interest income	63,509	52,021	179,579	144,422
Interest expense:				
Deposits	7,539	3,863	18,848	11,151
Short-term borrowings	8,775	5,006	14,021	7,151
Long-term borrowings	2,828	1,832	16,524	10,671
Junior subordinated debentures	1,347	1,344	3,992	4,004
Total interest expense	20,489	12,045	53,385	32,977
Net interest income before provision for credit losses	43,020	39,976	126,194	111,445
Provision for credit losses				
Net interest income after provision for credit losses	43,020	39,976	126,194	111,445
Other operating income:				
Service charges on deposit accounts	3,477	3,240	9,770	10,544
Financial Advisory services	1,741	1,345	4,929	4,420
Bankcard services	631	525	1,867	1,351
BOLI income	633	539	2,218	1,000
Other	1,379	1,863	3,494	4,077
Gain(loss) on sale of securities, net		7	(46)	5,219
Impairment charge on investment securities				(6,300)
Total other operating income	7,861	7,519	22,232	20,311
Other operating expenses:				
Salaries and employee benefits	13,136	11,970	39,424	35,323
Occupancy	2,091	2,281	6,048	5,961
Equipment	1,727	1,896	5,583	5,607
Stationary and supplies	1,495	1,212	4,035	3,616
Professional services	1,047	907	3,267	3,030

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Promotion	1,118	1,064	4,486	3,824
Amortization of intangibles	588	296	1,473	889
Other	1,913	2,126	2,911	6,010
Total other operating expenses	23,115	21,752	67,227	64,260
Earnings before income taxes	27,766	25,743	81,199	67,496
Income taxes	9,499	8,668	27,753	22,898
Net earnings	\$ 18,267	\$ 17,075	\$ 53,446	\$ 44,598
Basic earnings per common share	\$ 0.30	\$ 0.28	\$ 0.87	\$ 0.74
Diluted earnings per common share	\$ 0.30	\$ 0.28	\$ 0.87	\$ 0.73
Cash dividends per common share	\$ 0.11	\$ 0.13	\$ 0.33	\$ 0.37

See accompanying notes to the consolidated financial statements.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**(Unaudited)**

	<b>Common</b>			<b>Accumulated Other Comprehensive Income (Loss), Net of Tax</b>	
	<b>Shares</b>	<b>Common</b>	<b>Retained</b>		<b>Comprehensive Income (Loss)</b>
	<b>Outstanding</b>	<b>Stock</b>	<b>Earnings</b>	<b>(amounts and shares in thousands)</b>	
<b>Balance January 1, 2004</b>	48,289	\$ 232,959	\$ 36,482	\$ 17,280	
Issuance of common stock	345	1,281			
5-for-4 stock split	12,132				
Repurchase of common stock	(100)	(159)	(1,833)		
Tax benefit from exercise of stock options		2,196			
Cash dividends			(23,821)		
Comprehensive income:					
Net earnings			61,486		\$ 61,486
Other comprehensive income(loss):					
Unrealized loss on securities available-for-sale, net of taxes \$6,074				(8,388)	(8,388)
Comprehensive income					\$ 53,098
<b>Balance December 31, 2004</b>	60,666	236,277	72,314	8,892	
Issuance of common stock	421	1,601			
Repurchase of common stock	(676)	(863)	(11,423)		
Shares issued for acquisition of Granite State Bank	696	13,427			
Tax benefit from exercise of stock options		1,766			
Cash dividends			(21,085)		
Comprehensive income:					
Net earnings			53,446		\$ 53,446
Other comprehensive income(loss):					
Unrealized loss on securities available-for-sale, net of taxes \$ 12,438				(17,177)	(17,177)
Comprehensive income					\$ 36,269
<b>Balance September 30, 2005</b>	61,107	\$ 252,208	\$ 93,252	\$ (8,285)	



The Company reported net unrealized losses on securities available-for-sale of \$1.8 million, net of \$1.3 million of tax for the nine months ended September 30, 2004. Accumulated other comprehensive income as of September 30, 2004 was \$15.5 million. Comprehensive income for the nine months ended September 30, 2004 was \$42.8 million. Comprehensive income for the three months ended September 30, 2005 and 2004 was \$6.7 million and \$35.4 million, respectively.

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Dollar amounts in thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Interest received	\$ 179,076	\$ 150,186
Service charges and other fees received	22,277	20,932
Interest paid	(52,308)	(32,674)
Cash paid to suppliers and employees	(64,571)	(58,535)
Income taxes paid	(22,100)	(18,196)
 Net cash provided by operating activities	 62,374	 61,713
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investment securities trading		20,685
Proceeds from sales of investment securities available-for-sale		63,756
Proceeds from sales of MBS	126,598	
Proceeds from repayment of MBS	316,067	334,334
Proceeds from repayment of investment securities available-for-sale	67	
Proceeds from maturity of investment securities	10,346	25,945
Purchases of investment securities trading		(20,678)
Purchases of investment securities available-for-sale	(90,090)	(47,517)
Purchases of MBS	(525,168)	(564,421)
Purchases of FHLB stock	(16,428)	(15,473)
Net increase in loans	(162,757)	(245,476)
Proceeds from sales of premises and equipment	18	4,390
Purchase of premises and equipment	(10,021)	(3,093)
Purchase of Granite State Bank	12,232	
Purchase of Bank Owned Life Insurance		(50,000)
Other investing activities		(5,037)
 Net cash used in investing activities	 (339,136)	 (502,585)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in transaction deposits	199,058	271,902
Net increase (decrease) in time deposits	36,739	(64,414)
Advances from Federal Home Loan Bank	370,000	420,000
Repayment of advances from Federal Home Loan Bank	(106,000)	(67,000)
Net increase in short-term borrowings	(142,924)	(96,081)
Cash dividends on common stock	(21,085)	(17,948)
Repurchase of common stock	(12,286)	(1,992)
Proceeds from exercise of stock options	1,601	522
 Net cash provided by financing activities	 325,103	 444,989

NET INCREASE IN CASH AND CASH EQUIVALENTS	48,341	4,117
CASH AND CASH EQUIVALENTS, beginning of period	84,400	112,008
CASH AND CASH EQUIVALENTS, end of period	\$ 132,741	\$ 116,125

See accompanying notes to the consolidated financial statements.

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Dollar amounts in thousands)</b>	
<b>RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net earnings	\$ 53,446	\$ 44,598
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain/(loss) on sale of investment securities	46	(5,219)
Gain on sale of premises and equipment	(1)	(101)
Impairment charge on investment securities		6,300
Increase in cash value of life insurance	(1,674)	(1,000)
Net amortization of premiums on investment securities	6,976	11,143
Depreciation and amortization	6,274	5,433
Change in accrued interest receivable	(3,528)	(1,598)
Change in accrued interest payable	1,078	364
Change in other assets and liabilities	(243)	1,793
Total adjustments	8,928	17,115
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 62,374</b>	<b>\$ 61,713</b>
 <b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
<b>Purchase of Granite State Bank:</b>		
Assets acquired	\$ 85,898	
Goodwill	9,155	
Intangible assets	8,399	
Liabilities assumed	(102,257)	
Stock issued	(13,427)	
Purchase price of acquisition, net of cash received	\$ (12,232)	
Securities purchased and not settled	\$ 33,441	\$
See accompanying notes to the consolidated financial statements.		

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited)

For the nine months ended September 30, 2005 and 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying condensed consolidated unaudited financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q, conform to practices within the banking industry, and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim financial reporting. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission. In the opinion of management, the accompanying condensed consolidated unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

**Principles of Consolidation** - The consolidated financial statements include the accounts of CVB Financial Corp. (the Company) and its wholly owned subsidiaries: Citizens Business Bank (the Bank) and the Bank's wholly owned subsidiary, Golden West Enterprises, Inc.; Community Trust Deed Services; CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp after elimination of all intercompany transactions and balances. The Company is also the common stockholder of CVB Statutory Trust I and CVB Statutory Trust II, which were created in December 2003 to issue trust preferred securities in order to raise capital for the Company. In accordance with Financial Accounting Standards Board Interpretation No. 46R Consolidation of Variable Interest Entities (FIN No. 46R), these trusts are not included in the consolidated financial statements.

**Nature of Operations** - The Company's primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank has one subsidiary, Golden West Enterprises, Inc., located in Costa Mesa, California, which provides automobile and equipment leasing, dealer financing, and brokers mortgage loans. The Bank also provides trust services to customers through its Financial Advisory Services Division and Business Financial Centers (branch offices). The Bank's customers consist primarily of small to mid-sized businesses and professionals located in the Inland Empire, San Gabriel Valley, Orange County, Madera County, Fresno County, Tulare County, and Kern County areas of California. The Bank operates 40 Business Financial Centers with its headquarters located in the city of Ontario. Segment reporting is not presented since the Company's revenue is attributed to a single reportable segment.

**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 holding 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. At each reporting date, available-for-sale securities are assessed to determine whether there is an other-than

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temporary impairment. Such impairment, if any, is required to be recognized in current earnings rather than 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 interest method over the life of the security. For mortgage-related securities (i.e., securities that are collateralized and payments received from underlying mortgage) the amortization or accretion is based on the estimated average lives of the securities. The Company's investment in Federal Home Loan Bank (FHLB) stock is carried at cost. At September 30, 2005, all of the Company's investment securities are classified as available-for-sale.

**Loans and Lease Finance Receivables** - Loans and lease finance receivables are reported at the principal amount outstanding, less deferred net loan origination fees and the allowance for credit losses. Interest on loans and lease finance receivables is credited to income based on the principal amount outstanding. Interest income is not recognized on loans and lease finance receivables when collection of interest is deemed by management to be doubtful. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. These commitments are not reflected in the accompanying consolidated financial statements. As of September 30, 2005, the Company had entered into commitments with certain customers amounting to \$880.6 million compared to \$762.9 million at December 31, 2004. In addition, letters of credit at September 30, 2005, and December 31, 2004, were \$77.3 million and \$71.5 million, respectively.

The Bank receives collateral to support loans, lease finance receivables, and commitments to extend credit for which collateral is deemed necessary. The most significant categories of collateral are real estate, principally commercial and industrial income-producing properties, real estate mortgages, and assets utilized in agribusiness.

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

**Provision and Allowance for Credit Losses** - The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management's judgment, is adequate 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 other such factors that deserve current recognition in estimating inherent credit losses. The estimate is reviewed periodically by management and various regulatory entities and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The provision for credit losses is charged to expense. The allowance for loan and lease losses was \$24.2 million as of September 30, 2005. This represents an increase of \$1.7 million when compared with an allowance for loan and lease losses of \$22.5 million as of December 31, 2004. The increase was primarily due to the allowance for loan and lease losses acquired from Granite State Bank, in February 2005, of \$756,000 and loan recoveries of \$1.2 million, offset by \$191,000 of charged-off loans as of September 30, 2005.

A loan for which collection of principal and interest according to its original terms is not probable is considered to be impaired. The Company's policy is to record a specific valuation allowance, which is included in the allowance for credit losses, or charge off that portion of an impaired loan that exceeds its fair value. Fair value is usually based on the value of underlying collateral.

As of September 30, 2005, the Company has one impaired loan totaling \$2,000. This loan was supported by collateral with a fair value of \$500. The Company has adequate reserve for this impaired loan.

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**Premises and Equipment** - Premises and equipment are stated at cost, less accumulated depreciation, which is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Properties under capital lease and leasehold improvements are amortized over the shorter of their estimated economic lives of 15 years or the initial terms of the leases. Estimated lives are 3 to 5 years for computer and equipment, 5 to 7 years for furniture, fixtures and equipment, and 15 to 40 years for buildings and improvements. Long-lived assets are reviewed periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment is calculated as the difference between the expected undiscounted future cash flows of a long-lived asset, if lower, and its carrying value. The impairment loss, if any, would be recorded in noninterest expense. The Company has no impaired long-lived assets as of September 30, 2005.

**Other Real Estate Owned** - Other real estate owned represents real estate acquired through foreclosure in satisfaction of commercial and real estate loans and is stated at fair value, minus estimated costs to sell (fair value at time of foreclosure). Loan balances in excess of fair value of the real estate acquired at the date of acquisition are charged against the allowance for credit losses. Any subsequent operating expenses or income, reduction in estimated values, and gains or losses on disposition of such properties are charged to current operations. There is no other real estate owned at September 30, 2005 and December 31, 2004.

**Business Combinations and Intangible Assets** - The Company has engaged in the acquisition of financial institutions and the assumption of deposits and purchase of assets from other financial institutions in its market area. The Company has paid premiums on certain transactions, and such premiums are recorded as intangible assets, in the form of goodwill or other intangible assets. In accordance with the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 142, goodwill is not being amortized whereas identifiable intangible assets with finite lives are amortized over their useful lives. On an annual basis, the Company tests goodwill and intangible assets for impairment.

