CVB FINANCIAL CORP
Form 10-Q
August 05, 2005

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

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

For the quarterly period ended June 30, 2005

or

o **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	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)

(909) 980-4030

(Registrant s telephone number, including area code)

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

Yes þ No o

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

Yes þ No o

Number of shares of common stock of the registrant: 61,070,276 outstanding as of August 1, 2005.

CVB FINANCIAL CORP.
2005 QUARTERLY REPORT ON FORM 10-Q
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PART I FINANCIAL INFORMATION (UNAUDITED)
ITEM 1. FINANCIAL STATEMENTS
CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)
Dollar amounts in thousands

	June 30, 2005	December 31, 2004
ASSETS		
Investment securities available-for-sale	$2,143,528	$2,085,014
Interest-bearing balances due from depository institutions	11,281	
Investment in stock of Federal Home Loan Bank (FHLB)	65,439	53,565
Loans and lease finance receivables	2,296,135	2,140,074
Allowance for credit losses	(24,127)	(22,494)
Total earning assets	4,492,256	4,256,159
Cash and due from banks	128,577	84,400
Premises and equipment, net	39,596	33,508
Intangibles	13,651	6,136
Goodwill	28,735	19,580
Cash value life insurance	70,598	68,233
Accrued interest receivable	20,633	18,391
Deferred tax asset	8,585	4,409
Other assets	9,223	20,195
TOTAL ASSETS	$4,811,854	$4,511,011
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$1,394,898	$1,322,255
Interest-bearing	1,597,638	1,552,784
Total deposits	2,992,536	2,875,039
Demand Note to U.S. Treasury	5,079	6,453
Short-term borrowings	452,000	356,000
Long-term borrowings	900,000	830,000
Accrued interest payable	10,663	8,809
Deferred compensation	7,325	7,685
Junior subordinated debentures	82,476	82,476
Other liabilities	24,920	27,066
TOTAL LIABILITIES	4,474,999	4,193,528
COMMITMENTS AND CONTINGENCIES		

Stockholders Equity:		
Preferred stock (authorized, 20,000,000 shares without par; none issued or outstanding)		
Common stock (authorized, 97,656,250 shares without par; issued and outstanding 61,068,798 (2005) and 60,666,322 (2004))	251,838	236,277
Retained earnings	81,714	72,314
Acumulated other comprehensive income, net of tax	3,303	8,892
Total stockholders equity	336,855	317,483
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$4,811,854	$4,511,011

See accompanying notes to the consolidated financial statements

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CVB FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(unaudited)
Dollar amounts in thousands, except per share

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Interest income:				
Loans, including fees	$35,619	$27,136	$ 68,312	$53,386
Investment securities:				
Taxable	18,896	15,189	37,600	30,427
Tax-preferred	4,798	3,656	8,885	7,626
Total investment income	23,694	18,845	46,485	38,053
Dividends from FHLB stock	663	470	1,138	960
Federal funds sold	(1)	1	2	3
Interest bearing deposits with other institutions	98		133	
Total interest income	60,073	46,452	116,070	92,402
Interest expense:				
Deposits	6,247	3,605	11,309	7,288
Short-term borrowings	3,283	741	5,246	2,145
Long-term borrowings	6,973	4,869	13,696	8,839
Junior subordinated debentures	1,333	1,330	2,645	2,660
Total interest expense	17,836	10,545	32,896	20,932
Net interest income before provision for credit losses	42,237	35,907	83,174	71,470
Provision for credit losses				
Net interest income after provision for credit losses	42,237	35,907	83,174	71,470
Other operating income:				
Service charges on deposit accounts	3,252	3,512	6,293	7,305
Wealth Management services	1,039	1,111	2,271	2,274
Investment services	470	427	916	802
Bankcard services	633	401	1,236	826
BOLI income	1,242	250	1,584	461
Other	703	1,097	2,117	2,212
Gain(loss) on sale of securities, net	(46)	5,212	(46)	5,212
Impairment charge on investment securities				(6,300)
Total other operating income	7,293	12,010	14,371	12,792
Other operating expenses:				
Salaries and employee benefits	13,142	11,610	26,288	23,352
Occupancy	1,959	1,907	3,957	3,680

