



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

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

**For the quarterly period ended March 31, 2009**

or

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

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

**Commission File Number: 0-10140**

**CVB FINANCIAL CORP.**

(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of incorporation  
or organization)

95-3629339  
(I.R.S. Employer Identification No.)

701 North Haven Ave, Suite 350, Ontario, California  
(Address of Principal Executive Offices)

91764  
(Zip Code)

(Registrant's telephone number, including area code)

(909) 980-4030

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

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

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

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

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

Number of shares of common stock of the registrant: 83,326,511 outstanding as of May 4, 2009.

CVB FINANCIAL CORP.  
2009 QUARTERLY REPORT ON FORM 10-Q  
TABLE OF CONTENTS

<b><u>PART I — FINANCIAL INFORMATION (UNAUDITED)</u></b>	3
<b><u>ITEM 1. FINANCIAL STATEMENTS</u></b>	3
<b><u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u></b>	8
<b><u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	19
<b><u>GENERAL</u></b>	19
<b><u>OVERVIEW</u></b>	19
<b><u>CRITICAL ACCOUNTING POLICIES</u></b>	20
<b><u>ANALYSIS OF THE RESULTS OF OPERATIONS</u></b>	21
<b><u>RESULTS BY BUSINESS SEGMENTS</u></b>	27
<b><u>ANALYSIS OF FINANCIAL CONDITION</u></b>	29
<b><u>RISK MANAGEMENT</u></b>	41
<b><u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	45
<b><u>ITEM 4. CONTROLS AND PROCEDURES</u></b>	49
<b><u>PART II — OTHER INFORMATION</u></b>	50
<b><u>ITEM 1. LEGAL PROCEEDINGS</u></b>	50
<b><u>ITEM 1A. RISK FACTORS</u></b>	50
<b><u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	50
<b><u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u></b>	50
<b><u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u></b>	50
<b><u>ITEM 5. OTHER INFORMATION</u></b>	50
<b><u>ITEM 6. EXHIBITS</u></b>	51
<b><u>SIGNATURES</u></b>	52
<b><u>EX-31.1</u></b>	
<b><u>EX-31.2</u></b>	
<b><u>EX-32.1</u></b>	
<b><u>EX-32.2</u></b>	

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

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 101,214	\$ 95,297
Investment securities available-for-sale	2,319,051	2,493,476
Investment securities held-to-maturity	6,607	6,867
Interest-bearing balances due from depository institutions	285	285
Investment in stock of Federal Home Loan Bank (FHLB)	93,240	93,240
Loans and lease finance receivables	3,658,859	3,736,838
Allowance for credit losses	(65,755)	(53,960)
Net Loans and lease finance receivables	<u>3,593,104</u>	<u>3,682,878</u>
Total earning assets	6,012,287	6,276,746
Premises and equipment, net	44,015	44,420
Bank owned life insurance	107,134	106,366
Accrued interest receivable	28,414	28,519
Intangibles	10,231	11,020
Goodwill	55,097	55,097
Other assets	57,697	32,186
<b>TOTAL ASSETS</b>	<u><b>\$ 6,416,089</b></u>	<u><b>\$ 6,649,651</b></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits:		
Noninterest-bearing	\$ 1,396,087	\$ 1,334,248
Interest-bearing	2,389,178	2,173,908
Total deposits	3,785,265	3,508,156
Demand Note to U.S. Treasury	5,737	5,373
Repurchase agreements	654,016	607,813
Borrowings	1,158,500	1,737,660
Accrued interest payable	8,447	9,741
Deferred compensation	9,367	8,985
Junior subordinated debentures	115,055	115,055
Other liabilities	53,341	41,976
<b>TOTAL LIABILITIES</b>	<u><b>5,789,728</b></u>	<u><b>6,034,759</b></u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, authorized, 20,000,000 shares without par; issued and outstanding 130,000 (2008)	121,860	121,508
Common stock, authorized, 122,070,312 shares without par; issued and outstanding 83,326,511 (2009) and 83,270,263 (2008)	365,204	364,469
Retained earnings	104,291	100,184
Accumulated other comprehensive income, net of tax	35,006	28,731
Total stockholders' equity	<u>626,361</u>	<u>614,892</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><b>\$ 6,416,089</b></u>	<u><b>\$ 6,649,651</b></u>

See accompanying notes to the consolidated financial statements.

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

Dollar amounts in thousands, except per share

	For the Three Months Ended March 31,	
	2009	2008
Interest income:		
Loans, including fees	\$ 49,526	\$ 54,046
Investment securities:		
Taxable	22,436	20,877
Tax-preferred	6,996	7,188
Total investment income	29,432	28,065
Dividends from FHLB stock	—	1,093
Federal funds sold and Interest bearing deposits with other institutions	4	15
Total interest income	78,962	83,219
Interest expense:		
Deposits	6,590	12,278
Borrowings	15,890	24,952
Junior subordinated debentures	1,190	1,859
Total interest expense	23,670	39,089
Net interest income before provision for credit losses	55,292	44,130
Provision for credit losses	22,000	1,700
Net interest income after provision for credit losses	33,292	42,430
Other operating income:		
Service charges on deposit accounts	3,717	3,745
Trust and Investment Services	1,661	1,913
Bankcard services	533	581
BOLI income	737	1,072
Other	780	829
Gain on sale of securities, net	8,929	—
Total other operating income	16,357	8,140
Other operating expenses:		
Salaries and employee benefits	15,819	15,543
Occupancy and Equipment	4,448	4,520
Professional services	1,695	1,541
Amortization of intangibles	789	898
Other	8,646	5,897
Total other operating expenses	31,397	28,399
Earnings before income taxes	18,252	22,171
Income taxes	5,084	5,987
Net earnings	\$ 13,168	\$ 16,184
Preferred stock dividend and other reductions	1,992	9
Net earnings allocated to common shareholders	\$ 11,176	\$ 16,175
Comprehensive income	\$ 19,443	\$ 34,826
Basic earnings per common share	\$ 0.13	\$ 0.19
Diluted earnings per common share	\$ 0.13	\$ 0.19
Cash dividends per common share	\$ 0.085	\$ 0.085

See accompanying notes to the consolidated financial statements.

**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**  
**(Unaudited)**  
**Amounts and shares in thousands**

	<u>Common Shares Outstanding</u>	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Comprehensive Income</u>	<u>Total</u>
<b>Balance January 1, 2009</b>	83,270	\$ 121,508	\$ 364,469	\$ 100,184	\$ 28,731		\$ 614,892
Issuance of common stock	56		280				280
Tax benefit from exercise of stock options			62				62
Stock-based Compensation Expense			393				393
Cash dividends declared							
Common (\$.085 per share)				(7,083)			(7,083)
Preferred				(1,626)			(1,626)
Amortization of preferred stock discount		352		(352)			—
Comprehensive income:							
Net earnings				13,168		\$ 13,168	13,168
Other comprehensive income:							
Unrealized gain on securities available-for-sale, net					6,275	6,275	6,275
Comprehensive income						\$ 19,443	
<b>Balance March 31, 2009</b>	<u>83,326</u>	<u>121,860</u>	<u>\$ 365,204</u>	<u>\$ 104,291</u>	<u>\$ 35,006</u>		<u>\$ 626,361</u>

	<u>Common Shares Outstanding</u>	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Comprehensive Income</u>	<u>Total</u>
<b>Balance January 1, 2008</b>	83,165	\$ 354,249	\$ 66,569	\$ 4,130		\$ 424,948
Issuance of common stock	2	7				7
Repurchase of common stock	(71)	(650)				(650)
Tax benefit from exercise of stock options						
Stock-based Compensation Expense		322				322
Adoption of EITF 06-4 Split Dollar Life Insurance			(571)			(571)
Cash dividends (\$.085 per share)			(7,093)			(7,093)
Comprehensive income:						
Net earnings			16,184		\$ 16,184	16,184
Other comprehensive income:						
Unrealized gain on securities available-for-sale, net				18,642	18,642	18,642
Comprehensive income					\$ 34,826	
<b>Balance March 31, 2008</b>	<u>83,096</u>	<u>\$ 353,928</u>	<u>\$ 75,089</u>	<u>\$ 22,772</u>		<u>\$ 451,789</u>

	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
<b>Disclosure of reclassification amount</b>		
Unrealized gain on securities arising during the period	\$ 10,819	\$ 32,142
Tax benefit	(4,544)	(13,500)
Net unrealized gain on securities	<u>\$ 6,275</u>	<u>\$ 18,642</u>

See accompanying notes to the consolidated financial statements.

**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**  
**Dollar amounts in thousands**

	For the Three Months Ended March 31,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Interest and dividends received	\$ 78,131	\$ 82,743
Service charges and other fees received	7,421	8,127
Interest paid	(24,965)	(35,245)
Cash paid to vendors and employees	(25,026)	(32,731)
Income taxes paid	(1,200)	—
Net cash provided by operating activities	<u>34,361</u>	<u>22,894</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of investment securities	165,935	—
Proceeds from repayment of investment securities	101,344	85,751
Proceeds from maturity of investment securities	16,937	4,240
Purchases of investment securities	(113,618)	(102,622)
Purchases of FHLB stock	—	(5,869)
Net decrease in loans and lease finance receivables	62,932	103,497
Proceeds from sales of premises and equipment	119	44
Proceeds from sales of other real estate owned	3,428	—
Purchase of premises and equipment	(1,553)	(1,501)
Other, net	(120)	(28)
Net cash provided by investing activities	<u>235,404</u>	<u>83,512</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase/(decrease) in transaction deposits	152,819	(51,041)
Net increase/(decrease) in time deposits	124,291	(52,640)
Advances from Federal Home Loan Bank	203,500	100,000
Repayment of advances from Federal Home Loan Bank	(600,000)	(50,000)
Net decrease in other borrowings	(182,295)	(54,567)
Net increase in repurchase agreements	46,204	30,194
Cash dividends on preferred stock	(1,626)	—
Cash dividends on common stock	(7,083)	(7,093)
Repurchase of common stock	—	(650)
Proceeds from exercise of stock options	280	7
Tax benefit related to exercise of stock options	62	—
Net cash used in financing activities	<u>(263,848)</u>	<u>(85,790)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	5,917	20,616
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>95,297</u>	<u>89,486</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>\$ 101,214</u>	<u>\$ 110,102</u>

See accompanying notes to the consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2009	2008
<b>RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net earnings	\$ 13,168	\$ 16,184
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of investment securities	(8,929)	—
(Gain)/Loss on sale of premises and equipment	(8)	31
Income from bank owned life insurance	(737)	(1,072)
Net amortization of premiums on investment securities	36	446
Provisions for credit losses	22,000	1,700
Stock-based compensation	393	322
Depreciation and amortization	2,635	2,661
Change in accrued interest receivable	105	282
Change in accrued interest payable	(1,294)	3,844
Change in other assets and liabilities	6,992	(1,504)
Total adjustments	21,193	6,710
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 34,361</u></b>	<b><u>\$ 22,894</u></b>

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES**

Securities purchased and not settled	\$ —	\$ 119,112
Transfer from loans to Other Real Estate Owned (OREO)	\$ 6,291	\$ 1,137

See accompanying notes to the consolidated financial statements.



**CVB FINANCIAL CORP. AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended March 31, 2009 and 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying condensed consolidated unaudited financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim financial reporting. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commission. In the opinion of management, the accompanying condensed consolidated unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

**Principles of Consolidation** - The consolidated financial statements include the accounts of CVB Financial Corp. (the "Company") and its wholly owned subsidiary: Citizens Business Bank (the "Bank") after elimination of all intercompany transactions and balances. The Company also has three inactive subsidiaries; CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp. The Company is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II, CVB Statutory Trust III and FCB Trust II. CVB Statutory Trusts I and II were created in December 2003 and CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. The Company acquired FCB Trust II through the acquisition of First Coastal Bancshares ("FCB"). In accordance with Financial Accounting Standards Board Interpretation No. 46R "Consolidation of Variable Interest Entities" ("FIN No. 46R"), these trusts do not meet the criteria for consolidation.

**Nature of Operations** - The Company's primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides automobile and equipment leasing to customers through its Citizens Financial Services Division and trust services to customers through its CitizensTrust Division. The Bank's customers consist primarily of small to mid-sized businesses and individuals located in San Bernardino County, Riverside County, Orange County, Los Angeles County, Madera County, Fresno County, Tulare County, Kern County and San Joaquin County. The Bank operates 43 Business Financial Centers and 5 Commercial Banking Centers with its headquarters located in the city of Ontario.

