FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

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

For the quarterly period ended June 30, 1999

or

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

For the transition period from _____ to _____

For Quarter Ended June 30, 1999 Commission File Number: 1-10394

CVB FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| California | 95-3629339 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 701 North Haven Ave, Suite 350, Ontario, California | 91764 |
| (Address of Principal Executive Offices) | (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 X NO

Number of shares of common stock of the registrant: 16,579,244 outstanding as of August 1, 1999.

This Form 10-Q contains 28 pages. Exhibit index on page 26.

PART I - FINANCIAL INFORMATION

CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
dollar amounts in thousands

| | June 30, 1999 (unaudited) | December 31, 1998 |
|---|---|---|
| ASSETS | | |
| Investment securities held-to-maturity (market values of $54,620 and $55,912) | $ 53,178 | $ 53,859 |
| Investment securities available-for-sale | 679,268 | 676,162 |
| Loans and lease finance receivables, net | 701,914 | 675,668 |
| Total earning assets | 1,434,360 | 1,405,689 |
| Cash and due from banks | 88,963 | 100,033 |
| Premises and equipment, net | 22,079 | 22,333 |
| Other real estate owned, net | 1,891 | 2,102 |
| Goodwill and intangibles | 9,043 | 9,635 |
| Securities sold not settled | 25,000 | 0 |
| Other assets | 21,250 | 15,415 |
| TOTAL | $ 1,602,586 | $ 1,555,207 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $ 517,798 | $ 538,808 |
| Interest-bearing | 688,988 | 676,497 |
| | 1,206,786 | 1,215,305 |
| Demand note issued to U.S. Treasury | 11,816 | 95 |
| Federal Funds Purchased | 21,000 | 5,000 |
| Repurchase Agreement | 190,000 | 195,000 |
| Securities purchased not settled | 36,028 | 5,000 |
| Long-term capitalized lease | 388 | 402 |
| Other liabilities | 18,465 | 18,698 |
| | 1,484,483 | 1,439,500 |

| | | |
|---|---|---|
| Stockholders' Equity: | | |
| Preferred stock (authorized, 20,000,000 shares without par; none issued or outstanding) | 0 | 0 |
| Common stock (authorized, 50,000,000 shares without par; issued and outstanding 16,568,121 and 16,532,464) | 94,735 | 94,529 |
| Retained earnings | 27,392 | 19,799 |
| Accumulated other comprehensive (loss) income | (4,024) | 1,379 |
| | 118,103 | 115,707 |
| TOTAL | $ 1,602,586 | $ 1,555,207 |

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 June 30, 1999 | For the Three Months Ended June 30, 1998 | For the Six Months Ended June 30, 1999 | For the Six Months Ended June 30, 1998 |
|---|---|---|---|---|
| Interest income: | | | | |
| Loans, including fees | $ 15,693 | $ 15,106 | $ 30,884 | $ 30,179 |
| Investment securities: | | | | |
| Taxable | 9,094 | 7,481 | 18,662 | 14,268 |
| Tax-advantaged | 1,365 | 1,113 | 2,613 | 2,019 |
| | 10,459 | 8,594 | 21,275 | 16,287 |
| Federal funds sold and interest bearing deposits with other financial institutions | 103 | 166 | 113 | 248 |
| | 26,255 | 23,866 | 52,272 | 46,714 |
| Interest expense: | | | | |
| Deposits | 5,269 | 5,926 | 10,483 | 11,716 |
| Other borrowings | 2,711 | 1,718 | 5,746 | 2,944 |
| | 7,980 | 7,644 | 16,229 | 14,660 |
| Net interest income | 18,275 | 16,222 | 36,043 | 32,054 |
| Provision for credit losses | 500 | 450 | 1,100 | 1,300 |
| Net interest income after provision for credit losses | 17,775 | 15,772 | 34,943 | 30,754 |
| Other operating income: | | | | |
| Service charges on deposit accounts | 2,351 | 1,846 | 4,504 | 3,588 |
| Gains on sale of other real estate owned | 330 | 36 | 330 | 51 |
| Gains on sale of premises and equipment | 0 | 0 | 0 | 652 |
| Trust services | 894 | 886 | 1,925 | 1,772 |
| Other | 734 | 701 | 1,347 | 1,402 |
| | 4,309 | 3,469 | 8,106 | 7,465 |
| Other operating expenses: | | | | |
| Salaries and employee benefits | 6,078 | 5,510 | 12,095 | 11,149 |
| Deposit insurance premiums | 33 | 31 | 65 | 61 |
| Occupancy | 925 | 890 | 1,926 | 1,973 |
| Equipment | 1,185 | 911 | 2,243 | 1,805 |
| Provision for losses on other real estate owned | 100 | 0 | 100 | 500 |
| Other | 4,227 | 3,861 | 8,267 | 7,076 |
| | 12,548 | 11,203 | 24,696 | 22,564 |
| Earnings before income taxes | 9,536 | 8,038 | 18,353 | 15,655 |
| Provision for income taxes | 3,478 | 2,961 | 6,782 | 5,813 |
| Net earnings | $ 6,058 | $ 5,077 | $ 11,571 | $ 9,842 |
| Basic earnings per common share | $ 0.37 | $ 0.31 | $ 0.70 | $ 0.59 |
| Diluted earnings per common share | $ 0.35 | $ 0.29 | $ 0.67 | $ 0.57 |
| Cash dividends per common share | $ 0.12 | $ 0.09 | $ 0.24 | $ 0.18 |

See accompanying notes to the consolidated financial statements.

CVB FINANCIAL CORP. AND SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY
(unaudited)
dollar amounts in thousands

| | Total | Comprehensive Income | Retained Earnings | Accumulated Other Comprehensive Income | Common Stock |
|---|---|---|---|---|---|
| Beginning balance, January 1, 1998 | $102,084 | | $39,057 | $772 | $62,255 |
| Comprehensive income | | | | | |
| Net Income | 20,787 | $20,787 | 20,787 | | |
| Other comprehensive income, net of tax | | | | | |
| Unrealized gains on securities, net of reclassification adjustment (see disclosure) | 607 | 607 | | 607 | |
| Comprehensive income | | $21,394 | | | |
| Common Stock issued | 467 | | | | 467 |
| Repurchase of Common Stock | (1,907) | | (1,527) | | (380) |
| 10% stock dividend | | | (32,187) | | 32,187 |
| Tax benefit from exercise of stock options | 172 | | 172 | | |
| Dividends declared on common stock | (6,503) | | (6,503) | | |
| Ending balance, December 31, 1998 | $115,707 | | $19,799 | $1,379 | $94,529 |
| Comprehensive income | | | | | |
| Net Income | 11,571 | $11,571 | 11,571 | | |
| Other comprehensive income, net of tax | | | | | |
| Unrealized gains on securities, net of reclassification adjustment (see disclosure) | (5,403) | (5,403) | | (5,403) | |
| Comprehensive income | | $6,168 | | | |
| Common Stock issued | 206 | | | | 206 |
| Dividends declared on common stock | (3,978) | | (3,978) | | |
| Ending balance, June 30, 1999 | $118,103 | | $27,392 | ($4,024) | $94,735 |