Equipment	2,112	1,855	3,856	3,711
Stationary and supplies	1,346	1,185	2,540	2,404
Professional services	1,195	1,001	2,220	2,122
Promotion	1,573	1,240	3,368	2,760
Data processing	467	377	824	730
Amortization of intangibles	588	296	885	592
Other	1,033	1,533	174	3,158
Total other operating expenses	23,415	21,004	44,112	42,509
Earnings before income taxes	26,115	26,913	53,433	41,753
Income taxes	8,637	9,462	18,254	14,230
Net earnings	$17,478	$17,451	$ 35,179	$27,523
Basic earnings per common share	$ 0.28	$ 0.29	$ 0.57	$ 0.46
Diluted earnings per common share	$ 0.28	$ 0.29	$ 0.57	$ 0.45
Cash dividends per common share	$ 0.11	$ 0.12	$ 0.22	$ 0.24

See accompanying notes to the consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Comprehensive Income (Loss)
	(amounts and shares in thousands)				
Balance January 1, 2004	48,289	$232,959	$ 36,482	$ 17,280	
Issuance of common stock	345	1,281			
5-for-4 stock split	12,132				
Repurchase of common stock	(100)	(159)	(1,833)		
Tax benefit from exercise of stock options		2,196			
Cash dividends			(23,821)		
Comprehensive income:					
Net earnings			61,486		$ 61,486
Other comprehensive income(loss):					
Unrealized loss on securities available-for-sale, net of taxes $6,074				(8,388)	(8,388)
Comprehensive income					$ 53,098
Balance December 31, 2004	60,666	236,277	72,314	8,892	
Issuance of common stock	383	1,483			
Repurchase of common stock	(676)	(863)	(11,423)		
Shares issued for acquisition of Granite State Bank	696	13,427			
Tax benefit from exercise of stock options		1,514			
Cash dividends			(14,356)		
Comprehensive income:					
Net earnings			35,179		$ 35,179
Other comprehensive income(loss):					
Unrealized loss on securities available-for-sale, net of taxes $4,047				(5,589)	(5,589)
Comprehensive income					$ 29,590
Balance June 30, 2005	61,069	$251,838	$ 81,714	$ 3,303	

See accompanying notes to the consolidated financial statements.

The Company reported net unrealized losses on securities available-for-sale of $20.2 million, net of $14.6 million of tax for the six months ended June 30, 2004. Accumulated other comprehensive loss as of June 30, 2004 was $2.8 million. Comprehensive income for the six months ended June 30, 2004 was $7.4 million.

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

	For the Six Months Ended June 30,	
	2005	**2004**
	(Dollar amounts in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	$ 118,732	$ 96,663
Service charges and other fees received	14,417	13,839
Interest paid	(31,132)	(20,952)
Cash paid to suppliers and employees	(43,024)	(38,239)
Income taxes paid	(10,600)	(2,196)
Net cash provided by operating activities	48,393	49,115
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities available-for-sale		63,756
Proceeds from sales of MBS	126,598	
Proceeds from repayment of MBS	199,965	215,379
Proceeds from repayment of investment securities available-for-sale	68	
Proceeds from maturity of investment securities	7,471	25,235
Purchases of investment securities available-for-sale	(71,018)	(58,428)
Purchases of MBS	(328,058)	(493,833)
Purchases of FHLB stock	(11,874)	(7,953)
Net (increase) in loans	(85,859)	(176,521)
Proceeds from sales of premises and equipment	13	41
Purchase of premises and equipment	(8,217)	(1,619)
Purchase of Granite State Bank	12,232	
Purchase of Bank Owned Life Insurance		(50,000)
Other investing activities		(1,909)
Net cash used in investing activities	(158,679)	(485,852)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in transaction deposits	5,130	221,584
Net increase (decrease) in time deposits	9,866	(50,429)
Advances from Federal Home Loan Bank	120,000	255,000
Repayment of advances from Federal Home Loan Bank	(36,000)	(67,000)
Net increase in short-term borrowings	80,626	143,797
Cash dividends on common stock	(14,356)	(11,687)
Repurchase of common stock	(12,286)	(1,992)
Proceeds from exercise of stock options	1,483	444
Net cash provided by financing activities	154,463	489,717
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,177	52,980
CASH AND CASH EQUIVALENTS, beginning of period	84,400	112,008

CASH AND CASH EQUIVALENTS, end of period	$ 128,577	$ 164,988

See accompanying notes to the consolidated financial statements.