The Company's operating business units have been combined into two main segments: (i) Business Financial and Commercial Banking Centers and (ii) Treasury. Business Financial and Commercial Banking Centers (branches) are comprised of loans, deposits, and products and services the Bank offers to the majority of its customers. The other segment is Treasury, which manages the investment portfolio of the Company. The Company's remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in "Other."

The internal reporting of the Company considers all business units. Funds are allocated to each business unit based on its need to fund assets (use of funds) or its need to invest funds (source of funds). Net income is determined based on the actual net income of the business unit plus the allocated income or

## [Table of Contents](#)

expense based on the sources and uses of funds for each business unit. Non-interest income and non-interest expense are those items directly attributable to a business unit.

**Cash and due from banks** — Cash on hand, cash items in the process of collection, and amounts due from correspondent banks and the Federal Reserve Bank are included in Cash and due from banks.

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

**Loans and Lease Finance Receivables** - Loans and lease finance receivables are reported at the principal amount outstanding, less deferred net loan origination fees. Interest on loans and lease finance receivables is credited to income based on the principal amount outstanding. Interest income is not recognized on loans and lease finance receivables when collection of interest is deemed by management to be doubtful. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. These commitments are not reflected in the accompanying consolidated financial statements. As of March 31, 2009, the Company had entered into commitments with certain customers amounting to \$652.8 million compared to \$642.7 million at December 31, 2008. Letters of credit at March 31, 2009, and December 31, 2008, were \$63.8 million and \$63.1 million, respectively.

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

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

**Provision and Allowance for Credit Losses** - The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management's judgment, is adequate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors that would deserve current recognition in estimating inherent credit losses. The estimate is reviewed quarterly by the Board of Directors and management and periodically by various regulatory entities and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The provision for credit losses is charged to expense. During the first three months of 2009, we recorded a provision for credit losses of \$22.0 million. The allowance for credit losses was \$65.8 million as of March 31, 2009.

## [Table of Contents](#)

This represents an increase of \$11.8 million when compared with an allowance for credit losses of \$54.0 million as of December 31, 2008.

In addition to the allowance for credit losses, the Company also has a reserve for undisbursed commitments for loans and letters of credit. This reserve is carried in the liabilities section of the balance sheet in other liabilities. Provisions to this reserve are included in other expense. For the first three months of 2009, the Company recorded an increase of \$900,000 in the reserve for undisbursed commitments. As of March 31, 2009, the balance in this reserve was \$5.1 million.

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

At March 31, 2009, the Company had impaired loans of \$50.5 million. Of this amount, \$43.0 million consisted of non-accrual residential and commercial construction loans, \$2.2 million of non-accrual single family mortgage loans, \$1.7 million of non-accrual commercial real estate loans, \$792,000 of non-accrual commercial and industrial loans, \$336,000 of non-accrual consumer loans and one loan of \$2.5 million whose terms were modified in a troubled debt restructure. The \$43.0 million of non-accrual construction loans primarily consists of five loans totaling \$34.8 million to one developer and one loan with a balance of \$7.1 million, to another developer. The impaired loans of \$50.5 million are supported by collateral with a fair value less selling costs, net of prior liens, of \$45.4 million. The amount of specific reserve for these loans was \$5.1 million at March 31, 2009. At December 31, 2008, the Bank had classified as impaired, loans with a balance of \$20.2 million.

**Premises and Equipment** - Premises and equipment are stated at cost, less accumulated depreciation, which is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Properties under capital lease and leasehold improvements are amortized over the shorter of estimated economic lives of 15 years or the initial terms of the leases. Estimated lives are 3 to 5 years for computer and equipment, 5 to 7 years for furniture, fixtures and equipment, and 15 to 40 years for buildings and improvements. Long-lived assets are reviewed periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The existence of impairment is based on undiscounted cash flows. To the extent impairment exists, the impairment is calculated as the difference in fair value of assets and their carrying value. The impairment loss, if any, would be recorded in noninterest expense.

**Other Real Estate Owned** - Other real estate owned ("OREO") represents real estate acquired through foreclosure in satisfaction of commercial and real estate loans and is stated at fair value, minus estimated costs to sell (fair value at time of foreclosure). Loan balances in excess of fair value of the real estate acquired at the date of acquisition are charged against the allowance for credit losses. Any subsequent operating expenses or income, reduction in estimated values, and gains or losses on disposition of such properties are charged to current operations. As of March 31, 2009, we had \$8.7 million in OREO compared to \$6.6 million as of December 31, 2008, an increase of \$2.1 million. This was primarily due to the transfer of \$6.3 million from non-performing loans offset by \$3.4 million in sales of existing OREO properties and \$848,000 in OREO write-downs during the first quarter of 2009. During the first three months of 2009, the Bank incurred expenses of \$183,000 related to the holding of OREO.

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

## [Table of Contents](#)

The Company completed its annual impairment test as of July 1, 2008; there was no impairment of goodwill.

At March 31, 2009 goodwill was \$55.1 million. As of March 31, 2009, intangible assets that continue to be subject to amortization include core deposit premiums of \$10.2 million (net of \$16.9 million of accumulated amortization). Amortization expense for such intangible assets was \$789,000 for the three months ended March 31, 2009. Estimated amortization expense, for the remainder of 2009 is expected to be \$2.2 million. Estimated amortization expense, for the succeeding five fiscal years is \$2.9 million for year one, \$2.8 million for year two, \$1.6 million for year three, \$627,000 for year four and \$26,000 for year five. The weighted average remaining life of intangible assets is approximately 2.8 years.

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

As of January 1, 2008, the Company adopted EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." EITF 06-4 requires that for a split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" or APB Opinion No. 12, "Omnibus Opinion — 1967." The adoption did not have a material effect on the Company's consolidated financial position or results of operations. The cumulative effect of the adoption was recorded in equity.

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

The Company adopted FIN 48, Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of other operating expense.

**Earnings per Common Share** - The Company calculates earnings per common share ("EPS") using the two-class method in accordance with FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP 03-6-1"), effective January 1, 2009 with retrospective application to all prior-period earnings per share data presented. There was no impact to prior period earnings per share. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities, regardless of whether any actual dividends or distributions are made. Under FSP 03-6-1, all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities. The Company grants restricted shares under the 2008 Equity Incentive

## [Table of Contents](#)

Plan that qualify as participating securities. Restricted shares issued under this plan are entitled to dividends at the same rate as common stock.

Basic earnings per common share are computed by dividing income allocated to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of tax-effected shares issuable upon the assumed exercise of outstanding common stock options. Share and per share amounts have been retroactively restated to give effect to all stock dividends and splits. The number of shares outstanding at March 31, 2009 was 83,326,511. The tables below presents the reconciliation of earnings per share for the periods indicated.

### Earnings Per Share Reconciliation

(Dollars and shares in thousands, except per share amounts)

	For the three months ended March 31,	
	2009	2008
<b>Earnings per common share</b>		
Net Income available to common shareholders	\$11,190	\$16,184
Less: Net income allocated to restricted stock	14	9
Net income allocated to common shareholders (numerator)	\$11,176	\$16,175
Weighted Average Shares Outstanding (denominator)	83,174	83,151
Earnings per common share (1)	\$ 0.13	\$ 0.19
<b>Diluted earnings per common share</b>		
Net income allocated to common shareholders (numerator)	\$11,176	\$16,175
Weighted Average Shares Outstanding	83,174	83,151
Incremental shares from assumed exercise of outstanding options	129	371
Diluted Weighted Average Shares Outstanding (denominator)	83,303	83,522
Diluted earnings per common share (1)	\$ 0.13	\$ 0.19

(1) Of the \$0.06 decrease in earnings and diluted earnings per common share, \$0.03 is due to the \$2.0 million preferred stock dividend and discount amortization

**Stock-Based Compensation** - At March 31, 2009, the Company has three stock-based employee compensation plans, which are described more fully in Note 15 in the Company's Annual Report on Form 10-K.

**Derivative Financial Instruments** — The Company accounts for derivatives in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, and SFAS 161, Disclosures about Derivative Instruments and Hedging Activities. Pursuant to the requirements of SFAS No. 133, all derivative instruments, including certain derivative instruments embedded in other contracts, are to be recognized on the consolidated balance sheet at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. Changes in fair value of derivatives designated and accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in "Other Comprehensive Income," net of deferred taxes and are subsequently reclassified to earnings when the hedged transaction affects earnings. Any hedge ineffectiveness would be recognized in the income statement line item pertaining to the hedged item.

The Bank is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are market risk and interest rate risk. As of March 31, 2009, the Bank entered into 24 interest-rate swap agreement with customers and 24 with a counterparty bank. The

[Table of Contents](#)

swaps are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and provide the customer the financial effects of a fixed-rate loan without creating volatility in the bank's earnings.

The structure of the swaps is as follows. The Bank enters into a swap with its customers to allow them to convert variable rate loans to fixed rate loans, and at the same time, the Bank enters into a swap with the counterparty bank to allow the Bank to pass on the interest-rate risk associated with fixed rate loans. The net effect of the transaction allows the Bank to receive interest on the loan from the customer at a variable rate based on LIBOR plus a spread. The changes in the market value of the swaps primarily offset each other and therefore do not have a significant impact on the Company's results of operations.

As of March 31, 2009, the total notional amount of the Bank's swaps was \$138.9 million. The following tables present the location of the asset and liability and the amount of gain recognized as of and for the three months ended March 31, 2009.

**Fair Value of Derivative Instruments**

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Asset Derivatives</u> March 31, 2009		<u>Liability Derivatives</u> March 31, 2009	
	<i>(amounts in thousands)</i>			
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Swaps	Other Assets	\$ 7,743	Other Liabilities	\$ 7,743
Total Derivatives		<u>\$ 7,743</u>		<u>\$ 7,743</u>

**The Effect of Derivative Instruments on the Consolidated Statement of Earnings for the three months ended March 31, 2009**  
*(amounts in thousands)*

<u>Derivatives Not Designated as Hedging Instruments</u>	<u>Location of Gain Recognized in Income on Derivative</u>	<u>Amount of Gain Recognized in Income on Derivative</u> March 31, 2009
Interest Rate Swaps	Other Income	\$ 118
Total		<u>\$ 118</u>

**Statement of Cash Flows** - Cash and cash equivalents as reported in the statements of cash flows include cash and due from banks. Cash flows from loans and deposits are reported net.

**CitizensTrust** — This division provides trust, investment and brokerage related services, as well as financial, estate and business succession planning services. The Company maintains funds in trust for customers. CitizensTrust has approximately \$1.5 billion in assets under administration and \$741.6 million in assets under management. The amount of these funds and the related liability have not been recorded in the accompanying consolidated balance sheets because they are not assets or liabilities of the Bank or Company, with the exception of any funds held on deposit with the Bank.

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

**Recent Accounting Pronouncements** — On April 9, 2009, the FASB issued three FASB Staff Positions to clarify the application of SFAS No. 157 to fair-value measurement in the current economic environment, modify the recognition of other-than-temporary impairment of debt securities, and require companies to disclose the fair values of financial instruments in interim periods.

FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” provides additional guidance for estimating fair value in accordance with SFAS No. 157, “Fair Value Measurements”, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly.

FSP FAS 115-2, “Recognition and Presentation of Other-Than-Temporary Impairments,” amended SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” by changing the amount of an other-than-temporary impairment that is recognized in earnings when there are credit losses on a debt security for which management does not intend to sell and for which it is more-likely-than-not that the entity will not have to sell prior to recovery of the noncredit impairment. In those situations, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the debt security’s amortized cost basis and its fair value would be included in other comprehensive income.

FSP 107-1 and 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” amends SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, “Interim Financial Reporting”, to require those disclosures in summarized financial information at interim reporting periods.

These FSP are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt these FSPs for the quarter ended June 30, 2009 and is evaluating the impact these standards will have on future transactions.

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

**Shareholder Rights Plan** - The Company has a shareholder rights plan designed to maximize long-term value and to protect shareholders from improper takeover tactics and takeover bids which are not fair to all shareholders. In accordance with the plan, preferred share purchase rights were distributed as a dividend at the rate of one right to purchase one one-thousandth of a share of the Company’s Series A Participating Preferred Stock at an initial exercise price of \$50.00 (subject to adjustment as described in the terms of the plan) upon the occurrence of certain triggering events. For additional information concerning this plan, see Note 11 to Consolidated Financial Statements, “Commitments and Contingencies” contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

## Table of Contents

**Other Contingencies** - In the ordinary course of business, the Company becomes involved in litigation. Based upon the Company's internal records and discussions with legal counsel, the Company records reserves for estimates of the probable outcome of all cases brought against them. At March 31, 2009, the Company does not have any litigation reserves and is not aware of any material pending legal action or complaints asserted against the Company.

