CVB FINANCIAL CORP
Form 10-K
March 14, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
	For the fiscal year ended December 31, 2005

or

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
	For the transition period from N/A to N/A

Commission file number 1-10140
CVB FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

California	**95-3629339**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
701 N. Haven Avenue, Suite 350 Ontario, California	**91764**
(Address of Principal Executive Offices)	*(Zip Code)*

Registrant s telephone number, including area code (909) 980-4030
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:

(Title of class)	**(Title of class)**
Common Stock, no par value	Preferred Stock Purchase Rights

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

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

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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated Filer o Non-accelerated filer o

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

As of June 30, 2005, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $928,734,289.

Number of shares of common stock of the registrant outstanding as of March 10, 2006: 76,473,416.

Documents Incorporated By Reference	Part of
Definitive Proxy Statement for the Annual Meeting of Stockholders which will be filed within 120 days of the fiscal year ended December 31, 2005	Part III of Form 10-K

CVB FINANCIAL CORP.
2005 ANNUAL REPORT ON FORM 10-K
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INTRODUCTION

Certain statements in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or Exchange Act, and as such involve risk and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which we operate, projections of future performance, perceived opportunities in the market and strategies regarding our mission and vision. 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 our operations, fluctuations in interest rates, credit quality and government regulation. For additional information concerning these factors, see Item 1A. Risk Factors And any additional information as set forth in our periodic reports filed pursuant to the Securities Exchange Act of 1934, as amended. We do not undertake any obligation to update our forward-looking statements to reflect occurrence or unanticipated events or circumstances after the date of such statements.

PART I

Item 1. *Business*

CVB Financial Corp.

CVB Financial Corp. (referred to herein on an unconsolidated basis as CVB and on a consolidated basis as we or the Company) is a bank holding company incorporated in California on April 27, 1981 and registered under the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act). The Company commenced business on December 30, 1981 when, pursuant to a reorganization, it acquired all of the voting stock of Chino Valley Bank. On March 29, 1996, Chino Valley Bank changed its name to Citizens Business Bank (the Bank). The Bank is our principal asset. CVB has one other subsidiary: Community Trust Deed Services (Community).CVB is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II, and CVB Statutory Trust III. Trusts I and II were created in December 2003 and Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. The Bank has one operating subsidiary, Golden West Enterprises, Inc, (GWF) which engages in automobile and equipment leasing, and brokers mortgage loans. As of February 21, 2006, we have received regulatory approval to merge Community and GWF into the Bank. We believe this will be completed by March 31, 2006.

CVB s principal business is to serve as a holding company for the Bank, Community, and for other banking or banking related subsidiaries, which the Company may establish or acquire. We have not engaged in any other activities to date. As a legal entity separate and distinct from its subsidiaries, CVB s principal source of funds is, and will continue to be, dividends paid by and other funds advanced from the Bank. Legal limitations are imposed on the amount of dividends that may be paid and loans that may be made by the Bank to CVB. See Item 1. Business Supervision and Regulation Dividends and Other Transfers of Funds. At December 31, 2005, the Company had $5.42 billion in total consolidated assets, $2.64 billion in net loans and $3.42 billion in deposits.

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

Citizens Business Bank

The Bank commenced operations as a California state chartered bank on August 9, 1974. The Bank s deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits. The Bank is not a member of the Federal Reserve System. At December 31, 2005, the Bank had $5.42 billion in assets, $2.64 billion in net loans and $3.42 billion in deposits.

As of December 31, 2005, we had 40 Business Financial Centers located in the Inland Empire, San Gabriel Valley, Orange County, Los Angeles County, Madera County, Fresno County, Tulare County, and Kern

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County areas of California. Of the 40 offices, we opened twelve as de novo branches and acquired the other twenty-eight in acquisition transactions. We added five offices in 2003 and an additional three offices in 2005. Our 2005 offices were comprised of one de novo office in Madera County and two offices in Los Angeles County which we acquired after our merger with Granite State Bank, which was completed on February 25, 2005.

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

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

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

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

We offer a wide range of financial services and trust services through our Financial Advisory Services Group (formerly known as Wealth Management Division). These services include fiduciary services, mutual funds, annuities, 401K plans and individual investment accounts.

Golden West Enterprises, Inc.

The Bank owns 100% of the voting stock of Golden West Enterprises, Inc., which is located in Costa Mesa, California. Golden West Enterprises provides automobile and equipment leasing, and brokers mortgage loans. As of December 31, 2005, Golden West Enterprises, Inc. had $39.4 million in lease receivables.

Community Trust Deed Services

The Company owns 100% of the voting stock of Community, which has one office. Community s services, which are provided to the Bank and non-affiliated persons, include preparing and filing notices of default, reconveyances and related documents and acting as a trustee under deeds of trust. At present, the assets, revenues and earnings of Community are not material in amount when compared to the Bank.

Employees

At December 31, 2005, we employed 719 persons, 493 on a full-time and 226 on a part-time basis. We believe that our employee relations are satisfactory.

Competition

The banking and financial services business is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. We compete for loans, deposits, and

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customers with other commercial banks, savings and loan associations, savings banks, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers. Many competitors are much larger in total assets and capitalization, have greater access to capital markets, including foreign-ownership, and/or offer a broader range of financial services.

Economic Conditions, Government Policies, Legislation, and Regulation

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

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

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers, such as recent federal legislation permitting affiliations among commercial banks, insurance companies and securities firms. We cannot predict whether any potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations.

Supervision and Regulation

General

We are extensively regulated under both federal and certain state laws. This regulation is intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of stockholders of the financial institution. Set forth below is a summary description of the material laws and regulations which relate to our operations. The description is qualified in its entirety by reference to the applicable laws and regulations.

The Company

As a bank holding company, we are subject to regulation and examination by the FRB under the Bank Holding Company Act of 1956, as amended (the BHCA). We are required to file with the FRB periodic reports and such additional information as the FRB may require. The FRB s bank holding company rating system emphasizes risk management and evaluation of the potential impact of non-depository entities on safety and soundness.

The FRB may require us to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of our banking subsidiary. The FRB also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, we must file

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written notice and obtain FRB approval prior to purchasing or redeeming our equity securities. Further, we are required by the FRB to maintain certain levels of capital. See Capital Standards.

We are required to obtain prior FRB approval for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior FRB approval is also required for the merger or consolidation of the company and another bank holding company.

We are prohibited by the BHCA, except in certain statutorily prescribed instances, from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to our subsidiaries. However, subject to the prior FRB approval, we may engage in any, or acquire shares of companies engaged in, activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. It is the policy of the FRB that each bank holding company serve as a source of financial and managerial strength to its subsidiary bank(s) and it may not conduct operations in an unsafe or unsound manner. A bank holding company s failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both.

We are also a bank holding company within the meaning of the California Financial Code. As such, the Company and its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Financial Institutions (DFI).

The Bank

As a California chartered bank, we are subject to primary supervision, periodic examination, and regulation by the DFI and the FDIC. If, as a result of an examination of the Bank, the FDIC or DFI determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of our operations are unsatisfactory or that we are violating or have violated any law or regulation, various remedies are available to the FDIC, including the power to enjoin unsafe or unsound practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict our growth, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate our deposit insurance, which would result in a revocation of the Bank s charter. See Safety and Soundness Standards.

The DFI also possesses broad powers to take corrective and other supervisory actions to resolve the problems of California state chartered banks. These enforcement powers include cease and desist orders, the imposition of fines, the ability to take possession of a bank and the ability to close and liquidate a bank.

Any changes in federal or state banking laws or the regulations of the banking agencies could have a material adverse impact on us, the Bank and our operations. For example, the enactment of long-pending FDIC reform legislation, which would merge the Bank Insurance Fund and the SAIF and increase current deposit coverage limits, could affect our costs and operations. Further, in early January, 2005, the federal banking agencies jointly issued proposed guidance for banks and thrifts with high and increasing concentrations of commercial real estate (CRE) construction and development loans. The implementation of these guidelines in final form could result in increased reserves and capital costs for banks and thrifts with CRE concentration. The Bank s CRE portfolio as of December 31, 2005 would not meet the definition of CRE concentration as set forth in the proposed guidelines.