Disclosure of reclassification amount

| | |
|---|---|
| Unrealized holding gains arising during period, net of tax effects of $596 | $ 862 |
| Less: | |
| Reclassification adjustment for gains included in net income, net of tax effects of $151 | (255) |
| Net unrealized gain on securities, December 31, 1998 | $ 607 |
| Unrealized holding losses arising during period, net of tax benefit of $3,967 | $ (5,403) |
| Net unrealized losses on securities, June 30, 1999 | $ (5,403) |

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 Six Months Ended June 30, 1999 | 1998 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Interest received | $ 53,323 | $ 45,133 |
| Service charges and other fees received | 8,107 | 7,440 |
| Interest paid | (16,442) | (13,449) |
| Cash paid to suppliers and employees | (22,260) | (20,684) |
| Income taxes paid | (7,220) | (3,905) |
| Net cash provided by operating activities | 15,508 | 14,535 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of securities available for sale | 105 | 20,043 |
| Proceeds from maturities of securities available for sale | 53,676 | 58,288 |
| Proceeds from maturities of securities held to maturity | 677 | 746 |
| Purchases of securities available for sale | (61,489) | (214,226) |
| Purchases of securities held to maturity | (95) | (171) |
| Net increase in loans | (29,046) | (22,084) |
| Proceeds from sale of premises and equipment | 0 | 2,174 |
| Purchase of premises and equipment | (1,361) | (1,328) |
| Other investing activities | 524 | 2,618 |
| Net cash used in investing activities | (37,009) | (153,940) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net (decrease)increase in transaction deposits | (8,037) | 13,359 |
| Net (decrease)increase in time deposits | (481) | 15,406 |
| Net increase in short-term borrowings | 22,721 | 94,095 |
| Cash dividends on common stock | (3,978) | (3,016) |
| Proceeds from exercise of stock options | 206 | 149 |
| Net cash provided by financing activities | 10,431 | 119,993 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (11,070) | (19,412) |
| CASH AND CASH EQUIVALENTS, beginning of period | 100,033 | 107,725 |
| CASH AND CASH EQUIVALENTS, end of period | $ 88,963 | $ 88,313 |

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 Six Months Ended June 30, 1999 | 1998 |
|---|---|---|
| RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net earnings | $ 11,571 | $ 9,842 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Amortization of premiums(accretion of discount) on investment securities | 1,360 | (753) |
| Provisions for loan and OREO losses | 1,200 | 1,800 |
| Depreciation and amortization | 1,582 | 1,552 |
| Change in accrued interest receivable | (309) | (828) |
| Change in accrued interest payable | (213) | 1,211 |
| Change in other assets and liabilities | 317 | 1,711 |
| Total adjustments | 3,937 | 4,693 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 15,508 | $ 14,535 |

Supplemental Schedule of Noncash Investing and Financing Activities

| | 1999 | 1998 |
|---|---|---|
| Securities sold and not settled | $ 25,000 | $ 0 |
| Securities purchased and not settled | 36,028 | 0 |
| Real estate acquired through foreclosure | 1,701 | 2,545 |

CVB FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 1999 and 1998

1. Summary of Significant Accounting Policies. See Note 1 of the Notes to Consolidated Financial Statements in CVB Financial Corp.'s 1998 Annual Report.

   Goodwill resulting from purchase accounting treatment of acquired banks is amortized on a straight-line basis over 15 years.

   The Bank accounts for impaired loans in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosures." Impaired loans totaled $6.7 million at June 30, 1999. These loans were supported by collateral with a fair market value, net of prior liens, of $10.5 million.

2. Certain reclassifications have been made in the 1998 financial information to conform to the presentation used in 1999.

3. 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 June 30, 1999, the Company had entered into commitments with certain customers amounting to $237.3 million compared to $209.1 million at December 31, 1998. Letters of credit at June 30, 1999, and December 31, 1998, were $9.3 million and $8.9 million, respectively.

4. The interim consolidated financial statements are unaudited and reflect all adjustments and reclassifications which, in the opinion of management, are necessary for a fair statement of the results of operations and financial condition for the interim period. All adjustments and reclassifications are of a normal and recurring nature. Results for the period ending June 30, 1999, are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole.

5. The actual number of shares outstanding at June 30, 1999, was 16,568,121. Basic earnings per share are calculated on the basis of the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated on the basis of the weighted average number of shares outstanding during the period plus shares issuable upon the assumed exercise of outstanding common stock options. All 1998 per share information in the financial statements and in Management's Discussion and Analysis has been restated to give retroactive effect to the 10% stock dividend declared December 16, 1998. The table below presents the reconciliation of earnings per share for the periods indicated.

Earnings Per Share Reconciliation
For the Three Months
Ended June 30,

| | 1999 Income (Numerator) | 1999 Weighted Average Shares (Denominator) | 1999 Per Share Amount | 1998 Income (Numerator) | 1998 Weighted Average Shares (Denominator) | 1998 Per Share Amount |
|---|---|---|---|---|---|---|
| BASIC EPS | | | | | | |
| Income available to common stockholders | $ 6,058,010 | 16,565,327 | $0.37 | $ 5,076,472 | 16,536,687 | $0.31 |
| EFFECT OF DILUTIVE SECURITIES | | | | | | |
| Incremental shares from assumed exercise of outstanding options | | 595,598 | (0.02) | | 687,407 | (0.02) |
| DILUTED EPS | | | | | | |
| Income available to common stockholders | $ 6,058,010 | 17,160,925 | $0.35 | $ 5,076,472 | 17,224,094 | $0.29 |

Earnings Per Share Reconciliation
For the Six Months
Ended June 30,

| | 1999 Income (Numerator) | 1999 Weighted Average Shares (Denominator) | 1999 Per Share Amount | 1998 Income (Numerator) | 1998 Weighted Average Shares (Denominator) | 1998 Per Share Amount |
|---|---|---|---|---|---|---|
| BASIC EPS | | | | | | |
| Income available to common stockholders | $ 11,570,855 | 16,560,533 | $0.70 | $ 9,841,696 | 16,548,628 | $0.59 |
| EFFECT OF DILUTIVE SECURITIES | | | | | | |
| Incremental shares from assumed exercise of outstanding options | | 581,692 | (0.03) | | 708,884 | (0.02) |
| DILUTED EPS | | | | | | |
| Income available to common stockholders | $ 11,570,855 | 17,142,225 | $0.67 | $ 9,841,696 | 17,257,512 | $0.57 |

6. Supplemental Cash Flow Information - During the six-month period ended June 30, 1999, loans amounting to $1.7 million were transferred to Other Real Estate Owned ("OREO") as a result of foreclosure on the real properties held as collateral.