**Business Segments** - The Company has identified two principal reportable segments: Business Financial and Commercial Banking Centers and the Treasury Department. The Company's subsidiary bank has 43 Business Financial Centers and 5 Commercial Banking Centers (branches), organized in 6 geographic regions, which are the focal points for customer sales and services. The Company utilizes an internal reporting system to measure the performance of various operating segments within the Bank which is the basis for determining the Bank's reportable segments. The Chief Operating Decision Maker (currently our CEO) regularly reviews the financial information of these segments in deciding how to allocate resources and assessing performance. The Bank's Business Financial and Commercial Banking Centers are considered one operating segment as their products and services are similar and are sold to similar types of customers, have similar production and distribution processes, have similar economic characteristics, and have similar reporting and organizational structures. The Treasury Department's primary focus is managing the Bank's investments, liquidity, and interest rate risk. Information related to the Company's remaining operating segments which include construction lending, dairy and livestock lending, SBA lending, leasing, and centralized functions have been aggregated and included in "Other." In addition, the Company allocates internal funds transfer pricing to the segments using a methodology that charges users of funds interest expense and credits providers of funds interest income with the net effect of this allocation being recorded in administration.

The following table represents the selected financial information for these two business segments. Accounting principles generally accepted in the United States of America do not have an authoritative body of knowledge regarding the management accounting used in presenting segment financial information. The accounting policies for each of the business units is the same as those policies identified for the consolidated Company and identified in the footnote on the summary of significant accounting policies. The income numbers represent the actual income and expenses of each business unit. In addition, each segment has allocated income and expenses based on management's internal reporting system, which allows management to determine the performance of each of its business units. Loan fees, included in the "Business Financial and Commercial Banking Centers" category are the actual loan fees paid to the Company by its customers. These fees are eliminated and deferred in the "Other" category, resulting in deferred loan fees for the consolidated financial statements. All income and expense items not directly associated with the two business segments are grouped in the "Other" category. Future changes in the Company's management structure or reporting methodologies may result in changes in the measurement of operating segment results.

The following tables present the operating results and other key financial measures for the individual reportable segments for the three months ended March 31, 2009 and 2008:



Three Months Ended March 31, 2009

	Business Financial Centers	Treasury	Other	Eliminations	Total
Interest income, including loan fees	\$ 38,523	\$ 29,459	\$ 10,980	\$ —	\$ 78,962
Credit for funds provided (1)	9,932	—	4,501	(14,433)	—
Total interest income	48,455	29,459	15,481	(14,433)	78,962
Interest expense	7,162	14,926	1,582	—	23,670
Charge for funds used (1)	3,567	4,179	6,687	(14,433)	—
Total interest expense	10,729	19,105	8,269	(14,433)	23,670
Net interest income	37,726	10,354	7,212	—	55,292
Provision for credit losses	—	—	22,000	—	22,000
Net interest income after provision for credit losses	\$ 37,726	\$ 10,354	\$ (14,788)	\$ —	\$ 33,292
Non-interest income	4,812	8,929	2,616	—	16,357
Non-interest expense	12,340	362	18,695	—	31,397
Segment pretax profit (loss)	\$ 30,198	\$ 18,921	\$ (30,867)	\$ —	\$ 18,252
Segment assets as of March 31, 2009	\$ 3,888,600	\$ 1,709,621	\$ 817,868	\$ —	\$ 6,416,089

Three Months Ended March 31, 2008

	Business Financial Centers	Treasury	Other	Eliminations	Total
Interest income, including loan fees	\$ 41,779	\$ 29,171	\$ 12,269	\$ —	\$ 83,219
Credit for funds provided (1)	12,501	—	1,198	(13,699)	—
Total interest income	54,280	29,171	13,467	(13,699)	83,219
Interest expense	12,012	23,551	3,526	—	39,089
Charge for funds used (1)	4,061	4,161	5,477	(13,699)	—
Total interest expense	16,073	27,712	9,003	(13,699)	39,089
Net interest income	38,207	1,459	4,464	—	44,130
Provision for credit losses	—	—	1,700	—	1,700
Net interest income after provision for credit losses	\$ 38,207	\$ 1,459	\$ 2,764	\$ —	\$ 42,430
Non-interest income	4,880	—	3,260	—	8,140
Non-interest expense	11,950	296	16,153	—	28,399
Segment pretax profit (loss)	\$ 31,137	\$ 1,163	(\$10,129)	\$ —	\$ 22,171
Segment assets as of March 31, 2008	\$ 3,339,521	\$ 2,312,054	\$ 723,227	\$ —	\$ 6,374,802

(1) Credit for funds provided and charge for funds used is eliminated in the consolidated presentation.

**Fair Value Information** — Effective January 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements” (FAS 157) for financial assets and liabilities. FAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements.

The fair value hierarchy under SFAS No. 157 prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2, and Level 3).

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the

[Table of Contents](#)

Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flows and similar techniques.

The Company performs fair value measurements on certain assets and liabilities as the result of the application of accounting guidelines and pronouncements that were relevant prior to the adoption of FAS 157. Some fair value measurements, such as for available-for-sale securities and interest rate swaps are performed on a recurring basis, while others, such as impaired loans, impairment of goodwill and other intangibles, are performed on a nonrecurring basis.

**Assets & Liabilities Measured at Fair Value on a Recurring Basis**

<i>(in thousands)</i>	Carrying Value at March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Description of Assets</b>				
Investment Securities-AFS	\$ 2,319,051	\$ —	\$ 2,319,051	\$ —
Interest Rate Swaps	7,743	—	7,743	—
Total Assets	<u>\$ 2,326,794</u>	<u>\$ —</u>	<u>\$ 2,326,794</u>	<u>\$ —</u>
<b>Description of Liability</b>				
Interest Rate Swaps	\$ 7,743	\$ —	\$ 7,743	\$ —

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

<i>(in thousands)</i>	Carrying Value at March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	For the three months ended March 31, 2009 Total Losses
<b>Description of Assets</b>					
Impaired Loans	\$45,487	\$—	\$15,768	\$29,719	\$(5,050)
OREO	\$ 8,666	\$—	\$ 8,666	\$ —	\$ (848)

Investment securities available-for-sale are valued based upon quotes obtained from a reputable third-party pricing service. The service uses evaluated pricing applications and model processes. Market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly to a similarly situated security. Market assumptions and market data are utilized in the valuation models. Accordingly, the Company categorized its investment portfolio as a Level 2 valuation.

The fair value of the interest rate swap contracts are provided by our counterparty using a system that constructs a yield curve based on cash LIBOR rates, Eurodollar futures contracts, and 3-year through 30-year swap rates. The yield curve determines the valuations of the interest rate swaps. Accordingly, the swap is categorized as a Level 2 valuation.

In accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, an Amendment of FASB Statements No. 5 and 15, the Company's impaired loans and OREO are generally measured using the fair value of the underlying collateral, which is determined based on the most recent appraisal information received, less costs to sell. These loans fall within Level 2 of the fair value hierarchy. Appraised values may be adjusted based on factors such as the changes in market conditions from the time of valuation. These loans fall within Level 3 of the fair value hierarchy. As of March 31,

[Table of Contents](#)

2009, impaired loans totaled \$50.5 million, with a specific reserve of \$5.1 million, resulting in a fair value of \$45.4 million. OREO properties totaled \$9.5 million as of March 31, 2009, with valuation reserves of \$848,000, resulting in a fair value of \$8.7 million.

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

### GENERAL

Management's discussion and analysis is written to provide greater insight into the results of operations and the financial condition of CVB Financial Corp. and its subsidiaries. Throughout this discussion, "Company" refers to CVB Financial Corp. and its subsidiaries as a consolidated entity. "CVB" refers to CVB Financial Corp. as the unconsolidated parent company and "Bank" refers to Citizens Business Bank. For a more complete understanding of the Company and its operations, reference should be made to the financial statements included in this report and in the Company's 2008 Annual Report on Form 10-K. Certain statements in this Report on Form 10-Q constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, economic conditions including changes resulting from a prolonged economic downturn, adverse capital and credit market conditions and volatility within those markets, competition in the geographic and business areas in which we conduct operations, natural disasters, pandemic flu or other pandemic illness, ability to successfully integrate acquisitions, fluctuations in interest rates, ability of borrowers to perform under the terms of their loans, credit quality, and government regulations. For additional information concerning these factors and other factors which may cause actual results to differ from the results discussed in our forward-looking statements, see the periodic filings the Company makes with the Securities and Exchange Commission, and in particular "Item 1A. Risk Factors" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.

### OVERVIEW

We are a bank holding company with one bank subsidiary, Citizens Business 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, statutory trusts which were formed to issue trust preferred securities in order to increase the capital of the Company. Through our acquisition of FCB in June 2007, we acquired FCB Capital Trust II, another statutory trust. We are based in Ontario, California in what is known as the "Inland Empire" of California. Our geographical market area encompasses the City of Stockton (the middle of the Central Valley) in the center of California to the City of Laguna Beach (in Orange County) in the southern portion of California. Our mission is to offer the finest financial products and services to professionals and businesses in our market area.

Our primary source of income is from the interest earned on our loans and investments and our primary area of expense is the interest paid on deposits, borrowings, and salaries and benefits. As such our net income is subject to fluctuations in interest rates and their impact on our income statement. 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. We have seen a significant decline in the housing market resulting in slower growth in construction loans. Unemployment is high and the Inland Empire and other areas of our marketplace have been significantly impacted as economic conditions, both nationally and in California, continue to deteriorate. Approximately 22% of our total loan portfolio of \$3.7 billion is located in the Inland Empire region of California. The balance of the portfolio is from outside of this region. Our provision for credit losses in the first quarter of 2009, which was significantly higher than our provision for credit losses in the first quarter of 2008, reflects an increase in our classified loans, as we continue to see the impact of deteriorating economic conditions on

our loan portfolio. Continued weaknesses in the local and state economy could adversely affect us through diminished loan demand, credit quality deterioration, and increases in loan delinquencies and defaults.

Over the past few years, we have been active in acquisitions and we will continue to consider acquisition targets which will enable us to meet our business objectives and enhance shareholder value along with organic growth. Since 2000, we have acquired four banks and a leasing company, and we have opened five de novo branches: Glendale, Bakersfield, Fresno, Madera, and Stockton, California. We have five Commercial Banking Centers. Although able to take deposits, these centers operate primarily as sales offices and focus on business clients and their principals, professionals, and high net-worth individuals. One of these centers is located in the San Fernando Valley. The other four centers are located within a Business Financial Center in San Bernardino, Los Angeles, and Orange counties.

The full impact of the decreases in interest rates during 2008 was realized during the first quarter of 2009. Our net interest income before provision for credit losses of \$55.3 million, increased by \$11.2 million or 25.29%, compared to net interest income before provision for credit losses of \$44.1 million for the same period in 2008. The Bank has always had an excellent base of interest free deposits primarily due to our specialization in businesses and professionals as customers. As of March 31, 2009, 36.9% of our deposits are interest-free. This has allowed us to have a low cost of deposits, currently 0.74% for the first quarter of 2009, which contributed to a substantial reduction in interest expense for the first three months of 2009 compared to the same period last year.

Our net income decreased to \$13.2 million for the first three months of 2009 compared with \$16.2 million for the first three months of 2008, a decrease of \$3.0 million or 18.64%. The decrease of \$3.0 million is primarily the result of the increase in provision for credit losses of \$20.3 million and an increase in non-interest expense of \$3.0 million, offset by an increase in net interest income before provision for credit losses of \$11.2 million and gain on sale of securities of \$8.9 million. Diluted earnings per share decreased to \$0.13 per share for the first quarter of 2009, from \$0.19 per share in the first quarter of 2008. Of the \$0.06 decrease per share, \$0.03 represents costs associated with dividends paid and amortization of the discount on our preferred stock issued in December 2008 to the United States Treasury as a result of our participation in their Capital Purchase Program.

### CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates 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 estimates upon which our financial condition depends, and which involve the most complex or subjective decisions or assessments 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 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 credit losses, see the "Risk Management" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Investment Portfolio:** The investment portfolio is an integral part of the Company's financial performance. We invest primarily in fixed income securities. Accounting estimates are used in the presentation of the investment portfolio and these estimates do impact the presentation of our financial

## [Table of Contents](#)

condition and results of operations. We classify as held-to-maturity those debt securities that we have the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale. Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized holding gains and losses being included in current earnings. Securities available-for-sale are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders' equity. At each reporting date, 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 effective-yield 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 using the asset and liability method by deferring income taxes based on estimated future tax effects of differences between the tax and book basis of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in 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 any of our 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 determined through the use of internal and external valuation techniques. The purchase price is allocated to assets and liabilities, including 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 \$13.2 million for the three months ended March 31, 2009. This represented a decrease of \$3.0 million or 18.64%, from net earnings of \$16.2 million for the three months ended March 31, 2008. Basic and diluted earnings per share for the three-month period decreased to \$0.13 per share for 2009, compared to \$0.19 per share for 2008. The annualized return on average assets was 0.81% for the three months of 2009 compared to an annualized return on average assets of 1.05% for the three months of 2008. The annualized return on average equity was 8.56% for the three months ended March 31, 2009, compared to an annualized return of 14.91% for the three months ended March 31, 2008. The decrease in annualized return on average equity for the three month period is attributed to overall decreased earnings for the first quarter of 2009 and an increase in our average equity balance as a result of the preferred stock we issued to the U.S. Treasury in December 2008 as a result of our participation in the Capital Purchase Program.