Because California permits commercial banks chartered by the state to engage in any activity permissible for national banks, the Bank can form subsidiaries to engage in the many so-called closely related to banking or non-banking activities commonly conducted by national banks in operating subsidiaries, but also expanded financial activities to the same extent as a national bank. However, in order to form a financial subsidiary, the Bank must be well-capitalized and would be subject to the same capital deduction, risk

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management and affiliate transaction rules as applicable to national banks. Generally, a financial subsidiary is permitted to engage in activities that are financial in nature or incidental thereto, even though they are not permissible for the national bank to conduct directly within the bank. The definition of financial in nature includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance (other than credit life insurance), issue annuities or engage in real estate development or investment or merchant banking.

The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters, including:

- required executive certification of financial presentations;
- increased requirements for board audit committees and their members;
- enhanced disclosure of controls and procedures and internal control over financial reporting;
- enhanced controls on, and reporting of, insider trading;
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances; and
- the prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years.

The legislation and its implementing regulations have resulted in increased costs of compliance, including certain outside professional costs. To date, these costs, including allocated time of our associates that were performing other tasks, is approximately $0.01 per share before taxes.

During the second year of compliance with Sarbanes-Oxley Act, we have not seen a material decline in costs. While costs have decreased some, this decrease will not have a material impact on earnings per share.

USA Patriot Act of 2001

The USA PATRIOT Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws. Under the USA PATRIOT Act, financial institutions are subject to prohibitions regarding specified financial transactions and account relationships, as well as enhanced due diligence and know your customer standards in their dealings with foreign financial institutions, foreign customers and private banking customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are required to establish and maintain anti-money laundering programs which include:

- the establishment of a customer identification program;
- the development of internal policies, procedures, and controls;

- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

The Bank has adopted comprehensive policies and procedures to address the requirements of the USA PATRIOT Act. Material deficiencies in anti-money laundering compliance can result in public enforcement actions by the banking agencies, including the imposition of civil money penalties and supervisory restrictions on growth and expansion. Such actions could have serious reputation consequences for the Company and the Bank.

Merchant Banking Restrictions

We have determined that it is not beneficial at this time for us to become a financial holding company and enter into merchant banking activities, though we could do so in the future.

Consumer Protection Laws and Regulations

Examination and enforcement by the bank regulatory agencies for non-compliance with consumer protection laws and their implementing regulations have become more intense in nature. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Home Ownership and Equal Protection Act of 1994, or HOEPA, requires extra disclosures and consumer protections to borrowers for certain lending practices. The term predatory lending, much like the terms safety and soundness and unfair and deceptive practices, is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. Typically predatory lending involves at least one, and perhaps all three, of the following elements:

- making unaffordable loans based on the assets of the borrower rather than on the borrower s ability to repay an obligation (asset-based lending);
- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (loan flipping); and/or
- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

Federal Reserve regulations and OCC guidelines aimed at curbing predatory lending significantly widen the pool of high cost home secured loans covered by HOEPA. In addition, the regulations bar certain refinances within a year with another loan subject to HOEPA by the same lender or loan servicer. Lenders also will be presumed to have violated the law which says loans should not be made to people unable to repay them unless they document that the borrower has the ability to repay. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid. We do not expect these rules and potential state action in this area to have a material impact on our financial condition or results of operation.

Privacy policies are required by federal banking regulations which limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to those rules, financial institutions must provide:

- initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- annual notices of their privacy policies to current customers; and
- a reasonable method for customers to opt out of disclosures to nonaffiliated third parties.

These privacy protections affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

In addition, state laws may impose more restrictive limitations on the ability of financial institution to disclose such information. California has adopted such a privacy law that among other things generally provides that customers must opt in before information may be disclosed to certain nonaffiliated third parties.

The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, or FACT Act, requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and gives consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with FACT Act, financial institution regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer s election to opt out would be applicable for at least five years.

The Check Clearing for the 21st Century Act, or Check 21, facilitates check truncation and electronic check exchange by authorizing a new negotiable instrument called a substitute check, which is the legal equivalent of an original check. Check 21 does not require banks to create substitute checks or accept checks electronically; however, it does require banks to accept a legally equivalent substitute check in place of an original. In addition to its issuance of regulations governing substitute checks, the Federal Reserve has issued final rules governing the treatment of remotely created checks (sometimes referred to as demand drafts) and electronic check conversion transactions (involving checks that are converted to electronic transactions by merchants and other payees).

The Equal Credit Opportunity Act, or ECOA, generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act, or TILA, is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act, or FH Act, regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Community Reinvestment Act, or CRA, is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of outstanding to a low of substantial noncompliance. In its last examination for CRA compliance, as of February 22, 2005 the Bank was rated satisfactory.

The Home Mortgage Disclosure Act, or HMDA, grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing

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anti-discrimination statutes. The Federal Reserve Board amended regulations issued under HMDA to require the reporting for 2004 of certain pricing data with respect to higher priced mortgage loans. The expanded 2004 HMDA data is being reviewed by federal banking agencies and others from a fair lending perspective. We do not expect that the HMDA data reported by the Bank for 2005 will raise material issues regarding the Bank s compliance with the fair lending laws.

Finally, the Real Estate Settlement Procedures Act, or RESPA, requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with the CRA, TILA, FH Act, ECOA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Privacy

Federal banking rules limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to these rules, financial institutions must provide:

- initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- annual notices of their privacy policies to current customers; and
- a reasonable method for customers to opt out of disclosures to nonaffiliated third parties.

These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. We have implemented our privacy policies in accordance with the law.

In recent years, a number of states have implemented their own versions of privacy laws. For example, in 2004, California adopted standards that are tougher than federal law, allowing bank customers the opportunity to bar financial companies from sharing information with their affiliates. As a California charted bank, we are required to follow these more restrictive standards.

Interagency Guidance on Response Programs to Protect Against Identity Theft

On August 12, 2004, the Federal bank and thrift regulatory agencies requested public comment on proposed guidance that would require financial institutions to develop programs to respond to incidents of unauthorized access to customer information, including procedures for notifying customers under certain circumstances. The proposed guidance:

- interprets previously issued interagency customer information security guidelines that require financial institutions to implement information security programs designed to protect their customers information; and
- describes the components of a response program and sets a standard for providing notice to customers affected by unauthorized access to or use of customer information that could result in substantial harm or inconvenience to those customers, thereby reducing the risk of losses due to fraud or identity theft.

We are not able at this time to determine the impact of any such proposed guidance on our financial condition or results of operations.

Dividends and Other Transfers of Funds

Dividends from the Bank constitute the principal source of income to CVB. CVB is a legal entity separate and distinct from the Bank. A FRB policy statement on the payment of cash dividends states that a bank holding company should pay cash dividends only to the extent that the holding company s net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company s capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the federal prompt corrective action regulations, the FRB may prohibit a bank holding company from paying any dividends if the holding company s bank subsidiary is classified as undercapitalized. See Prompt Corrective Action and Other Enforcement Mechanisms below.

The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. Under such restrictions, the amount available for payment of dividends to the Company by the Bank totaled $93.0 million at December 31, 2005. In addition, the Bank s regulators have the authority to prohibit the Bank from paying dividends, depending upon the Bank s financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

Extension of Credit to Insiders and Transactions with Affiliates

The Federal Reserve Act and FRB Regulation O place limitations and conditions on loans or extensions of credit to:

- a bank s or bank holding company s executive officers, directors and principal shareholders (i.e., in most cases, those persons who own, control or have power to vote more than 10% of any class of voting securities),

- any company controlled by any such executive officer, director or shareholder, or

- any political or campaign committee controlled by such executive officer, director or principal shareholder.

Loans and leases extended to any of the above persons must comply with loan-to-one-borrower limits, require prior full board approval when aggregate extensions of credit to the person exceed specified amounts, must be made on substantially the same terms (including interest rates and collateral) as, and follow credit-underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with non-insiders, and must not involve more than the normal risk of repayment or present other unfavorable features. In addition, Regulation O provides that the aggregate limit on extensions of credit to all insiders of a bank as a group cannot exceed the bank s unimpaired capital and unimpaired surplus. Regulation O also prohibits a bank from paying an overdraft on an account of an executive officer or director, except pursuant to a written pre-authorized interest-bearing extension of credit plan that specifies a method of repayment or a written pre-authorized transfer of funds from another account of the officer or director at the bank.

