

CVB FINANCIAL CORP  
Form 10-K  
February 29, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the fiscal year ended December 31, 2007**
- or**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the transition period from N/A to N/A**

**Commission file number 1-10140  
CVB FINANCIAL CORP.**

*(Exact name of registrant as specified in its charter)*

**California**  
*(State or other jurisdiction of  
incorporation or organization)*  
**701 N. Haven Avenue, Suite 350**  
**Ontario, California**  
*(Address of Principal Executive Offices)*

**95-3629339**  
*(I.R.S. Employer  
Identification No.)*  
**91764**  
*(Zip Code)*

**Registrant's telephone number, including area code (909) 980-4030**

**Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of Class</b>           | <b>Name of Each Exchange on Which Registered</b> |
|---------------------------------|--|
| Common Stock, no par value      | NASDAQ Stock Market, LLC                         |
| Preferred Stock Purchase Rights | NASDAQ Stock Market, LLC                         |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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

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

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

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

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

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

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

As of June 30, 2007, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$933,180,796.

Number of shares of common stock of the registrant outstanding as of February 15, 2008: 84,164,906.

**Documents Incorporated By Reference**

**Part of**

Definitive Proxy Statement for the Annual Meeting of Stockholders which will be filed within 120 days of the fiscal year ended December 31, 2007

Part III of Form 10-K

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**CVB FINANCIAL CORP.**  
**2007 ANNUAL REPORT ON FORM 10-K**

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**INTRODUCTION**

*Certain statements in this report constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or Exchange Act, and as such involve risk and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which we operate, projections of future performance, perceived opportunities in the market and strategies regarding our mission and vision. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such a difference include but are not limited to economic conditions, competition in the geographic and business areas in which we conduct our operations, fluctuations in interest rates, credit quality, ability to access funding resources, and government regulation. For additional information concerning these factors, see Item 1A. Risk Factors and any additional information we set forth in our periodic reports filed pursuant to the Securities Exchange Act of 1934, as amended. We do not undertake any obligation to update our forward-looking statements to reflect occurrences or unanticipated events or circumstances arising after the date of such statement except as required by law.*

**PART I**

**Item 1. Business**

**CVB Financial Corp.**

CVB Financial Corp. (referred to herein on an unconsolidated basis as CVB and on a consolidated basis as we or the Company ) is a bank holding company incorporated in California on April 27, 1981 and registered under the Bank Holding Company Act of 1956, as amended (the Bank Holding Company Act ). The Company commenced business on December 30, 1981 when, pursuant to a reorganization, it acquired all of the voting stock of Chino Valley Bank. On March 29, 1996, Chino Valley Bank changed its name to Citizens Business Bank (the Bank ). The Bank is our principal asset. The Company has three other inactive subsidiaries: CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp. The Company is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II, CVB Statutory Trust III, and FCB Trust I and II. CVB Statutory Trusts I and II were created in December 2003 and CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. The Company acquired FCB Trust I and II (which were also created to raise capital) through the acquisition of First Coastal Bancshares ( FCB ) in June 2007.

CVB s principal business is to serve as a holding company for the Bank and for other banking or banking related subsidiaries, which the Company may establish or acquire. We have not engaged in any other activities to date. As a legal entity separate and distinct from its subsidiaries, CVB s principal source of funds is, and will continue to be, dividends paid by and other funds advanced from the Bank. Legal limitations are imposed on the amount of dividends that may be paid and loans that may be made by the Bank to CVB. See Item 1. Business Supervision and Regulation Dividends and Other Transfers of Funds. At December 31, 2007, the Company had \$6.29 billion in total consolidated assets, \$3.50 billion in net loans and \$3.36 billion in deposits.

On June 22, 2007, we acquired First Coastal Bancshares ( FCB ). The Company issued 1,605,523 common shares and \$18.0 million in cash to FCB shareholders in connection with the acquisition. FCB had total assets of \$190.7 million, total loans of \$140.0 million and total deposits of \$193.5 million as of the acquisition date, June 22, 2007. FCB had four offices, in Manhattan Beach, El Segundo, Marina Del Rey, and Gardena. These four offices are operating as business financial centers of the Bank. The acquisition was not considered significant to the overall financial position of the Company.

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

**Citizens Business Bank**

The Bank commenced operations as a California state chartered bank on August 9, 1974. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits. The Bank is not a member of

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the Federal Reserve System. At December 31, 2007, the Bank had \$6.28 billion in assets, \$3.50 billion in net loans and \$3.36 billion in deposits.

As of December 31, 2007, we had 44 Business Financial Centers located in the San Bernardino County, Riverside County, Orange County, Los Angeles County, Madera County, Fresno County, Tulare County, and Kern County areas of California. Of the 44 offices, we opened thirteen as de novo branches and acquired the other thirty-one in acquisition transactions. In 2007, we acquired four offices through the acquisition of FCB and opened one de novo branch in Stockton, California.

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

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

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

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

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

## **Business Segments**

We are a community bank with two reportable operating segments: Business Financial Centers (branches) and Treasury Department. Our Business Financial Centers are the focal points for customer sales and services. As such, these Business Financial Centers comprise the biggest segment of the Company. Our other reportable segment, Treasury Department manages all of the investments for the Company. All administrative and other smaller operating departments are combined into Other category for reporting purposes. See the sections captioned Results of Segment Operations in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 19 Business Segments in the notes to consolidated financial statements.

## **Competition**

The banking and financial services business is highly competitive. The increasingly competitive environment faced by banks is a result primarily of changes in laws and regulation, changes in technology and product delivery systems, and



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

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### **Economic Conditions, Government Policies, Legislation, and Regulation**

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

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

From time to time, federal and state legislation is enacted which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. We cannot predict whether or when potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. In addition, the outcome of any investigations initiated by state authorities or litigation raising issues such as whether state laws are preempted by federal law may result in necessary changes in our operations, additional regulation and increased compliance costs.

### **Supervision and Regulation**

#### ***General***

We and our subsidiaries are extensively regulated under both federal and certain state laws. This regulation and supervision by the federal and state banking agencies is intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of stockholders. Set forth below is a summary description of key laws and regulations which relate to our operations. These descriptions are qualified in their entirety by reference to the applicable laws and regulations.

#### ***The Company***

As a bank holding company, we are subject to regulation and examination by the FRB under the Bank Holding Company Act of 1956, as amended (the BHCA ). We are required to file with the FRB periodic reports and such additional information as the FRB may require.

The FRB may require us to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the FRB believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary. The FRB also has the authority to regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt. Under certain circumstances, we must file written notice and obtain FRB approval prior to purchasing or redeeming our equity securities. Further, we are required by the FRB to maintain certain levels of capital. See Capital Standards.

We are required to obtain prior FRB approval for the acquisition of more than 5% of the outstanding shares of any class of voting securities or substantially all of the assets of any bank or bank holding company. Prior FRB approval is also required for the merger or consolidation of a bank holding company with another bank holding company. Similar state banking agency approvals may also be required. Certain competitive, management, financial and other factors are considered by the bank regulatory agencies in granting these approvals.

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With certain exceptions, bank holding companies are prohibited from acquiring direct or indirect ownership or control of more than 5% of the outstanding voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or furnishing services to subsidiaries. However, subject to prior notice or FRB approval, bank holding companies may engage in any, or acquire shares of companies engaged in, those nonbanking activities determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

It is the policy of the FRB that each bank holding company serve as a source of financial and managerial strength to its subsidiary bank or banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of FRB regulations or both. The FRB's bank holding company rating system emphasizes risk management and evaluation of the potential impact of nondepository entities on safety and soundness.

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

### ***The Bank***

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

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

Changes such as the following in federal or state banking laws or the regulations, policies or guidance of the federal or state banking agencies could have an adverse cost or competitive impact on our bank operations:

(i) In December, 2006, the federal banking agencies issued final guidance to reinforce sound risk management practices for bank holding companies and banks in commercial real estate (CRE) loans which establishes CRE concentration thresholds as criteria for examiners to identify CRE concentration that may warrant further analysis. The implementation of these guidelines could result in increased reserves and capital costs for banks with CRE concentration. The Bank's CRE portfolio as of December 31, 2007 would meet the definition of CRE concentration as set forth in the guidelines. The Bank analyzes this concentration on a quarterly basis and monitors same through various reports it prepares. The Bank believes that it complies with the analytical and monitoring expectations as set forth in the aforementioned guidance. Furthermore, this concentration is considered in the methodology for the Allowance for Credit Losses.

(ii) In September, 2006, the federal banking agencies issued final guidance on alternative residential mortgage products that allow borrowers to defer repayment of principal and sometimes interest, including interest-only

mortgage loans, and payment option adjustable rate mortgages where a borrower has flexible payment options, including payments that have the potential for negative amortization. While acknowledging that innovations in mortgage lending can benefit some consumers, the final guidance states that management should (1) assess a borrower's ability to repay the loan, including any principal balances added through negative amortization, at the fully indexed rate that would apply after the introductory period, (2) recognize that certain nontraditional mortgages are untested in a stressed environment and warrant strong risk

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management standards as well as appropriate capital and loan loss reserves, and (3) ensure that borrowers have sufficient information to clearly understand loan terms and associated risks prior to making a product or payment choice. The Bank believes its products and disclosures are in conformance with the requirements of the guidance.

(iii) Pursuant to the Financial Services Regulatory Relief Act of 2006, the Securities and Exchange Commission ( SEC ) and the FRB have released, as Regulation R, joint rules to implement exceptions provided for in the Gramm-Leach-Bliley Act ( GLBA ) for bank securities activities which banks may conduct without registering with the SEC as securities brokers or moving such activities to a broker-dealer affiliate. The FRB s final Regulation R provides exceptions for networking arrangements with third party broker-dealers and authorizes compensation for bank employees who refer and assist retail and high net worth bank customers with their securities, including sweep accounts to money market funds, and with related trust, fiduciary, custodial and safekeeping needs. The final rules which will not be effective until 2009 and are not expected to have a material effect on the current securities activities which the Bank currently conducts for customers.

Because California permits commercial banks chartered by the state to engage in any activity permissible for national banks, the Bank can form subsidiaries to engage in the many so-called closely related to banking or nonbanking activities commonly conducted by national banks in operating subsidiaries, but also expanded financial activities to the same extent as a national bank, subject to the state or FDIC requirements. However, in order to form a financial subsidiary, the Bank must be well-capitalized ; well-managed and in satisfactory compliance with the Community Reinvestment Act. Further, the Bank must exclude from its assets and equity all equity investments, including retained earnings, in a financial subsidiary. The assets of the subsidiary may not be consolidated with the Bank s assets. The Bank must also have policies and procedures to assess financial subsidiary risk and protect the Bank from such risks and potential liabilities and would be subject to the same capital deduction, risk management and affiliate transaction rules as applicable to national banks. Generally, a financial subsidiary is permitted to engage in activities that are financial in nature or incidental thereto, even though they are not permissible for the national bank to conduct directly within the Bank. The definition of financial in nature includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, under present law engage as principal in underwriting insurance (other than credit life insurance), issue annuities or engage in real estate development or investment or merchant banking.

***Interstate Banking and Branching***

Subject to certain size limitations under the Riegle-Neal Interstate Banking Act, bank holding companies and banks have the ability to acquire and merge with banks in other states; and, subject to certain state restrictions, banks may also acquire or establish new branches outside their home states. Interstate branches are subject to certain laws of the states in which they are located.

***The Sarbanes-Oxley Act***

The Sarbanes-Oxley Act of 2002 addressed accounting oversight and corporate governance matters and, among other things,

required executive certification of financial presentations;

increased requirements for board audit committees and their members;

enhanced disclosure of controls and procedures and internal control over financial reporting;

enhanced controls on, and reporting of, insider trading; and

increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances.

The legislation and its implementing regulations have resulted in increased costs of compliance, including certain outside professional costs. To date these costs have not had a material impact on our operations.

**Table of Contents*****Dividends and Other Transfers of Funds***

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

The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. Under such restrictions, the amount available for payment of dividends to the Company by the Bank totaled \$98.6 million at December 31, 2007. In addition, the banking agencies have the authority to prohibit the Bank from paying dividends, depending upon the Bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

***Capital Standards***

The federal banking agencies have adopted risk-based minimum capital guidelines for bank holding companies and banks which are intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off balance sheet items. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Under the capital guidelines, a banking organization's total capital is divided into tiers. Tier I capital consists of (1) common equity, (2) qualifying noncumulative perpetual preferred stock, (3) a limited amount of qualifying cumulative perpetual preferred stock and (4) minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Qualifying Tier I capital may consist of trust-preferred securities, subject to certain criteria and quantitative limits for inclusion of restricted core capital elements in Tier I capital. Tier II capital consists of hybrid capital instruments, perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, preferred stock and trust-preferred securities that do not qualify as Tier I capital, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. Tier III capital consists of qualifying unsecured subordinated debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

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

The federal banking agencies possess broad power under the Federal Deposit Insurance Act, or FDI Act, to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall within any undercapitalized category. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios:

well capitalized ;



adequately capitalized ;

undercapitalized ;

significantly undercapitalized ; and

critically undercapitalized.

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The regulations use an institution's risk-based capital, leverage capital and tangible capital ratios to determine the institution's capital classification. An institution is treated as well capitalized if its total capital to risk-weighted assets ratio is 10.00% or more; its core capital to risk-weighted assets ratio is 6.00% or more; and its core capital to adjusted total assets ratio is 5.00% or more. The regulatory capital guidelines as well as our actual capitalization on a consolidated basis and for the Bank as of December 31, 2007 are set forth below and confirm that both the Bank and the Company capital ratios exceed the minimum percentage of the federal bank regulatory agencies for being deemed well capitalized.