### *Net Interest Income*

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

## [Table of Contents](#)

income as a percentage of average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average earning assets minus the cost of average interest-bearing liabilities. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the economy, in general, and the local economies in which we conduct business. Our ability to manage the net interest income during changing interest rate environments will have a significant impact on our overall performance. Our balance sheet is currently liability-sensitive; meaning interest-bearing liabilities will generally reprice more quickly than earning assets. Therefore, our net interest margin is likely to decrease in sustained periods of rising interest rates and increase in sustained periods of declining interest rates. We manage net interest income by 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.

Our net interest income, before the provision for credit losses, totaled \$55.3 million for the three months ended March 31, 2009. This represented an increase of \$11.2 million, or 25.29%, over net interest income, before provision for credit losses, of \$44.1 million for the same period in 2008. The increase in net interest income of \$11.2 million resulted from a \$15.4 million decrease in interest expense, offset by a \$4.2 million decrease in interest income.

Interest income totaled \$79.9 million for the first three months of 2009. This represented a decrease of \$4.2 million, or 5.12%, compared to total interest income of \$83.2 million for the same period last year. The decrease in interest income was primarily the result of the decrease in average yield on earning assets to 5.26% for the three months of 2009 from 5.91% for the same period of 2008, or 65 basis points. Average earning assets increased by \$414.2 million, or 7.07%, from \$5.86 billion to \$6.28 billion.

Interest expense totaled \$23.7 million for the first three months of 2009. This represented a decrease of \$15.4 million, or 39.45%, from total interest expense of \$39.1 million for the same period last year. The decrease in interest expense was primarily the result of a decrease in the average rate paid on interest-bearing liabilities to 2.07% for the first three months of 2009 from 3.45% for the same period in 2008, or 138 basis points. The decrease in rates paid on deposits and borrowings was offset by an increase in average interest-bearing deposits of \$210.2 million, or 10.25%, from \$2.05 billion to \$2.26 billion.

Table 1 shows the average balances of assets, liabilities, and stockholders' equity and the related interest income, expense, and yields/rates for the three-month period ended March 31, 2009 and 2008. Yields for tax-preferenced investments are shown on a taxable equivalent basis using a 35% tax rate.

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

	Three-month period ended March 31,					
	2009			2008		
	Average Balance	Interest	Average Yield/Rate (amounts in thousands)	Average Balance	Interest	Average Yield/Rate
<b>ASSETS</b>						
Investment Securities						
Taxable	\$ 1,822,843	\$ 22,436	4.93%	\$ 1,702,123	\$ 20,877	4.96%
Tax preferred (1)	680,439	6,996	5.80%	690,912	7,188	5.85%
Investment in FHLB stock	93,240	—	0.00%	84,719	1,093	5.16%
Federal Funds Sold & Interest Bearing						
Deposits with other institutions	285	4	5.61%	1,296	15	4.63%
Loans (2) (3)	3,680,258	49,526	5.46%	3,383,772	54,046	6.42%
Total Earning Assets	6,277,065	78,962	5.26%	5,862,822	83,219	5.91%
Total Non Earning Assets	333,623			363,691		
Total Assets	<u>\$ 6,610,688</u>			<u>\$ 6,226,513</u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Savings Deposits (4)	\$ 1,184,519	\$ 2,565	0.88%	\$ 1,294,097	\$ 5,805	1.80%
Time Deposits	1,076,331	4,025	1.52%	756,531	6,473	3.44%
Total Deposits	2,260,850	6,590	1.18%	2,050,628	12,278	2.41%
Other Borrowings	2,324,734	17,080	2.94%	2,454,214	26,811	4.32%
Interest Bearing Liabilities	4,585,584	23,670	2.07%	4,504,843	39,089	3.45%
Non-interest bearing deposits	1,342,229			1,225,327		
Other Liabilities	59,156			59,743		
Stockholders' Equity	623,719			436,600		
Total Liabilities and Stockholders' Equity	<u>\$ 6,610,688</u>			<u>\$ 6,226,513</u>		
Net interest income		<u>\$ 55,292</u>			<u>\$ 44,130</u>	
Net interest spread — tax equivalent			3.19%			2.46%
Net interest margin			3.56%			3.06%
Net interest margin — tax equivalent			3.75%			3.25%
Net interest margin excluding loan fees			3.52%			2.96%
Net interest margin excluding loan fees — tax equivalent			3.70%			3.16%

(1) Non tax-equivalent rate was 4.12% for 2009 and 4.16% for 2008.

(2) Loan fees are included in total interest income as follows, (000)s omitted: 2009, \$714; 2008, \$1,448

(3) Non performing loans are included in net loans as follows: 2009, \$48.0 million; 2008, \$2.7 million

(4) 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. Our tax effected (TE) net interest margin was 3.75% for the three months of 2009, compared to 3.25% for the first three months of 2008. The increase in the net interest margin over the same period last year is primarily the result of the decreasing interest rate environment, which impacted interest earned and interest paid as a percent of earning assets. This was partially offset by changes in the mix of assets and liabilities as discussed in the following paragraphs. Generally, our net interest margin improves in a decreasing interest rate environment as our deposits and borrowings reprice much faster than our loans and securities.

The net interest spread is the difference between the yield on average earning assets and the cost of average interest-bearing liabilities. The net interest spread is an indication of our ability to manage rates received on loans and investments and rates paid on deposits and borrowings in a competitive and changing interest rate environment. Our net interest spread (TE) was 3.19% for the three months of 2009 and 2.46% for the same period last year. The increase in the net interest spread for the three months ended March 31, 2009 resulted from a 138 basis point decrease in the cost of interest-bearing liabilities, offset by a 65 basis point decrease in the yield on earning assets, thus generating a 73 basis point increase in the net interest spread from the same period last year.

The yield (TE) on earning assets decreased to 5.26% for the three months of 2009, from 5.91% for the same period last year, and reflects a decreasing interest rate environment and a change in the mix of earning assets. Average loans as a percent of earning assets increased to 58.63% in the three months of 2009 from 57.72% for the same period in 2008. Average investments as a percent of earning assets



## Table of Contents

decreased to 39.88% in the three months of 2009 from 40.82% for the same period in 2008. The yield on loans for the first three months of 2009 decreased to 5.46% as compared to 6.42% for the same period in 2008 as a result of the decreasing interest rate environment. The yield on loans decline at a slower rate than general interest rates as approximately 80% of the Company's loans are fixed-rate loans or hybrid adjustable loans with interest rates that are typically fixed for the first five or ten years of the loans and reset at fixed rates for the remaining term. The yield (TE) on investments for the first three months of 2009 decreased to 5.17% compared to 5.22% for the same period in 2008. The decrease in rates, offset by increases in average loan and investment balances, resulted in a decrease in our interest income.

The cost of average interest-bearing liabilities decreased to 2.07% for the first three months of 2009 as compared to 3.45% for the same period in 2008, reflecting the decrease in interest rates and a change in the mix of interest-bearing liabilities. The fact that the cost of interest-bearing liabilities dropped more than the yield on earning assets is due to the liability-sensitive nature of our balance sheet. Average borrowings as a percent of average interest-bearing liabilities decreased to 50.70% during the first three months of 2009 as compared to 54.48% for the same period in 2008. The cost of borrowings for the first three months of 2009 decreased to 2.94% as compared to 4.32% for the same period in 2008, reflecting the decrease in interest rates. Borrowings typically have a higher cost than interest-bearing deposits. The cost of interest-bearing deposits for the first three months of 2009 decreased to 1.18% as compared to 2.41% for the same period in 2008, also reflecting the declining interest rate environment. The FDIC has approved the payment of interest on certain demand deposit accounts. This could have a negative impact on our net interest margin, net interest spread, and net earnings, should this be implemented fully. Currently, we pay interest on NOW and Money Market Accounts. The overall decrease in interest rates and decrease in average borrowings, offset by an increase in average deposits, resulted in a decrease in our interest expense.

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 periods indicated. Changes in interest income or expense attributable to volume changes are calculated by multiplying the change in volume by the initial average interest rate. The change in interest income or expense attributable to changes in interest rates is calculated by multiplying the change in interest rate by the initial volume. The changes attributable to both 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 three months ended March 31, 2009 Compared to 2008 Increase (Decrease) Due to			Total
	Volume	Rate ( amounts in thousands )	Rate/ Volume	
<b>Interest Income:</b>				
Taxable investment securities	\$ 1,672	\$ (126)	\$ 13	\$ 1,559
Tax-advantaged securities	(175)	(19)	2	(192)
Fed funds sold & interest-bearing deposits with other institutions	(12)	3	(2)	(11)
Investment in FHLB stock	110	(1,093)	(110)	(1,093)
Loans	4,681	(7,988)	(1,213)	(4,520)
<b>Total interest on earning assets</b>	<b>6,276</b>	<b>(9,223)</b>	<b>(1,310)</b>	<b>(4,257)</b>
<b>Interest Expense:</b>				
Savings deposits	(485)	(2,928)	102	(3,311)
Time deposits	2,705	(3,572)	(1,510)	(2,377)
Other borrowings	(1,398)	(8,467)	134	(9,731)
<b>Total interest on interest-bearing liabilities</b>	<b>822</b>	<b>(14,967)</b>	<b>(1,274)</b>	<b>(15,419)</b>
<b>Net Interest Income</b>	<b>\$ 5,454</b>	<b>\$ 5,744</b>	<b>\$ (36)</b>	<b>\$ 11,162</b>

**Interest and Fees on Loans**

Our major source of revenue and primary component of interest income is interest and fees on loans. Interest and fees on loans totaled \$49.5 million for the first three months of 2009. This represented a decrease of \$4.5 million, or 8.36%, from interest and fees on loans of \$54.0 million for the same period in 2008. The decrease in interest and fees on loans for the first three months of 2009 reflects the decrease in rates between periods, offset by increases in the average balance of loans. The yield on loans decreased to 5.46% for the first three months of 2009, compared to 6.42% for the same period in 2008. Average loans increased 8.76% from \$3.38 billion for the first three months of 2008 to \$3.68 billion for the first three months of 2009.

In general, we stop accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on nonaccrual, all interest previously accrued but not collected is charged against earnings. There was no interest income that was accrued and not reversed on non-performing loans at March 31, 2009 and 2008.

Fees collected on loans are an integral part of the loan pricing decision. Loan fees and the direct costs associated with the origination of loans are deferred and deducted from the loan balance. Deferred net loan fees are recognized in interest income over the term of the loan using the effective-yield method. We recognized loan fee income of \$714,000 for the first three months of 2009, as compared to \$1.4 million for the same period in 2008, a decrease of \$734,000 or 50.70%.

**Interest on Investments**

The second most important component of interest income is interest on investments, which totaled \$29.4 million for the first three months of 2009. This represented an increase of \$1.4 million, or 4.87%, over interest on investments of \$28.1 million for the same period in 2008. The increase in interest on investments for the three months of 2009 over the same period last year was primarily the result of an increase in average investments offset by a decrease in yield on investments. The interest rate environment and the investment strategies we employ directly affect the yield on the investment portfolio.

## [Table of Contents](#)

We continually adjust our investment strategies in response to the changing interest rate environment 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 total yield (TE) on investments decreased to 5.17% for the first three months of 2009 compared to 5.22% for the first three months of 2008. Average investment balances for the first three months for 2009 increased \$110.2 million, or 4.61% over the same period last year.

### ***Interest on Deposits***

Interest on deposits totaled \$6.6 million for the first three months of 2009. This represented a decrease of \$5.7 million, or 46.33%, from interest on deposits of \$12.3 million for the first three months of 2008. The decrease is due to the decrease in interest rates on deposits offset by increases in average interest-bearing deposit balances. The cost of interest-bearing deposits decreased to 1.18% for the first quarter of 2009 from 2.41% for the first quarter of 2008. Average interest-bearing deposits increased \$210.2 million, or 10.25%, over the same period last year.