We also are subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Such restrictions prevent any affiliates from borrowing from us unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments by us to or in any affiliate are limited, individually, to 10.0% of our capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20.0% of our capital and surplus. Some of the entities included in the definition of an affiliate are parent companies, sister banks, sponsored and advised companies, investment companies whereby the bank s affiliate serves as investment advisor, and financial subsidiaries of the bank. Additional restrictions on transactions with affiliates may be imposed on us under the prompt corrective action provisions of federal law and the supervisory authority of the federal and state banking agencies. See Prompt Corrective Action and Safety and Soundness Standards.

Capital Standards

The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization s operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance

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sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk federal banking agencies, to 100% for assets with relatively high credit risk.

The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Under the capital guidelines, a banking organization s total capital is divided into tiers. Tier I capital consists of (1) common equity, (2) qualifying noncumulative perpetual preferred stock, (3) a limited amount of qualifying cumulative perpetual preferred stock and (4) minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Qualifying Tier I capital may consist of trust-preferred securities, subject to the FRB s final rule adopted March 4, 2005, which changed the criteria and quantitative limits for inclusion of restricted core capital elements in Tier I capital. Tier II capital consists of hybrid capital instruments, perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, preferred stock that does not qualify as Tier I capital, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. Tier III capital consists of qualifying unsecured subordinated debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

The risk-based capital guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%.

A bank that does not achieve and maintain the required capital levels may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, both CVB and the Bank are required to maintain certain levels of capital.

The following table presents the amounts of regulatory capital and the capital ratios for the Company, compared to its minimum regulatory capital requirements as of December 31, 2005:

	As of December 31, 2005					
	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Amounts in thousands)					
Leverage ratio	$ 394,617	7.7%	$ 206,066	4.0%	$ 188,551	3.7%
Tier 1 risk-based ratio	394,617	11.3%	139,811	4.0%	254,806	7.3%
Total risk-based ratio	419,554	12.0%	279,702	8.0%	139,852	4.0%

The following table presents the amounts of regulatory capital and the capital ratios for the Bank, compared to its minimum regulatory capital requirements as of December 31, 2005:

	As of December 31, 2005					
	Actual		Required		Excess	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Amounts in thousands)					
Leverage ratio	$ 377,527	7.3%	$ 205,737	4.0%	$ 171,790	3.3%
Tier 1 risk-based ratio	377,527	10.8%	139,566	4.0%	237,961	6.8%

Total risk-based ratio	402,464	11.5%	279,245	8.0%	123,219	3.5%

The risk-based capital guidelines are based upon the 1988 capital accord of the international Basel Committee on Banking Supervision. A new international accord, referred to as Basel II, which emphasizes internal assessment of credit, market and operational risk; supervisory assessment and market discipline in determining minimum capital requirements, currently becomes mandatory in 2008 only for banks with over $250 billion in assets or total on-balance-sheet foreign exposure of $10 billion or more. Alternative capital requirements are under consideration by the U.S. federal banking agencies for smaller U.S. banks which may be negatively impacted competitively by certain provisions of Basel II.

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Prompt Corrective Action and Other Enforcement Mechanisms

Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall below one or more prescribed minimum capital ratios. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios:

well capitalized;

adequately capitalized;

undercapitalized;

significantly undercapitalized; and

critically undercapitalized.

The regulations use an institution s risk-based capital, leverage capital and tangible capital ratios to determine the institution s capital classification. An institution is treated as well capitalized if its total capital to risk-weighted assets ratio is 10.00% or more; its core capital to risk-weighted assets ratio is 6.00% or more; and its core capital to adjusted total assets ratio is 5.00% or more. At December 31, 2005, the Bank s capital ratios exceed these minimum percentage requirements for well capitalized institutions.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

Safety and Soundness Standards

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators and/or state regulations for state banks, for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized without the express permission of the institution s primary regulator.

The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

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Premiums for Deposit Insurance

Through the BIF, the FDIC insures our customer deposits up to prescribed limits for each depositor. The amount of FDIC assessments paid by each BIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other factors. Specifically, the assessment rate is based on the institution s capitalization risk category and supervisory subgroup category. An institution s capitalization risk category is based on the FDIC s determination of whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. An institution s supervisory subgroup category is based on the FDIC s assessment of the financial condition of the institution and the probability that FDIC intervention or other corrective action will be required.

The assessment rate currently ranges from zero to 27 cents per $100 of domestic deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. Due principally to continued growth in deposits, the BIF is nearing its minimum ratio of 1.25% of insured deposits as mandated by law. If the ratio drops below 1.25%, it is likely the FDIC will be required to assess premiums on all banks. Any increase in assessments or the assessment rate could have a material adverse effect on earnings, depending on the amount of the increase. Furthermore, the FDIC is authorized to raise insurance premiums under certain circumstances.

The FDIC is authorized to terminate a depository institution s deposit insurance upon a finding by the FDIC that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution s regulatory agency. The termination of deposit insurance for the Bank could have a material adverse effect on the company s earnings, depending on the collective size of the particular institutions involved.

All FDIC-insured depository institutions must pay an annual assessment to provide funds for the payment of interest on bonds issued by the Financing Corporation, a federal corporation chartered under the authority of the Federal Housing Finance Board. The bonds, commonly referred to as FICO bonds, were issued to capitalize the Federal Savings and Loan Insurance Corporation. The FICO assessment rate for the fourth quarter of fiscal 2005 was 1.34 basis points for each $100 of assessable deposits. The FICO assessments are adjusted quarterly to reflect changes in the assessment bases of the FDIC s insurance funds and do not vary depending on a depository institution s capitalization or supervisory evaluations.

The enactment in February, 2006, of the Federal Deposit Insurance Reform Act of 2006, or FDIRA, provides, among other things, for the merger of the BIF and the SAIF into the Deposit Insurance Fund; future inflation adjustment increases in the standard maximum deposit insurance amount of $100,000; the increase of retirement account coverage to $250,000; changes in the formula and factors to be considered by the FDIC in calculating the FDIC reserve ratio, assessments and dividends, and a one-time aggregate assessment credit for depository institutions in existence on December 31, 1996 (or their successors) which paid assessments to recapitalize the insurance funds after the banking crises of the late 1980s and early 1990s. The FDIC is to issue regulations implementing the provisions of FDIRA. At this time it is uncertain what effect FDIRA and the forthcoming regulations will have on the bank.

Interstate Banking and Branching

Banks have the ability, subject to certain state restrictions, to acquire by acquisition or merger branches outside their home state. The establishment of new interstate branches is also possible in those states with laws that expressly permit it. Interstate branches are subject to certain laws of the states in which they are located. Competition may increase further as banks branch across state lines and enter new markets.

Federal Home Loan Bank System

The bank is a member of the Federal Home Loan Bank of San Francisco (FHLB SF). Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes

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available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. As a FHLB member, we are required to own a certain amount of capital stock in the FHLB SF. The amount of stock is equal to the greater of:

1% of its aggregate outstanding principal amount of its residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year; or

5% of its FHLB advances or borrowings.

At December 31, 2005, we were in compliance with the stock requirements.

Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At December 31, 2005, we were in compliance with these requirements.

Non-bank Subsidiaries

The Company s non-bank subsidiaries also are subject to regulation by the FRB and other applicable federal and state agencies. Other non-bank subsidiaries of the Company are subject to the laws and regulations of both the federal government and the various states in which they conduct business.

Available Information

Reports filed with the Securities and Exchange Commission (the Commission) include our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports and other information on file can be inspected and copied at the public reference facilities of the Commission on file at 450 Fifth Street, N.W., Washington D.C., 20549. The public may obtain information on the operation of the public reference loans by calling the SEC at 1-800-SEC-0330. The Commission maintains a Web Site that contains the reports, proxy and information statements and other information we file with them. The address of the site is http://www.sec.gov. The Company also maintains an Internet website at http://www.cbbank.com. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and current Report on Form 8-K, and any amendment there to, as soon as reasonably practicable after we file such reports with the SEC. None of the information contained in or hyperlinked from our website is incorporated into this Form 10-K.