The following table presents the amounts of regulatory capital and the capital ratios for the Company, compared to its minimum regulatory capital requirements as of December 31, 2007:

|                         | As of December 31, 2007 |       |            |       |            |       |
|-------------------------|-------------------------|-------|------------|-------|------------|-------|
|                         | Actual                  |       | Required   |       | Excess     |       |
|                         | Amount                  | Ratio | Amount     | Ratio | Amount     | Ratio |
|                         | (Amounts in thousands)  |       |            |       |            |       |
| Leverage ratio          | \$ 461,864              | 7.6%  | \$ 244,372 | 4.0%  | \$ 217,492 | 3.6%  |
| Tier 1 risk-based ratio | \$ 461,864              | 11.0% | \$ 168,410 | 4.0%  | \$ 293,454 | 7.0%  |
| Total risk-based ratio  | \$ 502,770              | 11.9% | \$ 336,864 | 8.0%  | \$ 165,906 | 3.9%  |

The following table presents the amounts of regulatory capital and the capital ratios for the Bank, compared to its minimum regulatory capital requirements as of December 31, 2007:

|                         | As of December 31, 2007 |       |            |       |            |       |
|-------------------------|-------------------------|-------|------------|-------|------------|-------|
|                         | Actual                  |       | Required   |       | Excess     |       |
|                         | Amount                  | Ratio | Amount     | Ratio | Amount     | Ratio |
|                         | (Amounts in thousands)  |       |            |       |            |       |
| Leverage ratio          | \$ 435,857              | 7.1%  | \$ 244,520 | 4.0%  | \$ 191,337 | 3.1%  |
| Tier 1 risk-based ratio | \$ 435,857              | 10.4% | \$ 167,799 | 4.0%  | \$ 268,058 | 6.4%  |
| Total risk-based ratio  | \$ 471,762              | 11.2% | \$ 335,774 | 8.0%  | \$ 135,988 | 3.2%  |

The current risk-based capital guidelines are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision. A new international accord, referred to as Basel II, which emphasizes internal assessment of credit, market and operational risk; supervisory assessment and market discipline in determining minimum capital requirements, currently becomes mandatory for large international banks outside the U.S. in 2008, and is optional for others, and must be complied with in a parallel run for two years along with the existing Basel I standards. A separate rule is expected to be released and issued in final by the federal regulatory agencies in 2008 to offer U.S. banks that will not adopt Basel II an alternative standardized approach under Basel II option and address concerns that the Basel II framework may offer significant competitive advantages for the largest U.S. and international banks. The U.S. banking agencies have indicated, however, that they will retain the minimum leverage requirement for all U.S. banks.

The Federal Deposit Insurance Act (FDI Act) gives the federal banking agencies the additional broad authority to take prompt corrective action to resolve the problems of insured depository institutions that fall within any undercapitalized category, including requiring the submission of an acceptable capital restoration plan. The federal banking agencies have also adopted non-capital safety and soundness standards to assist examiners in identifying and

addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset quality and growth, (v) earnings, (vi) risk management, and (vii) compensation and benefits.

***FDIC Insurance***

Through the Deposit Insurance Fund ( DIF), the FDIC insures our customer deposits up to prescribed limits for each depositor. The amount of FDIC assessments paid by each DIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. The Federal Deposit Insurance Reform Act of 2006, or FDIRA, and implementing regulations provide for changes in the formula and factors to be considered by the

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FDIC in calculating the FDIC reserve ratio, assessments and dividends, including business line concentrations and risk of failure and severity of loss in the event of failure. It is unclear whether the FDIC may need to increase assessments in the near term or longer term to address the risks and costs of any increase in bank failures.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors. The termination of deposit insurance for the Bank would also result in the revocation of the Bank's charter by the DFI.

***Loans-to-One Borrower Limitations***

With certain limited exceptions, the maximum amount of obligations, secured or unsecured, that any borrower (including certain related entities) may owe to a California state bank at any one time may not exceed 25% of the sum of the shareholders' equity, allowance for loan losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of the shareholders' equity, allowance for loan losses, capital notes and debentures of the bank. The Bank has established internal loan limits which are lower than the legal lending limits for a California bank.

***Extensions of Credit to Insiders and Transactions with Affiliates***

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

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

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

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

Such loans and leases:

must comply with loan-to-one-borrower limits;

require prior full board approval when aggregate extensions of credit to the person exceed specified amounts;

must be made on substantially the same terms (including interest rates and collateral) and follow credit-underwriting procedures no less stringent than those prevailing at the time for comparable transactions with non-insiders;

must not involve more than the normal risk of repayment or present other unfavorable features; and

in the aggregate limit not exceed the bank's unimpaired capital and unimpaired surplus.

California has laws and the DFI has regulations which adopt and also apply Regulation O to the Bank.

The Bank also is subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Affiliates include parent holding companies, sister banks,

sponsored and advised companies, financial subsidiaries and investment companies whereby the Bank's affiliate serves as investment advisor. Sections 23A and 23B and Regulation W generally:

prevent any affiliates from borrowing from the Bank unless the loans are secured by marketable obligations of designated amounts;

limit such loans and investments to or in any affiliate individually to 10.0% of the Bank's capital and surplus;

limit such loans and investments to or in any affiliate in the aggregate to 20.0% of the Bank's capital and surplus; and

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requires such loans and investments to or in any affiliate to be on terms and under conditions substantially the same or at least as favorable to the Bank as those prevailing for comparable transactions with nonaffiliated parties.

Additional restrictions on transactions with affiliates may be imposed on the Bank under the FDI Act prompt corrective action provisions and the supervisory authority of the federal and state banking agencies.

***USA PATRIOT Act and Anti-Money Laundering Compliance***

The USA PATRIOT Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws, including the Bank Secrecy Act. The Bank has adopted comprehensive policies and procedures to address the requirements of the USA PATRIOT Act. Material deficiencies in anti-money laundering compliance can result in public enforcement actions by the banking agencies, including the imposition of civil money penalties and supervisory restrictions on growth and expansion. Such enforcement actions could also have serious reputation consequences for the Company and the Bank.

***Consumer Laws***

The Bank and the Company are subject to many federal and state consumer protection statutes and regulations and laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition, including:

The Home Ownership and Equity Protection Act of 1994, or HOEPA, requires extra disclosures and consumer protections to borrowers from certain lending practices, such as practices deemed to be predatory lending.

Privacy policies are required by federal and state banking laws regulations which limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties.

The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, or the FACT Act, requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and gives consumers more control of their credit data.

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

The Truth in Lending Act, or TILA, requires that credit terms be disclosed in a meaningful and consistent way so that consumers may compare credit terms more readily and knowledgeably.

The Fair Housing Act regulates many lending practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status.

The Community Reinvestment Act, or CRA, requires insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities; directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank's record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices and further requires the agencies to take a financial institution's record of meeting its community

credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. In its last examination for CRA compliance, as of February 2005, the Bank was rated satisfactory.

The Home Mortgage Disclosure Act, or HMDA, includes a fair lending aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

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The Real Estate Settlement Procedures Act, or RESPA, requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits certain abusive practices, such as kickbacks.

The National Flood Insurance Act, or NFIA, requires homes in flood-prone areas with mortgages from a federally regulated lender to have flood insurance.

***Federal Home Loan Bank ( FHLB ) System***

The Bank is a member of the Federal Home Loan Bank of San Francisco. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. FHLB members are required to own a certain amount of capital stock in the FHLB.

***Federal Reserve System***

The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At December 31, 2007, we were in compliance with these requirements.

***Non-bank Subsidiaries***

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

***Employees***

At February 15, 2008, we employed 773 persons, 545 on a full-time and 228 on a part-time basis. We believe that our employee relations are satisfactory.

***Available Information***

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

**Item 1A. Risk Factors**

*Risk Factors That May Affect Future Results* Together with the other information on the risks we face and our management of risk contained in this Annual Report or in our other SEC filings, the following presents significant



risks which may affect us. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face and additional risks that we may currently view as not material may also impair our business operations and results.

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*Changes in economic conditions could materially hurt our business* Our business is directly affected by changes in economic conditions, including finance, legislative and regulatory changes and changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Deterioration in economic conditions could result in the following consequences:

problem assets and foreclosures may increase and we may be required to increase our provision for loan losses,

demand for our products and services may decline,

low cost or non-interest bearing deposits may decrease, and

collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans.

In view of the concentration of our operations and the collateral securing our loan portfolio in Central and Southern California, we may be particularly susceptible to the adverse economic conditions in the state of California and in counties in Central and Southern California where our business is concentrated.

*Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance* A substantial portion of our income is derived from the differential or spread between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest-earning assets and interest-bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. At December 31, 2007 our balance sheet was liability sensitive and, as a result, our net interest margin tends to decline in a rising interest rate environment and expand in a declining interest rate environment. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. In addition, loan origination volumes are affected by market interest rates. Rising interest rates, generally, are associated with a lower volume of loan originations while lower interest rates are usually associated with higher loan originations. Conversely, in rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. In addition, in a rising interest rate environment, we may need to accelerate the pace of rate increases on our deposit accounts as compared to the pace of future increases in short-term market rates. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality and loan origination volume.

*We face strong competition from financial services companies and other companies that offer banking services* We conduct our operations almost exclusively in California. Increased competition in our markets may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that we offer in our service areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous locations and mount extensive promotional and advertising campaigns. Areas of competition include interest rates for loans and deposits, efforts to obtain loan and deposit customers and a range in quality of products and services provided, including new technology-driven products and services. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits.

*Our loan portfolio is predominantly secured by real estate and thus we have a higher degree of risk from a downturn in our real estate markets.* A downturn in our real estate markets could hurt our business because many of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and national disasters particular to California or acts of terrorism. If real estate prices decline, particularly in California, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. As of December 31, 2007, approximately 75% of

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the book value of our loan portfolio consisted of loans collateralized by various types of real estate. Substantially all of our real estate collateral is located in California. If there is a significant decline in real estate values, especially in California, the collateral for our loans will provide less security.

*If we cannot attract deposits, our growth may be inhibited.* Our ability to increase our asset base depends in large part on our ability to attract additional deposits at favorable rates. We seek additional deposits by offering deposit products that are competitive with those offered by other financial institutions in our markets. We cannot assure you that these efforts will be successful.

*We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects* Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives and certain other employees.

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

*We are subject to extensive government regulation. These regulations may hamper our ability to increase our assets and earnings* Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. Perennially various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products.

*The short term and long term impact of the new Basel II capital standards and the forthcoming new capital rules to be proposed for non-Basel II U.S. banks is uncertain* As a result of the recent deterioration in the global credit markets and the potential impact of increased liquidity risk and interest rate risk, it is unclear what the short term impact of the implementation Basel II may be or what impact a pending alternative standardized approach to Basel II option for non-Basel II U.S. banks may have on the cost and availability of different types of credit and the potential compliance costs of implementing the new capital standards.

*Like all financial institutions, we maintain an allowance for credit losses to provide for loan and lease defaults and non-performance* Our allowance for credit losses may not be adequate to cover actual loan and lease losses, and future provisions for credit losses could materially and adversely affect our business, financial condition, and results of operations. The allowance for credit losses reflects our estimate of the probable losses in our loan and lease

portfolio at the relevant balance sheet date. Our allowance for credit losses is based on prior experience, as well as an evaluation of the known risks in the current portfolio, composition and growth of the loan and lease portfolio and economic factors. The determination of an appropriate level of the allowance for credit losses is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to

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changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control and these losses may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review our loans and leases and allowance for credit losses. While we believe that our allowance for credit losses is adequate to cover current losses, we cannot assure you that we will not increase the allowance for credit losses further or that regulators will not require us to increase this allowance. Either of these occurrences could have a material adverse affect on our business, financial condition, results of operations and prospects.

*We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems* We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all.

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

*Changes in stock market prices could reduce fee income from our brokerage, asset management and investment advisory businesses* We earn substantial wealth management fee income for managing assets for others and providing brokerage and investment advisory services. Because investment management and advisory fees are often based on the value of assets under management, a fall in the market prices of those assets could reduce our fee income. Changes in stock market prices could affect the trading activity of investors, reducing commissions and other fees we earn from our brokerage business.

*Our stock price can be volatile due to many factors* Our stock price can fluctuate widely in response to a variety of factors, in addition to those described above, including:

general business and economic conditions

changes in laws or government regulations

recommendations by securities analysts

new technology used, or services offered, by our competitors

operating and stock price performance of other companies that investors deem comparable to us

news reports relating to trends, concerns and other issues in the financial services industry

natural disasters, such as earthquakes

geopolitical conditions such as acts or threats of terrorism or military conflicts

*Negative publicity could damage our reputation* Reputation risk, or the risk to our earnings and capital from negative publicity or public opinion, is inherent in our business. Negative publicity or public opinion could adversely affect our ability to keep and attract customers and expose us to adverse legal and regulatory

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consequences. Negative public opinion could result from our actual or perceived conduct in any number of activities, including lending practices, corporate governance, regulatory compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct.

*Recent negative developments in the financial industry and U.S. and global credit markets may impact our operations and results* Negative developments in the latter half of 2007 in the subprime mortgage market and the securitization markets for such loans have resulted in uncertainty in the financial markets generally and the expectation of a general economic downturn beginning in 2008. Commercial as well as consumer loan portfolio performances have deteriorated at many institutions and the competition for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue. Bank and bank holding company stock prices have been negatively affected as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets compared to recent years. As a result, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Negative developments in the financial industry and the impact of new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, result in a decline in the value of collateral securing our loans and a corresponding increase in our allowance for loan losses, and adversely impact our financial performance.

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

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

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

None

**Item 2. *Properties***

The principal executive offices of the Company and the Bank are located in Ontario, California, and are owned by the Company.

At December 31, 2007, the Bank occupied the premises for thirty-eight of its offices under leases expiring at various dates from 2008 through 2020, at which time we can exercise options that could extend certain leases through 2026. We own the premises for twelve of our offices, including our operations center, located in Ontario, California.

Our total occupancy expense, exclusive of furniture and equipment expense, for the year ended December 31, 2007, was \$10.5 million. We believe that our existing facilities are adequate for our present purposes. The Company believes that if necessary, it could secure suitable alternative facilities on similar terms without adversely affecting operations. For additional information concerning properties, see Notes 6 and 11 of the Notes to the Consolidated Financial Statements included in this report. See Item 8. Financial Statements and Supplemental Data.

**Item 3. *Legal Proceedings***



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

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

No matters were submitted to shareholders during the fourth quarter of 2007.