7. In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," effective for fiscal years beginning after June 15, 1999. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The Company does not believe that the adoption of SFAS No. 133 will have a material impact on its operations and financial position.

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 CVB Financial Corp. and its operations, reference should be made to the financial statements included in this report and in the Company's 1998 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. The Company's actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, economic conditions, competition in the geographic and business areas in which the Company conducts operations, fluctuations in interest rates, credit quality, year 2000 data systems compliance, and government regulations. For additional information concerning these factors, see "Item 1. Business - Factors That May Affect Results" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

## RESULTS OF OPERATIONS

The Company reported net earnings of $11.6 million for the six months ended June 30, 1999. This represented an increase of $1.7 million, or 17.57%, over net earnings of $9.8 million, for the six months ended June 30, 1998. Basic earnings per share for the six month period increased to $0.70 per share for 1999, compared to $0.59 per share for 1998. Diluted earnings per share increased to $0.67 per share for the first six months of 1999, compared to $0.57 per share for the same six month period last year. The annualized return on average assets was 1.50% for the first six months of 1999 compared to a return on average assets of 1.52% for the six months ended June 30, 1998. The annualized return on average equity was 19.17% for the six months ended June 30, 1999, compared to a return of 18.39% for the six months ended June 30, 1998.

For the quarter ended June 30, 1999, the Company generated net earnings of $6.1 million. This represented an increase of $981,000 or 19.32% over net earnings of $5.1 million for the second quarter of 1998. Basic earnings per share increased to $0.37 for the second quarter of 1999 compared to $0.31 per share for the second quarter of 1998. Diluted earnings per share increased to $0.35 per share compared to $0.29 per share for the second quarter of 1999 and 1998, respectively. The annualized return on average assets was 1.57% for the second quarter of 1999 compared to 1.52% for the same period last year. The annualized return on average equity was 19.92% for the second quarter of 1999 and 18.69% for the second quarter of 1998.

Pre-tax operating earnings, which exclude the impact of gains or losses on sale of securities and OREO, and the provisions for credit and OREO losses, totaled $19.2 million for the six months ended June 30, 1999. This represented an increase of $1.8 million, or 10.61%, compared to operating earnings of $17.4 million for the first six months of 1998. For the second quarter of 1999, pre-tax operating earnings totaled $9.8 million. This represented an increase of $1.4 million or 16.11% from pre-tax operating earnings of $8.4 million for the second quarter of 1998.

Net Interest Income/Net Interest Margin

The principal component of the Company's earnings is net interest income, which is the difference between the interest and fees earned on loans and investments and the interest paid on deposits and other borrowed funds. When net interest income is expressed as a percentage of average earning assets, the result is the net interest margin. The net interest spread is the yield on average earning assets minus the average cost of interest-bearing deposits and borrowed funds.

For the six months ended June 30, 1999, net interest income was $36.0 million. This represented an increase of $3.9 million, or 12.44%, over net interest income of $32.1 million for the six months ended June 30, 1998. Although net interest income increased, the net interest margin decreased to 5.21% for the six months ended June 30, 1999, compared to 5.57% for the six months ended June 30, 1998. In addition, the net interest spread decreased to 3.94% for the six months ended June 30, 1999, compared to a spread of 4.10% for the six months ended June 30, 1998.

The increase in net interest income for the most recent six month period was the result of an increased volume of average earning assets. Earning assets averaged $1.4 billion for the first six months of 1999. This represented an increase of $244.6 million, or 20.72%, compared to average earning assets of $1.2 billion for the first six months of 1998. The decrease in the net interest margin for the six months ended June 30, 1999 compared to the first six months of 1998 was the result of a lower yield on average earning assets. The decrease in the net interest spread resulted as the yield on average earning assets decreased greater than the decrease in the cost of interest-bearing liabilities.

For the second quarter of 1999, net interest income was $18.3 million. This represented an increase of $2.1 million, or 12.66% compared to $16.2 million for the second quarter of 1998. The net interest margin was 5.28% during the second quarter of 1999 compared to 5.47% for the same period last year. The net interest spread remained relatively the same at 4.01% and 4.00% for the second quarter of 1999 and 1998, respectively.

The increase in net interest income for the second quarter of 1999 was the result of an increase in average earning assets. Earning assets averaged $1.4 billion for the quarter ended June 30, 1999, compared to $1.2 billion for the same period last year. The decrease in net interest margin resulted from a decline in loan yields. Loan yield for the second quarter of 1999 was 8.88% compared to 9.67% for the second quarter of 1998. As a percent of average earning assets, average loans decreased to 49.54% for the second quarter of 1999 compared to 51.24% for the second quarter of 1998.

The Company reported total interest income of $52.3 million for the six months ended June 30, 1999. This represented an increase of $5.6 million, or 11.90%, over total interest income of $46.7 million for the six months ended June 30, 1998. The increase reflected the greater volume of earning assets noted above. The yield on average earning assets decreased to 7.49% for the six months ended June 30, 1999, from a yield of 8.05% for the six months ended June 30, 1998.

The decrease in the yield on average earning assets resulted from lower yields on average loans and a greater concentration of earning assets in investments as opposed to loans. The yield on average loans decreased to 8.83% for the six months ended June 30, 1999, from a yield of 9.70% for the first six months of 1998. The 87 basis point decrease in average loan yields primarily reflected increased price competition for loans and a lower interest rate environment. Loans typically generate higher yields than investments. Accordingly, the higher the loan portfolio is as a percentage of earning assets, the higher will be the yield on earning assets. For the six months ended June 30, 1999, net loans represented 49.12% of average earning assets, compared to 52.73% for the six months ended June 30, 1998.

The increase in total interest income was partially offset by an increase in interest expense for the three and six months ended June 30, 1999 when compared to the same periods for 1998. Interest expense totaled 16.2 million for the six months ended June 30, 1999. This represented an increase of $1.5 million, or 10.70%, over total interest expense of $14.7 million for the six months ended June 30, 1998. For the three months ended June 30, 1999, interest expense totaled $8.0 million. This represented and increase of $336,000, or 4.40% over interest expense of $7.6 million for the same period last year.

The increase in interest expense reflected an increase in the average volume of interest-bearing liabilities. Average interest-bearing liabilities were $913.0 million for the first six months of 1999. This represented an increase of $170.6 million, or 22.99%, from average interest-bearing liabilities of $742.4 million for the first six months of 1998. For the second quarter of 1999, interest-bearing liabilities averaged $909.9 million, an increase of $141.5 or 18.41% over the same quarter last year.