Additionally, as required by SFAS No. 142, the Company completed its annual impairment test as of June 30, 2005 and did not record any impairment of goodwill. At September 30, 2005, goodwill was \$28.7 million (net of amortization of \$5.4 million recorded prior to the adoption of SFAS No. 142). As of September 30, 2005, intangible assets that continue to be subject to amortization include core deposits of \$13.1 million (net of \$6.6 million of accumulated amortization). Amortization expense for such intangible assets was \$1.5 million for the nine months ended September 30, 2005. Estimated amortization expense, for the remainder of 2005 is expected to be \$588,000. Estimated amortization expense, for the succeeding five fiscal years is \$2.4 million for years one to three, \$1.8 million for year four, and \$1.7 million for the year five. The weighted average remaining life of intangible assets is approximately 6.2 years.

**Income Taxes** - Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

**Earnings per Common Share** - Basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of shares issuable upon the assumed exercise of outstanding common stock options. Share and per share amounts have been retroactively restated to give effect to all stock splits and dividends. The actual number of shares outstanding at September 30, 2005 was 61,107,359. The tables below present the reconciliation of earnings per share for the periods indicated.

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Earnings Per Share Reconciliation  
(Dollars and shares in thousands, except per share amounts)  
For the Nine Months  
Ended September 30,

	Income (Numerator)	2005 Weighted Average Shares (Denominator)	Per Share Amount	Income (Numerator)	2004 Weighted Average Shares (Denominator)	Per Share Amount
<b>BASIC EPS</b>						
Income available to common stockholders	\$ 53,446	61,200	\$ 0.87	\$ 44,598	60,493	\$ 0.74
<b>EFFECT OF DILUTIVE SECURITIES</b>						
Incremental shares from assumed exercise of outstanding options		580	(0.00)		735	(0.01)
<b>DILUTED EPS</b>						
Income available to common stockholders	\$ 53,446	61,780	\$ 0.87	\$ 44,598	61,228	\$ 0.73

Earnings Per Share Reconciliation  
(Dollars and shares in thousands, except per share amounts)  
For the Three Months  
Ended September 30,

	Income (Numerator)	2005 Weighted Average Shares (Denominator)	Per Share Amount	Income (Numerator)	2004 Weighted Average Shares (Denominator)	Per Share Amount
<b>BASIC EPS</b>						
Income available to common stockholders	\$ 18,267	61,095	\$ 0.30	\$ 17,075	60,507	\$ 0.28
<b>EFFECT OF DILUTIVE SECURITIES</b>						
Incremental shares from assumed exercise of outstanding options		551	(0.00)		723	0.00
<b>DILUTED EPS</b>						
Income available to common stockholders	\$ 18,267	61,646	\$ 0.30	\$ 17,075	61,230	\$ 0.28

**Stock-Based Compensation** - At September 30, 2005, the Company has three stock-based employee compensation plans, which are described more fully in Note 15 in the Company's Annual Report on Form 10-K. The Company applies the intrinsic value method as described in Accounting Principles Board Opinion No. 25, Accounting for Stock



Issued to Employees, and related interpretations in accounting for its plans. Accordingly, compensation cost is not recognized when the exercise price of an employee stock option equals or exceeds the fair market value of the stock on the date the option is granted. The following table presents the pro forma effects on net income and related earnings per share if compensation costs related to the stock option plans were measured using the fair value method as prescribed under SFAS No. 123, Accounting for Stock-Based Compensation :

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	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(Dollars in thousands)</b>		<b>(Dollars in thousands)</b>	
Net income, as reported	\$ 18,267	\$ 17,075	\$ 53,446	\$ 44,598
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	247	336	836	790
Pro forma net income	\$ 18,020	\$ 16,739	\$ 52,610	\$ 43,808
Earnings per share:				
Basic as reported	\$ 0.30	\$ 0.28	\$ 0.87	\$ 0.74
Basic pro forma	\$ 0.29	\$ 0.28	\$ 0.86	\$ 0.72
Diluted as reported	\$ 0.30	\$ 0.28	\$ 0.87	\$ 0.73
Diluted pro forma	\$ 0.29	\$ 0.27	\$ 0.85	\$ 0.72

The Black-Scholes option-pricing model requires the use of subjective assumptions, which can materially affect fair value estimates. Therefore, this model does not necessarily provide a reliable single measure of the fair value of the Company's stock options. The fair value of each stock option granted in 2005 was estimated on the date of the grant using the following weighted-average assumptions as of September 30, 2005: (1) expected dividend yield of 2.3%; (2) risk-free interest rate of 4.1%; (3) expected volatility of 40.4%; and (4) expected lives of options of 7.2 years. The assumptions as of September 30, 2004 are as follows: (1) expected dividend yield of 2.3%; (2) risk-free interest rate of 3.4%; (3) expected volatility of 36.2%; and (4) expected lives of options of 7.3 years. There were 103,000 and 370,550 options granted during the first nine months in 2005 and 2004, respectively.

**Statement of Cash Flows** - Cash and cash equivalents as reported in the statements of cash flows include cash and due from banks and fed funds sold. Cash flows from loans, deposits, and short-term borrowings are reported net.

**Trust Services** - The Company maintains funds in trust for customers. The amount of these funds and the related liability have not been recorded in the accompanying consolidated balance sheets because they are not assets or liabilities of the Bank or Company, with the exception of any funds held on deposit with the Bank.

**Use of Estimates in the Preparation of Financial Statements** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recent Accounting Pronouncements** - In May 2005, the Financial Accounting Standards Board ( FASB ) issued Statement No. 154, Accounting Changes and Error Corrections. A replacement of APB Opinion No. 20 and FASB Statement No. 3 ( SFAS 154 ). SFAS 154 requires retrospective application to prior periods financial statements of changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS 154 to have a material effect on the Company's consolidated financial position or results of operations.

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In December 2004, the Financial Accounting Standards Board ( FASB ) staff issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation, SFAS No. 123R, Share-Based Payment. SFAS No. 123R focuses primarily on transactions in which the entity exchanges its equity instruments for employee services and generally establishes standards for the accounting for transactions in which an entity obtains goods or services in share-based payment transactions. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based method in accounting for share-based transactions with employees. SFAS No. 123R also amends SFAS No. 95, Statement of Cash Flows , to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS No. 123R was effective as of the beginning of the first interim reporting period that begins after September 15, 2005. On April 14, 2005, the effective date was amended by the Securities and Exchange Commission. As a result, SFAS No. 123R is now effective for most public companies for annual (rather than interim) periods that begin after September 15, 2005. Therefore, we will begin to expense options in the first quarter of 2006, unless further amended by the Securities Exchange Commission. Management is currently evaluating the effect of adoption of SFAS No. 123R, but does not expect the adoption to have a material effect on the Company s consolidated financial condition, results of operations or cash flows.

**Reclassification** - Certain amounts in the prior periods financial statements and related footnote disclosures have been reclassified to conform to the current presentation.

**Shareholder Rights Plan** - In 2000, the Company adopted a shareholder rights plan designed to maximize long-term value and to protect shareholders from improper takeover tactics and takeover bids which are not fair to all shareholders. In accordance with the plan, preferred share purchase rights were distributed as a dividend at the rate of one right to purchase one one-thousandth of a share of the Company s Series A Participating Preferred Stock at an initial exercise price of \$50.00 (subject to adjustment as described in the terms of the plan) upon the occurrence of certain triggering events. For additional information concerning this plan, see Note 11 to Consolidated Financial Statements. Commitments and Contingencies contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

**Other Contingencies** - In the ordinary course of business, the Company becomes involved in litigation. Based upon the Company s internal records and discussions with legal counsel, the Company records reserves for estimates of the probable outcome of all cases brought against them.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS  
GENERAL**

Management's discussion and analysis is written to provide greater insight into the results of operations and the financial condition of CVB Financial Corp. and its subsidiaries. Throughout this discussion, Company refers to CVB Financial Corp. and its subsidiaries as a consolidated entity. CVB refers to CVB Financial Corp. as the unconsolidated parent company and Bank refers to Citizens Business Bank and its wholly owned subsidiary, Golden West Enterprises, Inc. For a more complete understanding of the Company and its operations, reference should be made to the financial statements included in this report and in the Company's 2004 Annual Report on Form 10-K. Certain statements in this Report on Form 10-Q constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995 which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, economic conditions, competition in the geographic and business areas in which we conduct operations, natural disasters, fluctuations in interest rates, credit quality, exams or reviews by our regulators, and government regulations. For additional information concerning these factors, see the Company's periodic filings with the Securities and Exchange Commission, and in particular Item 1. Business Factors That May Affect Results contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. We do not undertake, and specifically disclaim, any obligation to update any forward looking statements to reflect the occurrence of events or circumstances after the date of such statements. Additionally, our financial results and operations may be affected by competition which has manifested itself with increased pricing pressures for loans and deposits, thus compressing our net interest margin. Because of the pressure on the net interest margin, other operating income has become a more important element in the total revenue of the Company.

**OVERVIEW**

We are a bank holding company with one bank subsidiary, Citizens Business Bank. We have two other active subsidiaries, Community Trust Deed Services, which is owned by CVB Financial Corp. and Golden West Enterprises, Inc, which is owned by the Bank. We have three other inactive subsidiaries: CVB Ventures, Inc.; Chino Valley Bancorp and ONB Bancorp. We are also the common stockholder of CVB Statutory Trust I and CVB Statutory Trust II, which were created in December 2003 to issue trust preferred securities in order to increase the capital of the Company. We are based in Ontario, California in what is known as the Inland Empire. Our geographical market area encompasses Madera (the middle of the Central Valley) in the center of California to Laguna Beach (in Orange County) in the southern portion of California. Our mission is to offer the finest financial products and services to professionals and businesses in our market area.

Our primary source of income is from the interest earned on our loans and investments and our primary area of expense is the interest paid on deposits, borrowings, salaries and benefits. As such, our net income is subject to fluctuations in interest rates and their impact on our income statement. We believe the recent rise in interest rates may relieve some of the pressure on our net interest margin. Increased pricing pressure on our loans and deposits has compressed our net interest margin, resulting in an increase in the importance of other operating income to the Company's total revenue.

Economic conditions in our California service area impact our business. The economy of this area has not experienced the decline that other areas of the state and country have witnessed during the past few years. The job market continues to strengthen in our market areas. However, we are still subject to any changes in the economy in our market area. Although we do not originate mortgages on single-family residences, we still benefit from construction growth in Southern California since we provide

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construction loans to builders. Southern California is experiencing growth in construction on single-family residences and commercial buildings, and our balance sheet at September 30, 2005 reflects growth in construction loans of \$13.9 million since December 31, 2004. We are also subject to competition from other financial institutions, which affects our pricing of products and services, and the fees and interest rates we can charge on them.

Our growth in loans and investments compared with the third quarter of 2004 has allowed our interest income to grow. The Bank has always had an excellent base of interest free deposits due primarily to the fact that we specialize in businesses and professionals as customers. This has allowed us to have a low cost of deposits, currently 0.84% for the third quarter of 2005.

On February 25, 2005, we acquired Granite State Bank ( Granite ). The Company issued 696,049 common shares and \$13.3 million in cash to Granite shareholders in connection with the acquisition. The total purchase price in cash and stock was \$26.7 million. Granite had total assets of \$111.4 million, total loans of \$62.8 million and total deposits of \$103.1 million as of the acquisition date, February 25, 2005. Granite also had two offices, one in Monrovia and one in South Pasadena. These two offices now operate as business financial centers of the Bank.

In 2001 we implemented our Central Valley Initiative which is intended to grow our presence in the southern Central Valley of California. This area has a large agribusiness economy and fits in well with the agribusiness lending we already have in the Bank. As part of this initiative, we opened our 40th business financial center in Madera, California in May 2005. In the Central Valley and in other markets in which we intend to enter or expand our business, we will continue to consider acquisition opportunities and the opening of de novo offices.

**CRITICAL ACCOUNTING POLICIES**

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies upon which our operating results and financial condition depend, and which involve the most complex or subjective decisions or assessment are as follows:

**Allowance for Credit Losses:** Arriving at an appropriate level of allowance for credit losses involves a high degree of judgment. The Company's allowance for credit losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio. The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management's judgment, is adequate 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 credit losses is charged to expense. For a full discussion of our methodology of assessing the adequacy of the allowance for credit losses, see the Risk Management section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Investment Portfolio:** The investment portfolio is an integral part of the Company's financial performance. We invest primarily in fixed income securities. Accounting estimates are used in the presentation of the investment portfolio and these estimates do impact the presentation of the Company's financial condition and results of operations. Many of the securities included in the investment portfolio are purchased at a premium or discount. The premiums or discounts are amortized or accreted over the life of the security. For mortgage-related securities (i.e., securities that are collateralized and payments received from underlying mortgages), 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

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the underlying collateral of the securities. The amount of prepayments varies from time to time based on the interest rate environment (i.e., lower interest rates increase the likelihood of refinances) and the rate of turnover of the mortgages (i.e., how often the underlying properties are sold and mortgages paid-off). We use estimates for the average lives of these mortgage-related securities based on information received from third parties whose business it is to compile mortgage related data and develop a consensus of that data. We adjust the rate of amortization or accretion regularly to reflect changes in the estimated average lives of these securities.