### ***Interest on Borrowings***

Interest on borrowings totaled \$15.9 million for the first three months of 2009. This represented a decrease of \$9.1 million, or 36.32%, from interest on borrowings of \$25.0 million for the same period of 2008. The decrease is due to the decrease in interest rates paid on borrowings and a decrease in average borrowings. Interest rates on borrowings decreased 134 basis points, from 4.22% for the first quarter of 2008 to 2.88% for the first quarter of 2009. Average borrowings decreased \$129.5 million, or 5.54%.

### ***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. The provision for credit losses is determined by management as the amount to be added to the allowance for probable credit losses after net charge-offs have been deducted to bring the allowance to an adequate level which, in management's best estimate, is necessary to absorb probable credit losses within the existing loan portfolio.

We made a provision for credit losses of \$22.0 million during the first three months of 2009 and \$1.7 million during the same period in 2008. The increase in allowance during the first quarter of 2009 was primarily due to the increase in classified loans. We continue to make greater provisions for credit losses in order to build our reserves to be fiscally prepared for any further deterioration in the economy based on current economic indicators. We believe the allowance is appropriate as of the end of the period covered by this report. We continually assess the quality of our portfolio to determine whether additional provision for credit losses is necessary. The ratio of the allowance for credit losses to total loans as of March 31, 2009 and 2008 was 1.80% and 1.02%, respectively.

No assurance can be given that economic conditions which adversely affect the Company's service areas, past credit loss experience, the characteristics of our loan portfolio or other circumstances will not be reflected in increased provisions for credit losses in the future. The nature of this process requires considerable judgment. Net charge-offs totaled \$10.2 million for the first three months of 2009 and \$38,000 during the same period of 2008. See "Risk Management – Credit Risk" herein.

### ***Other Operating Income***

Other operating income for the Company includes income derived from special services offered by the Bank, such as CitizensTrust, merchant card, 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.

## [Table of Contents](#)

Other operating income totaled \$16.4 million for the first three months of 2009. This represents an increase of \$8.2 million, or 100.94%, over other operating income of \$8.1 million for the same period in 2008. The increase is due to the gain on sale of securities of \$8.9 million during the first quarter of 2009. This was partially offset by decreases in trust and investment services income of \$252,000, or 13.15% and BOLI income of \$335,000, or 31.27%. The decrease in trust income was primarily due to the decline in market price of the assets under administration. The decrease in BOLI income was due to a lower earnings yield on the BOLI assets also due to market declines.

Other operating income as a percent of net revenues (net interest income before loan loss provision plus other operating income) was 22.83% for the first three months of 2009, as compared to 15.57% for the same period in 2008.

### ***Other Operating Expenses***

Other operating expenses for the Company include expenses for salaries and benefits, occupancy, equipment, stationary and supplies, professional services, amortization of intangibles, and other expenses. Other operating expenses totaled \$31.4 million for the first three months of 2009. This represents an increase of \$3.0 million, or 10.56% over other operating expenses of \$28.4 million for the same period in 2008. The increase was primarily due to \$1.0 million of OREO expense incurred during the first quarter of 2009, \$900,000 increase in our provision for unfunded commitments, and \$682,000 increase in FDIC insurance assessments. As a result of recently adopted regulations regarding FDIC special assessments and the potential for further instability in financial institutions, we anticipate our deposit insurance premiums will further increase throughout 2009.

At March 31, 2009, we employed 700 full time equivalent employees, compared to 698 full time equivalent employees at March 31, 2008.

For the most part, other operating expenses reflect the direct expenses and related administrative expenses associated with staffing, maintaining, promoting, and operating branch facilities. Our ability to control other operating expenses in relation to asset growth can be measured in terms of other operating expenses as a percentage of average assets. Operating expenses measured as a percentage of average assets was 1.93% and 1.83% for the first three months of 2009 and 2008, respectively.

Our ability to control other operating expenses in relation to the level of net revenue (net interest income plus other operating income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For the first three months of 2009, the efficiency ratio was 63.24%, compared to a ratio of 56.16% for the same period in 2008.

### ***Income Taxes***

The Company's effective tax rate for the three months of 2009 was 27.85% compared to 27.00% for the same period in 2008. The effective tax rates are below the nominal combined Federal and State tax rates as a result of the increase in tax-preferenced income from certain investments and municipal loans/leases as a percentage of total income for each period. The majority of tax preferenced income is derived from municipal securities.

## **RESULTS BY BUSINESS SEGMENTS**

We have two reportable business segments: Business Financial and Commercial Banking Centers, and Treasury. The results of these two segments are included in the reconciliation between business segment totals and our consolidated total. Our business segments do not include the results of administration units that do not meet the definition of an operating segment.

[Table of Contents](#)**Business Financial and Commercial Banking Centers**

Key measures we use to evaluate the Business Financial and Commercial Banking Center's performance are included in the following table for the three months ended March 31, 2009 and 2008. The table also provides additional significant segment measures useful to understanding the performance of this segment.

	Three months ended March 31,	
	2009	2008
	<i>(Dollars in thousands)</i>	
<b>Key Measures:</b>		
<b>Statement of Operations</b>		
Interest income	\$ 48,455	\$ 54,280
Interest expense	10,729	16,073
Net Interest Income	\$ 37,726	\$ 38,207
Non-interest income	4,812	4,880
Non-interest expense	12,340	11,950
Segment pretax profit (loss)	\$ 30,198	\$ 31,137
<b>Balance Sheet</b>		
Average loans	\$ 3,680,258	\$ 3,383,772
Average non-interest bearing deposits	\$ 1,342,229	\$ 1,225,327
Average interest-bearing deposits	\$ 2,260,850	\$ 2,050,628
Yield on loans	5.46%	6.42%
Rate paid on deposits	1.18%	2.41%

For the three months ended March 31, 2009, segment profit decreased by \$1.0 million, or 3.02%, compared to the same period last year. This was primarily due to the decrease in interest income, offset by a decrease in interest expense. The interest income and interest expense component for this segment includes a credit for funds provided and a charge for funds used, respectively, which is eliminated in the consolidated presentation. As a result of the current low interest rate environment, the credit for funds provided was \$9.9 million for the three months ended March 31, 2009 compared to \$12.5 million for the same period last year. This represents a decrease of \$2.6 million, or 20.55%. The decrease in interest rates was offset by an increase in excess funds provided resulting from the increases in average deposits year over year. Non-interest income was comparable to the first three months of 2008. Non-interest expense increased \$390,000, or 3.26%, compared to the same period last year.

**Treasury**

Key measures we use to evaluate the Treasury's performance are included in the following table for the three months ended March 31, 2009 and 2008. The table also provides additional significant segment measures useful to understanding the performance of this segment

[Table of Contents](#)

Key Measures:	Three months ended	
	2009	2008
	<i>(Dollars in thousands)</i>	
<b>Statement of Operations</b>		
Interest income	\$ 29,459	\$ 29,171
Interest expense	19,105	27,712
Net Interest Income	<u>\$ 10,354</u>	<u>\$ 1,459</u>
Non-interest income	8,929	—
Non-interest expense	362	296
Segment pretax profit (loss)	<u>\$ 18,921</u>	<u>\$ 1,163</u>
<b>Balance Sheet</b>		
Average investments	\$2,596,807	\$2,479,050
Average borrowings	\$2,209,679	\$2,339,159
Yield on investments-TE	5.17%	5.22%
Non-tax equivalent yield	4.12%	4.16%
Rate paid on borrowings	2.88%	4.22%

For the three months ended March 31, 2009, segment profit increased by \$17.8 million over the same period last year. The increase is partially attributed to an increase in net interest income due to the fact that a substantial portion of our securities portfolio is fixed rate while our rate on borrowings decreased 134 basis points from 4.22% in the first three months of 2008 to 2.88% for the same period in 2009. In addition, we sold \$177.1 million in securities during the first quarter of 2009 and recognized a gain on sale of \$8.9 million.

There are no provisions for credit losses or taxes in the segments as these are accounted for at the corporate level.

**Other**

Key Measures:	Three months ended	
	2009	2008
	<i>(Dollars in thousands)</i>	
<b>Statement of Operations</b>		
Interest income	\$ 15,481	\$ 13,467
Interest expense	8,269	9,003
Net interest income	<u>\$ 7,212</u>	<u>\$ 4,464</u>
Provision for Credit Losses	22,000	1,700
Non-interest income	2,616	3,260
Non-interest expense	18,695	16,153
Pre-tax loss	<u>\$ (30,867)</u>	<u>\$ (10,129)</u>

The Company's administration and other operating departments reported pre-tax loss of \$30.9 million for the first three months of 2009. This represents a decrease of \$20.7 million or 204.75%, from a pre-tax loss of \$10.1 million for the same period in 2008. The increase in pre-tax loss is primarily attributed to the increase in provision for credit losses of \$20.3 million.

**ANALYSIS OF FINANCIAL CONDITION**

The Company reported total assets of \$6.42 billion at March 31, 2009. This represented a decrease of \$233.6 million, or 3.51%, from total assets of \$6.65 billion at December 31, 2008 primarily due to a decrease in investment securities of \$174.7 million. Earning assets totaled \$6.01 billion at March 31, 2009. This represented a decrease of \$264.5 million, or 4.21%, from total earning assets of \$6.28 billion at December 31, 2008. Total liabilities were \$5.79 billion at March 31, 2009, down \$245.0 million, or 4.06%, from total liabilities of \$6.03 billion at December 31, 2008. Total equity increased \$11.5 million,

[Table of Contents](#)

or 1.87%, to \$626.4 million at March 31, 2009, compared with total equity of \$614.9 million at December 31, 2008.

**Investment Securities**

The Company reported total investment securities of \$2.33 billion at March 31, 2009. This represented a decrease of \$174.7 million, or 6.99%, from total investment securities of \$2.50 billion at December 31, 2008. During the first quarter of 2009, we sold certain securities with relatively short maturities. Investment securities comprise 38.68% of the Company's total earning assets at March 31, 2009.

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", securities held as "available-for-sale" are reported at fair value for financial reporting purposes. The related unrealized gains or losses, net of income taxes, are recorded in stockholders' equity. At March 31, 2009, securities held as available-for-sale had a fair value of \$2.32 billion, representing 99.7% of total investment securities, with an amortized cost of \$2.26 billion. At March 31, 2009, the net unrealized holding gain on securities available-for-sale was \$60.4 million and that resulted in accumulated other comprehensive income of \$35.0 million (net of \$25.3 million in deferred taxes). At December 31, 2008, the Company reported net unrealized gain on investment securities available-for-sale of \$49.5 million and accumulated other comprehensive income of \$28.7 million (net of deferred taxes of \$20.8 million).

Table 3 sets forth investment securities available-for-sale at March 31, 2009 and December 31, 2008.

**Table 3 — Composition of Investment Securities**

	March 31, 2009				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Amounts in thousands)				
<b>Investment Securities Available-for-Sale:</b>					
Government agency & government-sponsored enterprises	27,101	449	—	27,550	1.19%
Mortgage-backed securities	922,634	33,338	—	955,972	41.23%
CMO's / REMIC's	645,447	19,553	(945)	664,055	28.63%
Municipal bonds	663,515	16,149	(8,190)	671,474	28.95%
<b>Total Investment Securities</b>	<b>\$ 2,258,697</b>	<b>\$ 69,489</b>	<b>\$ (9,135)</b>	<b>\$ 2,319,051</b>	<b>100.00%</b>
	December 31, 2008				
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
	(Amounts in thousands)				
<b>Investment Securities Available-for-Sale:</b>					
Government agency & government-sponsored enterprises	27,105	673	—	27,778	1.11%
Mortgage-backed securities	1,150,650	33,836	(1)	1,184,485	47.51%
CMO's / REMIC's	591,531	9,855	(4,595)	596,791	23.93%
Municipal bonds	674,655	16,704	(6,937)	684,422	27.45%
<b>Total Investment Securities</b>	<b>\$ 2,443,941</b>	<b>\$ 61,068</b>	<b>\$ (11,533)</b>	<b>\$ 2,493,476</b>	<b>100.00%</b>

The weighted-average yield (TE) on the investment portfolio at March 31, 2009 was 4.66% with a weighted-average life of 4.8 years. This compares to a yield of 4.70% at December 31, 2008 with a weighted-average life of 4.9 years and a yield of 4.86% at March 31, 2008 with a weighted-average life of

[Table of Contents](#)

4.5 years. The weighted average life is the average number of years that each dollar of unpaid principal due remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal paydowns.

Approximately 69% of the available-for-sale portfolio represents securities issued by the U.S government or U.S. government-sponsored enterprises, which guarantee payment of principal and interest.