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

	For the Six Months Ended June 30, 2005	2004
	(Dollar amounts in thousands)	
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net earnings	$ 35,179	$27,523
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain/(loss) on sale of investment securities	46	(5,212)
Gain on sale of premises and equipment	(1)	(20)
Impairment charge on investment securities		6,300
Increase in cash value of life insurance	(1,040)	(461)
Net amortization of premiums on investment securities	6,976	7,754
Depreciation and amortization	4,114	3,652
Change in accrued interest receivable	(1,957)	(1,174)
Change in accrued interest payable	1,763	41
Change in other assets and liabilities	3,313	10,712
Total adjustments	13,214	21,592
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 48,393	$49,115
Supplemental Schedule of Noncash Investing and Financing Activities		
Purchase of Granite State Bank:		
Assets acquired	$ 85,898	
Goodwill	9,155	
Intangible assets	8,399	
Liabilities assumed	(102,257)	
Stock issued	(13,427)	
Purchase price of acquisition, net of cash received	$ (12,232)	
Securities purchased and not settled	$ 1,393	$

See accompanying notes to the consolidated financial statements.

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CVB FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
For the six months ended June 30, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Investment Securities The Company classifies as held-to-maturity those debt securities that the Company has the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale. Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized holding gains and losses being included in current earnings. Available-for-sale securities are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders equity. At each reporting date, available-for-sale securities are assessed to determine whether there is an other-than-temporary impairment. Such impairment, if any, is required to be recognized in current earnings rather than as a separate component of stockholders equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined on a specific-identification basis. Purchase premiums and discounts are recognized in interest income using the interest method over the life of the security. For mortgage-related securities (i.e., securities that are collateralized and payments received from underlying mortgage) the amortization or accretion is based on the estimated average lives of the securities. The Company s investment in Federal Home Loan Bank (FHLB) stock is carried at cost. At June 30, 2005, all of the Company s investment securities are classified as available-for-sale.

Loans and Lease Finance Receivables Loans and lease finance receivables are reported at the principal amount outstanding, less deferred net loan origination fees and the allowance for credit losses. Interest on loans and lease finance receivables is credited to income based on the principal amount outstanding. Interest income is not recognized on loans and lease finance receivables when collection of interest is deemed by management to be doubtful. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. These commitments are not reflected in the accompanying consolidated financial statements. As of June 30, 2005, the Company had entered into commitments with certain customers amounting to $837.0 million compared to $762.9 million at December 31, 2004. In addition, letters of credit at June 30, 2005, and December 31, 2004, were $76.8million and $71.5 million, respectively.

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

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

Provision and Allowance for Credit Losses The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management s judgment, is adequate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors as deserve current recognition in estimating inherent credit losses. The estimate is reviewed periodically by management and various regulatory entities and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The provision for credit losses is charged to expense. The allowance for loan and lease losses was $24.1 million as of June 30, 2005. This represents an increase of $1.6 million when compared with an allowance for loan and lease losses of $22.5 million as of December 31, 2004. The increase was primarily due to the allowance for loan and lease losses acquired from Granite State Bank, in February 2005, of $756,000 and loan recoveries of $1.0 million, offset by $133,000 of charged-off loans as of June 30, 2005.

A loan for which collection of principal and interest according to its original terms is not probable is considered to be impaired. The Company s policy is to record a specific valuation allowance, which is included in the allowance for credit losses, or charge off that portion of an impaired loan that exceeds its fair value. Fair value is usually based on the value of underlying collateral. The Company has no impaired loans as of June 30, 2005.

Premises and Equipment Premises and equipment are stated at cost, less accumulated depreciation, which is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Properties under capital lease and leasehold improvements are amortized over the shorter of their estimated economic lives of 15 years or the initial terms of the leases. Estimated lives are 3 to 5 years for computer and equipment, 5 to 7 years for

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furniture, fixtures and equipment, and 15 to 40 years for buildings and improvements. Long-lived assets are reviewed periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment is calculated as the difference between the expected undiscounted future cash flows of a long-lived asset, if lower, and its carrying value. The impairment loss, if any, would be recorded in noninterest expense.