Average interest-bearing deposits totaled $691.8 million for the six months ended June 30, 1999. This represented an increase of $57.1 million, or 9.00%, over average interest-bearing deposits of $634.7 million for the six months ended June 30, 1998.

Other borrowed funds averaged $221.2 million for the six months ended June 30, 1999. This represented an increase of $113.5 million, or 105.42%, over average other borrowed funds of $107.7 million for the six months ended June 30, 1998.

The cost of average interest-bearing liabilities decreased to 3.55% for the six months ended June 30, 1999, compared to a cost of 3.95% for the first six months of 1998. The decrease in the cost of interest-bearing liabilities was primarily the result of a decrease in the interest rate environment. The cost of average interest bearing deposits was 3.03% for the first six months of 1999 as compared to 3.69% for the first six months of 1998. The cost of other borrowed funds decreased to 5.20% for the six months ended June 30, 1999, compared to a cost of 5.47% for the six months ended June 30, 1998.

Table 1 shows the average balances of assets, liabilities, and stockholders' equity and the related interest income, expense, and rates for the six month periods ended June 30, 1999, and 1998. Rates for tax-preferenced investments are shown on a taxable equivalent basis using a 35.0% tax rate.

TABLE 1 - Distribution of Average Assets, Liabilities, and Stockholders' Equity; Interest Rates and Interest Differentials (dollars in thousands)

| | Six-month periods ended June 30, 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| ASSETS | Average Balance | Interest | Rate | Average Balance | Interest | Rate |
| Investment Securities | | | | | | |
| Taxable | $ 604,403 | 18,662 | 6.18% | $ 457,840 | 14,268 | 6.23% |
| Tax-advantaged (1) | 115,672 | 2,613 | 6.34% | 90,830 | 2,019 | 6.24% |
| Federal Funds Sold & Interest-bearing deposits with other financial institutions | 4,795 | 113 | 4.71% | 9,188 | 248 | 5.40% |
| Loans (2) (3) | 699,829 | 30,884 | 8.83% | 622,264 | 30,179 | 9.70% |
| Total Earning Assets | 1,424,699 | 52,272 | 7.49% | 1,180,122 | 46,714 | 8.05% |
| Total Non-earning Assets | 118,349 | | | 117,035 | | |
| Total Assets | $ 1,543,048 | | | $ 1,297,157 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Non-interest bearing deposits | $ 488,497 | | | $ 424,516 | | |
| Savings Deposits (4) | 398,265 | 3,829 | 1.92% | 362,567 | 4,587 | 2.53% |
| Time Deposits | 293,584 | 6,654 | 4.53% | 272,142 | 7,129 | 5.24% |
| Total Deposits | 1,180,346 | 10,483 | 1.78% | 1,059,225 | 11,716 | 2.21% |
| Other Borrowings | 221,199 | 5,746 | 5.20% | 107,683 | 2,944 | 5.47% |
| Total Interest-Bearing Liabilities | 913,048 | 16,229 | 3.55% | 742,392 | 14,660 | 3.95% |
| Other Liabilities | 20,805 | | | 23,225 | | |
| Stockholders' Equity | 120,698 | | | 107,024 | | |
| Total Liabilities and Stockholders' Equity | $ 1,543,048 | | | $ 1,297,157 | | |
| Net interest spread | | | 3.94% | | | 4.10% |
| Net interest margin | | | 5.21% | | | 5.57% |

(1) Yields are calculated on a taxable equivalent basis.
(2) Loan fees are included in total interest income as follows: 1999, $1,422; 1998, $2,179.
(3) Nonperforming loans are included in net loans as follows: 1999, $4,648; 1998, $4,828.
(4) Includes interest-bearing demand and money market accounts.

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

TABLE 2 - Rate and Volume Analysis for Changes in Interest Income, Interest Expense and Net Interest Income
(amounts in thousands)

| | Comparison of six-month periods ended June 30, 1999 and 1998 Increase (decrease) in interest income or expense due to changes in | | | |
|---|---|---|---|---|
| | Volume | Rate | Rate/ Volume | Total |
| Interest Income: | | | | |
| Taxable investment securities | $ 4,568 | $ (132) | $ (42) | $ 4,394 |
| Tax-advantaged securities | 553 | 32 | 9 | 594 |
| Fed funds sold & interest bearing deposits with other institutions | (119) | (31) | 15 | (135) |
| Loans | 3,761 | (2,717) | (339) | 705 |
| Total earning assets | 8,763 | (2,848) | (357) | 5,558 |
| Interest Expense: | | | | |
| Savings deposits | 451 | (1,101) | (108) | (758) |
| Time deposits | 562 | (961) | (76) | (475) |
| Other borrowings | 3,104 | (147) | (155) | 2,802 |
| Total interest-bearing liabilities | 4,117 | (2,209) | (339) | 1,569 |
| Net Interest Income | $ 4,646 | $ (639) | $ (18) | $ 3,989 |

During periods of changing interest rates, the ability to reprice interest earning assets and interest-bearing liabilities can influence net interest income, net interest margin, and consequently, the Company's 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 deposits rates. Yield curve risk is reduced by keeping the duration of the loan and bond portfolios relatively short. Options risk in the bond portfolio is monitored monthly and actions are recommended when appropriate.

Both the net interest spread and the net interest margin are largely affected by the Company's ability to reprice assets and liabilities as interest rates change. The Company's management utilizes the results of a dynamic simulation model to quantify the estimated exposure of net interest income to sustained changes in interest rates. The sensitivity of the Company's net interest income is measured over a rolling two year horizon. The simulation model estimates the impact of changing interest rates on the net interest income from all interest earning assets and interest expense paid on all interest bearing liabilities reflected on the Company's balance sheet. The sensitivity analysis is compared to policy limits which specify a maximum tolerance level for net interest income exposure over a one year time horizon assuming no balance sheet growth, given both a 200 basis point upward and downward shift in interest rates. A parallel and pro rata shift in interest rates over a 12 month period is assumed. The following reflects the Company's net interest income sensitivity over a one year horizon as of June 30, 1999.

| Simulated Rate Changes | Estimated Net Interest Income Sensitivity |
|---|---|
| +200 basis points | (2.19%) |
| -200 basis points | 0.98% |

The table indicates that net interest income would decrease by approximately 2.19% over a 12 month period if there was a sustained, parallel and pro rata 200 basis point upward shift in interest rates. Net interest income would increase approximately 0.98% over a 12 month period if there was a sustained, parallel and pro rata 200 basis point downward shift in interest rates.