The remaining CMO/REMICs are backed by agency-pooled collateral or whole loan collateral. All non-agency available-for-sale CMO/REMIC issues held are rated investment grade or better by either Standard & Poor's or Moody's, as of March 31, 2009 and December 31, 2008.

**Composition of the Fair Value and Gross Unrealized Losses of Securities:**

Description of Securities	March 31, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(amounts in thousands)					
<b>Held-To-Maturity</b>						
CMO	\$ —	\$ —	\$ 4,295	\$ 2,312	\$ 4,295	\$ 2,312
<b>Available-for-Sale</b>						
CMO/REMICs	\$ 15,383	\$ 40	\$ 34,395	\$ 905	\$ 49,778	\$ 945
Municipal bonds	157,928	4,979	45,357	3,211	203,285	8,190
	<u>\$ 173,311</u>	<u>\$ 5,019</u>	<u>\$ 79,752</u>	<u>\$ 4,116</u>	<u>\$ 253,063</u>	<u>\$ 9,135</u>

**Composition of the Fair Value and Gross Unrealized Losses of Securities:**

Description of Securities	December 31, 2008					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	(amounts in thousands)					
<b>Held-To-Maturity</b>						
CMO	\$ 4,770	\$ 2,097	\$ —	\$ —	\$ 4,770	\$ 2,097
<b>Available-for-Sale</b>						
Mortgage-backed securities	265	—	13,903	1	14,168	1
CMO/REMICs	163,036	4,542	1,853	53	164,889	4,595
Municipal bonds	159,370	5,341	37,994	1,596	197,364	6,937
	<u>\$ 322,671</u>	<u>\$ 9,883</u>	<u>\$ 53,750</u>	<u>\$ 1,650</u>	<u>\$ 376,421</u>	<u>\$ 11,533</u>

The tables above show the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2009 and December 31, 2008. The Company has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If an other-than-temporary impairment occurs, the cost basis of the security would be written down to its fair value as a new cost basis and the write down recognized as a loss in current earnings.



## [Table of Contents](#)

The following summarizes our analysis of these securities and the unrealized losses. This assessment was based on the following factors: i) the length of the time and the extent to which the market value has been less than cost; ii) the financial condition and near-term prospects of the issuer; iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in fair value; and iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

*CMO Held-to-Maturity* - We have one investment security classified as held-to-maturity. This security was issued by Countrywide Financial and is collateralized by Alt-A mortgages. The mortgages are primarily fixed-rate, 30-year loans, originated in early 2006 with average FICO scores of 715 and an average LTV of 71% at origination. The security was a senior security in the securitization, was rated triple AAA at origination and was supported by subordinate securities. This security is classified as held-to-maturity as we have both the intent and ability to hold this debt security to maturity as the amount of the security, \$6.6 million, is not significant to our liquidity needs. We acquired this security in February 2008 at a price of 98.25%. The significant decline in the fair value of the security first appeared in August 2008 as the current financial crisis in the markets occurred and the market for securities collateralized by Alt-A mortgages diminished.

As of March 31, 2009, the unrealized loss on this security was \$2.3 million and the fair value quoted on the security was 64% of the current par value. The security is rated non-investment grade. We evaluated the security for an other than temporary decline in fair value as of March 31, 2009 under the requirements of FAS 115. We believe the decline in fair value below cost on the security is not other than temporary based on a detailed model of the securitization performed by an outside third party which indicates we will receive all of our book value on the security based on what we believe are the probable assumptions related to the housing market, the losses expected on the underlying mortgages, and the credit support available to the security, as well as, all other information available on the security and underlying collateral.

*Mortgaged-Backed Securities and CMO/REMICs* - Almost all of the mortgage-backed and CMO/REMICs securities are issued by the government-sponsored enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying mortgages. All mortgage-backed securities are rated investment grade with average life of approximately 3.8 years. The contractual cash flows of 97.2% of these investments are guaranteed by U.S. government-sponsored agencies. The remaining 2.8% are issued by banks. Accordingly, it is expected the securities would not be settled at a price less than the amortized cost of the bond. The unrealized loss greater than 12 months on these securities at March 31, 2009 is \$905,000. This loss is comprised of bonds issued by non-government sponsored enterprises such as financial institutions with a loss of \$870,000 and one FHLMC security with a loss of \$35,000. Because we believe the decline in fair value is attributable to the changes in interest rates and the Company has the ability and intent to hold these securities until recovery of fair value at maturity, management does not consider these investments to be other than temporarily impaired at March 31, 2009.

*Municipal Bonds* - The municipal bonds in the Bank's portfolio are all investment grade bonds, except for one bond rated BB. Although this bond is below investment grade, it is a general obligation bond and the underlying municipality is not exhibiting financial problems. The majority of our municipal bonds are insured by the largest bond insurance companies with maturities of approximately 6.8 years. The unrealized loss greater than 12 months on these securities at March 31, 2009 is \$3.2 million. As with the other securities in the portfolio, we believe this loss is due to the interest rate environment and not the credit risk of these securities. The Bank diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Bank's exposure to any single adverse event. Because the decline in fair value is attributable to the changes in interest rates and not credit quality, and the Bank has the ability and intent to hold these securities until recovery of fair value at maturity, the Bank does not consider these investments to be other than temporarily impaired at March 31, 2009.

## [Table of Contents](#)

We are continually monitoring the quality of our municipal bond portfolio in light of the current financial problems exhibited by certain monoline insurance companies. While most of our securities are insured by these companies, we feel that there is minimal risk of loss due to the problems these insurers are having. Many of the securities that would not be rated without insurance are pre-refunded and/or are general obligation bonds. Based on our monitoring of the municipal marketplace, to our knowledge, none of the municipalities are exhibiting financial problems that would lead us to believe there is a loss in any given security.

Although we determined that these securities are not other-than-temporarily impaired, we will continue to monitor the portfolio in the light of economic, credit and market factors. In addition, we will look at the potential for improving the overall performance of the portfolio and the income of the Company. Accordingly, subsequent changes in some of these factors may indicate that we should sell some of these securities even though we have disclosed that we currently intend to hold these securities to maturity.

At March 31, 2009 and December 31, 2008, investment securities having an amortized cost of approximately \$2.13 billion and \$2.32 billion respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

### **Loans**

At March 31, 2009, we reported total loans, net of deferred loan fees, of \$3.66 billion. This represents a decrease of \$78.0 million, or 2.09%, from total loans, net of deferred loan fees, of \$3.74 billion at December 31, 2008. Total loans, net of deferred loan fees, comprise 60.86% of our total earning assets.

**Table 4 — Distribution of Loan Portfolio by Type (Dollar amounts in thousands)**

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
Commercial and Industrial	\$ 365,197	10.0%	\$ 370,829	9.9%
Real Estate:				
Construction	333,234	9.1%	351,543	9.4%
Commercial Real Estate	1,960,805	53.5%	1,945,706	51.9%
SFR Mortgage	323,265	8.8%	333,931	8.9%
Consumer	69,708	1.9%	66,255	1.8%
Municipal lease finance receivables	169,230	4.6%	172,973	4.6%
Auto and equipment leases, net of unearned discount	41,708	1.1%	45,465	1.2%
Dairy and Livestock	404,090	11.0%	459,329	12.3%
Gross Loans	<u>3,667,237</u>	100.0%	<u>3,746,031</u>	100.0%
Less: Deferred net loan fees	<u>(8,378)</u>		<u>(9,193)</u>	
Gross loans, net of deferred loan fees	\$ 3,658,859		\$ 3,736,838	
Less: Allowance for credit losses	<u>(65,755)</u>		<u>(53,960)</u>	
Net Loans	<u>\$ 3,593,104</u>		<u>\$ 3,682,878</u>	

Commercial and industrial loans are loans and leases to commercial entities to finance capital purchases or improvements, or to provide cash flow for operations. Real estate loans are loans secured by trust deeds on real property, including property under construction, commercial property and single family and multifamily residences. Consumer loans include installment loans to consumers as well as home equity loans and other loans secured by junior liens on real property. Municipal lease finance receivables provide financing to municipalities, school districts, and other special districts. Auto and equipment leases provide financing to both commercial entities as well as consumers. Dairy and

## [Table of Contents](#)

livestock loans are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers, and farmers.

Our loan portfolio is from a variety of areas throughout our marketplace. The following is the breakdown of our total loans and commercial real estate loans by region.

Loans by County	March 31, 2009			
	Total Loans	(amounts in thousands)		Commercial Real Estate Loans
Los Angeles County	\$1,218,856	33.2%	\$ 700,924	35.8%
Inland Empire	809,535	22.1%	612,352	31.2%
Central Valley	637,911	17.4%	274,766	14.0%
Orange County	524,523	14.3%	207,989	10.6%
Other Areas	476,412	13.0%	164,774	8.4%
	<u>\$3,667,237</u>	<u>100.0%</u>	<u>\$1,960,805</u>	<u>100.0%</u>

Of particular concern in the current credit and economic environments is our real estate and real estate construction loans. Our real estate loans are comprised of single-family residences, multifamily residences, industrial, office and retail. We strive to have a maximum loan-to-value ratio of 65-75%. This table breaks down our real estate portfolio, with the exception of construction loans, which are discussed in greater detail below.

Real Estate Loans	March 31, 2009		
	(amounts in thousands)	Percent	Percent Owner-Occupied (1)
Single Family-Direct	\$ 61,765	2.7%	100.0%
Single Family-Mortgage Pools	261,500	11.4%	100.0%
Multifamily	111,249	4.9%	0.0%
Industrial	657,167	28.9%	37.4%
Office	391,052	17.1%	24.9%
Retail	215,810	9.4%	13.9%
Medical	126,526	5.5%	45.1%
Secured by Farmland	155,920	6.8%	0.0%
Other	303,081	13.3%	51.0%
	<u>\$2,284,070</u>	<u>100.0%</u>	

(1) Represents percentage of owner-occupied in each real estate loan category

In the table above, Single Family-Direct represents those single-family residence loans that we have made directly to our customers. These loans total \$61.8 million. In addition, we have purchased pools of owner-occupied single-family loans from real estate lenders, Single Family-Mortgage Pools, totaling \$261.5 million. These loans were purchased with average FICO scores predominantly ranging from 700 to over 800 and overall loan-to-value ratios of 60% to 80%. These pools were purchased to diversify our loan portfolio since we make few single-family loans. Due to market conditions, we have not purchased any mortgage pools since August 2007.

As of March 31, 2009, the Company had \$333.2 million in construction loans. This represents 9.1% of total loans outstanding of \$3.7 billion. Of this \$333.2 million in construction loans, approximately 28%, or \$93.2 million, were for single-family residences, residential land loans, and multi-family land development loans. The remaining construction loans, totaling \$240.1 million, were related to commercial construction, which have continued to perform well. Our construction loans are located throughout our marketplace as can be seen in the following table.

[Table of Contents](#)

March 31, 2009						
SFR & Multifamily						
Construction Loans	Land Development		Construction		Total	
Inland Empire	\$ 1,433	4.3%	\$17,654	29.4%	\$19,087	20.5%
Orange County	5,196	15.7%	—	0.0%	5,196	5.6%
Los Angeles County	—	0.0%	24,781	41.3%	24,781	26.6%
Central Valley	21,115	63.8%	973	1.6%	22,088	23.7%
San Diego County	3,421	10.3%	8,055	13.4%	11,476	12.3%
Other (includes out-of-state)	1,956	5.9%	8,570	14.3%	10,526	11.3%
	<u>\$33,121</u>	<u>100.0%</u>	<u>\$60,033</u>	<u>100.0%</u>	<u>\$93,154</u>	<u>100.0%</u>

  

Commercial						
	Land Development		Construction		Total	
Inland Empire	\$20,406	42.3%	\$ 77,210	40.3%	\$ 97,616	40.7%
Orange County	—	0.0%	24,977	13.0%	24,977	10.4%
Los Angeles County	5,946	12.3%	43,230	22.5%	49,176	20.5%
Central Valley	14,933	30.9%	17,567	9.2%	32,500	13.5%
Other (includes out-of-state)	6,977	14.5%	28,834	15.0%	35,811	14.9%
	<u>\$48,262</u>	<u>100.0%</u>	<u>\$191,818</u>	<u>100.0%</u>	<u>\$240,080</u>	<u>100.0%</u>

Of the total SFR and multifamily loans, \$34.2 million are for multifamily and the remainder represents single-family loans.

**Non-performing Assets**

We had non-performing assets of \$56.7 million at March 31, 2009. Non-performing assets represent 1.55% of total loans and OREO and 0.88% of total assets at March 31, 2009. We had non-performing assets of \$24.2 million at December 31, 2008. Non-performing assets include non-accrual loans plus other real estate owned (foreclosed property).