We classify as held-to-maturity those debt securities that we have 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 holding gains and losses being included in current earnings. Securities available-for-sale 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. At each reporting date, available-for-sale securities are assessed to determine whether there is an other-than-temporary impairment. Such impairment, if any, is required to be recognized in current earnings rather than 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 interest method over the terms of the securities, except for mortgage-related securities as discussed in the previous paragraph. Our investment in Federal Home Loan Bank ( FHLB ) stock is carried at cost.

**Income Taxes:** We account for income taxes by deferring income taxes based on estimated future tax effects of differences between the tax and book basis of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in the Company's balance sheets. We must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined to not likely be recoverable. Management judgment is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. Although we have determined a valuation allowance is not required for all deferred tax assets, there is no guarantee that these assets are recognizable.

**Goodwill and Intangible Assets:** We have acquired entire banks and branches of banks. Those acquisitions accounted for under the purchase method of accounting have given rise to goodwill and intangible assets. We record the assets acquired and liabilities assumed at their fair value. These fair values are arrived at by use of internal and external valuation techniques. The purchase price is allocated to the assets and liabilities, resulting in identifiable intangibles. Any excess purchase price after this allocation results in goodwill. Both goodwill and intangible assets are tested on an annual basis for impairment.

**ANALYSIS OF THE RESULTS OF OPERATIONS*****Earnings***

Our net earnings for the nine months ended September 30, 2005 were \$53.4 million. This represented an increase of \$8.8 million or 19.83%, over net earnings of \$44.6 million, for the nine months ended September 30, 2004. Basic earnings per share for the nine-month period increased to \$0.87 per share for 2005, compared to \$0.74 per share for 2004. Diluted earnings per share increased to \$0.87 per share for the first nine months of 2005, compared to \$0.73 per share for the same period last year. The annualized return on average assets was 1.50% for the first nine months of 2005 compared to an annualized return on average assets of 1.45% for the nine months ended September 30, 2004. The annualized return on

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average equity was 21.29% for the first nine months ended September 30, 2005, compared to an annualized return of 20.10% for the nine months ended September 30, 2004.

In early 2004, the Company experienced a burglary at one of its business financial centers. The burglary resulted in a loss to our customers of items located in their safe deposit boxes. The Company had been compensating its customers for their losses with the acknowledgement of the insurance company that they were not confirming or denying coverage to us under our insurance policies. The Company paid \$400,000 on these claims. In early fall, the insurance company ceased approving these claims.

At the end of 2004, it became apparent that the insurance company may deny coverage of our claims. Therefore, the Company reserved an additional \$2.2 million as an estimate of claims yet to be paid as of December 2004. During the first quarter of 2005, the insurance company expressed its interest in settling these claims. The Company settled with the insurance company in April 2005 agreeing to reimburse the Company for all of the claims paid. This allowed the Company to reverse the \$2.6 million estimated robbery loss in the first quarter of 2005. This amount is included in other operating expenses for the nine months ended September 30, 2005.

During the first quarter of 2004, the Company wrote down the carrying value of two issues of Federal Home Loan Mortgage Association preferred stock. These securities pay dividends based on a variable rate related to LIBOR (London Interbank Offered Rate). Consequently, the value of these securities declined as the result of historically low interest rates. Since this loss of value was deemed other-than-temporary, the Company charged \$6.3 million against earnings in the first quarter of 2004 to adjust for the impairment of these preferred stock securities.

For the quarter ended September 30, 2005, our net earnings were \$18.3 million. This represented an increase of \$1.2 million or 6.98%, over net earnings of \$17.1 million, for the third quarter of 2004. Basic earnings per share increased to \$0.30 per share for the third quarter of 2005 compared to \$0.28 per share for the third quarter of 2004. Diluted earnings per share increased to \$0.30 per share for the third quarter of 2005 compared to \$0.28 per share for the same three-month period last year. The annualized return on average assets was 1.46% for the third quarter of 2005 compared to an annualized return on average assets of 1.57% for the same period last year. The annualized return on average equity was 20.75% for the third quarter of 2005 compared to an annualized return on average equity of 23.34% for the third quarter of 2004.

Net earnings, excluding the impact of the settlement of the robbery loss and net losses on sale of investment securities, totaled \$51.8 million for the nine months ended September 30, 2005. This represented an increase of \$6.7 million, or 14.94%, compared to net earnings, excluding the other-than-temporary impairment write-down on investment securities, net gains on sale of investment securities, and net gain on sale of real estate of \$45.0 million for the same period in 2004.

The following table reconciles the differences in net earnings with and without the settlement of the robbery loss, the other-than-temporary impairment write-down on investment securities and the net gain/loss on sale of investment securities in conformity with accounting principles generally accepted in the United States of America:

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	<b>Net Earnings Reconciliation For the Nine Months Ended September 30,</b>					
	<b>2005</b>			<b>2004</b>		
	<b>Before Income Taxes</b>	<b>Income Taxes</b>	<b>Net Earnings ( amounts in thousands )</b>	<b>Before Income Taxes</b>	<b>Income Taxes</b>	<b>Net Earnings</b>
Net earnings without the settlement of the robbery loss, other-than-temporary impairment write-down, net gain/(loss) on sale of securities, net gain on sale of real estate	\$ 78,645	\$ 26,878	\$ 51,767	\$ 68,158	\$ 23,123	\$ 45,035
Settlement of robbery loss	\$ 2,600	\$ 890	1,710			
Other-than-temporary impairment write-down				(6,300)	(2,137)	(4,163)
Net gain/(loss) on sale of securities	(46)	(15)	(31)	5,219	1,770	3,449
Net gain on sale of real estate				419	142	277
Net Earnings as reported	\$ 81,199	\$ 27,753	\$ 53,446	\$ 67,496	\$ 22,898	\$ 44,598

We have presented net earnings without the settlement of the robbery loss, the other-than-temporary impairment write-down on investment securities, the realized net gains/losses on sale of investment securities and the net gain on sale of real estate to show shareholders the earnings from operations unaffected by the impact of these items. We believe this presentation allows the reader to more easily assess the results of the Company's operations and business.

**Net Interest Income**

The principal component of the Company's 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). When net interest income is expressed as a percentage of average earning assets, the result is 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, net 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 economy, in general, and the local economies in which we conduct business. Our ability to manage the 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 of earning assets.

The Company's net interest income (before provision for credit losses) totaled \$126.2 million for the nine months ended September 30, 2005. This represented an increase of \$14.7 million, or 13.23%, over net interest income (before provision for credit losses) of \$111.4 million for the same period in 2004. The increase in net interest income of \$14.7 million resulted from a \$35.2 million increase in interest income, offset by a \$20.4 million increase in interest expense. The \$35.2 million increase in interest income resulted from a \$610.3 million increase in average earning assets and an increase in the average yield on earning assets to 5.52% for the first nine months of 2005 from 5.14% for the same period in 2004. The \$20.4 million increase in interest expense resulted from a \$427.9 million increase in



average interest-bearing liabilities and the increase in the average rate paid on interest-bearing liabilities to 2.34% for the first nine months of 2005 from 1.68% for the same period in 2004.

Interest income totaled \$179.6 million for the first nine months of 2005. This represented an increase of \$35.2 million, or 24.34%, compared to the total interest income of \$144.4 million for the same period last year. The increase in interest income was primarily the result of the increase in average earnings assets from \$3.84 billion in the first nine months of 2004 to \$4.46 billion in the same period in 2005.

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This represents a 15.87% increase for the first nine months of 2005 over the same period last year and an increase in the average yield on earning assets of 38 basis points.

Interest expense totaled \$53.4 million for the first nine months of 2005. This represented an increase of \$20.4 million, or 61.89%, over total interest expense of \$33.0 million for the same period last year. The increase in interest expense was primarily the result of an increase in average interest-bearing liabilities and an increase in the cost of these liabilities of 66 basis points.

For the third quarter ended September 30, 2005, the Company's net interest income (before provision for credit losses) totaled \$43.0 million. This represented an increase of \$3.0 million, or 7.62%, over net interest income (before provision for credit losses) of \$40.0 million for the same period in 2004. The increase in net interest income of \$3.0 million for the third quarter of 2005 resulted from an increase of \$11.5 million in interest income and an \$8.4 million increase in interest expense. The increase in interest income of \$11.5 million resulted from the increase in average earning assets of \$600.4 million and an increase in the average yield on earning assets to 5.60% for the third quarter of 2005 from 5.27% the same period in 2004. The increase of \$8.4 million in interest expense resulted from the increase in the average rate paid on interest-bearing liabilities to 2.55% for the third quarter of 2005 from 1.73% the same period in 2004 and a \$421.1 million increase in average interest-bearing liabilities.

The increase in interest income for the third quarter ending September 30, 2005 as compared to the third quarter ending September 30, 2004 was primarily the result of the increase in average earning assets and an increase in the average yield on earning assets of 33 basis points between the third quarter of 2005 and the third quarter of 2004. Interest income totaled \$63.5 million for the third quarter of 2005. This represented an increase of \$11.5 million, or 22.09%, compared to total interest income of \$52.0 million for the same period last year.

The increase in interest expense was primarily the result of the increase in the rate paid on interest-bearing liabilities. Interest expense totaled \$20.5 million for the third quarter of 2005. This represented an increase of \$8.4 million or 70.11%, over total interest expense of \$12.0 million for the same period last year. Both the increase in the yield on earning assets and the rate paid on interest-bearing liabilities reflects the increasing interest rate environment between the third quarters of 2005 and 2004.

Table 1 shows the average balances of assets, liabilities, and stockholders' equity and the related interest income, expense, and rates for the nine-month and three-month periods ended September 30, 2005 and 2004. Yields for tax-preferenced investments are shown on a taxable equivalent basis using a 35% tax rate.

**Table of Contents****TABLE 1 Distribution of Average Assets, Liabilities, and Stockholders Equity; Interest Rates and Interest Differentials**

	Nine-Month Period Ended September 30,					
	Average Balance	2005 Interest	Average Rate (6) (amounts in thousands)	Average Balance	2004 Interest	Average Rate (6)
<b>ASSETS</b>						
Investment Securities						
Taxable (1)	\$ 1,761,106	\$ 56,594	4.29%	\$ 1,596,061	\$ 48,250	4.04%
Tax preferenced (2)	413,794	13,874	5.96%	345,147	11,262	5.75%
Investment in FHLB stock	62,078	1,813	3.89%	44,117	1,460	4.41%
Federal Funds Sold & Interest Bearing Deposits with other institutions	9,949	209	2.80%	416	3	0.96%
Loans (3) (4)	2,208,258	107,089	6.48%	1,859,140	83,447	6.00%
Total Earning Assets	4,455,185	179,579	5.52%	3,844,881	144,422	5.14%
Total Non Earning Assets	310,640			275,200		
Total Assets	\$ 4,765,825			\$ 4,120,081		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Savings Deposits (5)	\$ 1,121,659	\$ 9,217	1.10%	\$ 1,033,604	\$ 5,494	0.71%
Time Deposits	504,269	9,631	2.55%	512,326	5,657	1.47%
Total Deposits	1,625,928	18,848	1.55%	1,545,930	11,151	0.96%
Other Borrowings	1,397,571	34,537	3.26%	1,049,628	21,826	2.74%
Interest Bearing Liabilities	3,023,499	53,385	2.34%	2,595,558	32,977	1.68%
Non-interest bearing deposits	1,373,174			1,184,086		
Other Liabilities	33,511			44,078		
Stockholders Equity	335,641			296,359		
Total Liabilities and Stockholders Equity	\$ 4,765,825			\$ 4,120,081		

Net interest income	\$ 126,194	\$ 111,445
Net interest spread tax equivalent	3.18%	3.46%
Net interest margin	3.82%	3.91%
Net interest margin tax equivalent	3.92%	4.01%
Net interest margin excluding loan fees	3.63%	3.71%
Net interest margin excluding loan fees tax equivalent	3.73%	3.80%

(1) Includes short-term interest bearing deposits with other institutions.

(2) Non tax equivalent rate for 2005 was 4.33% and 2004 was 4.10%.

(3) Loan fees are included in total interest income as follows, (000)s omitted: 2005, \$6,534 and 2004, \$5,975.

(4) Non performing loans are included in net loans as follows, (000)s omitted: 2005, \$2 and 2004, \$689.