Credit Loss Experience

The Company maintains an allowance for potential credit losses that is increased by a provision for credit losses charged against operating results. The allowance for credit losses is also increased by recoveries on loans previously charged off and reduced by actual loan losses charged to the allowance. The provision for credit losses was $1.1 million for the six months ended June 30, 1999. This represented a decrease of $200,000, or 15.38%, from the provision for credit losses of $1.3 million for the six months ended June 30, 1998.

The allowance for credit losses at June 30, 1999 was $14.4 million. This represented an increase of $1.6 million, or 12.45%, from the allowance for credit losses of $12.8 million at June 30, 1998. The allowance for credit losses was 2.06% of average gross loans for the first six months of 1999 and 1998. For the six months ended June 30, 1999, net loan charge offs totaled $59,000, compared to net loan charge offs of $12,000 for the first six months of 1998.

Nonperforming assets, which includes nonaccrual loans, loans past due 90 or more days and still accruing, restructured loans, and other real estate owned, decreased to $6.5 million at June 30, 1999. This represented a decrease of $2.8 million, or 29.84%, from nonperforming assets of $9.3 million at December 31, 1998. Nonperforming loans, which include nonaccrual loans, loans past due 90 or more days and still accruing, and restructured loans were $4.6 million at June 30, 1999. This represented a decrease of $2.6 million, or 35.61%, from the level of nonperforming loans at December 31, 1998. Table 6 presents nonperforming assets as of June 30, 1999, and December 31, 1998. The Company applies the methods prescribed by Statement of Financial Accounting Standards No. 114 for determining the fair value of specific loans for which the eventual collection of all principal and interest is considered impaired.

While management believes that the allowance at June 30, 1999, was adequate to absorb losses from any known or inherent risks in the portfolio, no assurance can be given that economic conditions which adversely affect the Company's service areas or other circumstances will not be reflected in increased provisions or credit losses in the future. Table 3 shows comparative information on net credit losses, provisions for credit losses, and the allowance for credit losses for the periods indicated.

TABLE 3 - Summary of Credit Loss Experience
(amounts in thousands)

| | Six-months ended June 30, 1999 | Six-months ended June 30, 1998 |
|---|---|---|
| Amount of Total Loans at End of Period | $ 716,319 | $ 636,533 |
| Average Total Loans Outstanding | $ 699,829 | $ 622,264 |
| Allowance for Credit Losses at Beginning of Period | $ 13,364 | $ 11,522 |
| Loans Charged-Off: | | |
| Real Estate Loans | 40 | 52 |
| Commercial and Industrial | 115 | 114 |
| Consumer Loans | 5 | 26 |
| Total Loans Charged-Off | 160 | 192 |
| Recoveries: | | |
| Real Estate Loans | 0 | 155 |
| Commercial and Industrial | 101 | 14 |
| Consumer Loans | 0 | 11 |
| Total Loans Recovered | 101 | 180 |
| Net Loans Charged-Off | 59 | 12 |
| Provision Charged to Operating Expense | 1,100 | 1,300 |
| Allowance for Credit Losses at End of period | $ 14,405 | $ 12,810 |
| Net Loans Charged-Off to Average Total Loans* | 0.02% | 0.00% |
| Net Loans Charged-Off to Total Loans at End of Period* | 0.02% | 0.00% |
| Allowance for Credit Losses to Average Total Loans | 2.06% | 2.06% |
| Allowance for Credit Losses to Total Loans at End of Period | 2.01% | 2.01% |
| Net Loans Charged-Off to Allowance for Credit Losses* | 0.82% | 0.19% |
| Net Loans Charged-Off to Provision for Credit Losses | 5.36% | 0.92% |

* Net Loan Charge-Off amounts are annualized.

Other Operating Income

Other operating income includes revenues earned from sources other than interest income. These sources include: service charges and fees on deposit accounts, fee income from the Asset Management Division, other fee oriented products and services, gain (or loss) on sale of securities or other real estate owned and gross revenue from Community Trust Deed Services (the Company's nonbank subsidiary).

Other operating income totaled $8.1 million for the six months ended June 30, 1999. This represented an increase of $641,000, or 8.59%, from other operating income of $7.5 million for the six months ended June 30, 1998. For the three months ended June 30, 1999, other operating income totaled $4.3 million, an increase of $840,000, or 24.21%, from $3.5 million for the same three month period ended June 30, 1998. The increase was primarily the result of higher service charge income and gains on sale of other real estate owned.

Service charge income totaled $4.5 million for the first six months ended June 30, 1999. This represents an increase of $916,000 or 25.53% over service charge income of $3.6 million for the six months ended June 30, 1998.

Trust income totaled $1.9 million for the six months ended June 30, 1999. This represented an increase of $153,000, or 8.63%, over trust income of $1.8 million for the six months ended June 30, 1998.

Other Operating Expenses

Other operating expenses totaled $24.7 million for the six months ended June 30, 1999. This represented an increase of $2.1 million, or 9.45%, over other operating expenses of $22.6 million for the six months ended June 30, 1998. For the three months ended June 30, 1999, other operating expenses totaled $12.5 million. This compares with $11.2 million for the same period last year, an increase of $1.3 million, or 12.01%.

Salaries and employee benefits totaled $12.1 million for the first six months of 1999. This represented and increase of $946,000, or 8.49%, from salaries and employee benefits of $11.1 million for the same period last year. Equipment expense totaled $2.2 million for the six months ended June 30, 1999. This represents an increase of $438,000, or 24.27%, over equipment expense of $1.8 million for the six months ended June 30, 1998. The increase was primarily the result of increases in furniture and equipment expense and service and maintenance expense. Other expense, which includes professional, data processing, supplies, and promotional expenses totaled $8.3 million for the first six months ended June 30, 1999. This represents an increase of $1.2 million, or 16.83%, over other expense of $7.1 million for the six months ended June 30, 1998. The increase was primarily the result of increases in professional and promotional expenses.

The Company maintains an allowance for potential losses on other real estate owned. The allowance is increased by a provision for losses on other real estate owned, and reduced by losses on the sale of other real estate owned charged directly to the allowance. The allowance was established to provide for future losses. For the six months ended June 30, 1999, the provision for other real estate owned totaled $100,000. For the six months ended June 30, 1998, the provision for other real estate owned was $500,000. This decrease reflects the reduction of other real estate owned from $4.8 million at June 30, 1998 to $1.9 million at June 30, 1999.

As a percent of average assets, annualized other operating expenses decreased to 3.20% for the six months ended June 30, 1999, compared to a ratio of 3.48% for the six months ended June 30, 1998. The decrease in the ratio indicates that the Company is managing a greater level of assets with proportionately lower levels of operating expenses. The Company's efficiency ratio decreased to 55.94% for the six months ended June 30, 1999, compared to a ratio of 57.10% for the six months ended June 30, 1998. The decrease in the efficiency ratio indicates that the Company is allocating a lower percentage of net revenue to operating expenses.