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The following tables set forth certain information regarding our executive officers as of February 28, 2008:

**Executive Officers:**

| <b>Name</b>            | <b>Position</b>   | <b>Age</b> |
|------------------------|---|------------|
| Christopher D. Myers   | President and Chief Executive Officer of the Company and the Bank   | 45         |
| Edward J. Biebrich Jr. | Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank | 64         |
| Jay W. Coleman         | Executive Vice President/Sales Division of the Bank   | 65         |
| Edward J. Mylett, Jr.  | Executive Vice President/Credit Management Division of the Bank   | 59         |
| Christopher A. Walters | Executive Vice President/CitizensTrust Division of the Bank   | 44         |

Mr. Myers assumed the position of President and Chief Executive Officer of the Company and the Bank on August 1, 2006. Prior to that, Mr. Myers served as Chairman of the Board and Chief Executive Officer of Mellon First Business Bank from 2004 to 2006. From 1996 to 2003, Mr. Myers held several management positions with Mellon First Business Bank, including Executive Vice President, Regional Vice President, and Vice President/Group Manager.

Mr. Biebrich assumed the position of Chief Financial Officer of the Company and Executive Vice President/Chief Financial Officer of the Bank on February 2, 1998.

Mr. Coleman assumed the position of Executive Vice President of the Bank on December 5, 1988.

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

Mr. Walters assumed the position of Executive Vice President of the Bank on June 27, 2007. From 2005 to 2006, he served as Senior Vice President for Atlantic Trust. From 2002 to 2004, he was Director of Private Banking for Citigroup. From 1994 to 2002, he served as a member of the Executive Committee and held a variety of management positions for Mellon Private Wealth Management.

**Table of Contents****PART II****Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock is traded on the Nasdaq National Market under the symbol CVBF. The following table presents the high and low closing sales prices and dividend information for our common stock during each quarter for the past two years. The Company had approximately 1,938 shareholders of record as of February 15, 2008.

**Two Year Summary of Common Stock Prices**

| <b>Quarter Ended</b> | <b>High</b> | <b>Low</b> | <b>Dividends</b>                             |
|----------------------|-------------|------------|--|
| 3/31/2006            | \$ 15.60    | \$ 14.71   | \$ 0.09 Cash Dividend                        |
| 6/30/2006            | \$ 15.59    | \$ 13.25   | \$ 0.09 Cash Dividend                        |
| 9/30/2006            | \$ 14.24    | \$ 12.83   | \$ 0.09 Cash Dividend                        |
| 12/31/2006           | \$ 14.13    | \$ 12.83   | \$ 0.085 Cash Dividend<br>10% Stock Dividend |
| 3/31/2007            | \$ 13.38    | \$ 11.42   | \$ 0.085 Cash Dividend                       |
| 6/30/2007            | \$ 12.40    | \$ 10.63   | \$ 0.085 Cash Dividend                       |
| 9/30/2007            | \$ 12.71    | \$ 9.51    | \$ 0.085 Cash Dividend                       |
| 12/31/2007           | \$ 11.97    | \$ 9.98    | \$ 0.085 Cash Dividend                       |

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

***Issuer Purchases of Equity Securities***

On February 21, 2007, the Company's Board of Directors approved a program to repurchase up to 2,000,000 shares of our common stock. This program was combined with the 775,163 shares that remained from our previous stock repurchase program, approved in October 2001. All but 55,389 of the 2,775,163 shares were repurchased through September 30, 2007 for a total price of \$30.0 million.

On August 15, 2007, the Company's Board of Directors approved a new program to repurchase up to 5,000,000 shares of our common stock. This program was combined with the 55,389 shares remaining from our previous stock repurchase program, approved in February 2007. During the fourth quarter of 2007, 375,143 shares were repurchased for a total price of \$3.9 million. There is no expiration date for our current stock repurchase program. As of December 31, 2007, 4,680,246 shares are available to be repurchased in the future under this repurchase plan.

**Issuer Purchases of Equity Securities**

| <b>Total Number of</b> | <b>Maximum Number of Shares that</b> |
|------------------------|--------------------------------------|
|------------------------|--------------------------------------|

| <b>Period</b>      | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>per Share</b> | <b>Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced<br/>Programs</b> | <b>May Yet Be<br/>Purchased<br/>Under the<br/>Program</b> |
|--------------------|---|---|--|---|
| 10/1/07 - 10/31/07 |   |   |  |   |
| 11/1/07 - 11/30/07 | 375,143   | \$ 10.32  | 375,143  | 4,680,246   |
| 12/1/07 - 12/31/07 |   |   |  |   |
| <b>Total</b>       | <b>375,143</b>                                      | <b>\$ 10.32</b>                                 | <b>375,143</b>   | <b>4,680,246</b>  |

**Table of Contents*****Performance Graph***

*The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.*

The following graph compares the yearly percentage change in CVB Financial Corp.'s cumulative total shareholder return (stock price appreciation plus reinvested dividends) on common stock (i) the cumulative total return of the Nasdaq National Market; and (ii) a published index comprised by Hemscott, Inc. of banks and bank holding companies in the Pacific region (the industry group line depicted below). The graph assumes an initial investment of \$100 on January 1, 2003, and reinvestment of dividends through December 31, 2007. Points on the graph represent the performance as of the last business day of each of the years indicated. The graph is not necessarily indicative of future price performance. On June 11, 2001, CVB Financial Corp.'s common stock ceased trading on the American Stock Exchange and began trading on the Nasdaq National Market System on the following business day.

**COMPARE 5-YEAR CUMULATIVE TOTAL RETURN  
AMONG CVB FINANCIAL CORP.,  
NASDAQ MARKET INDEX AND HEMSCOTT GROUP INDEX**

|                           | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>CVB FINANCIAL CORP</b> | 100.00      | 107.41      | 151.07      | 146.96      | 133.81      | 108.29      |
| <b>HEMSCOTT GROUP</b>     |             |             |             |             |             |             |
| <b>INDEX</b>              | 100.00      | 151.45      | 184.88      | 193.62      | 202.01      | 144.94      |
| <b>NASDAQ MARKET</b>      |             |             |             |             |             |             |
| <b>INDEX</b>              | 100.00      | 150.36      | 163.00      | 166.58      | 183.68      | 201.91      |

**Table of Contents****ITEM 6. Selected Financial Data.**

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

|  | <b>At December 31,</b>   |                  |                  |                  |                  |
|--|--|------------------|------------------|------------------|------------------|
|  | <b>2007</b>  | <b>2006</b>      | <b>2005</b>      | <b>2004</b>      | <b>2003</b>      |
|  | <b>(Amounts and numbers in thousands except per share amounts)</b> |                  |                  |                  |                  |
| Interest Income                          | \$ 341,277   | \$ 316,091       | \$ 246,884       | \$ 197,257       | \$ 166,346       |
| Interest Expense                         | 180,135  | 147,464          | 77,436           | 46,517           | 37,053           |
| Net Interest Income                      | 161,142  | 168,627          | 169,448          | 150,740          | 129,293          |
| Provision for Credit Losses              | 4,000  | 3,000            |                  |                  |                  |
| Other Operating Income                   | 31,325   | 33,258           | 27,505           | 27,907           | 29,989           |
| Other Operating Expenses                 | 105,404  | 95,824           | 90,053           | 89,722           | 77,794           |
| Earnings Before Income Taxes             | 83,063   | 103,061          | 106,900          | 88,925           | 81,488           |
| Income Taxes                             | 22,479   | 32,481           | 36,710           | 27,698           | 28,656           |
| <b>NET EARNINGS</b>                      | <b>\$ 60,584</b>   | <b>\$ 70,580</b> | <b>\$ 70,190</b> | <b>\$ 61,227</b> | <b>\$ 52,832</b> |
| Basic Earnings Per Common Share(1)       | \$ 0.72  | \$ 0.84          | \$ 0.83          | \$ 0.74          | \$ 0.64          |
| Diluted Earnings Per Common Share(1)     | \$ 0.72  | \$ 0.83          | \$ 0.83          | \$ 0.73          | \$ 0.63          |
| Cash Dividends Declared Per Common Share | \$ 0.340   | \$ 0.355         | \$ 0.420         | \$ 0.480         | \$ 0.480         |
| Cash Dividends paid                      | 28,479   | 27,876           | 27,963           | 23,821           | 21,638           |
| Dividend Pay-Out Ratio(3)                | 47.01%   | 39.50%           | 39.60%           | 38.74%           | 40.96%           |
| Weighted Average Common Shares(1):       |  |                  |                  |                  |                  |
| Basic                                    | 83,600,316   | 84,154,216       | 84,139,254       | 83,221,496       | 82,813,541       |
| Diluted                                  | 84,005,941   | 84,813,875       | 84,911,893       | 84,258,933       | 84,408,373       |
| <b>Common Stock Data:</b>                |  |                  |                  |                  |                  |
| Common shares outstanding at year end(1) | 83,164,906   | 84,281,722       | 84,073,227       | 83,416,193       | 82,997,315       |
| Book Value Per Share(1)                  | \$ 5.11  | \$ 4.60          | \$ 4.07          | \$ 3.81          | \$ 3.45          |
| <b>Financial Position:</b>               |  |                  |                  |                  |                  |
| Assets                                   | \$ 6,293,963   | \$ 6,092,248     | \$ 5,422,283     | \$ 4,510,752     | \$ 3,854,349     |
|  | 2,390,566  | 2,582,902        | 2,369,892        | 2,085,014        | 1,865,782        |

|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Investment Securities<br>available-for-sale |           |           |           |           |           |
| Net Loans                                   | 3,462,095 | 3,042,459 | 2,640,660 | 2,117,580 | 1,738,659 |
| Deposits                                    | 3,364,349 | 3,406,808 | 3,424,045 | 2,875,039 | 2,660,510 |
| Borrowings                                  | 2,339,809 | 2,139,250 | 1,496,000 | 1,186,000 | 786,500   |
| Junior Subordinated<br>debentures           | 115,055   | 108,250   | 82,476    | 82,746    | 82,476    |
| Stockholders Equity                         | 424,948   | 387,325   | 342,189   | 317,224   | 286,721   |
| Equity-to-Assets Ratio(2)                   | 6.75%     | 6.36%     | 6.31%     | 7.03%     | 7.44%     |
| <b>Financial Performance:</b>               |           |           |           |           |           |
| Return on:                                  |           |           |           |           |           |
| Beginning Equity                            | 15.64%    | 20.63%    | 22.13%    | 21.44%    | 20.33%    |
| Average Equity                              | 15.00%    | 19.45%    | 20.77%    | 20.33%    | 19.17%    |
| Average Assets                              | 1.00%     | 1.22%     | 1.44%     | 1.47%     | 1.54%     |
| Net Interest Margin (TE)                    | 3.03%     | 3.30%     | 3.86%     | 3.99%     | 4.18%     |
| Efficiency Ratio                            | 55.93%    | 48.18%    | 45.72%    | 50.10%    | 48.84%    |

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|  | <b>At December 31,</b>   |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | <b>2007</b>  | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|  | <b>(Amounts and numbers in thousands except per share amounts)</b> |             |             |             |             |
| <b>Credit Quality:</b>                     |  |             |             |             |             |
| Allowance for Credit Losses                | \$ 33,049  | \$ 27,737   | \$ 23,204   | \$ 22,494   | \$ 21,282   |
| Allowance/Total Loans                      | 0.95%  | 0.90%       | 0.87%       | 1.05%       | 1.21%       |
| Total Non Performing Loans                 | \$ 1,435   | \$          | \$          | \$ 2        | \$ 548      |
| Non Performing Loans/Total Loans           | 0.04%  | 0.00%       | 0.00%       | 0.00%       | 0.03%       |
| Allowance/Non Performing Loans             | 2,303%   |             |             | 1,124,698%  | 3,884%      |
| Net (Recoveries)/Charge-offs               | \$ 1,358   | \$ (1,533)  | \$ 46       | \$ (1,212)  | \$ 1,418    |
| Net (Recoveries)/Charge-Offs/Average Loans | 0.04%  | -0.05%      | 0.00%       | -0.06%      | 0.09%       |
| <b>Regulatory Capital Ratios</b>           |  |             |             |             |             |
| <b>For the Company:</b>                    |  |             |             |             |             |
| Leverage Ratio                             | 7.6%   | 7.8%        | 7.7%        | 8.3%        | 8.6%        |
| Tier 1 Capital                             | 11.0%  | 12.2%       | 11.3%       | 12.6%       | 13.2%       |
| Total Capital                              | 11.9%  | 13.0%       | 12.0%       | 13.4%       | 14.5%       |
| <b>For the Bank:</b>                       |  |             |             |             |             |
| Leverage Ratio                             | 7.1%   | 7.0%        | 7.3%        | 7.8%        | 8.6%        |
| Tier 1 Capital                             | 10.4%  | 11.0%       | 10.8%       | 11.9%       | 13.2%       |
| Total Capital                              | 11.2%  | 11.8%       | 11.5%       | 12.7%       | 14.2%       |

- (1) All earnings per share information has been retroactively adjusted to reflect the 10% stock dividend declared December 20, 2006 and paid January 19, 2007, the 5-for-4 stock split declared on December 21, 2005, which became effective January 10, 2006, the 5-for-4 stock split declared December 15, 2004, which became effective December 29, 2004, the 10% stock dividend declared December 17, 2003 and paid January 2, 2004, and the 5-for-4 stock split declared December 18, 2002, which became effective January 3, 2003. Cash dividends declared per share are not restated in accordance with generally accepted accounting principles.
- (2) Stockholders' equity divided by total assets.
- (3) Cash dividends divided by net earnings.

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

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

**OVERVIEW**

We are a bank holding company with one bank subsidiary, Citizens Business Bank. We have three other inactive subsidiaries: CVB Ventures, Inc.; Chino Valley Bancorp and ONB Bancorp. We are also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II and CVB Statutory Trust III which were formed to issue trust preferred



securities in order to increase the capital of the Company. Through our acquisition of First Coastal Bancshares ( FCB ) in June 2007, we acquired FCB Capital Trust I and II. We are based in Ontario, California in what is known as the Inland Empire . Our geographical market area encompasses the City of Stockton (the middle of the Central Valley) in the center of California to the City of Laguna Beach (in Orange County) in the southern portion of California. Through our acquisition of FCB our geographic market has expanded to include the South Bay region of Los Angeles County. Our mission is to offer the finest financial products and services to professionals and businesses in our market area.

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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. Our net interest margin has been compressed over the last 2 years as a result of the interest rate environment. We are also subject to competition from other financial institutions, which may affect our pricing of products and services, and the fees and interest rates we can charge on them.