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

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

At June 30, 2005 goodwill was $28.7 million (net of amortization of $5.4 million recorded prior to the adoption of SFAS No. 142). As of June 30, 2005, intangible assets that continue to be subject to amortization include core deposits of $13.7 million (net of $6.0 million of accumulated amortization). Amortization expense for such intangible assets was $885,000 for the six months ended June 30, 2005. Estimated amortization expense, for the remainder of 2005 is expected to be $1.2 million. Estimated amortization expense, for the succeeding five fiscal years is $2.5 million for years one to three, $1.8 million for year four, and $1.7 million for the year five. The weighted average remaining life of intangible assets is approximately 5.2 years.

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

Earnings per Common Share Basic earnings per share are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of shares issuable upon the assumed exercise of outstanding common stock options. Share and per share amounts have been retroactively restated to give effect to all stock splits and dividends. The actual number of shares outstanding at June 30, 2005 was 61,068,798. The tables below present the reconciliation of earnings per share for the periods indicated.

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

	2005			2004		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
BASIC EPS						
Income available to common stockholders	$35,179	61,243	$ 0.57	$27,523	60,475	$ 0.46
EFFECT OF DILUTIVE SECURITIES						
Incremental shares from assumed exercise of outstanding options		720	(0.00)		744	(0.01)
DILUTED EPS						
Income available to common stockholders	$35,179	61,963	$ 0.57	$27,523	61,219	$ 0.45

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

	2005			2004		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
BASIC EPS						
Income available to common stockholders	$17,478	62,045	$0.28	$17,451	60,478	$0.29
EFFECT OF DILUTIVE SECURITIES						
Incremental shares from assumed exercise of outstanding options		641	0.00		725	0.00
DILUTED EPS						
Income available to common stockholders	$17,478	62,686	$0.28	$17,451	61,203	$0.29

Stock-Based Compensation At June 30, 2005, the Company has three stock-based employee compensation plans, which are described more fully in Note 15 in the Company s Annual Report on Form 10-K. The Company applies the intrinsic value method as described in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its plans. Accordingly, compensation cost is not recognized when the exercise price of an employee stock option equals or exceeds the fair market value of the stock on the date the option is granted. The following table presents the pro forma effects on net income and related earnings per share if compensation costs related to the stock option plans were measured using the fair value method as prescribed under SFAS No. 123, Accounting for Stock-Based Compensation :

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in thousands)		(Dollars in thousands)	
Net income, as reported	$17,478	$17,451	$35,179	$27,523
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	254	324	589	474
Pro forma net income	$17,224	$17,127	$34,590	$27,049
Earnings per share:				
Basic - as reported	$ 0.28	$ 0.29	$ 0.57	$ 0.46
Basic - pro forma	$ 0.28	$ 0.28	$ 0.56	$ 0.45
Diluted - as reported	$ 0.28	$ 0.29	$ 0.57	$ 0.45
Diluted - pro forma	$ 0.27	$ 0.28	$ 0.56	$ 0.44

The Black-Scholes option-pricing model requires the use of subjective assumptions, which can materially affect fair value estimates. Therefore, this model does not necessarily provide a reliable single measure of the fair value of the Company s stock options. The fair value of each stock option granted in 2005 was estimated on the date of the grant using the following weighted-average assumptions as of June 30, 2005: (1) expected dividend yield of 2.0%; (2) risk-free interest rate of 3.8%; (3) expected volatility of 40.3%; and (4) expected lives of options of 7.0 years. The assumptions as of June 30, 2004 are as follow: (1) expected dividend yield of 2.2%; (2) risk-free interest rate of 3.8%; (3) expected volatility of 36.7%; and (4) expected lives of options of 7.4 years. There were 11,000 and 370,550 options granted during the first six months in 2005 and 2004, respectively.

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

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

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

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

In December 2004, the Financial Accounting Standards Board (FASB) staff issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation, SFAS No. 123R, Share-Based Payment.

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

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

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

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

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

At the end of 2004, it became apparent that the insurance company may deny coverage of our claims. Therefore, the Company reserved an additional $2.2 million as an estimate of claims yet to be paid as of December 31, 2004. During the first quarter of 2005, the insurance company expressed its interest to settle these claims. The Company settled with the insurance company in April 2005 agreeing to reimburse the Company for all of the claims paid. As a result, we reversed the reserve for claims of $2.6 million effective the first quarter of 2005. This amount is included in other operating expenses.