Executive Officers

The following tables set forth certain information regarding our Executive Officers as of March 14, 2006:

Executive Officers:

Name	Position	Age
D. Linn Wiley	President and Chief Executive Officer of the Company and the Bank	67
Edward J. Biebrich Jr.	Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank	62
Jay W. Coleman	Executive Vice President/ Sales and Service Division of the Bank	63
Edward J. Mylett, Jr.	Executive Vice President/ Credit Management Division of the Bank	57
R. Scott Racusin	Executive Vice President/ Financial Advisory Services Division of the Bank	52

Mr. Wiley has served as President and Chief Executive Officer of the Company since October 1991. Mr. Wiley joined the Company and Bank as a director and as President and Chief Executive Officer designate on August 21, 1991. Prior to that, Mr. Wiley served as an Executive Vice President of Wells Fargo Bank from April 1, 1990 to August 20, 1991. From 1988 to April 1, 1990 Mr. Wiley served as the President and Chief Administrative Officer of Central Pacific Corporation, and from 1983 to 1990 he was the President and Chief Executive Officer of American National Bank.

Mr. Biebrich assumed the position of Chief Financial Officer of the Company and Executive Vice President/ Chief Financial Officer of the Bank on February 2, 1998. From 1983 to 1990, he served as Chief Financial Officer for Central Pacific Corporation and Executive Vice President, Chief Financial Officer and Manager of the Finance and Operations Division for American National Bank. From 1990 to 1992, he was Vice President of Operations for Systematics Financial Services Inc. From 1992 to 1998, he served as Senior Vice President, Chief Financial Officer of ARB, Inc.

Mr. Coleman assumed the position of Executive Vice President of the Bank on December 5, 1988. Prior to that, he served as President and Chief Executive Officer of Southland Bank, N.A. from March 1983 to April 1988.

Mr. Mylett assumed the position of Executive Vice President and Senior Loan Officer of the Bank on March 1, 2006. Prior to that, he served as Senior Vice President Regional Manager of the Bank from July 2003 to March 2006 and the Burbank Business Financial Center Manager from June 2002 to July 2003. Prior to that, Mr. Mylett served as Executive Vice President, Chief Operating Officer and Senior Credit Officer for Western Security Bank from 1992 to June 2002.

Mr. Racusin assumed the position of Executive Vice President and Division Manager of Financial Advisory Services Group of the Bank on May 16, 2005. Prior to that, he served as Executive Vice President and Regional Managing Director of Wealth Management for Comerica Bank from 2002 to 2004. From 1999 to 2002, he served as the President and Chief Executive Officer of AeroBank.com as well as Executive Vice President of AeroFund Financial. Immediately prior to that, he held various positions with Union Bank of California from 1987 to 1998.

Item 1A. *Risk Factors*

Risk Factors That May Affect Future Results In addition to the other information contained in this annual report, the following risks may affect us. If any of these risks occurs, our business, financial condition, operating results and prospects could be adversely affected.

In addition to other information contained in this report, the following discusses certain factors which may adversely affect our business financial results and operations and should be considered in evaluating the Company.

Our Southern and Central California business focus and economic conditions in Southern and Central California could adversely affect our operations Our operations are concentrated in Southern and Central California, and in particular in San Bernardino County, Riverside County, Orange County, Madera County, Fresno County, Tulare County, Kern County, and the eastern portion of Los Angeles County in Southern California. As a result of this geographic concentration, our business is directly affected by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects:

- problem assets and foreclosures may increase,
- demand for our products and services may decline,
- low cost or non-interest bearing deposits may decrease, and
- collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans.

In view of the concentration of our operations and the collateral securing our loan portfolio in Southern and Central California, we may be particularly susceptible to the adverse effects of any of these consequences,

any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, credit quality, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of our executive officers. The loss of the services of any one of our key executives or other executives or our inability to find suitable replacements could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance Our earnings are impacted by changing interest rates. Changes in interest rates impact the level of loans, deposits and investments, the credit profile of existing loans and the rates received on loans and securities and the rates paid on deposits and borrowings. Significant fluctuations in interest rates may have a material adverse affect on our financial condition and results of operations.

A substantial portion of our income is derived from the differential or spread between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. At December 31, 2005 our balance sheet was asset sensitive and, as a result, our net interest margin tends to expand in a rising interest rate environment and decline in a declining interest rate environment. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. In addition, loan origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. In addition, in a rising interest rate environment, we may need to accelerate the pace of rate increases on our deposit accounts as compared to the pace of future increases in short-term market rates. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume, business, financial condition, results of operations and prospects.

The types of loans in our portfolio have a higher degree of risk and a downturn in our real estate markets could hurt our business A downturn in our real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature. If real estate prices decline, particularly in California, the value of real estate collateral securing our loans could be reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. As of December 31, 2005, approximately 42.75% of the book value of our loan portfolio consisted of loans collateralized or secured by various types of real estate. Substantially all of our real estate collateral is located in California. If there is a significant decline in real estate values, especially in California, the collateral for our loans will provide less security. Real estate values could also be affected by, among other things, earthquakes and national disasters particular to California. Any such downturn could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to extensive government regulation. These regulations may hamper our ability to increase our assets and earnings Our operations and those of the bank are subject to extensive regulation by federal,

state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. We cannot assure you that these proposed laws, rules and regulations or any other laws, rules or regulations will not be adopted in the future, which could make compliance much more difficult or expensive, restrict our ability to originate, broker or sell loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us or otherwise adversely affect our business, financial condition, results of operations or cash flows.

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

If we cannot attract deposits, our growth may be inhibited Our ability to increase our asset base depends in large part on our ability to attract additional deposits at favorable rates. We intend to seek additional deposits by offering deposit products that are competitive with those offered by other financial institutions in our markets and by establishing personal relationships with our customers. We cannot assure you that these efforts will be successful. Our inability to attract additional deposits at competitive rates could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our allowance for credit losses may not be adequate to cover actual losses A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. Unexpected losses may arise from a wide variety of specific or systemic factors, many of which are beyond our ability to predict, influence, or control.

Like all financial institutions, we maintain an allowance for credit losses to provide for loan and lease defaults and non-performance Our allowance for credit losses may not be adequate to cover actual loan and lease losses, and future provisions for credit losses could materially and adversely affect our business, financial condition, results of operations and cash flows. The allowance for credit losses reflects our estimate of the probable losses in our loan and lease portfolio at the relevant balance sheet date. Our allowance for credit losses is based on prior experience, as well as an evaluation of the known risks in the current portfolio, composition and growth of the loan and lease portfolio and economic factors. The determination of an appropriate level of the allowance for credit losses is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control and these losses may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review our loans and leases and allowance for credit losses. While we believe that our allowance for credit losses is adequate to cover current losses, we cannot assure you that we will not increase the allowance for credit losses further or that regulators will not require us to increase this allowance. Either of these occurrences could have a material adverse affect on our business, financial condition, results of operations and prospects.

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems that may result in lost business and we may not be able to obtain substitute providers on terms that are as favorable if our relationships with our

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existing service providers are interrupted We rely on third-party service providers for much of our communications, information, operating and financial control systems technology. Any failure or interruption or breach in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. We cannot assure you that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. The occurrence of any failures or interruptions could have a material adverse effect on our business, financial condition, results of operations and cash flows. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Any of these circumstances could have a material adverse effect on our business, financial condition, results of operations, and prospects.

We face strong competition from financial services companies and other companies that offer banking services which could hurt our business We conduct our operations exclusively in California. Increased competition in our markets may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that we offer in our service areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions may have larger lending limits which would allow them to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits and our business, financial condition, results of operations and prospects may be adversely affected.

Anti-takeover provisions and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline Various provisions of our articles of incorporation and by-laws could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. These provisions provide for, among other things, a shareholder rights plan and the authorization to issue blank check preferred stock by action of the board of directors acting alone, thus without obtaining shareholder approval. The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, either Federal Reserve approval must be obtained or notice must be furnished to the Federal Reserve and not disapproved prior to any person or entity acquiring control of a state member bank, such as the bank. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

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

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

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Item 1B. ***Unresolved Staff Comments***

None

Item 2. ***Properties***

The principal executive offices of the Company and the Bank are located at 701 North Haven Avenue, Suite 350, Ontario, California, which is owned by the Company. The office of Community is located at 125 East H Street, Colton, California, which is leased through our Colton business financial center, which is owned by the Bank. The office of Golden West Enterprises, Inc. is located at 3130 Harbor Boulevard, Costa Mesa, California, which is leased from an unaffiliated third party.