BALANCE SHEET ANALYSIS

The Company reported total assets of $1.60 billion at June 30, 1999. This represented an increase of $47.4 million, or 3.05%, over total assets of $1.55 billion at December 31, 1998. Gross loans totaled $716.3 million at June 30, 1999. This represented an increase of $27.3 million, or 3.96%, over gross loans of $689.0 million at December 31, 1998. Total deposits decreased $8.5 million, or 0.70%, to $1.21 billion at June 30, 1999, from $1.22 billion at December 31, 1998.

Investment Securities and Debt Securities Available-for-Sale

The Company reported total investment securities of $732.4 million at June 30, 1999. This represented an increase of $2.4 million, or 0.33%, over total investment securities of $730.0 million at December 31, 1998.

At June 30, 1999, the Company's net unrealized loss on securities available-for-sale totaled $7.0 million. Accumulated other comprehensive loss totaled $4.0 million, and deferred tax assets totaled $3.0 million. At December 31, 1998, the Company reported a net unrealized gain on investment securities available for sale of $2.4 million, with an adjustment to equity capital of $1.4 million and deferred taxes of $1.0 million. Note 2 of the Notes to the Consolidated Financial Statements in the Company's 1998 Annual Report on Form 10-K discusses its current accounting policy as it pertains to recognition of market values for investment securities held as available-for-sale.

Table 4 sets forth investment securities held-to-maturity and available-for-sale, at June 30, 1999 and December 31, 1998.

Table 4 - Composition of Securities Portfolio
(dollars in thousands)

| | June 30, 1999 | | | | December 31, 1998 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Market Value | Net Unrealized Gain/(Loss) | Yield | Amortized Cost | Market Value | Net Unrealized Gain/(Loss) | Yield |
| U.S. Treasury securities | | | | | | | | |
| Available for Sale | $ 1,000 | $ 1,004 | $ 4 | 6.01% | $ 3,005 | $ 3,023 | $ 18 | 6.02% |
| FHLMC, FNMA CMO's, REMIC's and mortgage-backed pass-through securities | | | | | | | | |
| Available for Sale | 531,515 | 525,670 | (5,845) | 6.33% | 528,701 | 530,035 | 1,334 | 6.37% |
| Held to Maturity | 3,141 | 3,170 | 29 | 5.74% | 3,699 | 3,773 | 74 | 5.74% |
| Other Government Agency Securities | | | | | | | | |
| Available for Sale | 9,935 | 9,944 | 9 | 5.71% | 19,161 | 19,230 | 69 | 6.63% |
| GNMA mortgage-backed pass-through securities | | | | | | | | |
| Available for Sale | 42,131 | 41,624 | (507) | 6.54% | 42,771 | 42,950 | 179 | 6.68% |
| Held to Maturity | 624 | 678 | 54 | 9.45% | 710 | 772 | 62 | 9.44% |
| Tax-exempt Municipal Securities | | | | | | | | |
| Available for Sale | 76,426 | 75,821 | (605) | 4.45% | 58,483 | 59,340 | 857 | 4.43% |
| Held to Maturity | 47,839 | 49,198 | 1,359 | 4.88% | 47,962 | 49,879 | 1,917 | 4.88% |
| Other securities | | | | | | | | |
| Available for Sale | 25,205 | 25,205 | 0 | 0.00% | 21,584 | 21,584 | 0 | 0.00% |
| Held to Maturity | 1,574 | 1,574 | 0 | 8.24% | 1,488 | 1,488 | 0 | 7.13% |
| | $739,390 | $733,888 | $ (5,502) | 6.04% | $727,564 | $ 732,074 | $ 4,510 | 6.13% |

Loan Composition and Nonperforming Assets

Table 5 sets forth the distribution of the loan portfolio by type as of the dates indicated (dollar amounts in thousands):

Table 5 - Distribution of Loan Portfolio by Type

| | June 30, 1999 | December 31, 1998 |
|---|---|---|
| Commercial and Industrial | $263,788 | $247,060 |
| Real Estate: | | |
| Construction | 40,493 | 29,415 |
| Mortgage | 316,535 | 297,856 |
| Consumer | 17,709 | 17,816 |
| Municipal lease finance receivables | 22,995 | 22,923 |
| Agribusiness | 57,257 | 76,283 |
| Gross Loans | $718,777 | $691,353 |
| Less: | | |
| Allowance for credit losses | 14,405 | 13,364 |
| Deferred net loan fees | 2,458 | 2,321 |
| Net loans | $701,914 | $675,668 |

As set forth in Table 6, nonperforming assets (nonaccrual loans, loans 90 days or more past due and still accruing interest, restructured loans, and other real estate owned) totaled $6.5 million at June 30, 1999. This represented a decrease of $2.8 million, or 29.84%, from nonperforming assets of $9.3 million at December 31, 1998. As a percent of total assets, nonperforming assets decreased to 0.41% at June 30, 1999, from 0.60% at December 31, 1998.

Although management believes that nonperforming assets are generally well secured and that potential losses are reflected in the allowance for credit losses, there can be no assurance that a general deterioration of economic conditions or collateral values would not result in future credit losses.

Table 6 - Nonperforming Assets (dollar amounts in thousands)

| | June 30, 1999 | December 31, 1998 |
|---|---|---|
| Nonaccrual loans | $4,648 | $7,218 |
| Loans past due 90 days or more and still accruing interest | 0 | 0 |
| Restructured loans | 0 | 0 |
| Other real estate owned (OREO), net | 1,891 | 2,102 |
| Total nonperforming assets | $6,539 | $9,320 |
| Percentage of nonperforming assets to total loans outstanding and OREO | 0.91% | 1.35% |
| Percentage of nonperforming assets to total assets | 0.41% | 0.60% |

The decrease in nonperforming assets was primarily the result of a decrease in nonaccrual loans. Nonaccrual loans totaled $4.6 million at June 30, 1999. This represented a decrease of $2.6 million, or 35.61%, from total nonaccrual loans of $7.2 million at December 31, 1998.

At June 30, 1999, the majority of nonaccrual loans were collateralized by real property. The estimated loan balances to the fair value of related collateral (loan-to-value ratio) for nonaccrual loans ranged from approximately 47% to 99%.

The Bank has allocated specific reserves to provide for any potential loss on non-performing loans. Management cannot, however, predict the extent to which the current economic environment may persist or worsen or the full impact such environment may have on the Company's loan portfolio.