(5) Includes interest bearing demand and money market accounts

(6) Annualized



**Table of Contents****TABLE 1 Distribution of Average Assets, Liabilities, and Stockholders Equity; Interest Rates and Interest Differentials**

	Three-month period ended September 30,					
	2005			2004		
Average Balance	Average Rate (6)	Average Balance	Average Rate (6)	Average Balance	Average Rate (6)	Average Rate (6)
	Interest	Interest	Interest	Interest	Interest	Interest
(amounts in thousands)						
<b>ASSETS</b>						
Investment Securities						
Taxable (1)	\$ 1,787,757	\$ 18,994	4.25%	\$ 1,679,270	\$ 17,823	4.25%
Tax preferenced (2)	438,938	4,989	6.02%	334,421	3,636	5.74%
Investment in FHLB stock	67,277	675	3.93%	49,609	500	3.94%
Federal Funds Sold & Interest Bearing Deposits with other institutions	9,924	74	2.92%	109	1	3.59%
Loans (3) (4)	2,320,733	38,777	6.63%	1,960,836	30,061	6.10%
Total Earning Assets	4,624,629	63,509	5.60%	4,024,245	52,021	5.27%
Total Non Earning Assets	333,045			307,273		
Total Assets	\$ 4,957,674			\$ 4,331,518		
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Savings Deposits (5)	\$ 1,165,077	\$ 3,812	1.30%	\$ 1,073,629	\$ 1,964	0.73%
Time Deposits	512,551	3,727	2.88%	499,270	1,899	1.51%
Total Deposits	1,677,628	7,539	1.78%	1,572,899	3,863	0.98%
Other Borrowings	1,483,728	12,950	3.42%	1,167,330	8,182	2.75%
Interest Bearing Liabilities	3,161,356	20,489	2.55%	2,740,229	12,045	1.73%
Non-interest bearing deposits	1,406,223			1,256,509		
Other Liabilities	40,889			43,802		
Stockholders Equity	349,206			290,978		
Total Liabilities and Stockholders Equity	\$ 4,957,674			\$ 4,331,518		

Net interest income	\$ 43,020	\$ 39,976
Net interest spread tax equivalent	3.05%	3.54%
Net interest margin	3.82%	4.06%
Net interest margin tax equivalent	3.85%	4.09%
Net interest margin excluding loan fees	3.62%	3.84%
Net interest margin excluding loan fees tax equivalent	3.65%	3.87%

(1) Includes short-term interest bearing deposits with other institutions.

(2) Non tax equivalent rate for 2005 was 4.31% and 2004 was 4.26%.

(3) Loan fees are included in total interest income as follows, (000)s omitted: 2005, \$2,320 and 2004, \$2,240.

(4) Non performing loans are included in net loans as follows, (000)s omitted: 2005, \$2 and 2004, \$689.

(5) Includes interest bearing demand and money market accounts

(6) Annualized

As stated above, the net interest margin measures net interest income as a percentage of average earning assets. The net interest margin is an indication of how effectively we generate our source of funds and employ our earning assets. Our taxable equivalent (TE) net interest margin for the first nine months of 2005 was 3.92% as compared to 4.01% for the same period last year. Our taxable equivalent (TE) net interest margin for the third quarter 2005 was 3.85% as compared to 4.09% for the third quarter of 2004. These decreases in the net interest margin from the same period last year are the result of the increasing interest rate environment, which impacted interest earned and interest paid as a percent of earning assets. Although the yield on earning assets increased, this was offset by higher interest paid on interest-bearing liabilities.

The net interest spread is the difference between the yield on average earning assets less the cost of average interest-bearing liabilities. The net interest spread is an indication of our ability to manage interest rates received on loans and investments and paid on deposits and borrowings in a competitive and changing interest rate environment. Our net interest spread (TE) was 3.18% for the first nine months of 2005 and 3.46% for the same period last year. The decrease in the net interest spread for the nine months ended September 30, 2005 resulted from a 66 basis point increase in the cost of interest-bearing liabilities offset by a 38 basis point increase in the yield on earning assets, thus generating a 28 basis point decrease in the net interest spread from the same period last year.



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For the third quarter of 2005 the Company's net interest spread (TE) was 3.05% as compared to 3.54% for the same period last year. The decrease in the net interest spread for the third quarter ended September 30, 2005 resulted from a 82 basis point increase in the cost of interest-bearing liabilities offset by a 33 basis point increase in the yield on earning assets, thus generating a 49 basis point decrease in the net interest spread from the same period last year.

The yield (TE) on earning assets increased to 5.52% for the first nine months of 2005, from 5.14% for the same period last year, and reflects an increasing interest rate environment and a change in the mix of earning assets. Average loans as a percent of earning assets increased to 49.57% in the first nine months of 2005 from 48.35% for the same period in 2004. Average investments as a percent of earning assets decreased to 48.82% in the first nine months of 2005 from 50.49% for the same period in 2004. Average investment in FHLB stock, federal funds sold and interest-bearing deposits with other institutions as a percent of earning assets increased to 1.62% in the first nine months of 2005 from 1.16% for the same period in 2004. Investments and federal funds sold typically have a lower yield than loans. The yield on loans for the first nine months of 2005 increased to 6.48% as compared to 6.00% for the same period in 2004 as a result of the increasing interest rate environment and competition for quality loans. The yield (TE) on investments for the first nine months of 2005 increased to 4.60% compared to 4.35% for the same period in 2004 as a result of the increasing interest rate environment. The increase in the yield on earning assets for the first nine months of 2005 was the result of higher yields on both loans and investments as a result of the increasing interest rate environment.

The cost of average interest-bearing liabilities increased to 2.34% for the first nine months of 2005 as compared to 1.68% for the same period in 2004, reflecting an increasing interest rate environment and a change in the mix of interest-bearing liabilities. Average borrowings as a percent of average interest-bearing liabilities increased to 43.50% during the first nine months of 2005 as compared to 37.26% for the same period in 2004. Borrowings typically have a higher cost than interest-bearing deposits. The cost of interest-bearing deposits for the first nine months of 2005 increased to 1.55% as compared to 0.96% for the same period in 2004, reflecting the increasing interest rate environment offset by competition for interest-bearing deposits. The cost of borrowings for the first nine months of 2005 increased to 3.26% as compared to 2.74% for the same period in 2004, also reflecting the increasing interest rate environment. The FDIC has approved the payment of interest on certain demand deposit accounts. This could have a negative impact on our net interest margin, net interest spread, and net earnings, should the FDIC require interest on all demand deposits. Currently, we pay interest on NOW and Money Market Accounts.

Table 2 summarizes the changes in interest income and interest expense based on changes in average asset and liability balances (volume) and changes in average rates (rate). For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (1) changes in volume (change in volume multiplied by initial rate), (2) changes in rate (change in rate multiplied by initial volume) and (3) changes in rate/volume (change in rate multiplied by change in volume).

**Table of Contents****TABLE 2 Rate and Volume Analysis for Changes in Interest Income, Interest Expense and Net Interest Income**

	<b>Comparison of nine-month period ended September 30, 2005 and 2004</b>			
	<b>Increase (Decrease) Due to</b>			<b>Total</b>
	<b>Volume</b>	<b>Rate</b>	<b>Rate/ Volume</b>	
	<b>(amounts in thousands)</b>			
<b>Interest Income:</b>				
Taxable investment securities	\$ 5,001	\$ 2,993	\$ 350	\$ 8,344
Tax-advantaged securities	\$ 2,960	\$ 544	\$ (892)	2,612
Fed funds sold & interest-bearing deposits with other institutions	\$ 69	\$ 6	\$ 131	206
Investment in FHLB stock	\$ 594	\$ (172)	\$ (69)	353
Loans	\$ 15,667	\$ 6,675	\$ 1,300	23,642
<b>Total interest on earning assets</b>	<b>24,291</b>	<b>10,046</b>	<b>820</b>	<b>35,157</b>
<b>Interest Expense:</b>				
Savings deposits	\$ 468	\$ 3,015	\$ 240	3,723
Time deposits	\$ (89)	\$ 4,138	\$ (75)	3,974
Other borrowings	\$ 7,230	\$ 4,139	\$ 1,342	12,711
<b>Total interest on interest-bearing liabilities</b>	<b>7,609</b>	<b>11,292</b>	<b>1,507</b>	<b>20,408</b>
<b>Net Interest Income</b>	<b>\$ 16,682</b>	<b>\$ (1,246)</b>	<b>\$ (687)</b>	<b>\$ 14,749</b>

**TABLE 2 Rate and Volume Analysis for Changes in Interest Income, Interest Expense and Net Interest Income**

	<b>Comparison of three-month period ended September 30, 2005 and 2004</b>			
	<b>Increase (Decrease) Due to</b>			<b>Total</b>
	<b>Volume</b>	<b>Rate</b>	<b>Rate/ Volume</b>	
	<b>(amounts in thousands)</b>			
<b>Interest Income:</b>				
Taxable investment securities	\$ 1,149	\$	\$ 22	\$ 1,171
Tax-advantaged securities	\$ 1,483	\$ 234	\$ (364)	1,353
Fed funds sold & interest-bearing deposits with other institutions	\$ 88	\$	\$ (15)	73
Investment in FHLB stock	\$ 174	\$ (1)	\$ 2	175
Loans	\$ 5,534	\$ 2,619	\$ 563	8,716
<b>Total interest on earning assets</b>	<b>8,428</b>	<b>2,852</b>	<b>208</b>	<b>11,488</b>

Interest Expense:				
Savings deposits	\$ 168	\$ 1,542	\$ 138	1,848
Time deposits	\$ 51	\$ 1,724	\$ 53	1,828
Other borrowings	\$ 2,224	\$ 1,999	\$ 545	4,768
Total interest on interest-bearing liabilities	2,443	5,265	736	8,444
Net Interest Income	\$ 5,985	\$ (2,413)	\$ (528)	\$ 3,044

***Interest and Fees on Loans***

Our major source of revenue and primary component of interest income is interest and fees on loans. Interest and fees on loans totaled \$107.1 million for the first nine months of 2005. This represented an increase of \$23.6 million, or 28.33%, over interest and fees on loans of \$83.4 million for the same period

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in 2004. The increase in interest and fees on loans for the first nine months of 2005 reflects increases in the average balance of loans and an increase in interest rates. The yield on loans increased to 6.48% for the first nine months of 2005, compared to 6.00% for the same period last year. Deferred loan origination fees, net of costs, totaled \$17.5 million at September 30, 2005. This represented an increase of \$3.0 million, or 20.49%, over deferred loan origination fees, net of costs, of \$14.6 million at December 31, 2004.

Interest and fees on loans totaled \$38.8 million for the third quarter of 2005. This represented an increase of \$8.7 million, or 28.99%, over interest and fees on loans of \$30.1 million for the same period last year. The increase was primarily due to increases in the average balance of loans and an increase in interest rates during 2005.

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 non-performing loans at September 30, 2005 and 2004.

Fees collected on loans are an integral part of the loan pricing decision. Loan fees and the direct costs associated with the origination of loans are deferred and deducted from the loan balance. Net deferred loan fees are recognized in interest income over the term of the loan in a manner that approximates the level-yield method. We recognized loan fee income of \$6.5 million for the first nine months of 2005, as compared to \$6.0 million for the same period in 2004, an increase of \$560,000, or 9.37%.

We recognized loan fee income of \$2.3 million for the third quarter of 2005, as compared to \$2.2 million for the same period in 2004, an increase of \$80,000 or 3.57%.

***Interest on Investments***

Our second component of interest income is interest on investments, which totaled \$70.5 million for the first nine months of 2005. This represented an increase of \$11.0 million, or 18.41%, over interest on investments of \$59.5 million for the same period in 2004. The increase in interest on investments for the first nine months of 2005 over the same period last year reflected increases in the average balance of investments and increases in the interest rate environment. The interest rate environment and the investment strategies we employ directly affect the yield on the investment portfolio. We continually adjust our investment strategies in response to the changing interest rate environments in order to maximize the rate of total return consistent within prudent risk parameters, and to minimize the overall interest rate risk of the Company. For example, we may shorten the duration of the portfolio in a rising rate environment, buying securities that don't have extension risk. The weighted-average yield (TE) on investments increased to 4.60% for the first nine months of 2005, compared to 4.35% for the same period last year as a result of the increasing interest rate environment, and the increase in the average investment portfolio.

For the third quarter of 2005, interest income on investments totaled \$24.0 million. This represented an increase of \$2.5 million, or 11.76%, over interest on investments of \$21.5 million for the same period in 2004. The increase in interest on investments for the third quarter of 2005 over the same period last year reflected increases in the average balance of investments and increases in the interest rate environment. The weighted-average yield (TE) on investments increased to 4.60% for the third quarter of 2005, compared to 4.49% for the same period in 2004 as a result of the increasing interest rate environment.