At December 31, 2005, the Bank occupied the premises for thirty-one of its offices under leases expiring at various dates from 2006 through 2014, at which time we can exercise options that could extend certain leases through 2027. We own the premises for eleven of our offices, including our two data centers, one of which is for sale and is in escrow. The Company s current data center is located in Ontario, California.

Item 3. ***Legal Proceedings***

From time to time the Company and the Bank are parties to claims and legal proceedings arising in the ordinary course of business. After taking into consideration information furnished by counsel, we believe that the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on our consolidated financial position or results of operations.

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 year ended December 31, 2005.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to shareholders during the fourth quarter of 2005.

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PART II

Item 5. ***Market for the Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock is traded on the Nasdaq National Market under the symbol CVBF. The following table presents the high and low closing sales prices and dividend information for our common stock during each quarter for the past two years. The share prices for all periods have been restated to give retroactive effect, as applicable, to the 5-for-4 stock split declared in December 2005, which became effective January 10, 2006, the 5-for-4 stock split declared in December 2004, which became effective December 29, 2004, and the ten percent stock dividend declared in December 2003 and paid January 2, 2004. Cash dividends per share are not adjusted for these stock dividends and splits. The Company had approximately 1,938 shareholders of record as of January 5, 2006.

Two Year Summary of Common Stock Prices

Quarter Ended	High	Low	Dividends
3/31/2004	$13.63	$ 12.10	$0.12 Cash Dividend
6/30/2004	$14.05	$ 12.58	$0.12 Cash Dividend
9/30/2004	$14.96	$ 12.93	$0.13 Cash Dividend
12/31/2004	$17.87	$ 14.24	$0.11 Cash Dividend 5-for-4 Stock Split
3/31/2005	$17.04	$ 14.08	$0.11 Cash Dividend
6/30/2005	$16.10	$ 13.60	$0.11 Cash Dividend
9/30/2005	$17.52	$ 14.43	$0.11 Cash Dividend
12/31/2005	$16.72	$ 13.90	$0.09 Cash Dividend 5-for-4 Stock Split

For information on the ability of the Bank to pay dividends and make loans to the Company, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Risk .

In October 2001, the Company s Board of Directors authorized the repurchase of up to 2.0 million shares (without adjustment for stock dividends and splits) of our common stock. During 2005, 2004 and 2003, we repurchased 676,033 shares, 99,504 shares, and 349,300 shares of common stock under this repurchase plan, for the total price of $12.3 million, $2.0 million, and $7.1 million respectively. As of December 31, 2005, 875,163 shares are available to be repurchased in the future under this repurchase plan. There were no repurchases made during the fourth quarter of 2005.

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Item 6. ***Selected Financial Data.***

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

	At December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(Amounts and numbers in thousands except per share amounts)				
Net Interest Income	$ 171,052	$ 151,185	$ 129,293	$ 113,884	$ 103,071
Provision for Credit Losses					1,750
Other Operating Income	27,505	27,907	29,989	29,018	22,192
Other Operating Expenses	91,593	89,722	77,794	66,056	60,155
Earnings Before Income Taxes	106,964	89,370	81,488	76,846	63,358
Income Taxes	36,346	27,884	28,656	27,101	23,300
NET EARNINGS	$ 70,618	$ 61,486	$ 52,832	$ 49,745	$ 40,058
Basic Earnings Per Common Share(1)	$ 0.92	$ 0.81	$ 0.70	$ 0.66	$ 0.54
Diluted Earnings Per Common Share(1)	$ 0.91	$ 0.80	$ 0.69	$ 0.65	$ 0.53
Cash Dividends Declared Per Common Share	$ 0.42	$ 0.48	$ 0.48	$ 0.54	$ 0.56
Cash Dividends paid	27,963	23,821	21,638	20,800	15,585
Dividend Pay-Out Ratio(3)	39.60%	38.74%	40.96%	41.81%	38.91%
Financial Position:					
Assets	$ 5,422,971	$ 4,511,011	$ 3,854,349	$ 3,123,411	$ 2,514,102
Net Loans	2,640,659	2,117,580	1,738,659	1,424,343	1,167,071
Deposits	3,424,046	2,875,039	2,660,510	2,309,964	1,876,959
Long-Term Borrowings	580,000	830,000	381,000	272,000	325,000
Junior Subordinated debentures	82,476	82,746	82,476		
Stockholders Equity	342,877	317,483	286,721	259,821	220,748
Book Value Per Share(1)	4.49	4.18	3.80	3.47	2.96
Equity-to-Assets Ratio(2)	6.32%	7.04%	7.44%	8.32%	8.78%
Financial Performance:					
Return on:					
Beginning Equity	22.24%	21.44%	20.33%	22.53%	21.24%
Average Equity	20.87%	20.33%	19.17%	20.45%	19.17%
Average Assets	1.45%	1.47%	1.54%	1.83%	1.72%
Net Interest Margin(TE)	3.89%	3.99%	4.18%	4.66%	4.96%

Efficiency Ratio	46.13%	50.10%	48.84%	46.22%	48.02%
Credit Quality:					
Allowance for Credit Losses	$ 23,204	$ 22,494	$ 21,282	$ 21,666	$ 20,469
Allowance/ Total Loans	0.87%	1.05%	1.21%	1.50%	1.72%
Total Non Performing Loans	$	$ 2	$ 548	$ 824	$ 1,578
Non Performing Loans/ Total Loans	0.00%	0.00%	0.03%	0.06%	0.13%
Allowance/ Non Performing Loans		1,124,698%	3,884%	2,629%	1,297%
Net (Recoveries)/ Charge-offs	$ 46	$ (1,212)	$ 1,418	$ 1,128	$ 433
Net (Recoveries)/ Charge-Offs/ Average Loans	0.00%	-0.06%	0.09%	0.09%	0.04%
Regulatory Capital Ratios For the Company:					
Leverage Ratio	7.7%	8.3%	8.6%	7.6%	8.6%
Tier 1 Capital	11.3%	12.6%	13.2%	10.2%	12.0%
Total Capital	12.0%	13.4%	14.5%	11.2%	13.2%
For the Bank:					
Leverage Ratio	7.3%	7.8%	8.6%	7.6%	8.6%
Tier 1 Capital	10.8%	11.9%	13.2%	10.2%	12.0%
Total Capital	11.5%	12.7%	14.2%	11.3%	13.2%

(1) All earnings per share information has been retroactively adjusted to reflect the 5-for-4 stock split declared on December 21, 2005, which became effective January 10, 2006, the 5-for-4 stock split declared December 15, 2004, which became effective December 29, 2004, the 10% stock dividend

declared December 17, 2003 and paid January 2, 2004, the 5-for-4 stock split declared December 18, 2002, which became effective January 3, 2003, and the 5-for-4 stock split declared December 19, 2001, which became effective January 4, 2002. Cash dividends declared per share are not restated in accordance with generally accepted accounting principles.

(2) Stockholders equity divided by total assets.

(3) Cash dividends divided by net income.

Item 7. ***Management s Discussion and Analysis of Financial Condition and the Results of Operations.***

GENERAL

Management s discussion and analysis is written to provide greater detail of the results of operations and the financial condition of CVB Financial Corp. and its subsidiaries. This analysis should be read in conjunction with the audited financial statements contained within this report including the notes thereto.

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, CVB Statutory Trust II, and CVB Statutory Trust III. Trusts I and II were created in December 2003 and Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for 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 and borrowings. As such, our net income is subject to fluctuations in interest rates and their impact on our earnings. We believe the recent rise in interest rates may relieve some of the pressure on our net interest margin. We are also subject to competition from other financial institutions, which may affect our pricing of products and services, and the fees and interest rates we can charge on them.

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 the Central Valley and Inland Empire. However, we are still subject to changes in the economy in our market area. Although we do not provide mortgages on single-family residences, we still benefit from construction growth in Southern California since we provide construction loans to builders. Southern California is experiencing growth in construction on single-family residences and commercial buildings, and our balance sheet at December 31, 2005 reflects that growth from December 31, 2004. A slow down in construction will have an impact on our balance sheet and earnings.