Deposits and Other Borrowings

At June 30, 1999, total deposits were $1.21 billion. This represented a decrease of $8.5 million, or 0.70%, from total deposits of $1.22 billion at December 31, 1998. Demand deposits totaled $517.8 million at June 30, 1999, representing a decrease of $21.0 million, or 3.90%, from total demand deposits of $538.8 million at December 31, 1998. The decrease in demand deposits from the year end total reflects normal seasonal fluctuations relating to agricultural and other depositors. Average demand deposits for the first six months of 1999 were $488.5 million. This represented an increase of $64.0 million, or 15.07%, from average demand deposits of $424.5 million for the first six months of 1998. The comparison of average balances for the first six months of 1999 and 1998 is more representative of the Company's growth in deposits as it excludes the seasonal peak in deposits at year end.

Time deposits totaled $289.7 million at June 30, 1999. This represented a decrease of $481,000, or 0.17%, over total time deposits of $290.2 million at December 31, 1998. Time deposits are not affected by the Company's seasonal fluctuation in demand deposits.

Other borrowed funds totaled $211.0 million at June 30, 1999. This represented an increase of $11.0 million, or 5.5% over other borrowed funds of $200.0 million at December 31, 1998. The increase in other borrowed funds during the first six months of 1999 was primarily the result of an increase federal funds purchased.

## Liquidity

Liquidity risk is the risk to earnings or capital resulting from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. It includes the ability to manage unplanned changes in funding sources and to recognize or address changes in market conditions that affect the Bank's 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.

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 $15.5 million for the first six months of 1999, compared to net cash provided by operating activities of $14.5 million for the same period last year. The increase was primarily the result of an increase in interest received.

Net cash used by investing activities totaled $37.0 million for the first six months of 1999, compared to net cash used for investing activities of $153.9 million for the same period last year. The decrease in net cash used by investing activities was primarily the result of a reduction in purchases of investment securities. Financing activities provided net cash flows of $10.4 million for the six months ended June 30, 1999. This compares to $120.0 million in net cash provided for the six months ended June 30, 1998. A net decrease in transaction deposits of $8.0 million for the six months ended June 30, 1999, compared to a net increase in deposits of $13.4 million for the same period last year contributed to the change. In addition, net cash flows provided by financing activities was impacted by an increase in short term borrowings of only $22.7 million for the first six months of 1999 compared to an increase of $94.1 million for the first six months of 1998. At June 30, 1999, cash and cash equivalents totaled $89.0 million compared to $88.3 million at June 30, 1998.

Since the primary sources and uses of funds for the Bank are loans and deposits, the relationship between gross loans and total deposits provides a useful measure of the Bank's liquidity. Typically, the closer the ratio of loans to deposits is to 100%, the more reliant the Bank is on its loan portfolio to provide for short term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loan to deposit ratio the less liquid are the Bank's assets. For the first six months of 1999, the Bank's loan to deposit ratio averaged 59.44%, compared to an average ratio of 58.95% for the first six months of 1998.

CVB is a company separate and apart from the Bank that must provide for its own liquidity. Substantially all of CVB's revenues are obtained from dividends declared and paid by the Bank. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. At June 30, 1999, approximately $40.9 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. As of June 30, 1999, neither the Bank nor CVB had any material commitments for capital expenditures.

## Capital Resources

The Company's equity capital was $118.1 million at June 30, 1999. The primary source of capital for the Company continues to be the retention of net after tax earnings. The Company's 1998 annual report (management's discussion and analysis and note 15 of the accompanying financial statements) describes the regulatory capital requirements of the Company and the Bank.

The Bank and the Company are required to meet risk-based capital standards set by the respective regulatory authorities. The risk-based capital standards require the achievement of a minimum ratio of total capital to risk-weighted assets of 8.0% (of which at least 4.0% must be Tier 1 capital). In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. At June 30, 1999, the Bank and the Company exceeded the minimum risk-based capital ratio and leverage ratio required to be considered "Well Capitalized".

Table 7 below presents the Company's and the Bank's risk-based and leverage capital ratios as of June 30, 1999, and December 31, 1998.

Table 7 - Regulatory Capital Ratios

| Capital Ratios | Required Minimum Ratios | June 30, 1999 Company | June 30, 1999 Bank | December 31, 1998 Company | December 31, 1998 Bank |
|---|---|---|---|---|---|
| Risk-based capital ratios | | | | | |
| Tier I | 4.00% | 12.40% | 12.26% | 12.20% | 11.99% |
| Total | 8.00% | 13.67% | 13.52% | 13.46% | 13.26% |
| Leverage ratio | 4.00% | 7.35% | 7.26% | 7.18% | 7.05% |

On May 18, 1999, the Company signed a definitive agreement and plan for reorganization with Orange National Bancorp. The agreement provides for Orange National Bancorp to merge with and into CVB Financial Corp., and for Orange National Bank to merge with and into Citizens Business Bank. The definitive agreement provides that the shareholders of Orange National Bancorp will receive one and one-half shares of CVB Financial Corp. stock for each share or Orange National Bancorp stock. The transaction is subject to shareholder and regulatory approval. The transaction is expected to be completed in the third quarter or early in the fourth quarter of 1999. The Company also terminated its stock repurchase program on May 18, 1999.

## Risk Management

The Company's management has adopted a Risk Management Policy to ensure the proper control and management of all risk factors inherent in the operation of the Company and the Bank. The policy is designed to address specific risk factors defined by federal bank regulators. These risk factors are not mutually exclusive. It is recognized that any product or service offered may expose the Bank to one or more of these risks. The Risk Management Policy identifies the significant risks as: credit risk, interest rate risk, liquidity risk, transaction risk, compliance risk, strategic risk, reputation risk, price risk, and foreign exchange risk.

## Year 2000

The financial institutions industry, as with other industries, is faced with year 2000 issues. These issues center around computer programs that do not recognize a year which begins with "20" instead of "19", or uses only 2 digits for the year. Certain statements in this section on the Year 2000 constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995 which involve risk and uncertainties. The Company's actual results may differ significantly from the results discussed in these forward-looking statements. Such factors include but are not limited to the estimated costs of remediation, the preparedness of third party vendors, timetables for implementation of future remediation and testing, contingency plans, and estimated future costs due to business disruption caused by affected third parties.

These statements are designated as Year 2000 Readiness Disclosures under the Year 2000 Information and Readiness Disclosures Act of 1998.

The Company has been working on these issues for the last 27 months. A committee, known as Team 2000, was established to analyze the issues and determine compliance with the requirements for Year 2000. To facilitate a thorough and complete Year 2000 assessment and response to identified issues, a phased management procedural approach has been adopted as follows:

Awareness Phase - Team 2000 coordinators and supporting staff are appointed and empowered to receive external training as necessary, and immediately review all pertinent regulatory and industry issuance's regarding Year 2000 issues. The team 2000 coordinators developed a process and overall strategy to cover in-house systems, service bureaus for systems that are outsourced, vendors, customers, and suppliers.