Economic conditions in our California service area impact our business. We have seen housing slow down and this has had an impact on us by means of the slower growth in construction loans and the decrease in deposit balances from escrow companies. Unemployment remains low, but job growth is slowing. The inland empire has been hit hardest in this downturn thus far. Approximately 29% of the total loan portfolio of \$3.5 billion is located in the Inland Empire region of California. The rest of the portfolio is from outside of this region. Weaknesses in the local economy could adversely affect us through diminished loan demand and credit quality deterioration.

Over the past few years, we have been active in acquisitions and we will continue to pursue acquisition targets and engage in de novo branch activities to enable us to meet our business objectives and enhance shareholder value. Since 2000, we have acquired four banks and a leasing company, and we have opened four de novo branches in; Glendale, Bakersfield, Fresno, and Madera. In May 2007, we opened another de novo branch in Stockton, California. In February 2008, we opened our first Commercial Banking Group in Encino, California. This group will operate primarily as a sales office and focus on business clients and their principals, professionals, and high net-worth individuals.

Our growth in loans during 2007 compared with 2006 has allowed our interest income to grow. The Bank has always had an excellent base of interest free deposits primarily due to our specialization in businesses and professionals as customers. This has allowed us to have a low cost of deposits, currently 2.03% for the year ended December 31, 2007. However, the rise in interest expense resulting primarily from an increase in average interest-bearing liabilities and an increase in the cost of these liabilities has caused our net interest margin to decline to 3.03% for 2007, compared to 3.30% for 2006.

Our net income decreased to \$60.6 million in 2007 compared with \$70.6 million in 2006, a decrease of \$10.0 million or 14.16%. Diluted earnings per share decreased \$0.11, from \$0.83 in 2006 to \$0.72 in 2007. The decrease of \$10.0 million is primarily the result of a decrease of \$7.5 million in net interest income and an increase in non-interest expense of \$9.6 million, offset by a \$10.0 million reduction in our tax provision.

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

losses, see Risk Management in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

*Investment Portfolio:* The investment portfolio is an integral part of our financial performance. We invest primarily in fixed income securities. Accounting estimates are used in the presentation of the investment portfolio and these estimates do impact the presentation of our financial condition and results of operations. Many of the securities included in the investment portfolio are purchased at a premium or discount. The premiums or discounts

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

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

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

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

**Table of Contents****ANALYSIS OF THE RESULTS OF OPERATIONS**

The following table summarizes net earnings, earnings per common share, and key financial ratios for the periods indicated.

|                                       | <b>For the Years Ended December 31,</b>                 |             |             |
|---------------------------------------|---|-------------|-------------|
|                                       | <b>2007</b>   | <b>2006</b> | <b>2005</b> |
|                                       | <b>(Dollars in thousands, except per share amounts)</b> |             |             |
| Net earnings                          | \$ 60,584   | \$ 70,580   | \$ 70,190   |
| Earnings per common share:            |   |             |             |
| Basic(1)                              | \$ 0.72   | \$ 0.84     | \$ 0.83     |
| Diluted(1)                            | \$ 0.72   | \$ 0.83     | \$ 0.83     |
| Return on average assets              | 1.00%   | 1.22%       | 1.44%       |
| Return on average shareholders equity | 15.00%  | 19.45%      | 20.77%      |

- (1) All earnings per share information has been retroactively adjusted to reflect the 10% stock dividend declared December 20, 2006 and paid January 19, 2007 and the 5-for-4 stock split declared on December 21, 2005, which became effective January 10, 2006.

**Earnings**

We reported net earnings of \$60.6 million for the year ended December 31, 2007. This represented a decrease of \$10.0 million, or 14.16%, from net earnings of \$70.6 million for the year ended December 31, 2006. Net earnings for 2006 increased \$392,000 to \$70.6 million, or 0.56%, over net earnings of \$70.2 million for the year ended December 31, 2005. Diluted earnings per share were \$0.72 in 2007, as compared to \$0.83 in 2006, and \$0.83 in 2005. Basic earnings per share were \$0.72 in 2007, as compared to \$0.84 in 2006, and \$0.83 in 2005. Diluted and basic earnings per share have been adjusted for the effects of a ten percent stock dividend declared December 20, 2006 and paid on January 19, 2007 and a 5-for-4 stock split declared December 21, 2005, which became effective January 10, 2006.

The decrease in net earnings for 2007 compared to 2006 was primarily the result of a decrease in net interest margin and increase in other operating expenses. Our financial results and operations have been affected by competition which has manifested itself with increased pricing pressures for loans and deposits, thus compressing our net interest margin. In addition, as interest rates have risen, the costs of our borrowings have increased at a faster rate than the increase in the yield on our investments. 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. The increase in net earnings for 2006 compared to 2005 was primarily the result of an increase in other operating income, offset by a decrease in net interest margin and an increase in other operating expenses.

For 2007, our return on average assets was 1.00%, compared to 1.22% for 2006, and 1.44% for 2005. Our return on average stockholders equity was 15.00% for 2007, compared to a return of 19.45% for 2006, and 20.77% for 2005.

**Net Interest Income**

The principal component of our earnings is net interest income, which is the difference between the interest and fees earned on loans and investments (earning assets) and the interest paid on deposits and borrowed funds (interest-bearing liabilities). Net interest margin is the taxable-equivalent of net interest income as a percentage of average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average earning assets minus the cost of average interest-bearing liabilities. Our net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the economy, in general, and the local economies in which we conduct business. Our ability to manage net interest income during changing interest rate environments will have a significant impact on our overall performance. Our balance sheet is currently liability-

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sensitive; meaning interest-bearing liabilities will generally reprice more quickly than earning assets. Therefore, our net interest margin is likely to decrease in sustained periods of rising interest rates and increase in sustained periods of declining interest rates. We manage net interest income 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.

Our net interest income, after provision for credit losses totaled \$157.1 million for 2007. This represented a decrease of \$8.5 million, or 5.12%, from net interest income of \$165.6 million for 2006. Net interest income for 2006 decreased \$3.8 million, or 2.25%, from net interest income of \$169.4 million for 2005. The decrease in net interest income of \$8.5 million for 2007 resulted from an increase of \$25.2 million in interest income offset by an increase of \$32.7 million in interest expense and a \$1.0 million increase in provision for credit losses. The increase in interest income of \$25.2 million resulted from the \$297.7 million increase in average earning assets and the increase in yield on earning assets to 6.17% in 2007 from 6.04% in 2006. The increase of \$32.7 million in interest expense resulted from the increase in the average rate paid on interest-bearing liabilities to 4.11% in 2007 from 3.70% in 2006, and an increase of \$359.9 million in average interest-bearing liabilities.

The major reason for the decrease in net interest income was the flattening of the yield curve and its affect on our liabilities. Our interest-bearing liabilities are comprised of customer deposits and borrowings from primarily the FHLB or other correspondent banks. The borrowings are at market rates and have reset upwards as average rates rose in 2007. As a result of increased competition, our rates on customer deposits have risen also, but slower than rates on borrowings.

The decrease in net interest income of \$3.8 million for 2006 as compared to 2005 resulted from an increase of \$69.2 million in interest income offset by a \$70.0 million increase in interest expense and a \$3.0 million increase in provision for credit losses. This increase in interest income of \$69.2 million resulted from the \$848.9 million increase in average earning assets and the increase in yield on earning assets to 6.04% in 2006 from 5.57% in 2005. The increase of \$70.0 million in interest expense was the result of an increase in the average rate paid on interest-bearing liabilities to 3.70% in 2006 from 2.49% in 2005, and an increase of \$877.8 million in average interest-bearing liabilities.

Interest income totaled \$341.3 million for 2007. This represented an increase of \$25.2 million, or 7.97%, compared to total interest income of \$316.1 million for 2006. For 2006, total interest income increased \$69.2 million, or 28.03%, over total interest income of \$246.9 million for 2005. The increase in total interest income was primarily due to an increase in volume of interest earning assets and increase in interest rates in 2007, 2006, and 2005 on total earning assets.

Interest expense totaled \$180.1 million for 2007. This represented an increase of \$32.7 million, or 22.15%, over total interest expense of \$147.5 million for 2006. For 2006, total interest expense increased \$70.0 million, or 90.43%, over total interest expense of \$77.4 million for 2005. The increase in total interest expense was primarily due to an increase in average interest-bearing liabilities and increases in average rates in 2007, 2006, and 2005 on total interest-bearing liabilities.

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

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

|  | Twelve-Month Period Ended December 31, |                  |              |                 |                  |              |                 |                  |              |
|--|--|------------------|--------------|-----------------|------------------|--------------|-----------------|------------------|--------------|
|  | 2007                                   |                  |              | 2006            |                  |              | 2005            |                  |              |
|  | Average Balance                        | Average Interest | Average Rate | Average Balance | Average Interest | Average Rate | Average Balance | Average Interest | Average Rate |
| (Amounts in thousands)                     |  |                  |              |                 |                  |              |                 |                  |              |
| <b>ASSETS</b>                              |  |                  |              |                 |                  |              |                 |                  |              |
| Investment Securities Taxable              | \$ 1,722,605                           | \$ 85,899        | 4.99%        | \$ 1,907,713    | \$ 91,029        | 4.80%        | \$ 1,774,842    | \$ 76,573        | 4.33%        |
| Investment Securities Non-Taxable          | 666,278                                | 29,231           | 5.88%        | 604,222         | 26,545           | 5.90%        | 425,877         | 19,078           | 5.90%        |
| Investment in FHLB                         | 80,789                                 | 4,229            | 5.23%        | 74,368          | 3,721            | 5.00%        | 64,144          | 2,559            | 3.98%        |
| Real Estate                                |  |                  |              |                 |                  |              |                 |                  |              |
| Real Estate Funds                          |  |                  |              |                 |                  |              |                 |                  |              |
| Loans & Interest                           |  |                  |              |                 |                  |              |                 |                  |              |
| Time Deposits                              |  |                  |              |                 |                  |              |                 |                  |              |
| Other                                      |  |                  |              |                 |                  |              |                 |                  |              |
| Investments                                | 1,876                                  | 109              | 5.81%        | 1,843           | 92               | 4.99%        | 8,908           | 253              | 2.83%        |
| Other(2)(3)                                | 3,226,086                              | 221,809          | 6.88%        | 2,811,782       | 194,704          | 6.92%        | 2,277,304       | 148,421          | 6.52%        |
| Total Earning Assets                       | 5,697,634                              | 341,277          | 6.17%        | 5,399,928       | 316,091          | 6.04%        | 4,551,075       | 246,884          | 5.50%        |
| Total Non Earning Assets                   | 382,869                                |                  |              | 363,892         |                  |              | 317,676         |                  |              |
| Total Assets                               | \$ 6,080,503                           |                  |              | \$ 5,763,820    |                  |              | \$ 4,868,751    |                  |              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |  |                  |              |                 |                  |              |                 |                  |              |
| Time Deposits(4)                           | \$ 1,288,745                           | \$ 31,764        | 2.46%        | \$ 1,220,441    | \$ 26,637        | 2.18%        | \$ 1,140,703    | \$ 13,907        | 1.22%        |
| Other Deposits                             | 844,667                                | 37,533           | 4.44%        | 940,634         | 40,543           | 4.31%        | 539,433         | 15,001           | 2.78%        |
| Total Deposits                             | 2,133,412                              | 69,297           | 3.25%        | 2,161,075       | 67,180           | 3.11%        | 1,680,136       | 28,908           | 1.73%        |
| Other Borrowings                           | 2,214,108                              | 110,838          | 4.94%        | 1,826,532       | 80,284           | 4.40%        | 1,429,632       | 48,528           | 3.39%        |
| Total Interest Bearing Liabilities         | 4,347,520                              | 180,135          | 4.11%        | 3,987,607       | 147,464          | 3.70%        | 3,109,768       | 77,436           | 2.49%        |
| Non-interest bearing                       |  |                  |              |                 |                  |              |                 |                  |              |
| Time Deposits                              | 1,285,857                              |                  |              | 1,354,014       |                  |              | 1,382,968       |                  |              |
| Other Liabilities                          | 43,285                                 |                  |              | 59,296          |                  |              | 38,057          |                  |              |
| Total Non-interest bearing Liabilities     | 1,329,142                              |                  |              | 1,413,310       |                  |              | 1,421,025       |                  |              |
| Total Liabilities                          | 5,676,662                              |                  |              | 5,399,928       |                  |              | 4,551,075       |                  |              |
| Stockholders Equity                        | 403,841                                |                  |              | 363,892         |                  |              | 317,676         |                  |              |



|  |              |              |              |       |
|--|--------------|--------------|--------------|-------|
| Liabilities and                                |              |              |              |       |
| Shareholders' Equity                           | \$ 6,080,503 | \$ 5,763,820 | \$ 4,868,751 |       |
| Interest income                                | \$ 161,142   | \$ 168,627   | \$ 169,448   |       |
| Interest spread equivalent                     | 2.06%        | 2.34%        | 3.06%        | 3.06% |
| Interest margin                                | 2.86%        | 3.13%        | 3.71%        | 3.71% |
| Interest margin equivalent                     | 3.03%        | 3.30%        | 3.81%        | 3.81% |
| Interest margin including loan fees            | 2.76%        | 3.02%        | 3.51%        | 3.51% |
| Interest margin equivalent including loan fees | 2.93%        | 3.19%        | 3.61%        | 3.61% |

(1) Includes tax-exempt income of \$9.9 million for 2007, \$8.7 million for 2006 and \$6.1 million for 2005. Non tax equivalent rate was 4.39% for 2007, 4.44% for 2006, and 4.64% for 2005.

(2) Loan fees are included in total interest income as follows, (000)s omitted: 2007, \$5,584; 2006, \$5,818; 2005, \$8,003

(3) Non performing loans are included in net loans as follows, (000)s omitted: 2007, \$1,435; 2006, \$0; 2005, \$0

(4) Includes interest bearing demand and money market accounts

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As stated above, the net interest margin measures net interest income as a percentage of average earning assets. Our tax effected (TE) net interest margin was 3.03% for 2007, compared to 3.30% for 2006, and 3.86% for 2005. The decreases in the net interest margin over the last three years are the result of the increasing interest rate environment, which impacted interest earned and interest paid as a percent of earning assets. Although the yield on earning assets increased, this was offset by higher interest paid on interest-bearing liabilities.