Over the past few years, we have been active in acquisitions and we will continue to pursue acquisition targets which will enable us to meet our business objectives and enhance shareholder value. Since 1999, we have acquired four banks and a leasing company, and we have opened four de novo branches; Glendale, Bakersfield, Fresno and Madera. 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 agribusiness lending portfolio. This portion of the state is the largest agricultural area in the nation. We began this initiative in December of 2001 with the opening of our Bakersfield Business Financial Center. We added one de novo Business Financial Center in Fresno in the second quarter of 2003 and another de novo Business Financial Center in Madera in the second quarter of 2005. Our acquisition of Kaweah National Bank in September 2003 with Business Financial Centers in Visalia, Tulare, Porterville and

McFarland further complimented the initiative. We currently have seven Business Financial Centers and one leasing office in the Central Valley.

Our growth in loans and investments during 2005 compared with 2004 and the increasing interest rate environment has allowed our interest income to grow in 2005 as compared to the same period in the preceding year We did increase our borrowings from the FHLB in 2005 to assist in the growth of investments and the related interest income on these investments. The result of the increase in loan, investment and deposit balances and overall increase in interest rates resulted in an increase of net interest income to $171.1 million in 2005 from $151.2 million in 2004. However, the increase in interest rates paid on deposits and borrowings has resulted in a decrease in net interest margin (TE) from 3.99% in 2004 to 3.89% in 2005. The Bank has always had a base of interest free deposits because we specialize in businesses and professionals as deposit customers. This has allowed us to have a low cost of deposits, currently at 0.56% for 2005.

In 2004, we restructured a portion of our investment portfolio in anticipation of a rising interest rate environment. This restructuring had the effect of shortening the duration of the portfolio and we realized security gains of $5.2 million in 2004. The purpose of the restructuring was to sell those securities which would not perform well in a rising rate environment. The shortening in the duration of the portfolio will allow for an increase in cash flow or liquidity so that the reinvestment of the cash flow will occur at higher rates.

During the first quarter of 2004, we wrote down the carrying value of two issues of Federal Home Loan Mortgage Association preferred stock. These securities pay dividends based on LIBOR and perform like a bond. Since there was a loss of value that was determined to be other-than-temporary, we charged $6.3 million against earnings in the first quarter of 2004 to adjust for the impairment of the issues of preferred stock. This was partially offset by the $5.2 million in security gains taken in the second quarter 2004. We took these gains on short maturity securities before rates rose and the gains disappeared.

We recorded an additional charge of $2.6 million on these securities at December 31, 2005. Although the preferred stock resets with LIBOR (one issue resets to the 3-month LIBOR rate every 3 months and the other resets to the 12-month LIBOR every twelve months), the price of the Freddie Mac preferred stock has not moved up accordingly. For additional information regarding these charges, see Analysis of Financial Condition Investment Securities.

In the third quarter of 2004, we sold a building that housed the Pasadena Business Financial Center and our Financial Advisory Services Group. We are leasing this space back from the purchaser of the building. We realized a gain of $1.9 million from this transaction. Under U.S. generally accepted accounting principles, we could only recognize the gain on that portion of the building that we previously leased to third parties in current year income. This resulted in gain recognition of $490,000 in 2004. The remaining portion of the gain, $1.5 million was deferred and is being amortized over the lives of the leases we have for the Pasadena Business Financial Center and the Financial Advisory Services Group. During 2005, we recognized $549,000 of the deferred gain as a reduction of rental expense.

During the fourth quarter of 2004, we acquired a new building for our data center. We out-grew our old data center, which we also owned. We moved into the new facility in the third quarter of 2005 and have opened escrow on the sale of the old facility.

Our total occupancy expense, exclusive of furniture and equipment expense, for the year ended December 31, 2005, was $8.3 million. We believe that our existing facilities are adequate for our present purposes. The Company believes that if necessary, it could secure suitable alternative facilities on similar terms without adversely affecting operations. For additional information concerning properties, see Notes 6 and 11 of the Notes to the Consolidated Financial Statements included in this report. See Item 8. Financial Statements and Supplemental Data.

Our net income increased to $70.6 million in 2005 compared with $61.5 million in 2004, an increase of $9.1 million or 14.85%. Diluted earnings per share, when restated for the five-for-four stock split declared in December 2005, increased $.11, from $0.80 in 2004 to $0.91 in 2005.

In October 2004, we signed an agreement to acquire Granite State Bank (GSB). This acquisition was consummated in February 2005. At the date of acquisition, GSB had $62.8 million in loans, $103.1 million in deposits, and $111.4 million in total assets. The Company issued 696,049 common shares and paid $13.3 million in cash in connection with the purchase of GSB. This transaction gave rise to $8.4 million in amortizable intangibles and $12.8 million in goodwill. The allocation of the purchase price is based on preliminary data and could change when final valuation of certain assets is obtained.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 financial condition depends, 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. Our allowance for credit losses provides for probable losses based upon evaluations of known and inherent risks in the loan and lease portfolio. The determination of the balance in the allowance for 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 our 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 loan losses, see Risk Management in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operation.

Investment Portfolio: The investment portfolio is an integral part of our 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 our 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-backed securities (MBS), the amortization or accretion is based on estimated average lives of the securities. The lives of these securities can fluctuate based on the amount of prepayments received on the underlying collateral of the securities. The 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 turn over of the mortgages (i.e., how often the underlying properties are sold and mortgages are paid-off). We use estimates for the average lives of these mortgage backed 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 securities 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. 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 temporary differences between the tax and book basis of assets and liabilities considering the

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provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included on our 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. Our 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 recoverable.

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 excess purchase price is allocated to assets and liabilities respectively, resulting in identified intangibles. The identified intangibles are amortized over the estimated lives of the assets or liabilities. Any excess purchase price after this allocation results in goodwill. Goodwill is tested on an annual basis for impairment.

ANALYSIS OF THE RESULTS OF OPERATIONS

Earnings

We reported net earnings of $70.6 million for the year ended December 31, 2005. This represented an increase of $9.1 million, or 14.85%, over net earnings of $61.5 million for the year ended December 31, 2004. Net earnings for 2004 increased $8.7 million to $61.5 million, or 16.38%, over net earnings of $52.8 million for the year ended December 31, 2003. Diluted earnings per share were $0.91 in 2005, as compared to $0.80 in 2004, and $0.69 in 2003. Basic earnings per share were $0.92 in 2005, as compared to $0.81 in 2004, and $0.70 in 2003. Diluted and basic earnings per share have been adjusted for the effects of a 5-for-4 stock split declared December 21, 2005, which became effective January 10, 2006, a 5-for-4 stock split declared December 15, 2004, which became effective December 29, 2004, and a 10% stock dividend declared December 17, 2003 and paid on January 2nd, 2004.

The increase in net earnings for 2005 compared to 2004 was the result of an increase in net interest income offset by an increase in other operating expenses and decrease in other operating income. The decrease in other operating income was due in part to a decrease in service charge income and the $2.3 million write down of other than temporary impairment on securities. The increase in operating expenses was due primarily to annual merit increases in salaries and increases in salary and occupancy expenses as a result of the acquisition of Granite State Bank. The increase in net earnings for 2004 compared to 2003 was the result of an increase in net interest income offset by an increase in other operating expenses and a decrease in other operating income. Increased net interest income for 2005, 2004 and 2003 reflected higher volumes of average earning assets for each year due to internal and external growth in our business.

For 2005, our return on average assets was 1.45%, compared to 1.47% for 2004, and 1.54% for 2003. Our return on average stockholders equity was 20.87% for 2005, compared to a return of 20.33% for 2004, and 19.17% for 2003.

Net earnings, excluding the impact of gains or loses on sales of investment securities, other-than-temporary impairment write-down, and the settlement of excess legal accrual, totaled $70.4 million for 2005. This represented an increase of $6.9 million, or 10.91%, compared to net earnings, excluding the impact of gains or losses on sales of investment securities, gain on sale of real estate, other-than-temporary impairment write down, and the estimated robbery loss, of $63.5 million for 2004. $63.5 million represented an increase of $12.1 million, or 23.61%, over net earnings, excluding the impact of gains or losses on sales of investment securities, the prepayment penalty for FHLB advances, and the reversed excess legal fee accrual, of $51.4 million for 2003.