	March 31, 2009	December 31, 2008
	(amounts in thousands)	
Non-accrual loans	\$ 48,037	\$ 17,684
Other real estate owned (OREO)	8,666	6,565
Total nonperforming assets	<u>\$ 56,703</u>	<u>\$ 24,249</u>
Restructured loans	<u>\$ 2,500</u>	<u>\$ 2,500</u>
Percentage of nonperforming assets to total loans outstanding & OREO	<u>1.55%</u>	<u>0.65%</u>
Percentage of nonperforming assets to total assets	<u>0.88%</u>	<u>0.36%</u>

We had loans with a balance of \$50.5 million classified as impaired at March 31, 2009. This balance includes the non-performing loans of \$48.0 million and one restructured loan with a balance of \$2.5 million as of March 31, 2009. At December 31, 2008, we had impaired loans with a balance of \$20.2 million. Impaired loans measured 1.38% of gross loans as of March 31, 2009.

At March 31, 2009, we held \$8.7 million as OREO, which represents nine foreclosed properties. This represents an increase of \$2.1 million from an OREO balance of \$6.6 million at December 31, 2008. The

[Table of Contents](#)

increase was primarily due to the transfer of \$6.3 million from non-performing loans offset by \$3.4 million in sales of existing OREO properties and \$848,000 in OREO write-downs during the first quarter of 2009.

The table below provides trends in our non-performing assets and delinquencies over the past year.

**Non-Performing Assets & Delinquency Trends**  
(Dollar amounts in thousands)

	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
<b>Non-Performing Loans</b>					
Real Estate Construction and Land — Residential	\$ 20,943	\$ 7,524	\$ 8,020	\$ 9,802	\$ 1,535
Real Estate Construction — Commercial	22,102	—	—	—	—
SFR Mortgage	2,203	3,116	2,062	1,672	1,153
Commercial Real Estate	1,661	4,658	4,995	337	—
Commercial and Industrial	792	2,074	1,248	214	19
Consumer	336	312	312	312	—
<b>Total</b>	<b>\$ 48,037</b>	<b>\$ 17,684</b>	<b>\$ 16,637</b>	<b>\$ 12,337</b>	<b>\$ 2,707</b>
<b>% of Total Loans</b>	<b>1.31%</b>	<b>0.47%</b>	<b>0.46%</b>	<b>0.35%</b>	<b>0.08%</b>
<b>Past Due 30+ Days</b>					
Real Estate Construction and Land — Residential	\$ —	\$ —	\$ —	\$ —	\$ 768
Real Estate Construction — Commercial	—	—	2,500	—	—
SFR Mortgage	3,814	1,931	481	483	1,180
Commercial Real Estate	8,341	2,402	19	255	13,718
Commercial and Industrial	1,720	592	1,852	228	1,991
Consumer	62	231	55	—	533
<b>Total</b>	<b>\$ 13,937</b>	<b>\$ 5,156</b>	<b>\$ 4,907</b>	<b>\$ 966</b>	<b>\$ 18,190</b>
<b>% of Total Loans</b>	<b>0.38%</b>	<b>0.14%</b>	<b>0.14%</b>	<b>0.03%</b>	<b>0.53%</b>
<b>OREO</b>					
Real Estate Construction and Land — Residential	\$ 2,416	\$ 6,158	\$ 1,612	\$ 1,137	\$ 1,137
Commercial Real Estate	4,612	87	—	—	—
Commercial and Industrial	893	—	—	—	—
SFR Mortgage	745	320	315	—	—
<b>Total</b>	<b>\$ 8,666</b>	<b>\$ 6,565</b>	<b>\$ 1,927</b>	<b>\$ 1,137</b>	<b>\$ 1,137</b>
<b>Total Non-Performing, Past Due &amp; OREO</b>	<b>\$ 70,640</b>	<b>\$ 29,405</b>	<b>\$ 23,471</b>	<b>\$ 14,440</b>	<b>\$ 22,034</b>
<b>% of Total Loans</b>	<b>1.93%</b>	<b>0.78%</b>	<b>0.65%</b>	<b>0.41%</b>	<b>0.65%</b>

We had \$48.0 million in non-performing loans at March 31, 2009, or 1.31% of total loans. This compares to \$17.7 million in non-performing loans at December 31, 2008 and \$2.7 million at March 31, 2008. Non-performing loans consist of \$20.9 million in residential real estate construction and land loans, \$22.1 million in commercial construction loans, \$2.2 million in single-family mortgage loans, \$1.7 million in commercial real estate loans, \$0.8 million in other commercial loans and \$0.3 million in consumer loans.

The \$48.0 million in non-performing loans consist of five construction loans to one developer totaling \$34.8 million with a specific reserve of \$5.1 million. The remaining \$13.2 million consist primarily of one commercial construction loan with a balance of \$7.1 million, five residential mortgage loans totaling \$2.2 million, one residential construction loan of \$1.1 million, and one commercial real estate loan of \$1.2 million.

The economic downturn has had an impact on our market area and on our loan portfolio. With the exception of assets discussed above, we are not aware of any other loans as of March 31, 2009 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as non-performing at some future date. We can anticipate that there will be some losses in the loan portfolio given the current state of the economy. However, we cannot predict the extent to which the deterioration in general economic conditions, real estate values, increase in general rates of interest, change in the financial conditions or business of a borrower may adversely affect a borrower's ability to pay. See "Risk Management – Credit Risk" herein.

## [Table of Contents](#)

### **Deposits**

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

At March 31, 2009, total deposits were \$3.79 billion, representing an increase of \$277.1 million, or 7.90%, over total deposits of \$3.51 billion at December 31, 2008. The composition of deposits is as follows:

	<u>March 31, 2009</u>		<u>December 31, 2008</u>	
	<i>(Amounts in thousands)</i>			
<b>Non-interest bearing deposits</b>				
Demand deposits	\$ 1,396,087	36.9%	\$ 1,334,248	38.0%
<b>Interest bearing deposits</b>				
Savings Deposits	1,234,758	32.6%	1,143,779	32.6%
Time deposits	<u>1,154,420</u>	<u>30.5%</u>	<u>1,030,129</u>	<u>29.4%</u>
<b>Total deposits</b>	<u>\$ 3,785,265</u>	<u>100.0%</u>	<u>\$ 3,508,156</u>	<u>100.0%</u>

The amount of non-interest-bearing demand deposits in relation to total deposits is an integral element in achieving a low cost of funds. Demand deposits totaled \$1.40 billion at March 31, 2009, representing an increase of \$61.8 million, or 4.63%, over total demand deposits of \$1.33 billion at December 31, 2008. Non-interest-bearing demand deposits represented 36.9% of total deposits as of March 31, 2009 and 38.0% of total deposits as of December 31, 2008.

Savings deposits, which include savings, interest-bearing demand, and money market accounts, totaled \$1.23 billion at March 31, 2009, representing an increase of \$91.0 million, or 7.95%, over savings deposits of \$1.14 billion at December 31, 2008.

Time deposits totaled \$1.15 billion at March 31, 2009. This represented an increase of \$124.3 million, or 12.1%, over total time deposits of \$1.03 billion at December 31, 2008.

### **Other Borrowed Funds**

To achieve the desired growth in earning assets and to fully utilize our capital, we fund this growth through generating sources of funds other than deposits. The first source of funds we pursue is non-interest-bearing deposits (the lowest cost of funds to the Company). Next we pursue the growth in interest-bearing deposits and finally we supplement the growth in deposits with borrowed funds. Average borrowed funds, as a percent of average total funding (total deposits plus demand notes plus borrowed funds) was 38.01% as of March 31, 2009, as compared to 40.12% as of December 31, 2008.

During 2009 and 2008, we entered into short-term borrowing agreements (borrowings with maturities of one year or less) with the Federal Home Loan Bank (FHLB) and other institutions. The Bank had outstanding balances of \$203.5 million under these agreements at March 31, 2009 and \$776.5 million at December 31, 2008. The decrease of \$573.0 million, or 73.79%, is due to the repayment of short-term borrowings partially due to the increase in deposits balances during the first quarter of 2009. We also sold investment securities and used the proceeds from the sale to repay short-term borrowings. The weighted average annual interest rate was 0.21% and 1.39% at March 31, 2009 and December 31, 2008, respectively. The FHLB holds certain investment securities and loans of the Bank as collateral for these borrowings.

## [Table of Contents](#)

In June 2006, the Company purchased securities totaling \$250.0 million. This purchase was funded by a repurchase agreement of \$250.0 million with a double cap embedded in the repurchase agreement. The interest rate on this agreement is fixed at 4.95% and the maturity is September 30, 2011. In November 2006, we began a repurchase agreement product with our customers. This product, known as Citizens Sweep Manager, sells our investment securities overnight to our customers under an agreement to repurchase them the next day. As of March 31, 2009 and December 31, 2008, total customer repurchases were \$404.0 million and \$357.8 million, respectively, with weighted average annual interest rates of 1.15% and 1.29%. As of March 31, 2009 and December 31, 2008, total funds borrowed under these agreements were \$654.0 million and \$607.8 million, respectively.

We also entered into long-term borrowing agreements (borrowings with maturities of one year or longer) with the FHLB. We had outstanding balances of \$950.0 million under these agreements at both March 31, 2009 and December 31, 2008. The weighted average annual interest rate was 4.09% at both March 31, 2009 and December 31, 2008, respectively. The FHLB holds certain investment securities and loans of the Bank as collateral for these borrowings.

The Bank has an agreement, known as the Treasury Tax & Loan ("TT&L") Note Option Program, with the Federal Reserve Bank and the U.S. Department of Treasury in which federal tax deposits made by depositors can be held by the bank until called (withdrawn) by the U.S. Department of Treasury. The maximum amount of accumulated federal tax deposits allowable to be held by the Bank, as set forth in the agreement, is \$15.0 million. On March 31, 2009 and December 31, 2008 the amounts held by the Bank in the TT&L Note Option Program were \$5.7 million and \$5.4 million, collateralized by securities, respectively. Amounts are payable on demand.

At March 31, 2009, borrowed funds totaled \$1.82 billion, representing a decrease of \$532.6 million, or 22.66%, from total borrowed funds of \$2.35 billion at December 31, 2008.

### **Aggregate Contractual Obligations**

The following table summarizes our contractual commitments as of March 31, 2009:

	<u>Total</u>	<u>Maturity by Period</u>			
		<u>Less Than One Year</u>	<u>One Year to Three Years</u>	<u>Four Year to Five Years</u>	<u>After Five Years</u>
Deposits	\$ 3,785,265	\$ 3,473,638	\$ 308,159	\$ 477	\$ 2,991
FHLB and Other Borrowings	1,818,253	613,253	500,000	450,000	255,000
Junior Subordinated Debentures	115,055	—	—	—	115,055
Deferred Compensation	8,761	635	1,659	1,601	4,866
Operating Leases	28,465	4,028	8,623	5,396	10,418
Total	<u>\$ 5,755,799</u>	<u>\$ 4,091,554</u>	<u>\$ 818,441</u>	<u>\$ 457,474</u>	<u>\$ 388,330</u>

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

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

Junior subordinated debentures represent the amounts that are due from the Company to CVB Statutory Trust I, CVB Statutory Trust II & CVB Statutory Trust III. The debentures have the same maturity as the Trust Preferred Securities. CVB Statutory Trust I, which matures in 2033, became callable in whole or in part in December 2008. CVB Statutory Trust II, which matures in 2034, became callable in

## [Table of Contents](#)

whole or in part in January 2009. CVB Statutory Trust III, which matures in 2036, will become callable in whole or in part in 2011. It also represents FCB Capital Trust II which matures in 2033 and became callable in 2008. We have not called any of our debentures as of March 31, 2009.

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

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

### **Off-Balance Sheet Arrangements**

At March 31, 2009, we had commitments to extend credit of approximately \$652.8 million and obligations under letters of credit of \$63.8 million and available lines of credit totaling \$1.08 billion from certain institutions. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. The Bank uses the same credit underwriting policies in granting or accepting such commitments or contingent obligations as it does for on-balance-sheet instruments, which consist of evaluating customers' creditworthiness individually. The Company has a reserve for undisbursed commitments of \$5.1 million as of March 31, 2009 and \$4.2 million as of December 31, 2008.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the financial performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. When deemed necessary, the Bank holds appropriate collateral supporting those commitments.