**Table of Contents*****Provision for Credit Losses***

The Company maintains an allowance for probable credit losses that is increased by a provision for credit losses charged against operating results. We did not make a provision for credit losses during the first nine months of 2005 or 2004, and we believe our credit allowance is appropriate. 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 or credit losses in the future. The nature of this process requires considerable judgment. See Risk Management Credit Risk herein.

***Other Operating Income***

Other operating income has become an increasingly important source of revenue for the Company. Other operating income includes income derived from special services offered by the Bank, such as financial advisory services, merchant card, investment services, international banking, and other business services. Also included in other operating income are service charges and fees, primarily from deposit accounts; gains (net of losses) from the sale of investment securities, other real estate owned, and fixed assets; the gross revenue from Community Trust Deed Services; and other revenues not included as interest on earning assets.

Other operating income, including losses on the sale of investment securities, totaled \$22.2 million for the first nine months of 2005. This represents an increase of \$1.9 million, or 9.46%, over other operating income, including other-than-temporary impairment write-down and gains on the sale of investment securities, of \$20.3 million for the same period last year. The increase between the nine month periods was primarily the result of a \$6.3 million other-than-temporary impairment write-down of two issues of preferred stock issued by Freddie Mac during the first quarter of 2004 which was offset by the gains on the sales of investment securities of \$5.2 million during the second quarter of 2004. Other operating income without losses on sale of investment securities totaled \$22.3 million for the first nine months of 2005, an increase of \$1.3 million or 6.22%, when compared to other operating income without the other-than-temporary impairment write-down, gains on sales of investment securities and gain on sale of real estate, of \$21.0 million for the same period of 2004. (See table below).

For the third quarter of 2005 other operating income totaled \$7.9 million. This represents an increase of \$341,000, or 4.53% over other operating income, including the gains on sales of investment securities and the gain on sale of real estate, of \$7.5 million for the same period last year. Other operating income totaled \$7.9 million, an increase of \$767,000 or 10.81%, when compared to other operating income without the gains on sales of investment securities and gain on sale of real estate of \$7.1 million for the same period of 2004.

Other operating income as a percent of net revenues (net interest income before provision for credit losses plus other operating income) was 14.98% for the first nine months of 2005, as compared to 15.42% for the same period last year. Excluding the other-than-temporary impairment write-down and net gains/losses on sales of investment securities, other operating income as a percent of net revenues was 15.01% for the first nine months of 2005, as compared to 15.84% for the same period in 2004.

For the third quarter of 2005 other operating income as a percent of net revenues (net interest income before provision for credit losses plus other operating income) was 15.45% as compared to 15.83% for the same period in 2004. Excluding the net gains/losses on sale of investment securities, other operating income as a percent of net revenues was 15.45% for the third quarter of 2005, as compared to 15.07% in 2004.

The following table reconciles the differences in other operating income and the percentage of net revenues with and without the other-than-temporary impairment write-down and net gains/losses on sales

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of investment securities in conformity with accounting principles generally accepted in the United States of America:

**Other Operating Income Reconciliation  
For the Nine Months  
Ended September 30,**

	2005			2004		
	Without net loss on sale of securities	Net loss on securities	Reported amount (amounts in thousands)	Without impairment writedown, gain on sale of securities and gain on sale of real estate	Impairment writedown, net gain on securities and net gain on sale of real estate	Reported amount
Other Operating Income	\$ 22,278	\$ (46)	\$ 22,232	\$ 20,973	\$ (662)	\$ 20,311
Net Revenues	\$ 148,470	\$ (46)	\$ 148,424	\$ 132,418	\$ (662)	\$ 131,756
Percent of Other Operating Income to Net Revenues	15.01%	100.00%	14.98%	15.84%	100.00%	15.42%

**Other Operating Income Reconciliation  
For the Three Months  
Ended September 30,**

	2005			2004		
	Without net loss on sale of securities	Net loss on securities	Reported amount (amounts in thousands)	Without net gain on sale of securities and net gain on sale of real estate	Net gain on securities and net gain on sale of real estate	Reported amount
Other Operating Income	\$ 7,861	\$	\$ 7,861	\$ 7,093	\$ 426	\$ 7,519

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Net Revenues	\$ 50,879	\$	\$ 50,879	\$ 47,069	\$	426	\$ 47,495
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Percent of Other

Operating Income to Net

Revenues	15.45%		15.45%	15.07%		100.00%	15.83%
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We have presented other operating income without the other-than-temporary impairment write-down and net gains/losses on sales of investment securities to show shareholders the earnings from operations unaffected by the impact of these items. We believe this presentation allows the reader to determine our profitability before the impact of these items. We believe the reader will be able to more easily assess the results of the Company's operations and business.

Service charges on deposit accounts totaled \$9.8 million in the first nine months of 2005. This represented a decrease of \$774,000 or 7.34% from service charges on deposit accounts of \$10.5 million for the same period in 2004. Service charges for demand deposits (checking) accounts for business customers are generally charged based on an analysis of their activity and include an earnings allowance based on their average balances. The decrease in service charges on deposit accounts in the first nine months of 2005 was due to higher earning allowance rates and higher deposit balances offsetting service charges owed. Service charges on deposit accounts represented 43.95% of other operating income in the first nine months of 2005, as compared to 51.91% in 2004.

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For the third quarter of 2005, service charges on deposit accounts totaled \$3.5 million. This represents an increase of \$237,000, or 7.32% from service charges of \$3.2 million for the same period last year. Service charges on deposit accounts represented 44.24% of other operating income in the third quarter of 2005, as compared to 43.09% in the same period in 2004.

Financial Advisory Services consists of Trust Services and Investment Services. Trust Services provides a variety of services, which include asset management services (both full management services and custodial services), estate planning, retirement planning, private and corporate trustee services, and probate services. Investment Services provides mutual funds, certificates of deposit, and other non-insured investment products. Financial Advisory Services generated fees of \$4.9 million in the first nine months of 2005. This represents an increase of \$509,000, or 11.52% over fees generated of \$4.4 million in the same period in 2004. The increase is primarily due to an increase in assets under management of \$738.7 million. Fees generated by Financial Advisory Services represented 22.17% of other operating income in the first nine months of 2005, as compared to 21.76% for the same period in 2004.

For the third quarter of 2005 fees generated by Financial Advisory Services totaled \$1.7 million. This represents an increase of \$396,000, or 29.44% over fees generated of \$1.3 million for the same period last year. Fees generated by Financial Advisory Services represented 22.15% of other operating income in the third quarter of 2005, as compared to 17.89% in the same period in 2004.

Bankcard Services, which provide merchant bankcard services (credit card processing, merchant terminals, and customer support) generated fees totaling \$1.9 million in the first nine months of 2005. This represented an increase of \$516,000, or 38.21%, over fees generated of \$1.4 million for the same period in 2004. The increase is primarily due to growth of the transaction volumes with our customer base and the controlling of costs in processing these transactions. Fees generated by Bankcard Services represented 8.40% of other operating income in the first nine months of 2005, as compared to 6.15% for the same period last year.

For the third quarter of 2005 fees generated by Bankcard totaled \$631,000. This represents an increase of \$106,000, or 20.18% over Bankcard Services income of \$525,000 for the same period last year. Fees generated by Bankcard Services represented 8.03% of other operating income in the third quarter of 2005, as compared to 6.98% in the same period in 2004.

Bank Owned Life Insurance ( BOLI ) income totaled \$2.2 million in the first nine months of 2005. This represents an increase of \$1.2 million, or 121.73%, over BOLI income generated of \$1.0 million for the same period in 2004. The increase is due to the additional interest earned on the \$50 million BOLI acquired in the first quarter of 2004.

For the third quarter of 2005, BOLI income totaled \$633,000. This represents an increase of \$94,000, or 17.47 % over BOLI income generated of \$539,000 for the third quarter of 2004.

Other fees and income, which includes wire fees, other business services, international banking fees, check sales, ATM fees, miscellaneous income, etc., was \$3.5 million in the first nine months of 2005. This represented a decrease of \$583,000, or 14.30%, from other fees and income of \$4.1 million generated in 2004. The decrease is primarily due to the decrease of volume in other banking service fees. Other fees and income represented 15.72% of other operating income in the first nine months of 2005, as compared to 20.07% in the same period in 2004.

For the third quarter of 2005 other fees and income totaled \$1.4 million. This represents a decrease of \$486,000, or 26.11% from other fees and income of \$1.9 million for the same period last year. The decrease is primarily due to the decrease of volume in other banking service fees. Other fees and income represented 17.51% of other operating income in the third quarter of 2005, as compared to 24.78% in the same period in 2004.



**Table of Contents*****Other Operating Expenses***

Other operating expenses for the Company include expenses for salaries and benefits, occupancy, equipment, stationary and supplies, professional services, promotion, amortization of intangibles, and other expenses, including prepayment penalties. Other operating expenses totaled \$67.2 million for the first nine months of 2005. This represents an increase of \$3.0 million, or 4.62% over other operating expenses of \$64.3 million for the same period in 2004.

For the third quarter of 2005, other operating expenses totaled \$23.1 million. This represents an increase of \$1.4 million, or 6.26% over other operating expenses of \$21.8 million for the same period last year.

Other operating expenses reflect the direct expenses and related administrative expenses associated with staffing, maintaining, promoting, and operating branch facilities. Our ability to control other operating expenses in relation to asset growth can be measured in terms of other operating expenses as a percentage of average assets. Other operating expenses measured as a percentage of average assets decreased to 1.89% for the first nine months of 2005, compared to a ratio of 2.08% for the same period in 2004. The decrease is partially due to the \$2.6 million settlement of the robbery loss received in first quarter of 2005. The ratio further indicates that management is controlling greater levels of assets with proportionately smaller operating expenses, an indication of operating efficiency.

Our ability to control other operating expenses in relation to the level of net revenue (net interest income plus other operating income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For the first nine months of 2005, the efficiency ratio was 45.29%, compared to a ratio of 48.77% for the same period in 2004. The decrease was primarily due to the impact of the \$2.6 million settlement of the robbery loss received during the first quarter of 2005 and the \$6.3 million other-than-temporary impairment write-down in the first quarter of 2004, offset by the net gains/losses on sale of investment securities and net gain on sale of real estate. Without the settlement of the robbery loss, impairment charge on investment securities, net gains/losses on sale of investment securities, and net gain on sale of real estate, our efficiency ratio would have been 47.03% in 2005 as compared to 48.53% in 2004.

For the third quarter of 2005 the efficiency ratio decreased to 45.43% as compared to 45.80% for the same period last year. Without the net gains/losses on the sale of securities, and the net gain on sale of real estate, the efficiency ratio would have been 45.43% as compared to 46.21% for the same period last year.

The following table reconciles the differences in operating efficiency ratio with and without the settlement of the robbery loss, the other-than-temporary impairment write-down, the net gain/loss on sale of investment securities and the net gain on sale of real estate:

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**Operating Efficiency Ratio Reconciliation  
For the Nine Months  
Ended September 30,**

	<b>2005</b>				<b>2004</b>	
	<b>Without settlement of robbery loss and net loss on sale of securities</b>	<b>Robbery loss and net loss on securities</b>	<b>Reported amount (amounts in thousands)</b>	<b>Without other-than- temporary impairment write- down, net gain on sale of securities and net gain on sale of real estate</b>	<b>Impairment write-down, net gain on sale of securities and net gain on sale of real estate</b>	<b>Reported amount</b>
Other Operating Expense	\$ 69,827	\$ (2,600)	67,227	\$ 64,260	\$	\$ 64,260
Net Revenues	\$ 148,470	\$ (46)	148,424	\$ 132,418	\$ (662)	\$ 131,756
Operating Efficiency Ratio	47.03%		45.29%	48.53%		48.77%

**Operating Efficiency Ratio Reconciliation  
For the Three Months  
Ended September 30,**

	<b>2005</b>				<b>2004</b>	
	<b>Without net loss on sale of securities</b>	<b>Net loss on securities</b>	<b>Reported amount</b>	<b>Without net gain on sale of securities and net gain on sale of real estate</b>	<b>Net gain on sale of securities and net gain on sale of real estate</b>	<b>Reported amount</b>

## (amounts in thousands)

Other Operating Expense	\$ 23,115	\$	\$ 23,115	\$ 21,752	\$	\$ 21,752
Net Revenues	\$ 50,879	\$	\$ 50,879	\$ 47,069	\$ 426	\$ 47,495

## Operating Efficiency

Ratio	45.43%	45.43%	46.21%	45.80%
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We have presented the operating efficiency ratio without the other-than-temporary impairment write-down and net gains on sales of investment securities to show shareholders the earnings from operations unaffected by the impact of these items. We believe this presentation allows the reader to determine our profitability before the impact of items that may not be considered as normal operating items. We believe that the reader will be able to more easily assess the results of the Company's operations and business.