It is difficult to attribute the net interest margin changes to any one factor. However, the banking and financial services businesses in our market areas are highly competitive. This competition has an influence on the strategies we employ. In addition, the general increase in interest rates had an impact on interest earned and interest paid as a percent of earning assets. Although the yield on earning assets increased, this was offset by higher interest paid on interest-bearing liabilities. During the fourth quarter of 2007, the decline in interest rates have helped improve our margins. We expect that the decline in interest rates will continue into 2008.

Our non-interest-bearing deposits declined in 2007. This was due primarily to the competition for these types of deposits. As a result, we needed to borrow more funds through advances from FHLB, increasing our costs and decreasing our net interest income.

The decline in net interest margin is due to the cost of interest-bearing liabilities rising faster than the increase in yields on earning assets. This decline in net interest margin has been mitigated by the strong growth in the balance sheet. Average earning assets increased from \$4.6 billion in 2005, to \$5.4 billion in 2006, and to \$5.7 billion in 2007. This represents a 5.51% increase in 2007 from 2006 and an 18.65% increase in 2006 from 2005. In addition, the Company has approximately \$1.30 billion, or 38.52%, of its deposits in interest free demand deposits as of December 31, 2007.

The net interest spread is the difference between the yield on average earning assets less the cost of average interest-bearing liabilities. The net interest spread is an indication of our ability to manage interest rates received on loans and investments and paid on deposits and borrowings in a competitive and changing interest rate environment. Our net interest spread (TE) was 2.06% for 2007, 2.34% for 2006, and 3.08% for 2005. The decrease in the net interest spread for 2007 as compared to 2006 resulted from a 13 basis point increase in the yield on earning assets offset by a 41 basis point increase in the cost of interest-bearing liabilities, thus generating a 28 basis point decrease in the net interest spread. The decrease in the net interest spread for 2006 resulted from a 47 basis point increase in the yield on earning assets and a 121 basis point increase in the cost of interest-bearing liabilities, thus generating a 74 basis point decrease in the net interest spread.

The yield (TE) on earning assets increased to 6.17% for 2007, from 6.04% for 2006, and reflects an increasing average interest rate environment and a change in the mix of earning assets. Investments as a percent of earning assets decreased to 41.93% in 2007 from 46.52% in 2006. The yield on loans for 2007 decreased slightly to 6.88% as compared to 6.92% for 2005. The yield on investments for 2007 increased to 5.24% as compared to 5.06% in 2006. The yield on loans for 2006 increased to 6.92% as compared to 6.52% for 2005. The yield on investments increased to 5.06% in 2006 as compared to 4.64% in 2005.

The cost of average interest-bearing liabilities increased to 4.11% for 2007 as compared to 3.70% for 2006 and 2.49% for 2005. These variations reflected a change in the mix of interest-bearing liabilities and an increasing interest rate environment in 2007 and 2006. Borrowings as a percent of interest-bearing liabilities increased to 50.93% for 2007 as compared to 45.81% for 2006 and 45.97% for 2005. Borrowings typically have a higher cost than interest-bearing deposits. The cost of interest-bearing deposits for 2007 increased to 3.25% as compared to 3.11% for 2006 and 1.72% for 2005, reflecting an increasing interest rate environment in 2006 and 2007. The cost of borrowings for 2007 increased to 4.94% as compared to 4.40% for 2006, and 3.39% for 2005, also reflecting the same increasing interest

rate environment. The FDIC has approved the payment of interest on certain demand deposit accounts. This could have a negative impact on our net interest margin, net interest spread, and net earnings, should this be implemented fully. Currently, the only deposits for which we pay interest on are NOW, Money Market and TCD Accounts.

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

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the initial average interest rate. The change in interest income or expense attributable to changes in interest rates is calculated by multiplying the change in interest rate by the initial volume. The changes attributable to interest rate and volume changes are calculated by multiplying the change in rate times the change in volume.

**Comparison of Years Ended December 31,**  
**2007 Compared to 2006**  
**Increase (Decrease) Due to**  
**Rate/**  
**Volume**  
**Total**  
**(Amounts in thousands)**

**2006 Compared to 2005**  
**Increase (Decrease) Due to**  
**Rate/**  
**Volume**  
**Total**

|  | Volume          | Rate               | Rate/<br>Volume   | Total             | Volume           | Rate               | Rate/<br>Volume    | Total           |
|--|-----------------|--------------------|-------------------|-------------------|------------------|--------------------|--------------------|-----------------|
| <b>Interest Income:</b>  |                 |                    |                   |                   |                  |                    |                    |                 |
| Taxable investment securities                                      | \$ (8,822)      | \$ 3,622           | \$ 70             | \$ (5,130)        | \$ 6,211         | \$ 8,467           | \$ (222)           | \$ 14,456       |
| Tax-advantaged securities  | 3,606           | (121)              | (799)             | 2,686             | 10,299           | (383)              | (2,449)            | 7,467           |
| Fed funds sold & interest-bearing deposits with other institutions | 2               | 15                 |                   | 17                | (201)            | 192                | (152)              | (161)           |
| Investment in FHLB stock   | 321             | 171                | 17                | 509               | 408              | 648                | 106                | 1,162           |
| Loans  | 28,670          | (1,125)            | (440)             | 27,105            | 34,848           | 9,109              | 2,326              | 46,283          |
| <b>Total interest on earning assets</b>                            | <b>23,777</b>   | <b>2,562</b>       | <b>(1,152)</b>    | <b>25,187</b>     | <b>51,565</b>    | <b>18,033</b>      | <b>(391)</b>       | <b>69,207</b>   |
| <b>Interest Expense:</b>   |                 |                    |                   |                   |                  |                    |                    |                 |
| Savings deposits   | 1,489           | 3,417              | 249               | 5,155             | 973              | 10,951             | 821                | 12,745          |
| Time deposits  | (4,136)         | 1,223              | (125)             | (3,038)           | 11,153           | 8,253              | 6,121              | 25,527          |
| Other borrowings   | 17,290          | 10,000             | 3,265             | 30,555            | 13,642           | 14,640             | 3,474              | 31,756          |
| <b>Total interest on interest-bearing liabilities</b>              | <b>14,643</b>   | <b>14,640</b>      | <b>3,389</b>      | <b>32,672</b>     | <b>25,768</b>    | <b>33,844</b>      | <b>10,416</b>      | <b>70,028</b>   |
| <b>Net Interest Income</b>   | <b>\$ 9,134</b> | <b>\$ (12,078)</b> | <b>\$ (4,541)</b> | <b>\$ (7,485)</b> | <b>\$ 25,797</b> | <b>\$ (15,811)</b> | <b>\$ (10,807)</b> | <b>\$ (821)</b> |

**Interest and Fees on Loans**

Our major source of revenue is interest and fees on loans, which totaled \$221.8 million for 2007. This represented an increase of \$27.1 million, or 13.92%, over interest and fees on loans of \$194.7 million for 2006. For 2006, interest and fees on loans increased \$46.3 million, or 31.18%, over interest and fees on loans of \$148.4 million for 2005. The increase in interest and fees on loans for 2007 reflects the increase in average loan balances offset by a slight decrease in loan yield. For 2006, interest and fees on loans reflects increases in the average balance of loans and increases in interest rates. The yield on loans decreased to 6.88% for 2007, compared to 6.92% for 2006 and 6.52% 2005. Deferred loan origination fees, net of costs, totaled \$11.9 million at December 31, 2007. This represented an increase of \$1.2 million, or 11.61%, from deferred loan origination fees, net of costs, of \$10.6 million at December 31, 2006.

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

no interest income that was accrued and not reversed on non-performing loans at December 31, 2007, 2006, and 2005. For 2007, we had \$1.4 million of non-performing loans. Had non-performing loans for which interest was no longer accruing complied with the original terms and conditions of their notes, interest income would have been \$90,000 greater for 2007. For 2006 and 2005 we had no non-performing loans.

Fees collected on loans are an integral part of the loan pricing decision. Loan fees and the direct costs associated with the origination of loans are deferred and deducted from total loans on our balance sheet. Deferred

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net loan fees are recognized in interest income over the term of the loan using the effective-yield method. We recognized loan fee income of \$5.6 million for 2007, \$5.8 million for 2006 and \$8.0 million for 2005.

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

|   | 2007                   | 2006      | 2005      |
|---|------------------------|-----------|-----------|
|   | (Amounts in thousands) |           |           |
| Fees Collected                                    | \$ 6,818               | \$ 5,261  | \$ 10,634 |
| Fees and costs deferred                           | (2,734)                | (2,376)   | (7,342)   |
| Accretion of deferred fees and costs              | 1,501                  | 2,933     | 4,711     |
| Total fee income reported                         | \$ 5,585               | \$ 5,818  | \$ 8,003  |
| Deferred net loan origination fees at end of year | \$ 11,857              | \$ 10,624 | \$ 10,766 |

**Interest on Investments**

The second most important component of interest income is interest on investments, which totaled \$119.5 million for 2007. This represented a decrease of \$1.9 million, or 1.58%, from interest on investments of \$121.4 million for 2006. For 2006, interest on investments increased \$22.9 million, or 23.28%, over interest on investments of \$98.5 million for 2005. The decrease in interest on investments for 2007 as compared to 2006 reflected the increase in interest rates partially offset by decreases in average balances. The interest rate environment and the investment strategies we employ directly affect the yield on the investment portfolio. We continually adjust our investment strategies in response to the changing interest rate environments in order to maximize the rate of total return consistent within prudent risk parameters, and to minimize the overall interest rate risk of the Company. The weighted-average yield on investments was 5.24% for 2007, compared to 5.06% for 2006 and 4.64% for 2005.

**Provision for Credit Losses**

We maintain an allowance for inherent credit losses that is increased by a provision for credit losses charged against operating results. Provision for credit losses is determined by management as the amount to be added to the allowance for probable credit losses after net charge-offs have been deducted to bring the allowance to an adequate level which, in management's best estimate, is necessary to absorb probable credit losses within the existing loan portfolio. As such, we made a provision for credit losses of \$4.0 million in 2007 and \$3.0 million in 2006. We did not make a provision for credit losses during 2005. We believe the allowance is appropriate. The ratio of the allowance for credit losses to total loans as of December 31, 2007 and 2006 was 0.95% and 0.90%, respectively. 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 for credit losses in the future. The nature of this process requires considerable judgment. The net charge-offs totaled \$1.4 million in 2007, net recoveries totaled \$1.5 million in 2006, and net charge-offs totaled \$46,000 in 2005. See Risk Management Credit Risk herein.

**Table of Contents****Other Operating Income**

The components of other operating income were as follows:

|  | <b>For the Years Ended December 31,</b>                 |                  |                  |
|--|---|------------------|------------------|
|  | <b>2007</b>   | <b>2006</b>      | <b>2005</b>      |
|  | <b>(Dollars in thousands, except per share amounts)</b> |                  |                  |
| Service charges on deposit accounts        | \$ 13,381   | \$ 13,080        | \$ 13,251        |
| CitizensTrust                              | 7,226   | 7,385            | 6,652            |
| Bankcard services                          | 2,530   | 2,486            | 2,453            |
| BOLI Income                                | 3,839   | 3,051            | 2,797            |
| Other                                      | 4,349   | 6,199            | 4,668            |
| Gain/(Loss) on sale of securities, net     |   | 1,057            | (46)             |
| Impairment charge on investment securities |   |                  | (2,270)          |
| <b>Total other operating income</b>        | <b>\$ 31,325</b>  | <b>\$ 33,258</b> | <b>\$ 27,505</b> |

Other operating income, totaled \$31.3 million for 2007. This represents a decrease of \$1.9 million, or 5.81%, from other operating income, including realized gains on the sales of investment securities, of \$33.3 million for 2006. During 2006, other operating income, including realized gains on the sales of investment securities, increased \$5.8 million or 20.91%, over other operating income, including realized losses on the sales of investment securities, of \$27.5 million for 2005.

Other operating income as a percent of net revenues (net interest income before loan loss provision plus other operating income) was 16.28% for 2007, as compared to 16.47% for 2006 and 13.97% for 2005.

Service charges on deposit accounts totaled \$13.4 million in 2007. This represented an increase of \$301,000 or 2.30% over service charges on deposit accounts of \$13.1 million in 2006. Service charges for demand deposit (checking) accounts for business customers are generally charged based on an analysis of their activity and include an earnings allowance based on their average balances. Service charges on deposit accounts in 2006 decreased \$171,000 or 1.29% from service charges on deposit accounts of \$13.3 million in 2005. Service charges on deposit accounts represented 42.72% of other operating income in 2007, as compared to 39.33% in 2006 and 48.18% in 2005.

CitizensTrust consists of Trust Services and Investment Services. Trust Services provides a variety of services, which include asset management services (both full management services and custodial services), estate planning, retirement planning, private and corporate trustee services, and probate services. Investment Services provides mutual funds, certificates of deposit, and other non-insured investment products. CitizensTrust generated fees of \$7.2 million in 2007. This represents a decrease of \$159,000, or 2.15% from fees generated of \$7.4 million in 2006. Fees generated by CitizensTrust represented 23.07% of other operating income in 2007, as compared to 22.20% in 2006 and 24.19% in 2005.

Bankcard Services, which provides merchant bankcard services, generated fees totaling \$2.5 million in each of the three years 2007, 2006 and 2005. Fees generated by Bankcard represented 8.08% of other operating income in 2007, as compared to 7.48% in 2006 and 8.92% in 2005.

Bank Owned Life Insurance ( BOLI ) income totaled \$3.8 million in 2007. This represents an increase of \$788,000, or 25.84%, over BOLI income generated of \$3.1 million for 2006. BOLI income in 2006 increased \$254,000, or 9.08% over BOLI income generated of \$2.8 million for 2005. The increase in BOLI income was due to the purchase of \$25.0 million in BOLI in September 2006.

Other fees and income, which includes wire fees, other business services, international banking fees, check sale, ATM fees, miscellaneous income, etc, generated fees totaling \$4.3 million in 2007. This represented a decrease of \$1.8 million, or 29.83% from other fees and income generated of \$6.2 million in 2006. The increase in 2006 is primarily due to the gain on sale of the Arcadia and former Operations Center buildings of \$726,000 and a legal settlement of \$750,000.