The following table summarizes the off-balance sheet arrangements at March 31, 2009:

	<b>Maturity by Period</b>				
	<b>Total</b>	<b>Less Than One Year</b>	<b>One Year to Three Years</b>	<b>Four Year to Five Years</b>	<b>After Five Years</b>
<b>2009</b>					
Commitment to extend credit	652,792	196,509	71,667	49,118	335,498
Obligations under letters of credit	63,777	45,226	12,665	5,886	—
<b>Total</b>	<b>\$ 716,569</b>	<b>\$ 241,735</b>	<b>\$ 84,332</b>	<b>\$ 55,004</b>	<b>\$ 335,498</b>

### **Liquidity and Cash Flow**

Since the primary sources and uses of funds for the Bank are deposits and loans, the relationship between gross loans and total deposits provides a useful measure of the Bank's liquidity. Typically, the closer the ratio of loans to deposits is to 100%, the more reliant the Bank is on its loan portfolio to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loans to deposit ratio the less liquid are the Bank's assets. For the first three months of 2009, the Bank's loan to deposit ratio averaged 102.14%, compared to an average ratio of 103.29% for the same period in 2008. The Bank's ratio of loans to deposits and customer repurchases averaged 92.24% for the first three months of 2009 and 92.95% for the same period in 2008.

CVB is a company separate and apart from the Bank that must provide for its own liquidity and must service its own obligations, including dividend obligations on the cumulative preferred stock we issued to



## Table of Contents

the United States Treasury as part of our participation in the Capital Purchase Program. Substantially all of CVB's revenues are obtained from dividends declared and paid by the Bank. The remaining cash flow is from rents paid by third parties on office space in the Company's corporate headquarters. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. At March 31, 2009, approximately \$106.1 million of the Bank's equity was unrestricted and available to be paid as dividends to CVB. Management of CVB believes that such restrictions will not have an impact on the ability of CVB to meet its ongoing cash obligations.

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

Net cash provided by operating activities totaled \$34.4 million for the first three months of 2009, compared to \$22.9 million for the same period last year. The increase in cash provided by operating activities is primarily attributed to a decrease in interest paid on deposits and a decrease in cash paid to vendors and employees.

Net cash provided by investing activities totaled \$235.4 million for the first three months of 2009, compared to net cash provided by investing activities of \$83.5 million for the same period in 2008. The increase in cash provided by investing activities was primarily the result of the sales and repayments of mortgage-backed securities during the first three months of 2009.

Net cash used in financing activities totaled \$263.8 million for the first three months of 2009, compared to net cash used in financing activities of \$85.8 million for the same period last year. The increase was primarily due to repayment of FHLB advances and decrease in other borrowings, offset by increases in deposits.

At March 31, 2009, cash and cash equivalents totaled \$101.2 million. This represented a decrease of \$8.9 million, or 8.07%, from a total of \$110.1 million at March 31, 2008 and an increase of \$5.9 million, or 6.21%, over a total of \$95.3 million at December 31, 2008.

### **Capital Resources**

Historically, our primary source of capital has been the retention of operating earnings. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with projected increases in assets and the level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital, including the costs, benefits and impact of the Company's continued participation in the United States Treasury's Capital Purchase Program, and the availability of alternative sources of capital. Although we are not one of the 19 large financial institutions required to conduct a forward-looking capital assessment, or "stress test," pursuant to the U.S. Treasury's Capital Assistance Program (CAP), the stress assessment requirements under the CAP or similar requirements could be extended or otherwise impact financial institutions beyond the 19 participating institutions, including us. As a result, we could determine or, our regulators could require us, to raise additional capital.

The Bank and the Company are required to meet risk-based capital standards set by their respective regulatory authorities. The risk-based capital standards require the achievement of a minimum ratio of total capital to risk-weighted assets of 8.0% (of which at least 4.0% must be Tier 1 capital). In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. To be considered "well-capitalized" for bank regulatory purposes, the Bank and the Company are required to have a Tier 1 risk-based capital ratio equal to or greater than 6%, a total risk-based capital ratio equal to or greater than 10% and a Tier 1 leverage ratio equal to or greater than 5%. At March 31, 2009, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios required to be considered "well-capitalized" for regulatory purposes.

## [Table of Contents](#)

The Company's equity capital was \$626.4 million at March 31, 2009. This represented an increase of \$11.5 million, or 1.87%, over equity capital of \$614.9 million at December 31, 2008. The increase was due primarily to the net earnings for the first three months of 2009 in the amount of \$13.2 million and the unrealized gain on securities available-for-sale, net of tax, of \$6.3 million, offset by the payment of common and preferred dividends in the amount of \$8.7 million. The Company's 2008 Annual Report on Form 10-K (Management's Discussion and Analysis and Note 16 of the accompanying financial statements) describes the regulatory capital requirements of the Company and the Bank.

The table below presents the Company's and the Bank's risk-based and leverage capital ratios as of March 31, 2009, and December 31, 2008.

Capital Ratios	Required Minimum Ratios	March 31, 2009		December 31, 2008	
		Company	Bank	Company	Bank
Risk-based capital ratios:					
Tier I	4.00%	14.61%	14.41%	14.18%	13.93%
Total	8.00%	15.98%	15.67%	15.54%	15.19%
Leverage ratio	4.00%	9.79%	9.66%	9.84%	9.65%

## RISK MANAGEMENT

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

### **Credit Risk**

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

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

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

The allowance for credit losses is based upon estimates of probable losses inherent in the loan and lease portfolio. The nature of the process by which we determine the appropriate allowance for credit losses requires the exercise of considerable judgment. The amount actually observed in respect of these

## [Table of Contents](#)

losses can vary significantly from the estimated amounts. We employ a systematic methodology that is intended to reduce the differences between estimated and actual losses.

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

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

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

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

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

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

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

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

## Table of Contents

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

- then-existing general economic and business conditions affecting the key lending areas of the Company,
- then-existing economic and business conditions of areas outside the lending areas, such as other sections of the United States, Asia and Latin America,
- credit quality trends (including trends in non-performing loans expected to result from existing conditions),
- collateral values
- loan volumes and concentrations,
- seasoning of the loan portfolio,
- specific industry conditions within portfolio segments,
- recent loss experience in particular segments of the portfolio,
- duration of the current business cycle,
- bank regulatory examination results and
- findings of the Company's external credit examiners.

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

Table 7 presents a comparison of net credit losses, the provision for credit losses (including adjustments incidental to mergers), and the resulting allowance for credit losses for the three months ended March 31, 2009 and 2008.

**TABLE 7 — Summary of Credit Loss Experience**

	Three months ended March 31,	
	2009	2008
	(amounts in thousands)	
Amount of Total Loans at End of Period (1)	\$ 3,658,859	\$ 3,392,192
Average Total Loans Outstanding (1)	\$ 3,680,258	\$ 3,383,772
Allowance for Credit Losses:		
Beginning of Period	\$ 53,960	\$ 33,049
Loans Charged-Off:		
Construction Loans	7,643	—
Real Estate Loans	188	—
Commercial and Industrial	2,212	62
Lease Financing Receivables	144	65
Consumer Loans	117	119
Total Loans Charged-Off	10,304	246
Recoveries:		
Real Estate Loans	—	191
Commercial and Industrial	13	2
Lease Financing Receivables	73	10
Consumer Loans	13	5
Total Loans Recovered	99	208
Net Loans Charged-Off	10,205	38
Provision Charged to Operating Expense	22,000	1,700
Allowance for Credit Losses at End of period	\$ 65,755	\$ 34,711

(1) Net of deferred loan fees

Net Loans Charged-Off to Average Total Loans	0.28%	0.00%
Net Loans Charged-Off to Total Loans at End of Period	0.28%	0.00%
Allowance for Credit Losses to Average Total Loans	1.79%	1.03%
Allowance for Credit Losses to Total Loans at End of Period	1.80%	1.02%
Net Loans Charged-Off to Allowance for Credit Losses	15.52%	0.11%
Net Loans Charged-Off to Provision for Credit Losses	46.39%	2.24%

While we believe that the allowance at March 31, 2009, was adequate to absorb losses from any known or inherent risks in the portfolio, no assurance can be given that economic conditions or natural disasters which adversely affect the Company's service areas or other circumstances or conditions, including those identified above, will not be reflected in increased provisions or credit losses in the future.

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

#### *Market Risk*

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

#### *Counterparty Risk*

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

- We have \$250 million in a repurchase agreement with an embedded double cap. We entered into this transaction in September 2006 to protect against rising interest rates. The repurchase agreement is with JP Morgan. The Moody's public debt rating for this institution is Aaa.
- We do not have any investments in the preferred stock of any other company.
- We do not have in our investment portfolio any trust preferred securities of any other company.
- All of our investment securities are either municipal securities or securities backed by mortgages, FNMA, FHLMC or FHLB.
- All of our commercial line insurance policies are with companies with the highest AM Best ratings of AXII or above.
- We have no significant counterparty exposure related to derivatives such as interest rate swaps.
- We have no significant exposure to our Cash Surrender Value of Life insurance since all of the insurance companies carry an AM Best rating of A or greater.
- We have \$255.0 million in Fed Funds lines of credit with other banks. All of these banks are major U.S. banks, with over \$15.0 billion in assets. We rely on these funds for overnight borrowings.

#### *Interest Rate Risk*

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

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

## [Table of Contents](#)

a negative gap will generally produce a lower net interest margin during periods of rising interest rates and a greater net interest margin during periods of decreasing interest rates.

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

Approximately \$1.6 billion, or 69.86%, of the total investment portfolio at March 31, 2009 consisted of securities backed by mortgages. The final maturity of these securities can be affected by the speed at which the underlying mortgages repay. Mortgages tend to repay faster as interest rates fall, and slower as interest rates rise. As a result, we may be subject to a “prepayment risk” resulting from greater funds available for reinvestment at a time when available yields are lower. Conversely, we may be subject to “extension risk” resulting from lesser amounts available for reinvestment at a time when available yields are higher. Prepayment risk includes the risk associated with the payment of an investment’s principal faster than originally intended. Extension risk is the risk associated with the payment of an investment’s principal over a longer time period than originally anticipated. In addition, there can be greater risk of price volatility for mortgage-backed securities as a result of anticipated prepayment or extension risk.

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

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

The following depicts the Company’s net interest income sensitivity analysis as of March 31, 2009:

Simulated Rate Changes	Estimated Net Interest Income Sensitivity
+ 200 basis points	(0.98%)
- - 100 basis points	0.16%

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

### ***Liquidity Risk***

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

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

### ***Transaction Risk***

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

In general, transaction risk is defined as high, medium or low by the internal auditors during the audit process. The audit plan ensures that high-risk areas are reviewed at least annually. We utilize a third party audit firm to provide internal audit services.

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

### ***Compliance Risk***

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

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

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

Our Risk Management Policy and Program includes an audit program aimed at identifying problems and ensuring that problems are corrected. The audit program includes two levels of review. One is in-



## Table of Contents

depth audits performed by an external firm and the other is periodic monitoring performed by the Risk Management Division.

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

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

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

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

### ***Strategic Risk***

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

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

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

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

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

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

### ***Reputation Risk***

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

***Price and Foreign Exchange Risk***

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

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

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

Our asset liability model calculates the market value of the Bank's equity. In addition, management prepares on a monthly basis a Capital Volatility report that compares changes in the market value of the investment portfolio.

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

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

**PART II — OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Not Applicable

**ITEM 1A. RISK FACTORS**

There were no changes from the risk factors set forth in Part I, Item 1A, "Risk Factors," of the Company's FORM 10-K for the year ended December 31, 2008, during the three months ended March 31, 2009. Please refer to that section of the Company's 10-K for disclosure regarding the risks and uncertainties related to the Company's business.

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

We did not repurchase any securities during the three months ended March 31, 2009. Our Board of Directors has authorized the repurchase of up to 10,000,000 shares of our common stock which remain to be repurchased at March 31, 2009. We are currently subject to restrictions relating to repurchasing our common stock as a result of our participation in the United States Treasury Capital Purchase Program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

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

Not Applicable

**ITEM 5. OTHER INFORMATION**

Not Applicable

**ITEM 6. EXHIBITS**

The Exhibits listed below are included with this Report.

<u>Exhibit No.</u>	<u>Description of Exhibits</u>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

CVB FINANCIAL CORP.  
(Registrant)

Date: May 6, 2009

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

**CERTIFICATION**

I, Christopher D. Myers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVB Financial Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2009

/s/ Christopher D. Myers

Christopher D. Myers

Chief Executive Officer

**CERTIFICATION**

I, Edward J. Biebrich, Jr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CVB Financial Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2009

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

**CERTIFICATION**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CVB Financial Corp. (the "Company") on Form 10-Q for the period ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher D. Myers, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2009

/s/ Christopher D. Myers

Christopher D. Myers  
Chief Executive Officer



**CERTIFICATION**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CVB Financial Corp. (the "Company") on Form 10-Q for the period ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Biebrich, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2009

/s/ Edward J. Biebrich Jr.

Edward J. Biebrich Jr.  
Chief Financial Officer