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

GENERAL

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

OVERVIEW

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

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

Economic conditions in our California service area impact our business. The economy of this area has not experienced the decline that other areas of the state and country have witnessed during the past few years. The job market continues to strengthen in the Central Valley and Inland Empire. However, we are still subject to any changes in the economy in our market area. Although we do not originate mortgages on single-family residences, we still benefit from construction growth in Southern California since we provide construction loans to builders. Southern California is experiencing growth in construction on single-family residences and commercial buildings, and our balance sheet at June 30, 2005 reflects growth in construction loans of $13.9 million since December 31, 2004. We are also subject to competition from other financial institutions, which affects our pricing of products and services, and the fees and interest rates we can charge on them.

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Allowance for Credit Losses: Arriving at an appropriate level of allowance for credit losses involves a high degree of judgment. The Company s allowance for credit losses provides for probable losses based upon evaluations of known and inherent risks in the loan portfolio. The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management s judgment, is adequate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors as deserve current recognition in estimating inherent credit losses. The provision for credit losses is charged to expense. For a full discussion of our methodology of assessing the adequacy of the allowance for credit losses, see the Risk Management section of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Investment Portfolio: The investment portfolio is an integral part of the Company s financial performance. We invest primarily in fixed income securities. Accounting estimates are used in the presentation of the investment portfolio and these estimates do impact the presentation of the Company s financial condition and results of operations. Many of the securities included in the investment portfolio are purchased at a premium or discount. The premiums or discounts are amortized or accreted over the life of the security. For mortgage-related securities (i.e., securities that are collateralized and payments received from underlying mortgages), the amortization or accretion is based on estimated average lives of the securities. The lives of these securities can fluctuate based on the amount of prepayments received on the underlying collateral of the securities. The amount of prepayments varies from time to time based on the interest rate environment (i.e., lower interest rates increase the likelihood of refinances) and the rate of turnover of the mortgages (i.e., how often the underlying properties are sold and mortgages paid-off). We use estimates for the average lives of these mortgage-related securities based on information received from third parties whose business it is to compile mortgage related data and develop a consensus of that data. We adjust the rate of amortization or accretion regularly to reflect changes in the estimated average lives of these securities.

We classify as held-to-maturity those debt securities that we have the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale. Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized holding gains and losses being included in current earnings. Securities available-for-sale are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders equity. At each reporting date, available-for-sale securities are assessed to determine whether there is an other-than-temporary impairment. Such impairment, if any, is required to be recognized in current earnings rather than as a separate component of stockholders equity. Realized gains and losses on sales of securities are recognized in earnings at the time of sale and are determined on a specific-identification basis. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, except for mortgage-related securities as discussed in the previous paragraph. Our investment in Federal Home Loan Bank (FHLB) stock is carried at cost.

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

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

ANALYSIS OF THE RESULTS OF OPERATIONS

Earnings

Our net earnings for the six months ended June 30, 2005 were $35.2 million. This represented an increase of $7.7 million or 27.8%, over net earnings of $27.5 million, for the six months ended June 30, 2004. Basic earnings per share for the six-month period increased to $.57 per share for 2005, compared to $0.46 per share for 2004. Diluted earnings per share increased to $.57 per share for the first six months of 2005, compared to $0.45 per share for the same period last year. The annualized return on average assets was 1.52% for the first six months of 2005 compared to an annualized return on average assets of 1.38% for the six months ended June 30, 2004. The annualized return on average equity was 21.58% for the first six months ended June 30, 2005, compared to an annualized return of 18.51% for the six months ended June 30, 2004.

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

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

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

For the quarter ended June 30, 2005, our net earnings were $17.5 million. This represented an increase of $27,000 or 0.15%, over net earnings of $17.5 million, for the second quarter of 2004. Basic earnings per share decreased to $0.28 per share for the second quarter of 2005 compared to $0.29 per share for the second quarter of 2004. Diluted earnings per share decreased to $.28 per share for the second quarter of 2005 compared to $0.29 per share for the same three-month period last year. The annualized return on average assets was 1.47% for the second quarter of 2005 compared to an annualized return on average assets of 1.71% for the same period last year. The annualized return on average equity was 21.30% for the second quarter of 2005 compared to an annualized return on average equity of 23.05% for the second quarter of 2004. The decrease in net earnings is primarily attributed to the net gains on the sale of securities of $3.4 million, net of $1.8 million income taxes, during the second quarter of 2004 compared to net losses on the sale of securities of $30,000, net of $16,000 income taxes during the second quarter of 2005.