Assessment Phase - Team 2000 coordinators will prepare a report regarding the size of the problem and complexity of Year 2000 issues, as well as the level of work and resources necessary to address them. The report will includes issues relating to hardware, software, networks, ATM's, processing platforms, and other equipment (copier, fax, phone exchange, etc.) customer systems, vendors, and environmental systems (security systems, elevators, vaults, etc.)

Renovation Phase - Team 2000 coordinators supervise the project including enhancements, hardware and software upgrades, systems replacements and vendor certification as "Year 2000 Compliant". Work is prioritized depending on the applications impact. Insights may also be provided from "critical assessments" performed as part of the disaster recovery business resumption assessment.

Validation Phase - After programming codes by outside venders have been modified or systems upgraded, they are tested, when possible, in incremental states to assess full correction of the Year 2000 issues. Team 2000 coordinators establish time control check-off points to ensure timely completion of modifications or replacement activities.

Implementation Phase - Once modifications are completed, replacements or upgrades are in place, and/or other changes have occurred to address Year 2000 problematic areas, the Year 2000 plan will be in full compliance.

To date the Awareness Phase and the Assessment Phase have been completed. All in-house bank critical applications have been tested Year 2000 complaint. The Renovation Phase as it relates to "bank critical" systems/processes is 100% complete. The Validation Phase as it relates to "bank critical" system/processes is 100% complete.

As of June 30, 1999, for approximately 6% of the external systems/processes deemed as "bank critical", the Bank has not been able to identify specific timelines to validate Year 2000 compliance due to dependencies on external parties (e.g., vendors, agencies, etc.,) who are not required by regulation to be Year 2000 compliant until a later date. Contingency and follow-up plans have been developed.

The third party vendor of the Bank's teller terminal system has indicated that their hardware is not compliant and will not be made compliant. It is of an older generation of technology. The Bank is in the process of replacing this system, which is anticipated to be completed by August 31, 1999.

The Bank has notified its customers by means of statement stuffers of Year 2000 issues. The Bank is also in the process of contacting each of its major borrowing and depository customers to make them aware of the issues and to seek information regarding its customers' preparedness for the Year 2000. Failure of any major customer to be Year 2000 compliant could have a material adverse effect on the Company.

The Board of Directors of CVB and the Bank have approved a Year 2000 Policy and budget. The Board has approved a budget of $1.8 million for the anticipated costs of Year 2000 issues. The Board has allocated $1.0 million of the Bank's allowance for loan and lease losses to cover potential losses from customers due to their Year 2000 problems. In addition, it is anticipated that the replacement of the teller system will cost $600,000. The remaining $200,000 is budgeted for miscellaneous and contingency items. To date, the Company has expended approximately $55,000 for the testing of software and hardware.

Of the $1.8 million budget to cover anticipated costs of year 2000 issues, the $1.0 million allocation from the allowance for loan and lease losses has already been provided through the income statement. The Company believes that costs which could be as much as $600,000 to replace the teller system, which will be capitalized as these costs relate to the purchase of new equipment. Therefore, these costs will only impact the earnings of the Company as it is depreciated. The Company anticipates that the remaining $145,000 will be reflected in the income statement over the next two quarters. Funds to address Year 2000 issues will come from operating cash funds.

In addition, the Board of Directors of CVB and the Bank have engaged an outside CPA consulting firm to perform an internal audit related to the Bank's efforts associated with the Year 2000. The Bank received a "Satisfactory" rating for its Year 2000 plan and efforts in achieving the plan to date.

The Company has an existing Disaster Recovery Plan or Contingency Plan in the event a disaster should occur and affect the Company. This Plan encompasses the restoration of all or part of the Company's systems should that be necessary. This Plan has been augmented to cover contingencies arising from the Year 2000. The Plan has been tested in the past and the augmented Plan was most recently tested in the fourth quarter of 1998. In addition, the Company used a full day system outage simulation at its off-site recovery location in the first quarter of 1999 as an opportunity to test its Year 2000 Contingency Plan. The Company replicated the testing performed at the off-site recovery location as well as other scenarios in the second quarter of 1999. The Year 2000 Contingency Plan involves the following four phases:

1. Organizational Planning
2. Business Impact Analysis
3. Business resumption contingency plan
4. Validating the business resumption contingency plan

Phases one, two, and three are completed. Phase four is ongoing throughout 1999.

## PART II - OTHER INFORMATION

Item 1 - Legal Proceedings
Not Applicable

Item 2 - Changes in Securities
Not Applicable

Item 3 - Defaults upon Senior Securities
Not Applicable

Item 4 - Submission of Matters to a Vote of Security Holders
The Annual Meeting of Shareholders of CVB Financial Corp. was held May 20, 1999. At the meeting, the following individuals were elected to serve as the Company's Board of Directors until the 2000 Annual Meeting of Shareholders and until their successors are elected and have qualified.

| | For | Against | Abstained | Broker Non-Votes |
|---|---|---|---|---|
| George A. Borba | 16,465,147 | 94,932 | -0- | -0- |
| John A. Borba | 16,465,540 | 94,539 | -0- | -0- |
| Ronald O. Kruse | 16,465,877 | 94,202 | -0- | -0- |
| John J. LoPorto | 16,464,700 | 95,379 | -0- | -0- |
| Charles M. Magistro | 16,465,651 | 94,428 | -0- | -0- |
| James C. Seley | 16,465,988 | 94,091 | -0- | -0- |
| D. Linn Wiley | 16,464,497 | 95,582 | -0- | -0- |

The appointment of Deloitte & Touche LLP as independent public accountants of the Company for the year ended December 31, 1999 was ratified at the 1999 Annual Meeting of Shareholders by the following:

| For | Against or Withheld | Abstained | Broker Non-Votes |
|---|---|---|---|
| 16,516,121 | 2,896 | 41,062 | -0- |

Item 5 - Other Information
Not Applicable

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27 - Financial Data Schedule

(b) Reports on Form 8-K
On May 21, 1999, the Company filed a Current Report on Form 8-K. The Company entered into an Agreement and Plan of Reorganization providing for the merger of Orange National Bancorp into CVB Financial Corp. The merger will be immediately followed by the merger of Orange National Bank into Citizens Business Bank, a subsidiary of CVB Financial Corp.

Exhibit Index

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: August 6, 1999

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

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE JUNE 30, 1999, CONSOLIDATED BALANCE SHEET, AND THE JUNE 30, 1999, CONSOLIDATED STATEMENT OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

6-MOS
DEC-31-1999
JUN-30-1999
88,963
0
0
0
679,268
53,178
54,620
716,319
14,405
1,602,586
1,206,786
211,000
66,309
388
0
0
94,735
23,368
1,602,586
30,884
21,275
113
52,272
10,483
16,229
36,043
1,100
0
24,696
18,353
11,571
0
0
11,571
0.70
0.67
5.21
4,648
0
0
2,065
13,364
160
101
14,405
13,239
0
1,166