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We recorded an impairment charge on investment securities of \$2.3 million in 2005. This charge was due to two issues of Federal Home Loan Mortgage Corporation ( Freddie Mac ) preferred stock which were determined to be other-than-temporarily impaired. Although these securities reset with LIBOR (one issue resets to the 3-month LIBOR rate every three months and the other resets to the 12-month LIBOR every twelve months), the market value of the Freddie Mac preferred stock had not recovered accordingly. Since there was a loss of value that was deemed to be other-than-temporary, we charged \$2.3 million against the earnings in 2005 to adjust for the impairment of the two issues of preferred stock. During the third quarter of 2006, we sold all of our shares of Freddie Mac Preferred Stock at a net gain of \$1.1 million based on our book values after write downs of \$8.6 million in prior periods.

The sales of securities generated a realized gain of \$1.1 million in 2006 and a realized loss of \$46,000 in 2005. The gains/losses on sales of securities in prior years were primarily due to repositioning of the investment portfolio to take advantage of the current interest rate cycle.

**Other Operating Expenses**

The components of other operating expenses were as follows:

|                                | <b>For the Years Ended December 31,</b>                 |             |             |
|--------------------------------|---|-------------|-------------|
|                                | <b>2007</b>   | <b>2006</b> | <b>2005</b> |
|                                | <b>(Dollars in thousands, except per share amounts)</b> |             |             |
| Salaries and employee benefits | \$ 55,303   | \$ 50,509   | \$ 51,535   |
| Occupancy                      | 10,540  | 8,572       | 8,327       |
| Equipment                      | 7,026   | 7,025       | 7,578       |
| Stationery and supplies        | 6,712   | 6,492       | 5,569       |
| Professional services          | 6,274   | 5,896       | 4,268       |
| Promotion                      | 5,953   | 6,251       | 5,835       |
| Amortization of Intangibles    | 2,969   | 2,353       | 2,061       |
| Other                          | 10,627  | 8,726       | 4,880       |
| Total other operating expenses | \$ 105,404  | \$ 95,824   | \$ 90,053   |

Other operating expenses totaled \$105.4 million for 2007. This represents an increase of \$9.6 million, or 10.0%, over other operating expenses of \$95.8 million for 2006. During 2006, other operating expenses increased \$5.8 million, or 6.41%, over other operating expenses of \$90.1 million for 2005.

For the most part, other operating expenses reflect the direct expenses and related administrative expenses associated with staffing, maintaining, promoting, and operating branch facilities. Our ability to control other operating expenses in relation to asset growth can be measured in terms of other operating expenses as a percentage of average assets. Operating expenses measured as a percentage of average assets decreased to 1.73% for 2007, compared to 1.97% for 2006, and 1.85% for 2005. The decrease in the ratio in 2007 indicates that management is controlling greater levels of assets with proportionately smaller operating expenses, an indication of operating efficiency.

Our ability to control other operating expenses in relation to the level of net revenue (net interest income plus other operating income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. For 2007, the efficiency ratio was 55.93%, compared to 48.18% for 2006 and 45.72% for 2005. The

increase in 2007 is due to increases in salaries and related expenses and other expenses as discussed below.

Salaries and related expenses comprise the greatest portion of other operating expenses. Salaries and related expenses totaled \$55.3 million for 2007. This represented an increase of \$4.8 million, or 9.49%, over salaries and related expenses of \$50.5 million for 2006. Salary and related expenses decreased \$1.0 million, or 1.99%, from salaries and related expenses of \$51.5 million for 2005. At December 31, 2007, we employed 766 persons, 541 on a full-time and 225 on a part-time basis, this compares to 752 persons, 522 on a full-time and 230 on a part-time basis at December 31, 2006, and 719 persons, 493 on a full-time and 226 on a part-time basis at December 31, 2005. The increases primarily resulted from increased staffing levels as a result of the overall growth of the Company and the

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addition of new business financial centers through the FCB acquisition. Salaries and related expenses as a percent of average assets decreased to 0.91% for 2007, compared to 1.04% for 2006, and 1.06% for 2005.

Stationery and supplies expense totaled \$6.7 million for 2007, compared to \$6.5 million in 2006 and \$5.6 million in 2005. The increase was primarily due to the overall internal growth of the business and the addition of new business financial centers through the FCB acquisition.

Professional services totaled \$6.3 million for 2007. This represented an increase of \$378,000 or 6.41%, over expense of \$5.9 million for 2006. For 2006, professional services increased \$1.6 million, or 38.13%, over expense of \$4.3 million for 2005. The increases were primarily due to professional expenses incurred for recruitment of new associates and legal fees due to outstanding litigation.

Promotion expense totaled \$6.0 million for 2007. This represented a decrease of \$298,000, or 4.77%, from expense of \$6.3 million for 2006. Promotion expense increased in 2006 by \$417,000, or 7.14%, over expense of \$5.8 million for 2005. The increase in 2006 of promotional expenses was primarily associated with increases in advertising expense as we expand our market area.

Other operating expenses totaled \$10.6 million for 2007. This represented an increase of \$1.9 million, or 21.79%, over expense of \$8.7 million for 2006. The increase in 2007 was primarily due to \$1.2 million increase in the provision for unfunded commitments during 2007 and \$675,000 related to the Bank's share of allocable losses from certain tax-preferenced investments. The increase in provision for unfunded commitments in 2007 compared to 2006 was primarily due to an increase in loan commitments and more specifically, an increase in classified loans related to those commitments. Other operating expenses increased for 2006 by \$3.8 million, or 78.81%, over an expense of \$4.9 million for 2005. The increase in 2006 was primarily due to the reversal of our prior accrual for the settlement of a robbery loss of \$2.6 million in the first quarter of 2005 and increases in third-party data processing and loan expenses during 2006.

**Results of Segment Operations**

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

**Table of Contents****Business Financial Centers**

Key measures we use to evaluate the Business Financial Centers performance are included in the following table for years ended December 31, 2007, 2006 and 2005. The table also provides additional significant segment measures useful to understanding the performance of this segment.

|                                   | <b>For the Years Ended December 31,</b> |              |              |
|-----------------------------------|---|--------------|--------------|
|                                   | <b>2007</b>                             | <b>2006</b>  | <b>2005</b>  |
|                                   | <b>(Dollars in thousands)</b>           |              |              |
| <b>Key Measures:</b>              |   |              |              |
| <i>Statement of Operations</i>    |   |              |              |
| Interest income                   | \$ 234,142                              | \$ 219,663   | \$ 157,474   |
| Interest expense                  | 77,848                                  | 58,469       | 26,232       |
| Non-interest income               | 18,148                                  | 15,136       | 12,256       |
| Non-interest expense              | 44,558                                  | 41,258       | 38,064       |
| <br>                              |   |              |              |
| Segment pretax profit             | \$ 129,884                              | \$ 135,072   | \$ 105,434   |
| <br>                              |   |              |              |
| <i>Balance Sheet</i>              |   |              |              |
| Average loans                     | \$ 3,226,086                            | \$ 2,811,782 | \$ 2,277,304 |
| Average interest-bearing deposits | \$ 2,133,412                            | \$ 2,161,075 | \$ 1,680,136 |
| Yield on loans                    | 6.88%                                   | 6.92%        | 6.52%        |
| Rate paid on deposits             | 3.25%                                   | 3.11%        | 1.72%        |

For 2007, interest income increased \$14.5 million, or 6.59%, when compared with interest income during 2006. For 2006, interest income increased \$62.2 million, or 39.49%, when compared with interest income during 2005. This is due to the increase in balances outstanding on loans and increases in interest rates. Average loan balances increased year over year by \$414.3 million, or 14.73% in 2007 and \$534.5 million, or 23.47% in 2006.

For 2007, interest expense increased \$19.4 million, or 33.14%, when compared with interest expense during 2006. For 2006, interest expense increased \$32.2 million, or 122.89%, when compared with interest income during 2005. The rapid increase in interest expense is due to the continued increase in interest rates offered on deposit products. Pricing pressures on deposits continue to take place in the market place. Deposit costs increased by 14 basis points while loan yields decreased by 4 basis points.

Non-interest income and non-interest expense also had increases when compared to the prior periods. The increases have been consistent year over year, primarily due to the growth of the Company. Non-interest income increased \$3.0 million or 19.90% during 2007 over 2006 and increased \$2.9 million, or 23.50% during 2006 over 2005. Non-interest expense also increased \$3.3 million, or 8.00% for 2007 and \$3.2 million, or 8.39% for 2006.

**Table of Contents****Treasury**

Key measures we use to evaluate the Treasury's performance are included in the following table for the years ended December 31, 2007, 2006, and 2005. The table also provides additional significant segment measures useful to understanding the performance of this segment.

|                                | <b>For the Years Ended December 31,</b> |              |              |
|--------------------------------|---|--------------|--------------|
|                                | <b>2007</b>                             | <b>2006</b>  | <b>2005</b>  |
|                                | <b>(Dollars in thousands)</b>           |              |              |
| <b>Key Measures:</b>           |   |              |              |
| <i>Statement of Operations</i> |   |              |              |
| Interest income                | \$ 119,544                              | \$ 121,438   | \$ 98,524    |
| Interest expense               | 129,698                                 | 115,839      | 75,746       |
| Non-interest income            | 1                                       | 1,058        | 2            |
| Non-interest expense           | 1,148                                   | 1,123        | 3,538        |
| Segment pretax profit (loss)   | \$ (11,301)                             | \$ 5,534     | \$ 19,242    |
| <i>Balance Sheet</i>           |   |              |              |
| Average investments            | \$ 2,471,548                            | \$ 2,588,146 | \$ 2,273,771 |
| Average borrowings             | \$ 2,214,108                            | \$ 1,826,532 | \$ 1,429,632 |
| Yield on investments-TE        | 5.24%                                   | 5.06%        | 4.64%        |
| Non-tax equivalent yield       | 4.39%                                   | 4.44%        | 4.54%        |
| Rate paid on borrowings        | 4.94%                                   | 4.40%        | 3.39%        |

For 2007, interest income decreased \$1.9 million, or 1.56% from 2006. The decrease is due to the planned reduction of the investment portfolio. Average investment balances decreased \$116.6 million during 2007. Since September 2006, we have allowed \$253.0 million in investment balances to roll off the balance sheet, allowing us to de-leverage our balance sheet. Our current strategy is to allow a portion of the cash flow from our investment portfolio to either pay down borrowings or fund loans. For 2006, interest income increased \$22.9 million, or 23.26% over 2005. The increase in 2006 is attributed to higher average investment balances and an increase in investment yields.

For 2007, interest expense increased \$13.9 million or 11.96%, when compared with 2006. For 2006, interest expense increased \$40.1 million, or 52.93%, when compared with 2005. This is due to the re-pricing of FHLB Advances which fund the investment portfolio. Short-term funding rates have remained higher than the longer term rates; and since most of our advances had a maturity date of one year or less, they re-priced to a higher interest rate while our investment portfolio did not re-price as quickly. The cost of funding increased to 4.94% in 2007 from 4.40% in 2006 and 3.39% in 2005.

The result of increases in cost of funds reduced the Treasury segment pretax income from \$19.2 million in 2005 to \$5.5 million in 2006 and to a net loss of \$11.3 million in 2007.

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

**Table of Contents****Other**

|                                | <b>For The Years Ended December 31,</b> |             |             |
|--------------------------------|---|-------------|-------------|
|                                | <b>2007</b>                             | <b>2006</b> | <b>2005</b> |
|                                | <b>(Dollars in thousands)</b>           |             |             |
| <b>Key Measures:</b>           |   |             |             |
| <i>Statement of Operations</i> |   |             |             |
| Interest income                | \$ 61,360                               | \$ 52,879   | \$ 35,490   |
| Interest expense               | 46,358                                  | 51,045      | 20,062      |
| Net interest income            | \$ 15,002                               | \$ 1,834    | \$ 15,428   |
| Provision for Credit Losses    | 4,000                                   | 3,000       |             |
| Non-interest income            | 13,176                                  | 17,064      | 15,247      |
| Non-interest expense           | 59,698                                  | 53,443      | 48,451      |
| Pre-tax loss                   | \$ (35,520)                             | \$ (37,545) | \$ (17,776) |

The Company's administration and other operating departments reported pre-tax loss of \$35.5 million for the year ended December 31, 2007. This represented a decrease of \$2.0 million, or 5.39%, from pre-tax loss of \$37.5 million for the year ended December 31, 2006. Pre-tax loss for 2006 increased \$19.8 million to \$37.5 million, or 111.2%, over pre-tax loss of \$17.8 million for 2005. The increase in 2006 is attributed to increased interest expense due to an increasing interest rate environment resulting in higher charge for funds used and an increase in non-interest expense and provision for credit losses.

**Income Taxes**

Our effective tax rate for 2007 was 27.06%, compared to 31.52% for 2006, and 34.34% for 2005. The effective tax rates are below the nominal combined Federal and State tax rates as a result of the increase in tax-preferenced income from certain investments and municipal loans/leases as a percentage of total income for each period. In 2007, the percentage of tax-preferenced income to total income increased, resulting in lower tax rate compared to prior year. The majority of tax preferenced income is derived from municipal securities.

**ANALYSIS OF FINANCIAL CONDITION**

The Company reported total assets of \$6.3 billion at December 31, 2007. This represented an increase of \$201.7 million, or 3.31%, over total assets of \$6.1 billion at December 31, 2006.

**Investment Securities**

The Company maintains a portfolio of investment securities to provide interest income and to serve as a source of liquidity for its ongoing operations. The tables below set forth information concerning the composition of the investment securities portfolio at December 31, 2007, 2006, and 2005, and the maturity distribution of the investment securities portfolio at December 31, 2007. At December 31, 2007, we reported total investment securities of \$2.39 billion. This represents a decrease of \$192.3 million, or 7.45%, from total investment securities of \$2.58 billion at December 31, 2006. During 2007, it has been the intent of the Company to reduce the investment portfolio, using

the cash flows to fund the growth in the loan portfolio.

Under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, securities held as available-for-sale are reported at current market value for financial reporting purposes. The related unrealized gain or loss, net of income taxes, is recorded in stockholders' equity. At December 31, 2007, securities held as available-for-sale had a fair market value of \$2.37 billion, representing 100.00% of total investment securities with an amortized cost of \$2.36 billion. At December 31, 2007, the net unrealized holding gain on securities available-for-sale was \$7.1 million that resulted in accumulated other comprehensive gain of \$4.1 million (net of \$3.0 million in deferred taxes).