Salaries and related expenses comprise the greatest portion of other operating expenses. Salaries and related expenses totaled \$39.4 million for the first nine months of 2005. This represented an increase of \$4.1 million, or 11.61%, over salaries and related expenses of \$35.3 million for the same period in 2004. The increases for 2005 primarily resulted from increased staffing levels as a result of the Granite State Bank acquisition and annual salary adjustments. At September 30, 2005, we employed 676 full time equivalent employees, compared to 655 full time equivalent employees at September 30, 2004. Salaries and related expenses as a percent of average assets decreased to 1.11% for the first nine months of 2005, compared to 1.15% for the same period in 2004. For the third quarter of 2005 salaries and related expenses totaled \$13.1 million. This represents an increase of \$1.2 million, or 9.74% over salaries and related expenses of \$12.0 million for the same period last year. The increases for the third quarter of 2005 primarily resulted from increased staffing levels and annual salary adjustments. Salaries and related expenses as a percent of average assets decreased to 1.05% for the third quarter of 2005, compared to 1.10% for the same period in 2004.

Occupancy and equipment expenses represent the cost of operating and maintaining branch and administrative facilities, including the purchase and maintenance of furniture, fixtures, office equipment and data processing equipment. Occupancy and equipment expenses totaled \$11.6 million for the first

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nine months of 2005. This represented an increase of \$63,000, or 0.05%, over occupancy and equipment expenses of \$11.6 million for the same period in 2004. For the third quarter of 2005 occupancy and equipment expenses totaled \$3.8 million. This represents a decrease of \$359,000, or 8.59% over occupancy and equipment expenses of \$4.2 million for the same period last year.

Stationary and supplies expense totaled \$4.0 million for the first nine months of 2005. This represented an increase of \$420,000, or 11.60%, over the expense of \$3.6 million for the same period in 2004. For the third quarter of 2005, stationary and supplies expense totaled \$1.5 million. This represents an increase of \$283,000 or 23.32% over the expense of \$1.2 million for the same period in 2004. The increase was primarily due to the acquisition of Granite State Bank and the internal growth of business.

Professional services totaled \$3.3 million for the first nine months of 2005. This represented an increase of \$237,000 or 7.83%, over an expense of \$3.0 million for the same period in 2004. For the third quarter of 2005, professional services totaled \$1.0 million. This represents an increase of \$140,000, or 15.41% over professional services of \$907,000 for the same period last year.

Promotion expense totaled \$4.5 million for the first nine months of 2005. This represented an increase of \$662,000, or 17.32%, over an expense of \$3.8 million for the same period in 2004. For the third quarter of 2005 promotion expense totaled \$1.1 million. This represents an increase of \$54,000, or 5.06% over promotion expense of \$1.1 million for the same period last year. The increase in promotion expense was primarily associated with the acquisition of Granite State Bank and increases in advertising expense as we grow our market area.

The amortization expense of intangibles totaled \$1.5 million for the first nine months of 2005 and \$889,000 for the same period in 2004. This represents an increase of \$584,000, or 65.72%. The increase is mainly due to additional amortization of core deposit premium as a result of the acquisition of Granite State Bank in February 2005. For the third quarter of 2005 amortization expense totaled \$588,000. This represents an increase of \$292,000, or 98.58% over amortization expense of \$296,000 for the same period last year.

Other operating expense totaled \$2.9 million for the first nine months of 2005. This represented a decrease of \$3.1 million, or 51.56%, from an expense of \$6.0 million for the same period in 2004. For the third quarter of 2005 other operating expense totaled \$1.9 million. This represents a decrease of \$213,000, or 10.02% from other operating expense of \$2.1 million for the same period last year. The decrease is primarily due to the \$2.6 million settlement of the robbery loss.

**Income Taxes**

The Company's effective tax rate for the first nine months of 2005 was 34.18%, compared to 33.93% for the same period in 2004. The effective tax rates are below the nominal combined Federal and State tax rates as a result of tax-preferenced income from certain investments for each period. The majority of tax-preferenced income is derived from municipal securities, although a portion comes from municipal leases.

**ANALYSIS OF FINANCIAL CONDITION**

The Company reported total assets of \$5.02 billion at September 30, 2005. This represented an increase of \$509.2 million, or 11.29%, over total assets of \$4.51 billion at December 31, 2004. Earning assets totaled \$4.69 billion at September 30, 2005, increasing \$428.9 million, or 10.08%, over earning assets of \$4.26 billion at December 31, 2004. Total liabilities were \$4.68 billion at September 30, 2005, up \$489.5 million, or 11.67%, over total liabilities of \$4.19 billion at December 31, 2004. Total equity increased \$19.7 million, or 6.20%, to \$337.2 million at September 30, 2005, compared with total equity of \$317.5 million at December 31, 2004.

**Table of Contents****Investment Securities**

The Company reported total investment securities of \$2.26 billion at September 30, 2005. This represented an increase of \$170.2 million, or 8.16%, over total investment securities of \$2.09 billion at December 31, 2004.

Investment securities comprise 48.14% of the Company's total earning assets at September 30, 2005.

In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, securities held as available-for-sale are reported at current market value for financial reporting purposes. The unrealized gains or losses, net of income taxes, are recorded in stockholder's equity. At September 30, 2005, securities held as available-for-sale had a fair market value of \$2.26 billion, representing 100% of total investment securities, with an amortized cost of \$2.27 billion. At September 30, 2005, the net unrealized holding loss on securities available-for-sale was \$14.3 million and that resulted in accumulated other comprehensive loss of \$8.3 million (net of \$6.0 million in deferred taxes benefits). At December 31, 2004, we reported net unrealized gain on investment securities available-for-sale of \$15.3 million and accumulated other comprehensive income of \$8.9 million (net of deferred taxes of \$6.4 million).

Table 3 sets forth investment securities at September 30, 2005 and December 31, 2004.

	<b>September 30, 2005</b>				<b>Total Percent</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Holding Gain</b>	<b>Gross Unrealized Holding Loss</b>	<b>Market Value</b>	
<b>(Amounts in thousands)</b>					
Investment Securities					
Available-for-Sale:					
U.S. Treasury securities	\$ 495	\$	\$	\$ 495	0.02%
Mortgage-backed securities	1,248,896	2,259	(22,910)	1,228,245	54.46%
CMO's / REMIC's	532,796	122	(4,067)	528,851	23.45%
Government agency & government-sponsored enterprises	22,513		(518)	21,995	0.98%
Municipal bonds	372,226	17,556	(2,386)	387,396	17.18%
FHLMC preferred stock	58,340		(4,340)	54,000	2.39%
Other securities	34,194			34,194	1.52%
<b>Total Investment Securities</b>	<b>\$ 2,269,460</b>	<b>\$ 19,937</b>	<b>\$ (34,221)</b>	<b>\$ 2,255,176</b>	<b>100.00%</b>

	<b>December 31, 2004</b>				<b>Total Percent</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Holding Gain</b>	<b>Gross Unrealized Holding Loss</b>	<b>Market Value</b>	
<b>(Amounts in thousands)</b>					
Investment Securities					
Available-for-Sale:					
U.S. Treasury securities	\$ 498	\$	\$ (2)	\$ 496	0.02%
Mortgage-backed securities	1,360,304	8,759	(8,729)	1,360,334	65.25%
CMO's / REMIC's	345,285	1,252	(910)	345,627	16.58%
	18,987		(230)	18,757	0.90%

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Government agency & government-sponsored enterprises					
Municipal bonds	285,752	21,293	(468)	306,577	14.70%
FHLMC preferred stock	58,340		(5,635)	52,705	2.53%
Other securities	518			518	0.02%
Total Investment Securities	\$ 2,069,684	\$ 31,304	\$ (15,974)	\$ 2,085,014	100.00%

The weighted-average yield (TE) on the investment portfolio at September 30, 2005 was 4.60% with a weighted-average life of 3.8 years. This compares to a yield of 4.38% at December 31, 2004 with a

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weighted-average life of 3.6 years and a yield of 4.35% at September 30, 2004 with a weighted-average life of 3.4 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 paydowns.

Approximately 90.75% of the portfolio represents securities issued by either the U.S. government or U.S. government-sponsored enterprises, which guarantee payment of principal and interest.

The remaining CMO/REMICs are backed by agency-pooled collateral or whole loan collateral. All non-agency CMO/REMIC issues held are rated A or better by either Standard & Poor's or Moody's, as of September 30, 2005. Composition of the Fair Value and Gross Unrealized Losses of Securities Available-for-Sale:

Description of Securities	Less than 12 months		September 30, 2005 12 months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
			(amounts in thousands)			
U.S. Treasury Obligation	\$ 495	\$	\$	\$	\$ 495	\$
Mortgage-backed securities CMO/REMICs	617,654	6,792	596,271	16,389	1,213,925	23,181
	289,743	1,852	148,016	1,944	437,759	3,796
Government agency & government-sponsored enterprises	2,978	22	18,517	496	21,495	518
Municipal bonds	122,928	2,112	7,789	274	130,717	2,386
FHLMC Preferred Stock	20,000	1,900	34,000	2,440	54,000	4,340
	\$ 1,053,798	\$ 12,678	\$ 804,593	\$ 21,543	\$ 1,858,391	\$ 34,221

Composition of the Fair Value and Gross Unrealized Losses of Securities Available-for-Sale:

Description of Securities	Less than 12 months		December 31, 2004 12 months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
			(amounts in thousands)			
U.S. Treasury & Government Securities	\$ 496	\$ 2	\$	\$	\$ 496	\$ 2
Mortgage-backed securities CMO/REMICs	210,245	761	507,072	7,968	717,317	8,729
	90,111	681	52,014	229	142,125	910
Government agency & government-sponsored enterprises	12,711	179	6,047	51	18,758	230
Municipal bonds	30,077	272	6,673	196	36,750	468
FHLMC Preferred Stock	58,340	5,635			58,340	5,635

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\$ 401,980    \$ 7,530    \$ 571,806    \$ 8,444    \$ 973,786    \$ 15,974

The tables above show the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2005 and December 31, 2004. We have reviewed individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that we will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If an other-than-temporary impairment occurs the cost basis of the security would be written down to its fair value as a new cost basis and the write down accounted for as a realized loss.

In connection with a periodic review of our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, the Securities and Exchange Commission has asked us to provide additional information about our determination that no other-than-temporary impairment existed at December 31,



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2004 and December 31, 2003 with respect to our investment in FHLMC perpetual preferred stock in light of our recording of a \$6.3 million other-than-temporary impairment of our FHLMC preferred stock in the first quarter of 2004. We are in the process of providing additional information to the Commission to support our determinations.

Despite the unrealized loss position of these securities, we have concluded, as of September 30, 2005, that these investments are not other-than temporarily impaired. This assessment was based on the following factors: i) the length of time and the extent to which the market value has been less than cost; ii) the financial condition and near-term prospects of the issuer; iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; and iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

At September 30, 2005 and December 31, 2004, investment securities having an amortized cost of approximately \$2.05 billion and \$1.66 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

**Loans**

At September 30, 2005, we reported total loans, net of deferred loan fees, of \$2.38 billion. This represents an increase of \$235.1 million, or 10.99%, over total loans, net of deferred loan fees, of \$2.14 billion at December 31, 2004. Total loans, net of deferred loan fees, comprise 50.70% of our total earning assets at September 30, 2005.

**Table 4 Distribution of Loan Portfolio by Type (dollar amount in thousands)**

	<b>September 30, 2005</b>		<b>December 31, 2004</b>	
Commercial and Industrial	\$ 946,406	39.6%	\$ 905,139	42.0%
Real Estate:				
Construction	258,091	10.8%	235,849	10.9%
Mortgage	782,336	32.7%	553,000	25.7%
Consumer, net of unearned discount	46,482	1.9%	38,521	1.8%
Municipal lease finance receivables	84,933	3.5%	71,675	3.3%
Auto and equipment leases	61,114	2.6%	52,783	2.4%
Agribusiness	213,397	8.9%	297,659	13.9%
Gross Loans	2,392,759	100.0%	2,154,626	100.0%
Less:				
Allowance for credit losses	(24,237)		(22,494)	
Deferred net loan fees	(17,533)		(14,552)	
Net Loans	\$ 2,350,989		\$ 2,117,580	

Commercial and industrial loans are loans and leases to commercial entities to finance capital purchases or improvements, or to provide cash flow for operations. Real estate loans are loans secured by conforming second trust deeds on real property, including property under construction, commercial property and single family and multifamily residences. Consumer loans include installment loans to consumers as well as home equity loans and other loans secured by junior liens on real property. Municipal lease finance receivables are leases to municipalities. Agribusiness loans are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers, and farmers. The increase in real estate loans is due to increased activity in the marketplace and increased desire by customers to refinance their business properties. The decrease in agribusiness loans is due to increased cash flow to dairies due to higher milk prices, thereby enabling them to pay down their loans.