The following table reconciles the differences in net earnings with and without the net gains on sales of investment securities, net gain on sale of real estate, other-than-temporary impairment write down, the

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accrual/settlement of robbery loss, the prepayment penalty, and the reversed excess legal fee accrual (there is no provision for credit and OREO losses recorded in 2005, 2004, and 2003) in conformity with accounting principles generally accepted in the United States of America:

Net Earnings Reconciliation For the Years Ended December 31,

	2005			2004			2003		
	Before Income Taxes	Income Taxes	Net Earnings	Before Income Taxes	Income Taxes	Net Earnings	Before Income Taxes	Income Taxes	Net Earnings
	(Amounts in thousands)								
Net Earnings excluding net gain on sale of securities, net gain on sale of real estate, other-than temporary impairment write down, accrual/settlement of robbery loss, the prepayment penalty, and reversed excess legal accrual	$ 106,679	$ 36,248	$ 70,431	$ 92,301	$ 28,798	$ 63,503	$ 79,234	$ 27,861	$ 51,373
Net gain on sale of securities	(46)	(16)	(30)	5,219	1,628	3,591	4,210	1,486	2,724
Net gain on sale of real estate				419	131	288			
Other-than-temporary impairment write down	(2,270)	(770)	(1,500)	(6,300)	(1,966)	(4,334)			
Estimated robbery loss (accrual)/settlement	2,600	883	1,717	(2,269)	(707)	(1,562)			
Prepayment penalty for FHLB advance							(5,256)	(1,855)	(3,401)
Reversed excess legal fee accrual							3,300	1,164	2,136
Net Earnings as reported	$ 106,963	$ 36,345	$ 70,618	$ 89,370	$ 27,884	$ 61,486	$ 81,488	$ 28,656	$ 52,832

We have presented net earnings with and without the net gains on sales of investment securities, net gain on sale of real estate, other-than-temporary impairment write down, the accrual/settlement of robbery loss, the prepayment penalty, and the reversed excess legal fee accrual to show shareholders the earnings from our banking operations unaffected by the impact of these items. We believe this presentation allows the reader to more easily determine the operational profit of the Company with respect to its primary business.

Net Interest Income

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). When net interest income is expressed as a percentage of average earning assets, the result is the net interest margin. The net interest spread is the yield on average earning assets minus the cost of average interest-bearing liabilities. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the 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 its 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.

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Our net interest income totaled $171.1 million for 2005. This represented an increase of $19.9 million, or 13.14%, over net interest income of $151.2 million for 2004. Net interest income for 2004 increased $21.9 million, or 16.93%, over net interest income of $129.3 million for 2003. The increase in net interest income of $19.9 million for 2005 resulted from an increase of $50.8 million in interest income offset by an increase of $30.9 million in interest expense. The increase in interest income of $50.8 million resulted from the $628.3 million increase in average earning assets and the increase in yield on earning assets to 5.60% in 2005 from 5.16% in 2004. The increase of $30.9 million in interest expense resulted from the increase in the average rate paid on interest-bearing liabilities to 2.49% in 2005 from 1.76% in 2004, and an increase of $474.7 million in average interest-bearing liabilities. These interest-bearing liabilities are primarily borrowings from the FHLB and correspondent banks.

The increase in net interest income of $21.9 million for 2004 as compared to 2003 resulted from an increase of $31.4 million in interest income offset by a $9.5 million increase in interest expense. This increase in interest income of $31.4 million resulted from the $692.2 million increase in average earning assets, offset by the decline in yield on earning assets to 5.16% in 2004 from 5.34% in 2003. The increase of $9.5 million in interest expense was primarily the result of an increase in average interest-bearing liabilities of $502.0 million.

Interest income totaled $248.5 million for 2005. This represented an increase of $50.8 million, or 25.69%, compared to total interest income of $197.7 million for 2004. For 2004, total interest income increased $31.4 million, or 18.85%, from total interest income of $166.3 million for 2003. The increase in total interest income was primarily due to an increase in volume of interest earning assets in 2005, 2004, and 2003 and increases in interest rates in 2005 as compared to 2004.

Interest expense totaled $77.4 million for 2005. This represented an increase of $30.9 million, or 66.47%, over total interest expense of $46.5 million for 2004. For 2004, total interest expense increased $9.5 million, or 25.54%, over total interest expense of $37.1 million for 2003.

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Table 1 represents the composition of average interest-earning assets and average interest-bearing liabilities by category for the periods indicated, including the changes in average balance, composition, and yield/rate between these respective periods:

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

	Years Ended December 31,								
	2005			2004			2003		
ASSETS	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Amounts in thousands)								
Investment Securities									
Taxable(1)	$ 1,774,842	$ 76,573	4.32%	$ 1,631,431	$ 66,109	4.07%	$ 1,315,162	$ 49,814	3.79%
Tax preferenced(2)	425,877	19,078	5.99%	339,452	15,087	5.87%	348,845	16,065	6.09%
Investment in FHLB stock	64,144	2,623	4.09%	46,443	1,960	4.22%	34,169	1,391	4.07%
Federal Funds Sold & Interest Bearing Deposits with other institutions	8,908	253	2.84%	311	3	0.96%	2,436	34	1.40%
Loans(3)(4)	2,277,304	149,961	6.59%	1,905,145	114,543	6.01%	1,529,944	99,042	6.47%
Total Earning Assets	4,551,075	248,488	5.60%	3,922,782	197,702	5.17%	3,230,556	166,346	5.34%
Total Non Earning Assets	318,077			269,760			209,485		
Total Assets	$ 4,869,152			$ 4,192,542			$ 3,440,041		
LIABILITIES AND STOCKHOLDERS EQUITY									
Savings Deposits(5)	$ 1,140,703	$ 13,907	1.22%	$ 1,042,447	$ 7,708	0.74%	$ 900,985	$ 7,295	0.81%
Time Deposits	539,433	15,001	2.78%	505,102	7,800	1.54%	559,311	9,028	1.61%
Total Deposits	1,680,136	28,908	1.72%	1,547,549	15,508	1.00%	1,460,296	16,323	1.12%
Other Borrowings	1,429,632	48,528	3.39%	1,087,534	31,009	2.85%	672,827	20,730	3.08%
Interest Bearing Liabilities	3,109,768	77,436	2.49%	2,635,083	46,517	1.76%	2,133,123	37,053	1.74%

Non-interest bearing deposits	1,382,968			1,213,884			975,134		
Other Liabilities	38,057			41,201			56,221		
Stockholders Equity	338,359			302,374			275,563		
Total Liabilities and Stockholders Equity	$ 4,869,152			$ 4,192,542			$ 3,440,041		
Net interest income		$ 171,052			$ 151,185			$ 129,293	
Net interest spread tax equivalent			3.11%			3.41%			3.60%
Net interest margin			3.76%			3.86%			4.02%
Net interest margin tax equivalent			3.89%			3.99%			4.18%
Net interest margin excluding loan fees			3.55%			3.67%			3.78%
Net interest margin excluding loan fees tax equivalent			3.68%			3.80%			3.94%

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

(2) Non tax equivalent rate for 2005 was 4.54%, 2004 was 4.51%, and 2003 was 4.61%

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(3) Loan fees are included in total interest income as follows, (000)s omitted: 2005, $9,543, 2004, $7,353, and 2003, $7,766.

(4) Non performing loans are included in net loans as follows, (000)s omitted: 2005, $0; 2004, $2; and 2003, $548.

(5) Includes interest bearing demand and money market accounts

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 sources of funds and employ our earning assets. Our tax effected (TE) net interest margin was 3.89% for 2005, compared to 3.99% for 2004, and 4.18% for 2003. The decreases in the net interest margin over the last three years 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.

It is difficult to attribute the net interest margin changes to any one factor. However, the banking and financial services businesses in our market areas are highly competitive. This competition has an influence on the strategies we employ. In addition, the general increase in interest rates had an impact on 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.

Although the net interest margin has declined, net interest income has increased. This primarily reflects the growth in average earning assets from $3.2 billion in 2003, to $3.9 billion in 2004, and to $4.6 billion in 2005. This represents a 16.02% increase in 2005 from 2004 and a 21.43% increase in 2004 from 2003.

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 3.11% for 2005, 3.41% for 2004, and 3.60% for 2003. The decrease in the net interest spread for 2005 as compared to 2004 resulted from a 43 basis point increase in the yield on earning assets offset by a 73 basis point increase in the cost of interest-bearing liabilities, thus generating a 30 basis point decrease in the net interest spread. The decrease in the net interest spread for 2004 resulted from a 17 basis point decrease in the yield on earning assets and a 2 basis point increase in the cost of interest-bearing liabilities, thus generating a 19 basis point decrease in the net interest spread.