Net earnings, excluding the impact of the settlement of the robbery loss and net losses on sale of investment securities, totaled $33.5 million for the six months ended June 30, 2005. This represented an increase of $5.3 million, or 18.62%, compared to net earnings, excluding other-than-temporary impairment write-down on investment securities and net gains on sale of investment securities, of $28.2 million for the same period in 2004. For the second quarter of 2005, net earnings, excluding the impact of losses on sale of investment securities, totaled $17.5 million. This represented an increase of $3.4 million, or 24.42%, compared to net earnings, excluding the net gains on sale of investment securities, of $14.1 million for the second quarter of 2004.

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

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	Net Earnings Reconciliation For the Six Months Ended June 30,					
	2005			2004		
	Taxes	Taxes	Net Earnings	Income	Income Taxes	Net Earnings
	(amounts in thousands)					
Net earnings without the settlement of the robbery loss, other-than-temporary impairment write-down, and net gain/(loss) on sale of securities	$50,879	$17,382	$33,497	$42,841	$14,601	$28,240
Settlement of robbery loss	2,600	888	1,712			
Other-than-temporary impairment write-down				(6,300)	(2,147)	(4,153)
Net gain/(loss) on sale of securities	(46)	(16)	(30)	5,212	1,776	3,436
Net Earnings as reported	$53,433	$18,254	$35,179	$41,753	$14,230	$27,523

	Net Earnings Reconciliation For the Three Months Ended June 30,					
	2005			2004		
	Before Income Taxes	Income Taxes	Net Earnings	Before Income Taxes	Income Taxes	Net Earnings
	(amounts in thousands)					
Net earnings without the net gain/loss on sale of securities	$26,161	$8,653	$17,508	$21,701	$ 7,630	$14,071
Net gain/(loss) on sale of securities	(46)	(16)	(30)	5,212	1,832	3,380
Net Earnings as reported	$26,115	$8,637	$17,478	$26,913	$ 9,462	$17,451

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

Net Interest Income

The principal component of the Company s earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). When net interest income is expressed as a percentage of average earning assets, the result is net interest margin. The net interest spread is the yield on average earning assets minus the cost of average interest-bearing liabilities. Our net interest income, net interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the economy, in general, and the local economies in which we conduct business. Our ability to manage the net interest income during changing interest rate environments will have a significant impact on our overall performance. We manage net interest income through affecting changes in the mix of earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to earning assets, and in the growth of earning assets.

The Company s net interest income (before provision for credit losses) totaled $83.2 million for the six months ended June 30, 2005. This represented an increase of $11.7 million, or 16.38%, over net interest income (before provision for credit losses) of $71.5 million for the same period in 2004. The increase in net interest income of $11.7 million resulted from a $23.7 million increase in interest income, offset by a $12.0 million increase in interest expense. The $23.7 million increase in interest income resulted from a $614.8 million increase in average earning assets and an increase in the average yield on earning assets to 5.47% for the first six months of 2005 from 5.07% for the same period in 2004. The $12.0 million increase in interest expense resulted from a $430.5 million increase in average interest-bearing liabilities and the increase in the average rate paid on interest-bearing liabilities to 2.23% for the first six months of 2005 from 1.65% for the same period in 2004.

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Interest income totaled $116.1 million for the first six months of 2005. This represented an increase of $23.7 million, or 25.61%, compared to the total interest income of $92.4 million for the same period last year. The increase in interest income was primarily the result of the increase in average earnings assets from $3.75 billion in the first six months of 2004 to $4.37 billion in the same period in 2005. This represents a 16.38% increase for the first six months of 2005 over the same period last year and an increase in the average yield on earning assets of 40 basis points.

Interest expense totaled $32.9 million for the first six months of 2005. This represented an increase of $11.9 million, or 57.16%, over total interest expense of $20.9 million for the same period last year. The increase in interest expense was primarily the result of an increase in average interest-bearing liabilities and an increase in the cost of these liabilities of 58 basis points.

For the second quarter ended June 30, 2005, the Company s net interest income (before provision for credit losses) totaled $42.2 million. This represented an increase of $6.3 million, or 17.63%, over net interest income (before provision for credit losses) of $35.9 million for the same period in 2004. The increase in net interest income of $6.3 million for the second quarter of 2005 resulted from an increase of $13.6 million in interest income and a $7.3 million increase in interest expense. The increase in interest income of $13.6 million resulted from the increase in average earning assets of $636.7 million and an increase in the average yield on earning assets to 5.54% for the second quarter of 2005 from 5.01% the same period in 2004. The increase of $7.3 million in interest expense resulted from the increase in the average rate paid on interest-bearing liabilities to 2.34% for the second quarter of 2005 from 1.64% the same period in 2004 and a $475.1 million increase in average interest-bearing liabilities.