**Table of Contents****Non-performing Assets**

As set forth in Table 5, there was \$2,000 in non-performing assets at September 30, 2005 and December 31, 2004. Non-performing assets, include non-performing loans plus other real estate owned (foreclosed property), non-performing loans, include non-accrual loans, loans past due 90 or more days and still accruing, and restructured loans. In addition, we had loans classified as impaired at September 30, 2005 and December 31, 2004 totaling \$2,000.

Although we believe that non-performing assets are generally secured and that potential losses are provided for in the allowance for credit losses, there can be no assurance that future deterioration in economic conditions or collateral values would not result in future credit losses.

**TABLE 5 Non-Performing Assets (dollar amount in thousands)**

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(amounts in thousands)</b>	
Nonaccrual loans	\$ 2	\$ 2
Loans past due 90 days or more		
Restructured loans		
Other real estate owned (OREO)		
 Total nonperforming assets	 \$ 2	 \$ 2
 Percentage of nonperforming assets to total loans outstanding & OREO	 0.00%	 0.00%
 Percentage of nonperforming assets to total assets	 0.00%	 0.00%

Except for non-performing loans as set forth in Table 5 and loans disclosed as impaired, (see Risk Management Credit Risk herein) we are not aware of any loans as of September 30, 2005 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as non-performing at some future date. We cannot, however, predict the extent to which the deterioration in general economic conditions, real estate values, increase in general rates of interest, change in the financial conditions or business of a borrower may adversely affect a borrower's ability to pay.

At September 30, 2005 and December 31, 2004, the Company held no properties as other real estate owned.

**Bank Owned Life Insurance**

The Company has Bank Owned Life Insurance ( BOLI ) with a cash surrender value of \$71.2 million, of which \$18.0 million was obtained through acquisitions and \$53.2 million was obtained through purchase. We purchased \$50.0 million of single premium insurance in the first quarter of 2004.

**Table of Contents****Deposits**

The primary source of funds to support earning assets (loans and investments) is the generation of deposits from our customer base. The ability to grow the customer base and subsequently deposits is a significant element in the performance of our Company.

At September 30, 2005, total deposits were \$3.21 billion, representing an increase of \$338.3 million, or 11.77%, over total deposits of \$2.88 billion at December 31, 2004. Average total deposits for the first nine months of 2005 were \$3.0 billion. This represented an increase of \$237.7 million, or 8.61%, over average total deposits of \$2.73 billion for the nine months ended September 30, 2004. The increase in deposits was partially a result of the Granite State Bank acquisition. The comparison of average balances for the first nine months of the year has historically been more representative of our Company's growth in deposits as it excludes the historical seasonal peak in deposits at year-end. The composition of deposits is as follows:

	September 30, 2005		December 31, 2004	
	(Amounts in thousands)			
Non-interest bearing deposits				
Demand deposits	\$ 1,424,623	44.3%	\$ 1,322,255	46.0%
Interest bearing deposits				
Savings Deposits	1,251,586	39.0%	1,072,619	37.3%
Time deposits	537,129	16.7%	480,165	16.7%
Total deposits	\$ 3,213,338	100.0%	\$ 2,875,039	100.0%

The amount of non-interest-bearing demand deposits in relation to total deposits is an integral element in achieving a low cost of funds. Demand deposits totaled \$1.42 billion at September 30, 2005, representing an increase of \$102.4 million, or 7.74%, over total demand deposits of \$1.32 billion at December 31, 2004. Average demand deposits for the first nine months of 2005 were \$1.37 billion, an increase of \$159.3 million, or 13.12%, over average demand deposits of \$1.18 billion for the first nine months of 2004. Non-interest-bearing demand deposits represented 44.33% of total deposits as of September 30, 2005 and 46.0% of total deposits as of December 31, 2004.

Savings deposits, which include savings, interest-bearing demand, and money market accounts, totaled \$1.25 billion at September 30, 2005, representing an increase of \$179.0 million, or 16.69%, over savings deposits of \$1.07 billion at December 31, 2004.

Time deposits totaled \$537.1 million at September 30, 2005 of which \$15.2 million were brokered. This represented an increase of \$57.0 million, or 11.86%, over total time deposits of \$480.2 million at December 31, 2004.

**Other Borrowed Funds**

To achieve the desired growth in earning assets and to fully utilize our capital, we fund this growth through generating sources of funds other than deposits. The first source of funds we pursue is non-interest-bearing deposits (the lowest cost of funds to the Company). Next, we pursue the growth in interest-bearing deposits. Finally, we supplement the growth in deposits with borrowed funds. Average borrowed funds, as a percent of average total funding (total deposits plus demand notes plus borrowed funds) was 31.79% as of September 30, 2005, as compared to 28.25% as of December 31, 2004.

During 2005 and 2004, we entered into short-term borrowing agreements (borrowings with maturities of less than one year) with the Federal Home Loan Bank (FHLB) and other institutions. The Bank had outstanding balances of \$557.0 million and \$356.0 million under these agreements at September 30, 2005 and December 31, 2004, respectively. The weighted average annual interest rate was 3.16% and 2.16% at

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September 30, 2005 and December 31, 2004, respectively. The FHLB holds certain investment securities of the Bank as collateral for these borrowings.

We also entered into long-term borrowing agreements (borrowings with maturities of one year or longer) with the FHLB. We had outstanding balances of \$755.0 million and \$830.0 million under these agreements at September 30, 2005 and December 31, 2004, respectively. The weighted average annual interest rate was 3.52% and 3.05% at September 30, 2005 and December 31, 2004, respectively. The FHLB holds certain investment securities of the Bank as collateral for these borrowings.

The Bank has an agreement, known as the Treasury Tax & Loan ( TT&L ) Note Option Program with the Federal Reserve Bank and the U.S. Department of Treasury, in which federal tax deposits made by depositors can be held by the bank until called (withdrawn) by the U.S. Department of Treasury. The maximum amount of accumulated federal tax deposits allowable to be held by the Bank, as set forth in the agreement, is \$15.0 million. On September 30, 2005 and December 31, 2004 the amounts held by the Bank in the TT&L Note Option Program were \$1.5 million and \$6.5 million, collateralized by securities, respectively. Amounts are payable on demand. We borrow these funds at a variable rate of 43 basis points less than the average weekly federal funds rate.

At September 30, 2005, borrowed funds totaled \$1.31 billion, representing an increase of \$121.1 million, or 10.15%, over total borrowed funds of \$1.19 billion at December 31, 2004.

**Aggregate Contractual Obligations**

The following table summarizes our aggregate contractual obligations as of September 30, 2005:

	Total	Maturity by Period			
		Less Than One Year	One Year to Three Years	Four Year to Five Years	After Five Years
(amounts in thousands)					
Deposits	\$ 3,213,338	\$ 3,121,340	\$ 80,898	\$ 10,795	\$ 305
FHLB and Other Borrowings	1,312,000	557,000	655,000		100,000
Junior Subordinated Debentures	82,476				82,476
Deferred Compensation	7,098	1,114	1,433	1,433	3,118
Operating Leases	15,521	3,837	6,375	3,162	2,147
Total	\$ 4,630,433	\$ 3,683,291	\$ 743,706	\$ 15,390	\$ 188,046

Deposits represent non-interest bearing, money market, savings, NOW, certificates of deposits, brokered and all other deposits.

FHLB borrowings represent the amounts that are due to the Federal Home Loan Bank. These borrowings have fixed maturity dates. Other borrowings represent the amounts that are due to overnight Federal funds purchases and TT&L.

Junior subordinated debentures represent the amounts that are due from the Company to CVB Statutory Trust I & CVB Statutory Trust II. The debentures have the same maturity as the Trust Preferred Securities, which mature in 2033, but become callable in whole or in part in 2008.

Deferred compensation represents the amounts that are due to former employees salary continuation agreements as a result of acquisitions.

Operating leases represent the total minimum lease payments under noncancelable operating leases.

**Table of Contents****Off-Balance Sheet Arrangements**

At September 30, 2005, we had commitments to extend credit of approximately \$880.6 million and obligations under letters of credit of \$77.3 million and available lines of credit totaling \$957.8 million from certain institutions. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. The Bank uses the same credit underwriting policies in granting or accepting such commitments or contingent obligations as it does for on-balance-sheet instruments, which consist of evaluating customers creditworthiness individually.

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

The following table summarizes the off-balance sheet arrangements at September 30, 2005:

		<b>Maturity by Period</b>			
	<b>Total</b>	<b>Less Than One Year</b>	<b>One Year to Three Years</b>	<b>Four Year to Five Years</b>	<b>After Five Years</b>
	( Amounts in thousands)				
<b>2005</b>					
Commitment to extend credit	880,571	356,803	39,919	83,028	400,821
Obligations under letters of credit	77,250	61,338	9,946	5,966	
Total	\$ 957,821	\$ 418,141	\$ 49,865	\$ 88,994	\$ 400,821

**Liquidity and Cash Flow**

Since the primary sources and uses of funds for the Bank are loans and deposits, the relationship between gross loans and total deposits provides a useful measure of the Bank's liquidity. Typically, the closer the ratio of loans to deposits is to 100%, the more reliant the Bank is on its loan portfolio to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loan to deposit ratio the less liquid are the Bank's assets. For the first nine months of 2005, the Bank's loan to deposit ratio averaged 73.63%, compared to an average ratio of 68.10% for the same period in 2004.

CVB is a company separate and apart from the Bank that must provide for its own liquidity. Substantially all of CVB's revenues are obtained from dividends declared and paid by the Bank. The remaining cashflow is from rents paid by a third party on office space in the Company's corporate headquarters. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. At September 30, 2005, approximately \$83.0 million of the Bank's equity was unrestricted and available to be paid as dividends to CVB. Management of CVB believes that such restrictions will not have an impact on the ability of CVB to meet its ongoing cash obligations.

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

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Net cash provided by operating activities totaled \$62.4 million for the first nine months of 2005, compared to \$61.7 million for the same period last year. The increase was primarily the result of an increase in cash paid to suppliers and employees, offset by an increase in interest received.

Net cash used in investing activities totaled \$339.1 million for the first nine months of 2005, compared to \$502.6 million used by investing activities for the same period in 2004. The decrease was primarily the result of a decrease in the purchase of investment securities, loans, and BOLI and an increase in the proceeds of sales of investment securities.

Funds provided by financing activities totaled \$325.1 million for the first nine months of 2005, compared to funds provided by financing activities of \$445.0 million for the same period last year. The decrease in net cash provided by financing activities was primarily the result of decrease in the growth of deposits and short-term borrowings during the period.

At September 30, 2005, cash and cash equivalents totaled \$132.7 million. This represented a decrease of \$16.6 million, or 14.31%, from a total of \$116.1 million at September 30, 2004.

***Capital Resources***

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

The Bank and the Company are required to meet risk-based capital standards set by their respective regulatory authorities. The risk-based capital standards require the achievement of a minimum ratio of total capital to risk-weighted assets of 8.0% (of which at least 4.0% must be Tier 1 capital). In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. At September 30, 2005, the Bank and the Company exceeded the minimum risk-based capital ratio and leverage ratio required to be considered Well Capitalized .

The Company's equity capital was \$337.2 million at September 30, 2005. This represented an increase of \$19.7 million, or 6.20% over equity capital of \$317.5 million at December 31, 2004. The Company's 2004 Annual Report on Form 10-K (Management's Discussion and Analysis and Note 16 of the accompanying financial statements) describes the regulatory capital requirements of the Company and the Bank.

In October 2001, the Company's Board of Directors authorized the purchase of up to 2.0 million shares of our common stock (without adjustment for stock splits and stock dividends). During the first nine months of 2005, the Company repurchased 676,033 shares of our common stock for an aggregate amount of \$12.3 million. As of September 30, 2005, 775,163 shares are available to be repurchased in the future under this repurchase plan.

Table 6 below presents the Company's and the Bank's risk-based and leverage capital ratios as of September 30, 2005 and December 31, 2004.

**Table of Contents****Table 6 Regulatory Capital Ratios**

<b>Capital Ratios</b>	<b>Required Minimum Ratios</b>	<b>September 30, 2005</b>		<b>December 31, 2004</b>	
		<b>Company</b>	<b>Bank</b>	<b>Company</b>	<b>Bank</b>
Risk-based capital ratios:					
Tier I	4.00%	12.03%	11.52%	12.58%	11.89%
Total	8.00%	12.84%	12.33%	13.42%	12.73%
Leverage ratio	4.00%	7.76%	7.49%	8.30%	7.83%

**RISK MANAGEMENT**

We have adopted a Risk Management Plan to ensure the proper control and management of all risk factors inherent in the operation of the Company and the Bank. Specifically, credit risk, interest rate risk, liquidity risk, transaction risk, compliance risk, strategic risk, reputation risk, price risk and foreign exchange risk, can all affect the market risk exposure of the Company. These specific risk factors are not mutually exclusive. It is recognized that any product or service offered by us may expose the Bank to one or more of these risks.