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The composition of the investment portfolio at December 31, 2007 consists of the following:

|                               | One<br>Year<br>or Less | Weighted<br>Average<br>Yield | After One<br>Year<br>through<br>Five<br>Years | Weighted<br>Average<br>Yield | Maturing                                    |                              |                    | Weighted<br>Average<br>Yield | Balance as<br>of<br>December 31,<br>2007 | Weighted<br>Average<br>Yield |
|-------------------------------|------------------------|------------------------------|---|------------------------------|---|------------------------------|--------------------|------------------------------|--|------------------------------|
|                               |                        |                              |   |                              | After Five<br>Years<br>through<br>Ten Years | Weighted<br>Average<br>Yield | After Ten<br>Years |                              |  |                              |
| bligations<br>cy and<br>sored | \$ 998                 | 4.83%                        | \$  | 0.00%                        | \$  | 0.00%                        | \$                 | 0.00%                        | \$ 998                                   | 4.8                          |
|                               | 23,129                 | 4.21%                        | 27,706  | 5.23%                        |   | 0.00%                        |                    | 0.00%                        | \$ 50,835                                | 4.7                          |
| securities                    | 1,172                  | 4.49%                        | 883,481                                       | 4.57%                        | 137,933                                     | 5.42%                        | 475                | 5.81%                        | \$ 1,023,061                             | 4.6                          |
|                               | 18,052                 | 5.17%                        | 554,545                                       | 4.88%                        | 50,209                                      | 5.23%                        |                    | 0.00%                        | \$ 622,806                               | 4.9                          |
| 1)                            | 34,943                 | 5.35%                        | 201,776                                       | 4.96%                        | 264,973                                     | 4.28%                        | 191,174            | 4.00%                        | \$ 692,866                               | 4.4                          |
|                               | \$ 78,294              | 4.95%                        | \$ 1,667,508                                  | 4.73%                        | \$ 453,115                                  | 4.73%                        | \$ 191,649         | 4.00%                        | \$ 2,390,566                             | 4.6                          |

(1) The weighted average yield is not tax-equivalent. The tax-equivalent yield is 5.90%.

The above table excludes securities without stated maturities. The maturity of each security category is defined as the contractual maturity except for the categories of mortgage-backed securities and CMO/REMICs whose maturities are defined as the estimated average life. The final maturity of mortgage-backed securities and CMO/REMICs will differ from their contractual maturities because the underlying mortgages have the right to repay such obligations without penalty. The speed at which the underlying mortgages repay is influenced by many factors, one of which is interest rates. Mortgages tend to repay faster as interest rates fall and slower as interest rate rise. This will either shorten or extend the estimated average life. Also, the yield on mortgages-backed securities and CMO/REMICs are affected by the speed at which the underlying mortgages repay. This is caused by the change in the amount of amortization of premiums or accretion of discount of each security as repayments increase or decrease. The Company obtains the estimated average life of each security from independent third parties.

The weighted-average yield (TE) on the investment portfolio at December 31, 2007 was 4.68% with a weighted-average life of 4.7 years. This compares to a weighted-average yield of 4.61% at December 31, 2006 with a weighted-average life of 4.7 years. The weighted average life is the average number of years that each dollar of unpaid principal due remains outstanding. Average life is computed as the weighted-average time to the receipt of all future cash flows, using as the weights the dollar amounts of the principal pay-downs.

|                           | 2007   |         | At December 31,<br>2006 |         | 2005   |         |
|---------------------------|--------|---------|-------------------------|---------|--------|---------|
|                           | Amount | Percent | Amount                  | Percent | Amount | Percent |
| U.S. Treasury Obligations | \$ 998 | 0.04%   | \$ 970                  | 0.04%   | \$ 497 | 0.02%   |
|                           | 50,835 | 2.13%   | 68,300                  | 2.64%   | 54,089 | 2.28%   |

(Amounts in thousands)



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|   |              |         |              |         |              |         |
|---|--------------|---------|--------------|---------|--------------|---------|
| Government agency and government- sponsored enterprises |              |         |              |         |              |         |
| Mortgage-backed securities                              | 1,023,061    | 42.80%  | 1,077,851    | 41.73%  | 1,184,608    | 49.99%  |
| CMO/REMICs  | 622,806      | 26.05%  | 787,270      | 30.48%  | 609,912      | 25.74%  |
| Municipal bonds   | 692,866      | 28.98%  | 645,785      | 25.00%  | 463,900      | 19.57%  |
| FHLMC Preferred Stock                                   |              |         |              |         | 56,070       | 2.37%   |
| Other securities  |              |         | 2,726        | 0.11%   | 816          | 0.03%   |
| TOTAL   | \$ 2,390,566 | 100.00% | \$ 2,582,902 | 100.00% | \$ 2,369,892 | 100.00% |

Approximately 70% of securities issued by the U.S. government or U.S. government-sponsored agencies guarantee payment of principal and interest.

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

| Description of Securities                             | Less than 12 months |                                 | December 31, 2007<br>12 Months or Longer |                                 | Total        |                                 |
|---|---------------------|---------------------------------|--|---------------------------------|--------------|---------------------------------|
|   | Fair Value          | Gross Unrealized Holding Losses | Fair Value                               | Gross Unrealized Holding Losses | Fair Value   | Gross Unrealized Holding Losses |
| U.S. Treasury Obligations                             | \$                  | \$                              | \$                                       | \$                              | \$           | \$                              |
| Government agency & government- sponsored enterprises |                     |                                 | 10,434                                   | 55                              | 10,434       | 55                              |
| Mortgage-backed securities                            | 26,109              | 30                              | 703,159                                  | 9,723                           | 729,268      | 9,753                           |
| CMO/REMICs  | 26,131              | 32                              | 140,779                                  | 842                             | 166,910      | 874                             |
| Municipal bonds                                       | 196,945             | 2,108                           | 78,479                                   | 1,119                           | 275,424      | 3,227                           |
|   | \$ 249,185          | \$ 2,170                        | \$ 932,851                               | \$ 11,739                       | \$ 1,182,036 | \$ 13,909                       |

| Description of Securities                             | Less than 12 months |                                 | December 31, 2006<br>12 Months or Longer |                                 | Total        |                                 |
|---|---------------------|---------------------------------|--|---------------------------------|--------------|---------------------------------|
|   | Fair Value          | Gross Unrealized Holding Losses | Fair Value                               | Gross Unrealized Holding Losses | Fair Value   | Gross Unrealized Holding Losses |
| U.S. Treasury Obligations                             | \$ 970              | \$ 1                            | \$                                       | \$                              | \$ 970       | \$ 1                            |
| Government agency & government- sponsored enterprises | 12,040              | 45                              | 41,101                                   | 458                             | 53,141       | 503                             |
| Mortgage-backed securities                            | 74,274              | 388                             | 880,162                                  | 27,218                          | 954,436      | 27,606                          |
| CMO/REMICs  | 53,681              | 241                             | 454,693                                  | 6,343                           | 508,374      | 6,584                           |
| Municipal bonds                                       | 276,512             | 3,474                           | 60,065                                   | 1,381                           | 336,577      | 4,855                           |
|   | \$ 417,477          | \$ 4,149                        | \$ 1,436,021                             | \$ 35,400                       | \$ 1,853,498 | \$ 39,549                       |

The table above shows the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006. We have reviewed individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that we will be

unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If an other-than-temporary impairment occurs the cost basis of the security would be written down to its fair value as a new cost basis and the write down would be accounted for as a realized loss. A summary of our analysis of these securities and the unrealized losses is described more fully in Note 2 Investment Securities in the notes to the consolidated financial statements.

**Loans**

At December 31, 2007, the Company reported total loans, net of deferred loan fees, of \$3.50 billion. This represents an increase of \$424.9 million, or 13.84%, over total loans of \$3.07 billion at December 31, 2006.

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Table 4 presents the distribution of our loan portfolio at the dates indicated.

|                                       | <b>December 31,</b>           |                     |                     |                     |                     |
|---------------------------------------|-------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                       | <b>2007</b>                   | <b>2006</b>         | <b>2005</b>         | <b>2004</b>         | <b>2003</b>         |
|                                       | <b>(Amounts in thousands)</b> |                     |                     |                     |                     |
| Commercial and Industrial Real Estate | \$ 365,214                    | \$ 264,416          | \$ 223,330          | \$ 284,795          | \$ 289,597          |
| Construction                          | 308,354                       | 299,112             | 270,436             | 235,849             | 156,287             |
| Commercial Real Estate                | 1,805,946                     | 1,642,370           | 1,363,516           | 1,057,140           | 904,705             |
| SFR Mortgage                          | 365,849                       | 284,725             | 271,237             | 116,282             | 50,697              |
| Consumer, net of unearned discount    | 58,999                        | 54,125              | 59,801              | 51,187              | 44,645              |
| Municipal Lease Finance Receivables   | 156,646                       | 126,393             | 108,832             | 71,675              | 37,866              |
| Auto and equipment leases             | 58,505                        | 51,420              | 39,442              | 34,753              | 28,497              |
| Dairy and Livestock                   | 387,488                       | 358,259             | 338,035             | 297,659             | 255,039             |
| <b>Gross Loans</b>                    | <b>3,507,001</b>              | <b>3,080,820</b>    | <b>2,674,629</b>    | <b>2,149,340</b>    | <b>1,767,333</b>    |
| Less:                                 |                               |                     |                     |                     |                     |
| Allowance for Credit Losses           | 33,049                        | 27,737              | 23,204              | 22,494              | 21,282              |
| Deferred Loan Fees                    | 11,857                        | 10,624              | 10,765              | 9,266               | 7,392               |
| <b>Total Net Loans</b>                | <b>\$ 3,462,095</b>           | <b>\$ 3,042,459</b> | <b>\$ 2,640,660</b> | <b>\$ 2,117,580</b> | <b>\$ 1,738,659</b> |

Commercial and industrial loans are loans to commercial entities to finance capital purchases or improvements, or to provide cash flow for operations. Real estate loans are loans secured by conforming first trust deeds on real property, including property under construction, commercial property and single family and multifamily residences. Consumer loans include installment loans to consumers as well as home equity loans and other loans secured by junior liens on real property. Municipal lease finance receivables are leases to municipalities. Dairy and livestock loans are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers, and farmers.

As of December 31, 2007, the Company had \$308.4 million in construction loans. This represents 8.8% of the total loans outstanding of \$3.5 billion. Of this \$308.4 million in construction loans, approximately 52%, or \$159.2 million, were for single-family residences and land loans. The remaining construction loans, totaling \$149.2 million, were related to commercial construction. The Company does not make subprime mortgage loans.

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Table 5 provides the maturity distribution for commercial and industrial loans, real estate construction loans and agribusiness loans as of December 31, 2007. The loan amounts are based on contractual maturities although the borrowers have the ability to prepay the loans. Amounts are also classified according to re-pricing opportunities or rate sensitivity.

**TABLE 5 Loan Maturities and Interest Rate Category at December 31, 2007**

|                              | <b>Within<br/>One Year</b>    | <b>After One<br/>But<br/>Within<br/>Five Years</b> | <b>After<br/>Five Years</b> | <b>Total</b> |
|------------------------------|-------------------------------|--|-----------------------------|--------------|
|                              | <b>(Amounts in thousands)</b> |  |                             |              |
| Types of Loans:              |                               |  |                             |              |
| Commercial and industrial    | \$ 153,768                    | \$ 91,508  | \$ 119,938                  | \$ 365,214   |
| Commercial Real Estate       | 98,504                        | 277,798  | 1,429,644                   | 1,805,946    |
| Construction                 | 268,793                       | 26,487   | 13,074                      | 308,354      |
| Dairy and Livestock          | 308,090                       | 79,136   | 262                         | 387,488      |
| Other                        | 15,430                        | 99,739   | 524,830                     | 639,999      |
|                              | \$ 844,585                    | \$ 574,668   | \$ 2,087,748                | \$ 3,507,001 |
| Amount of Loans based upon:  |                               |  |                             |              |
| Fixed Rates                  | \$ 36,165                     | \$ 192,540   | \$ 1,239,143                | \$ 1,467,848 |
| Floating or adjustable rates | 808,420                       | 382,128  | 848,605                     | 2,039,153    |
|                              | \$ 844,585                    | \$ 574,668   | \$ 2,087,748                | \$ 3,507,001 |

As a normal practice in extending credit for commercial and industrial purposes, we may accept trust deeds on real property as collateral. In some cases, when the primary source of repayment for the loan is anticipated to come from the cash flow from normal operations of the borrower, real property as collateral is not the primary source of repayment but has been taken as an abundance of caution. In these cases, the real property is considered a secondary source of repayment for the loan. Since we lend primarily in Southern and Central California, our real estate loan collateral is concentrated in this region. At December 31, 2007, substantially all of our loans secured by real estate were collateralized by properties located in California. This concentration is considered when determining the adequacy of our allowance for credit losses.

**Non-performing Assets**

Non-performing assets include non-performing loans, non-accrual loans, loans 90 days or more past due and still accruing interest, and restructured loans (see Risk Management Credit Risk herein). At December 31, 2007, we had \$1.4 million in non-performing loans. Of this amount, one loan of \$1.1 million was classified as impaired. We had no non-performing loans and no loans classified as impaired at December 31, 2006. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts (contractual interest and principal) according to the contractual terms of the loan agreement.

At December 31, 2007, we had \$1.4 million of non-accrual loans. At December 31, 2006, we had no loans on which interest was no longer accruing (non-accrual). Loans are put on non-accrual after 90 days of non-performance. They can also be put on non-accrual if, in the judgment of management, the collectability is doubtful. All accrued and unpaid interest is reversed out. The Bank allocates specific reserves which are included in the allowance for credit losses for potential losses on non-accrual loans.

A restructured loan is a loan on which terms or conditions have been modified due to the deterioration of the borrower's financial condition. At December 31, 2007, and 2006 we had no loans that were classified as restructured.

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Table 6 provides information on non-performing loans and other real estate owned at the dates indicated.