The yield (TE) on earning assets increased to 5.60% for 2005, from 5.17% for 2004, and reflects an increasing interest rate environment and a change in the mix of earning assets. Investments as a percent of earning assets decreased to 48.36% in 2005 from 50.24% in 2004. The yield on loans for 2005 increased to 6.59% as compared to 6.01% for 2004 as a result of the increasing interest rate environment and competition for quality loans. The yield on investments for 2005 increased to 4.64% as compared to 4.38% in 2004. The increase in the yield on earning assets for 2005 was the result of higher yields on loans and investments. The yield on loans for 2004 decreased to 6.01% as compared to 6.47% for 2003. The decrease in the yields on loans for 2004 was primarily the result of a decreased interest rate environment partially offset by increased price competition for quality loans compared to 2003.

The cost of average interest-bearing liabilities increased to 2.49% for 2005 as compared to 1.76% for 2004, and increased to 1.76% for 2004 as compared to 1.74% for 2003. These variations reflected a change in the mix of interest-bearing liabilities and an increasing interest rate environment in 2005 and an in the last half of 2004. Borrowings as a percent of interest-bearing liabilities increased to 45.97% for 2005 as compared to 41.27% for 2004 and 31.54% for 2003. Borrowings typically have a higher cost than interest-bearing deposits. The cost of interest-bearing deposits for 2005 increased to 1.72% as compared to 1.00% for 2004 and decreased to 1.00% as compared to 1.12% for 2003, reflecting initial decreasing interest rate environment in 2004, with a subsequent rising interest rate environment in 2005. The cost of borrowings for 2005 increased to 3.39% as compared to 2.85% for 2004, and decreased to 2.85% from 3.08% for 2003, also reflecting the same decreasing interest rate environment followed by increases. The FDIC has approved the payment of interest on certain

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demand deposit accounts. This could have a negative impact on our net interest margin, net interest spread, and net earnings, should this be implemented fully. Currently, the only deposits for which we pay interest on are NOW and Money Market Accounts.

Table 2 presents a comparison of interest income and interest expense resulting from changes in the volumes and rates on average earning assets and average interest-bearing liabilities for the years indicated. Changes in interest income or expense attributable to volume changes are calculated by multiplying the change in volume by the initial average interest rate. The change in interest income or expense attributable to changes in interest rates is calculated by multiplying the change in interest rate by the initial volume. The changes attributable to interest rate and volume changes are calculated by multiplying the change in rate times the change in volume.

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

	Comparison of years ended December 31,							
	2005 Compared to 2004 Increase (Decrease) Due to				2004 Compared to 2003 Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
	(Amounts in thousands)							
Interest Income:								
Taxable investment securities	$ 6,109	$ 4,062	$ 293	$ 10,464	$ 12,458	$ 3,066	$ 771	$ 16,295
Tax-advantaged securities	5,383	407	(1,799)	3,991	(433)	(561)	16	(978)
Fed funds sold & interest-bearing deposits with other institutions	83	6	161	250	(30)	(11)	10	(31)
Investment in FHLB stock	747	(60)	(24)	663	500	51	18	569
Loans	22,367	11,050	2,001	35,418	24,289	(7,058)	(1,730)	15,501
Total interest on earning assets	34,689	15,465	632	50,786	36,784	(4,513)	(915)	31,356
Interest Expense:								
Savings deposits	727	5,004	468	6,199	1,145	(632)	(100)	413
Time deposits	529	6,263	409	7,201	(875)	(392)	39	(1,228)
Other borrowings	9,885	5,954	1,680	17,519	12,777	(1,545)	(953)	10,279
Total interest on interest-bearing liabilities	11,141	17,221	2,557	30,919	13,047	(2,569)	(1,014)	9,464
Net Interest Income	$ 23,548	$ (1,756)	$ (1,925)	$ 19,867	$ 23,737	$ (1,944)	$ 99	$ 21,892

Interest and Fees on Loans

Our major source of revenue is interest and fees on loans, which totaled $150.0 million for 2005. This represented an increase of $35.4 million, or 30.92%, over interest and fees on loans of $114.5 million for 2004. For 2004, interest and fees on loans increased $15.5 million, or 15.65%, over interest and fees on loans of $99.0 million for 2003. The increase in interest and fees on loans for 2005 reflects increases in the average balance of loans and increases in interest rates. The increase in interest and fees for 2004 reflects increases in the average balance of loans offset by a lower interest rate environment. The yield on loans increased to 6.59% for 2005, compared to 6.01% for 2004 and decreased to 6.01% in 2004 from 6.47% for 2003. Deferred loan origination fees, net of costs, totaled $17.2 million at December 31, 2005. This represented an increase of $2.6 million, or 18.07%, over deferred loan origination fees, net of costs, of $14.6 million at December 31, 2004.

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

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earnings. There was no interest income that was accrued and not reversed on non-performing loans at December 31, 2005, 2004, and 2003. For 2005 we had no non-performing loans. For 2004, our non-performing loans were less than $2,000. So the interest would have been collected was de minimums. Had non-performing loans for which interest was no longer accruing complied with the original terms and conditions of their notes, interest income would have been $134,000 greater for 2003. Accordingly, yields on loans would have increased by 0.01% in 2003.

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 total loans on our balance sheet. Deferred net 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 $9.5 million for 2005, $7.4 million for 2004 and $7.8 million for 2003.

Table 3 summarizes loan fee activity for the Bank for the years indicated.

	2005	2004	2003
	(Amounts in thousands)		
Fees Collected	$ 12,173	$ 14,513	$ 11,014
Fees and costs deferred	(7,342)	(11,224)	(12,736)
Accretion of deferred fees and costs	4,711	4,064	9,488
Total fee income reported	$ 9,542	$ 7,353	$ 7,766
Deferred net loan origination fees at end of year	$ 17,182	$ 14,552	$ 7,392

Interest on Investments

The second most important component of interest income is interest on investments, which totaled $95.7 million for 2005. This represented an increase of $14.5 million, or 17.80%, over interest on investments of $81.2 million for 2004. For 2004, interest on investments increased $15.3 million, or 23.25%, over interest on investments of $65.9 million for 2003. The increase in interest on investments for 2005 and 2004 reflected increases in the average balance of investments and an increase in interest rates. 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. The weighted-average yield on investments was 4.64% for 2005, compared to 4.38% for 2004 and 4.31% for 2003.

Provision for Credit Losses

We maintain an allowance for inherent 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 2005, 2004 and 2003 and we believe the allowance is adequate to absorb known inherent risk in the loan profile. No assurance can be given that economic conditions which adversely affect our service areas or other circumstances will not be reflected in increased provisions or credit losses in the future. The net charge-offs totaled $46,000 in 2005, net recoveries totaled $1.2 million in 2004, and net charge-offs totaled $1.4 million in 2003. See Risk Management Credit Risk herein.

Other Operating Income

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; and other revenues not included as interest on earning assets.

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Other operating income, including realized losses on the sales of investment securities, totaled $27.5 million for 2005. This represents a decrease of $402,000, or 1.44%, from other operating income, including gain on the sales of investment securities and real estate, of $27.9 million for 2004. During 2004, other operating income, including realized gains on the sales of investment securities and real estate, decreased $2.1 million, or 6.94%, from other operating income, including realized gains on the sales of investment securities, of $30.0 million for 2003.

Other operating income for 2005, without gain/loss on the sale of investment securities, increased $1.3 million or 4.38%, as compared to 2004. Other operating income for 2004, without gains on the sale of investment securities and real estate, increased $2.8 million or 10.82%, as compared to 2003. The increase in 2004 is primarily due to the increase of volume in other banking service fees.

Other operating income as a percent of net revenues (net interest income before loan loss provision plus other operating income) was 13.85% for 2005, as compared to 15.58% for 2004 and 18.83% for 2003. Excluding gains and losses on securities, other operating income as a percent of net revenues was 14.85% for 2005, as compared to 15.89% for 2004 and 16.62% for 2003.

The following table reconciles the differences in other operating income and the percentage of net revenues with and without the net gains/losses on sales of investment securities and real estate in conformity with accounting principles generally accepted in the United States of America:

Other Operating Income Reconciliation For the Years Ended December 31,