**Credit Risk**

Credit risk is defined as the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract or otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on counter party, issuer, or borrower performance. Credit risk arises through the extension of loans and leases, certain securities, and letters of credit.

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

Implicit in lending activities is the risk that losses will occur and that the amount of such losses will vary over time. Consequently, we maintain an allowance for credit losses by charging a provision for credit losses to earnings. Loans determined to be losses are charged against the allowance for credit losses. Our allowance for credit losses is maintained at a level considered by us to be adequate to provide for estimated probable losses inherent in the existing portfolio, and unused commitments to provide financing, including commitments under commercial and standby letters of credit.

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

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

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The first major element includes a detailed analysis of the loan portfolio in two phases. The first phase is conducted in accordance with SFAS No. 114, Accounting by Creditors for the Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures. Individual loans are reviewed to identify loans for impairment. A loan is impaired when principal and interest are deemed uncollectible in accordance with the original contractual terms of the loan. Impairment is measured as either the expected future cash flows discounted at each loan's effective interest rate, the fair value of the loan's collateral if the loan is collateral dependent, or an observable market price of the loan (if one exists). Upon measuring the impairment, we will insure an appropriate level of allowance is present or established.

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

Loans are risk rated into the following categories: Impaired, Doubtful, Substandard, Special Mention and Pass. Each of these groups is assessed for the proper amount to be used in determining the adequacy of our allowance for losses. While each loan is looked at annually to determine its proper classification, the Impaired and Doubtful loans are analyzed on an individual basis for allowance amounts. The other categories have formulae used to determine the needed allowance amount.

Based on the risk rating system, specific allowances are established in cases where we have identified significant conditions or circumstances related to a credit that we believe indicates the probability that a loss has been incurred. We perform a detailed analysis of these loans, including, but not limited to, cash flows, appraisals of the collateral, conditions of the marketplace for liquidating the collateral and assessment of the guarantors. We then determine the inherent loss potential and allocate a portion of the allowance for losses as a specific allowance for each of these credits.

The second phase is conducted by evaluating or segmenting the remainder of the loan portfolio into groups or pools of loans with similar characteristics in accordance with SFAS No. 5, Accounting for Contingencies. In this second phase, groups or pools of homogeneous loans are reviewed to determine a portfolio formula allowance. In the case of the portfolio formula allowance, homogeneous portfolios, such as small business loans, consumer loans, agricultural loans, and real estate loans, are aggregated or pooled in determining the appropriate allowance. The risk assessment process in this case emphasizes trends in the different portfolios for delinquency, loss, and other-behavioral characteristics of the subject portfolios.

The second major element in our methodology for assessing the appropriateness of the allowance consists of our considerations of all known relevant internal and external factors that may affect a loan's collectibility. This includes our estimates of the amounts necessary for concentrations, economic uncertainties, the volatility of the market value of collateral, and other relevant factors. The relationship of the two major elements of the allowance to the total allowance may fluctuate from period to period.



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In the second major element of the analysis which considers all known relevant internal and external factors that may affect a loan's collectibility, we perform an evaluation of various conditions, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the second element of the analysis of the allowance include, but are not limited to the following conditions that existed as of the balance sheet date:

general economic and business conditions affecting the key lending areas of the Company,

economic and business conditions of areas outside the lending areas, such as other sections of the United States, Asia and Latin America,

credit quality trends (including trends in non-performing loans expected to result from existing conditions),

collateral values,

loan volumes and concentrations,

seasoning of the loan portfolio,

specific industry conditions within portfolio segments,

recent loss experience in particular segments of the portfolio,

duration of the current business cycle,

bank regulatory examination results and

findings of the Company's internal credit examiners.

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

We maintain an allowance for inherent credit losses that is increased by a provision for credit losses charged against operating results. The allowance for credit losses is also increased by recoveries on loans previously charged off and reduced by actual loan losses charged to the allowance. There was no provision for credit losses during the first nine months of 2005 and 2004.

At September 30, 2005, we reported an allowance for credit losses of \$24.2 million. This represented an increase of \$1.7 million, or 7.75%, over the allowance for credit losses of \$22.5 million at December 31, 2004. The increase is due to \$756,000 of allowance for credit losses acquired through Granite State Bank and recoveries exceeding charge-offs for the third quarter of 2005.

Non-performing loans includes non-accrual loans, loans past due 90 or more days and still accruing, impaired loans, and restructured loans. There was \$2,000 in non-performing loans at September 30, 2005 and December 31, 2004.

**Table of Contents****TABLE 7 Summary of Credit Loss Experience**

	<b>Nine months ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
	(amounts in thousands)	
Amount of Total Loans at End of Period (1)	\$ 2,375,226	\$ 2,009,875
Average Total Loans Outstanding (1)	\$ 2,208,258	\$ 1,859,140
Allowance for Credit Losses:		
Beginning of Period	\$ 22,494	\$ 21,282
Acquisition of Granite State Bank	756	
Loans Charged-Off:		
Real Estate Loans		348
Commercial and Industrial	63	548
Lease Financing Receivables	66	
Consumer Loans	62	237
Total Loans Charged-Off	191	1,133
Recoveries:		
Real Estate Loans	525	662
Commercial and Industrial	459	2,128
Lease Financing Receivables	88	
Consumer Loans	106	129
Total Loans Recovered	1,178	2,919
Net Loans (Recovered)	(987)	(1,786)
Provision Charged to Operating Expense		
Allowance for Credit Losses at End of period	\$ 24,237	\$ 23,068

(1) Net of deferred loan fees

Net Loans Charged-Off (Recovered) to Average Total Loans	-0.04%	-0.10%
Net Loans Charged-Off (Recovered) to Total Loans at End of Period	-0.04%	-0.09%
Allowance for Credit Losses to Average Total Loans	1.10%	1.24%
Allowance for Credit Losses to Total Loans at End of Period	1.02%	1.15%
Net Loans Charged-Off (Recovered) to Allowance for Credit Losses	-4.07%	-7.74%
Net Loans Charged-Off (Recovered) to Provision for Credit Losses		

While we believe that the allowance at September 30, 2005, was adequate to absorb losses from any known or inherent risks in the portfolio, no assurance can be given that economic conditions or natural disasters which adversely affect our service areas or other circumstances will not be reflected in increased provisions or credit losses in the

future.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### ***Market Risk***

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

#### ***Interest Rate Risk***

During periods of changing interest rates, the ability to reprice interest-earning assets and interest-bearing liabilities can influence net interest income, the net interest margin, and consequently, our earnings. Interest rate risk is managed by attempting to control the spread between rates earned on interest-earning assets and the rates paid on interest-bearing liabilities within the constraints imposed by market competition in the Bank's service area. Short-term repricing risk is minimized by controlling the

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level of floating rate loans and maintaining a downward sloping ladder of bond payments and maturities. Basis risk is managed by the timing and magnitude of changes to interest-bearing deposit rates. Yield curve risk is reduced by keeping the duration of the loan and bond portfolios balanced to attempt to minimize the risks of rising or falling yields. Options risk in the bond portfolio is monitored monthly and actions are recommended when appropriate.

We monitor the interest rate sensitivity risk to earnings from potential changes in interest rates using various methods, including a maturity/repricing gap analysis. This analysis measures, at specific time intervals, the differences between earning assets and interest-bearing liabilities for which repricing opportunities will occur. A positive difference, or gap, indicates that earning assets will reprice faster than interest-bearing liabilities. This will generally produce a greater net interest margin during periods of rising interest rates, and a lower net interest margin during periods of declining interest rates. Conversely, a negative gap will generally produce a lower net interest margin during periods of rising interest rates and a greater net interest margin during periods of decreasing interest rates.

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

Approximately \$1.76 billion, or 77.91%, of the total investment portfolio at September 30, 2005 consisted of securities backed by mortgages. The final maturity of these securities can be affected by the speed at which the underlying mortgages repay. Mortgages tend to repay faster as interest rates fall, and slower as interest rates rise. As a result, we may be subject to a prepayment risk resulting from greater funds available for reinvestment at a time when available yields are lower. Conversely, we may be subject to extension risk resulting from lesser amounts available for reinvestment at a time when available yields are higher. Prepayment risk includes the risk associated with the payment of an investment's principal faster than originally intended. Extension risk is the risk associated with the payment of an investment's principal over a longer time period than originally anticipated. In addition, there can be greater risk of price volatility for mortgage-backed securities as a result of anticipated prepayment or extension risk.

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

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

The following depicts the Company's net interest income sensitivity analysis as of September 30, 2005:

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Simulated Rate Changes	Estimated Net Interest Income Sensitivity
+ 200 basis points	( 2.42% )
- 200 basis points	( 0.36% )

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

**Liquidity Risk**

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

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

**Transaction Risk**

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

In general, transaction risk is defined as high, medium or low by the internal auditors during the audit process. The audit plan ensures that high-risk areas are reviewed at least annually.

The key to monitoring transaction risk is in the design, documentation and implementation of well-defined procedures. All transaction related procedures include steps to report events that might increase transaction risk. Dual controls are also a form of monitoring.

**Compliance Risk**

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

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business value, limited business opportunities, lessened expansion potential, and lack of contract enforceability.

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

Our Compliance Management Policy and Program and the Code of Ethical Conduct are the cornerstone for controlling compliance risk. An integral part of controlling this risk is the proper training of associates. The Compliance Officer is responsible for developing and executing a comprehensive compliance training program. The Compliance Officer will ensure that each associate receives adequate training with regard to their position to ensure that laws and regulations are not violated. All associates who deal in compliance high risk areas are trained to be knowledgeable about the level and severity of exposure in those areas and the policies and procedures in place to control such exposure.

Our Compliance Management Policy and Program includes an audit program aimed at identifying problems and ensuring that problems are corrected. The audit program includes two levels of review. One is in-depth audits performed by an external firm and the other is periodic monitoring performed by the Compliance Officer.

We utilize an external firm to conduct compliance audits as a means of identifying weaknesses in the compliance program itself. The external firm's audit plan includes a periodic review of each branch and department of the Bank.

The branch or department that is the subject of an audit is required to respond to the audit and correct any violations noted. The Compliance Officer will review audit findings and the response provided by the branch or department to identify areas which pose a significant compliance risk.

The Compliance Officer conducts periodic monitoring of our compliance efforts with a special focus on those areas that expose us to compliance risk. The purpose of the periodic monitoring is to ensure that our associates are adhering to established policies and procedures adopted by the Bank. The Compliance Officer will notify the appropriate department head and the Compliance Committee of any violations noted. The branch or department that is the subject of the review will be required to respond to the findings and correct any noted violations.

We recognize that customer complaints can often identify weaknesses in our compliance program which could expose the Bank to risk. Therefore, all complaints are given prompt attention. Our Compliance Management Policy and Program includes provisions on how customer complaints are to be addressed. The Compliance Officer reviews all complaints to determine if a significant compliance risk exists and communicates those findings to Senior Management.

***Strategic Risk***

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

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

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

1. All banks of comparable size
2. High performing banks
3. A list of specific banks

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

The corporate strategic plan is formally presented to all branch managers and department managers annually.

***Reputation Risk***

Reputation risk is the risk to capital and earnings arising from negative public opinion. This affects our ability to establish new relationships or services, or continue servicing existing relationships. It can expose us to litigation and, in some instances, financial loss.

***Price and Foreign Exchange Risk***

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

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

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

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

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

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain controls and procedures designed to ensure that information is recorded and reported in all filings of financial reports. Such information is reported to the Company's management, including its Chief Executive Officer and its Chief Financial Officer to allow timely and accurate disclosure based on the definition of disclosure controls and procedures in SEC Rule 13a-15(e). In designing these controls and procedures, management recognizes that they can only provide reasonable assurance of achieving the desired control objectives. We also evaluate the cost-benefit relationship of controls and procedures.

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As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer, the Chief Financial Officer and other senior management of the Company. Based on the foregoing, the Company's Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

During our most recent fiscal quarter, there have been no changes in our internal controls over financial reporting that has materially affected or is reasonably likely to materially affect our internal controls over financial reporting.



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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Not Applicable

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In October 2001, the Company's board of directors authorized the repurchase of up to 2.0 million shares (all share amounts will not be adjusted to reflect stock dividends and splits) of the Company's common stock. This program does not have an expiration date. There were no repurchase transactions during the three months ended September 30, 2005. As of September 30, 2005, 775,163 shares are available to be repurchased in the future under this repurchase plan.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not Applicable

**ITEM 5. OTHER INFORMATION**

Not Applicable

**ITEM 6. EXHIBITS**

Exhibit 31.1 Certification of D. Linn Wiley pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Edward J. Biebrich, Jr. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification of D. Linn Wiley pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification of Edward J. Biebrich, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CVB FINANCIAL CORP.**

(Registrant)

Date: November 4, 2005

/s/ Edward J. Biebrich Jr.  
Edward J. Biebrich Jr.  
Chief Financial Officer

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