The increase in interest income for the second quarter ending June 30, 2005 as compared to the second quarter ending June 30, 2004 was primarily the result of the increase in average earning assets and an increase in the average yield on earning assets of 53 basis points between the second quarter of 2005 and the second quarter of 2004. Interest income totaled $60.1 million for the second quarter of 2005. This represented an increase of $13.6 million, or 29.33%, compared to total interest income of $46.5 million for the same period last year.

The increase in interest expense was primarily the result of the increase in the rate paid on interest-bearing liabilities. Interest expense totaled $17.8 million for the second quarter of 2005. This represented an increase of $7.3 million or 69.16%, over total interest expense of $10.5 million for the same period last year. Both the increase in the yield on earning assets and the rate paid on interest-bearing liabilities reflects the increasing interest rate environment between the second quarters of 2005 and 2004.

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

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

	Six-Month Period Ended June 30,					
	2005			2004		
	Average Balance	Interest	Average Rate (6)	Average Balance	Interest	Average Rate (6)
	(amounts in thousands)					
ASSETS						
Investment Securities						
Taxable (1)	$1,747,560	$ 37,600	4.31%	$1,554,319	$30,427	3.93%
Tax preferenced (2)	401,013	8,885	5.93%	350,249	7,626	5.76%
Investment in FHLB stock	59,436	1,138	3.83%	41,341	960	4.64%
Federal Funds Sold & Interest Bearing Deposits with other institutions	9,961	135	2.71%	571	3	1.05%
Loans (3) (4)	2,151,089	68,312	6.40%	1,807,735	53,386	5.94%
Total Earning Assets	4,369,059	116,070	5.47%	3,754,215	92,402	5.07%
Total Non Earning Assets	299,317			260,358		
Total Assets	$4,668,376			$4,014,573		
LIABILITIES AND STOCKHOLDERS EQUITY						
Demand Deposits	$1,356,372			$1,147,478		
Savings Deposits (5)	1,099,590	$ 5,405	0.99%	1,013,371	$ 3,530	0.70%
Time Deposits	500,059	5,904	2.38%	519,414	3,758	1.45%
Total Deposits	2,956,021	11,309	0.77%	2,680,263	7,288	0.55%
Other Borrowings	1,353,778	21,587	3.17%	990,130	13,644	2.73%
Interest Bearing Liabilities	2,953,427	32,896	2.23%	2,522,915	20,932	1.65%
Total deposits and borrowings	4,309,799			3,670,393		
Other Liabilities	29,828			45,101		
Stockholders Equity	328,749			299,079		
Total Liabilities and Stockholders Equity	$4,668,376			$4,014,573		

Net interest income	$ 83,174	$71,470
Net interest spread tax equivalent	3.24%	3.42%
Net interest margin	3.90%	3.90%
Net interest margin tax equivalent	3.96%	3.97%
Net interest margin excluding loan fees	3.70%	3.70%
Net interest margin excluding loan fees tax equivalent	3.77%	3.77%

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

(2) Non tax equivalent rate for 2005 was 4.34% and 2004 was 4.01%.

(3) Loan fees are included in total interest income as follows, (000)s omitted: 2005, $4,214 and 2004, $3,735.

(4) Non performing loans are included in net loans as follows, (000)s omitted: 2005, $0 and 2004, $1,455.

(5) Includes interest bearing demand and money market accounts

(6) Annualized

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

	Three-month period ended June 30,					
	2005			2004		
	Average Balance	Interest	Average Rate (6)	Average Balance	Interest	Average Rate (6)
	(amounts in thousands)					
ASSETS						
Investment Securities						
Taxable (1)	$1,751,961	$18,896	4.32%	$1,577,502	$15,189	3.85%
Tax preferenced (2)	418,095	4,798	6.10%	343,900	3,656	5.62%
Investment in FHLB stock	63,581	663	4.17%	43,093	470	4.36%
Federal Funds Sold & Interest Bearing Deposits with other institutions	14,262	97	2.72%	264	&	