**TABLE 6 Non-Performing Assets**

|  | 2007     | December 31,           |       |       | 2003   |
|--|----------|------------------------|-------|-------|--------|
|  |          | 2006                   | 2005  | 2004  |        |
|  |          | (Amounts in thousands) |       |       |        |
| Nonaccrual loans   | \$ 1,435 | \$                     | \$    | \$ 2  | \$ 548 |
| Loans past due 90 days or more                                       |          |                        |       |       |        |
| Restructured loans   |          |                        |       |       |        |
| Other real estate owned (OREO)                                       |          |                        |       |       |        |
| Total nonperforming assets   | \$ 1,435 | \$                     | \$    | \$ 2  | \$ 548 |
| Percentage of nonperforming assets to total loans outstanding & OREO | 0.04%    | 0.00%                  | 0.00% | 0.00% | 0.03%  |
| Percentage of nonperforming assets to total assets                   | 0.02%    | 0.00%                  | 0.00% | 0.00% | 0.01%  |

Except for non-performing loans as set forth in Table 6 and loans disclosed as impaired, (see Risk Management Credit Risk herein) we are not aware of any loans as of December 31, 2007 for which known credit problems of the borrower would cause serious doubts as to the ability of such borrowers to comply with their present loan repayment terms, or any known events that would result in the loan being designated as non-performing at some future date. We cannot, however, predict the extent to which the deterioration in general economic conditions, real estate values, changes in general rates of interest, change in the financial conditions or business of a borrower may adversely affect a borrower's ability to pay.

At December 31, 2007, and 2006 the Company held no properties as other real estate owned.

**Deposits**

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

We reported total deposits of \$3.36 billion at December 31, 2007. This represented a decrease of \$42.5 million, or 1.25%, from total deposits of \$3.41 billion at December 31, 2006. The decrease in deposits is primarily the result of increased competition for deposits.

The amount of non-interest-bearing demand deposits in relation to total deposits is an integral element in achieving a low cost of funds. Non-interest-bearing deposits represented 38.52% of total deposits as of December 31, 2007 and 40.02% of total deposits as of December 31, 2006. Non-interest-bearing demand deposits totaled \$1.30 billion at December 31, 2007. This represented a decrease of \$67.5 million, or 4.95%, from total non-interest-bearing demand deposits of \$1.36 billion at December 31, 2006.





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Table 7 provides the remaining maturities of large denomination (\$100,000 or more) time deposits, including public funds, at December 31, 2007.

**Table 7 Maturity Distribution of Large Denomination Time Deposits**

|                                 | <b>(Amount in thousands)</b> |         |
|---------------------------------|------------------------------|---------|
| 3 months or less                | \$                           | 513,054 |
| Over 3 months through 6 months  |                              | 153,960 |
| Over 6 months through 12 months |                              | 2,652   |
| Over 12 months                  |                              | 15,835  |
| Total                           | \$                           | 685,501 |

**Other Borrowed Funds**

To achieve the desired growth in earning assets we fund that growth through the sourcing of funds. The first source of funds we pursue is non-interest-bearing deposits (the lowest cost of funds to the Company), next we pursue growth in interest-bearing deposits and finally we supplement the growth in deposits with borrowed funds. Borrowed funds, as a percent of total funding (total deposits plus demand notes plus borrowed funds), was 41.02% at December 31, 2007, as compared to 38.65% at December 31, 2006.

During 2007 and 2006, we entered into short-term borrowing agreements with the Federal Home Loan Bank (FHLB). We had outstanding balances of \$954.0 million and \$887.9 million under these agreements at December 31, 2007 and 2006, respectively. FHLB held certain investment securities of the Bank as collateral for those borrowings. On December 31, 2007 and 2006, we entered into an overnight agreement with certain financial institutions and our customers to borrow an aggregate of \$430.8 million and \$301.4 million, respectively. The increase was primarily due to funding for the growth of earning assets.

In June 2006, the Company purchased securities totaling \$250.0 million. This purchase was funded by a repurchase agreement of \$250.0 million with a double cap embedded in the repurchase agreement. The interest rate on this agreement is tied to three-month LIBOR and reset quarterly. In November 2006, we began a repurchase agreement product with our customers. This product, known as Citizens Sweep Manager, sells our securities overnight to our customers under an agreement to repurchase them the next day. As of December 31, 2007, total funds borrowed under these agreements were \$586.3 million.

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The following table summarizes the short-term borrowings:

|   | <b>Federal<br/>Funds<br/>Purchased<br/>and<br/>Repurchase<br/>Agreements</b> | <b>Other<br/>Short-term<br/>Borrowings</b> | <b>Total</b> |
|---|--|--|--------------|
|   | (Dollars in thousands)   |  |              |
| <b>At December 31, 2007</b>                 |  |  |              |
| Amount outstanding                          | \$ 430,809   | \$ 954,000                                 | \$ 1,384,809 |
| Weighted-average interest rate              | 3.85%  | 4.67%                                      | 4.42%        |
| <b>For the year ended December 31, 2007</b> |  |  |              |
| Highest amount at month-end                 | \$ 510,112   | \$ 1,554,000                               | \$ 2,064,112 |
| Daily-average amount outstanding            | \$ 373,746   | \$ 1,100,858                               | \$ 1,474,604 |
| Weighted-average interest rate              | 4.45%  | 3.71%                                      | 3.90%        |
| <b>At December 31, 2006</b>                 |  |  |              |
| Amount outstanding                          | \$ 301,350   | \$ 887,900                                 | \$ 1,189,250 |
| Weighted-average interest rate              | 5.08%  | 4.28%                                      | 4.49%        |
| <b>For the year ended December 31, 2006</b> |  |  |              |
| Highest amount at month-end                 | \$ 301,350   | \$ 1,677,000                               | \$ 1,978,350 |
| Daily-average amount outstanding            | \$ 101,756   | \$ 1,295,704                               | \$ 1,397,460 |
| Weighted-average interest rate              | 5.06%  | 3.90%                                      | 3.99%        |

During 2007 and 2006, we entered into long-term borrowing agreements with the FHLB. We had outstanding balances of \$700.0 million under these agreements at both December 31, 2007 and 2006, with weighted-average interest rate of 4.9% in 2007 and 2006. We had an average outstanding balance of \$622.2 million and \$319.0 million as of December 31, 2007 and 2006, respectively. The FHLB held certain investment securities of the Bank as collateral for those borrowings.

The Bank acquired subordinated debt of \$5.0 million from the acquisition of FCB in June 2007 which is included in long-term borrowings in Item 15 Exhibits and Financial Statement Schedules. The debt has a variable interest rate which resets quarterly at three-month LIBOR plus 1.65%. The debt matures on January 7, 2016, but becomes callable on January 7, 2011.

At December 31, 2007, borrowed funds totaled \$2.30 billion. This represented an increase of \$193.9 million, or 9.03%, over total borrowed funds of \$2.10 billion at December 31, 2006. For 2006, total borrowed funds increased \$644.1 million, or 42.87%, over a balance of \$1.50 billion at December 31, 2005. The maximum outstanding at any month-end was \$2.76 billion during 2007, \$2.08 billion during 2006, and \$1.50 billion during 2005.

At December 31, 2007, junior subordinated debentures totaled \$115.1 million, an increase of \$6.8 million, or 6.29%, over junior subordinated debentures of \$108.3 million at December 31, 2006. The increase was due to the trust preferred securities acquired through the FCB acquisition in June 2007. During the fourth quarter of 2007, we paid-off the principal and interest of \$804,000 on FCB Capital Trust I, which was callable.

**Table of Contents****Aggregate Contractual Obligations**

The following table summarizes the aggregate contractual obligations as of December 31, 2007:

|                                | <b>Total</b>        | <b>Maturity by Period</b>         |  |  |                                 |
|--------------------------------|---------------------|-----------------------------------|--|--|---------------------------------|
|                                |                     | <b>Less Than<br/>One<br/>Year</b> | <b>One Year<br/>to Three<br/>Years</b> | <b>Four Year<br/>to Five<br/>Years</b> | <b>After<br/>Five<br/>Years</b> |
|                                |                     | (Amounts in thousands)            |  |  |                                 |
| <b>2007</b>                    |                     |                                   |  |  |                                 |
| Deposits                       | \$ 3,364,349        | \$ 3,343,388                      | \$ 16,791                              | \$ 734                                 | \$ 3,436                        |
| FHLB and Other Borrowings      | 2,340,349           | 1,390,349                         | 700,000                                | 250,000                                |                                 |
| Junior Subordinated Debentures | 115,055             |                                   |  |  | 115,055                         |
| Deferred Compensation          | 8,166               | 709                               | 1,417                                  | 1,337                                  | 4,703                           |
| Operating Leases               | 26,434              | 5,468                             | 8,155                                  | 5,553                                  | 7,258                           |
| <b>Total</b>                   | <b>\$ 5,854,353</b> | <b>\$ 4,739,914</b>               | <b>\$ 726,363</b>                      | <b>\$ 257,624</b>                      | <b>\$ 130,452</b>               |

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

FHLB and Other Borrowings represent the amounts that are due to the Federal Home Loan Bank. These borrowings have fixed maturity dates. Other borrowings represent the amounts that are due to overnight Federal funds purchases, Treasury, Tax and Loan amounts.

Junior subordinated debentures represent the amounts that are due from the Company to CVB Statutory Trust I, CVB Statutory Trust II & CVB Statutory Trust III. The debentures have the same maturity as the Trust Preferred Securities. CVB Statutory Trust I matures in 2033 and becomes callable in whole or in part in 2008. CVB Statutory Trust II matures in 2034 and becomes callable in whole or in part in 2009. CVB Statutory Trust III which matures in 2036 and becomes callable in whole or in part in 2011. It also represents one Trust Preferred Security acquired through the FCB acquisition in June 2007. FCB Capital Trust II matures in 2033 and becomes callable in 2008.

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

Operating leases represent the total minimum lease payments under non-cancelable operating leases.

**Off-Balance Sheet Arrangements**

At December 31, 2007, we had commitments to extend credit of approximately \$747.5 million, obligations under letters of credit of \$60.9 million and available lines of credit totaling \$621.1 million from certain financial institutions. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit underwriting policies in granting or accepting such commitments or contingent

obligations as it does for on-balance sheet instruments, which consist of evaluating customers' creditworthiness individually.

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

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The following table summarizes the off-balance sheet items:

|                                     | Total      | Maturity by Period |                         |                         | After Five Years |
|-------------------------------------|------------|--------------------|-------------------------|-------------------------|------------------|
|                                     |            | Less Than One Year | One Year to Three Years | Four Year to Five Years |                  |
| (Amounts in thousands)              |            |                    |                         |                         |                  |
| <b>2007</b>                         |            |                    |                         |                         |                  |
| Commitment to extend credit         | \$ 747,504 | \$ 257,878         | \$ 49,755               | \$ 54,032               | \$ 385,839       |
| Obligations under letters of credit | 60,934     | 49,105             | 11,829                  |                         |                  |
| Total                               | \$ 808,438 | \$ 306,983         | \$ 61,584               | \$ 54,032               | \$ 385,839       |

**Liquidity and Cash Flow**

Since the primary sources and uses of funds for the Bank are loans and deposits, the relationship between gross loans and total deposits provides a useful measure of the Bank's liquidity. Typically, the closer the ratio of loans to deposits is to 100%, the more reliant the Bank is on its loan portfolio to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loans to deposit ratio the less liquid are the Bank's assets. For 2007, the Bank's loan to deposit ratio averaged 94.35%, compared to an average ratio of 79.99% for 2006 and 74.35% for 2005.

CVB is a company separate and apart from the Bank that must provide for its own liquidity. Substantially all of CVB's revenues are obtained from dividends declared and paid by the Bank. The remaining cash flow is from rent paid by a third party on office space in our corporate headquarters. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. At December 31, 2007, approximately \$108.9 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. See Item 1. Business Dividends and Other Transfers of Funds. As of December 31, 2007, neither the Bank nor CVB had any material commitments for capital expenditures.

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 \$71.1 million for 2007, \$70.9 million for 2006, and \$89.1 million for 2005. The increase in 2007 compared to 2006 was primarily the result of an increase in interest and dividends received on loans and investments and a decrease in income taxes paid during 2007 offset by interest paid on deposits and borrowings. The decrease in income taxes paid during 2007 which was attributed to a lower effective tax rate.

Cash used in investing activities totaled \$21.1 million for 2007, compared to \$680.7 million for 2006 and \$761.4 million for 2005. The decrease in 2007 compared to 2006 is due to decreases in the purchase of investments securities during 2007.

Net cash used by financing activities totaled \$106.9 million for 2007, compared to funds provided by financing activities of \$626.0 million for 2006 and \$718.0 million for 2005. The increase in net cash used by financing activities

was primarily the result of decreases in short-term borrowings and transaction deposits, offset by advances and repayments from Federal Home Loan Bank.

At December 31, 2007, cash and cash equivalents totaled \$89.5 million. This represented a decrease of \$56.9 million, or 38.88%, from a total of \$146.4 million at December 31, 2006.

***Capital Resources***

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

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Total stockholders' equity was \$424.9 million at December 31, 2007. This represented an increase of \$37.6 million, or 9.71%, over total stockholders' equity of \$387.3 million at December 31, 2006. For 2006, total stockholders' equity increased \$45.1 million, or 13.19%, over total stockholders' equity of \$342.2 million at December 31, 2005.

For further information about our capital ratios, see *Item 1. Business - Capital Standards*.

During 2007, the Board of Directors of the Company declared quarterly cash dividends that totaled \$0.34 per share for the full year. We do not believe that the continued payment of cash dividends will impact the ability of the Company to continue to exceed the current minimum capital standards.

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**RISK MANAGEMENT**

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

**Credit Risk**

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

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

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

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

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

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



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

Loans are risk rated into the following categories: Loss, Doubtful, Substandard, Special Mention and Pass. Each of these groups is assessed for the proper amount to be used in determining the adequacy of our allowance for

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losses. The Impaired and Doubtful loans are analyzed on an individual basis for allowance amounts. The other categories have formulae used to determine the needed allowance amount.

The Bank began a credit review function engaging an outside party to review our loans. This was done in the last quarter of 2006 and was performed quarterly in 2007. The purpose of this review is to determine the loan rating and if there is any deterioration in the credit quality of the portfolio.

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

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

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

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

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

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

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

collateral values

loan volumes and concentrations,

seasoning of the loan portfolio,

specific industry conditions within portfolio segments,

recent loss experience in particular segments of the portfolio,

duration of the current business cycle,

bank regulatory examination results and

findings of the Company's external credit examiners.

We review these conditions in discussion with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date,

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

We maintain an allowance for inherent credit losses that is increased by a provision for credit losses charged against operating results. The allowance for credit losses is also increased by recoveries on loans previously charged off and reduced by actual loan losses charged to the allowance. We recorded a \$4.0 million and \$3.0 million provision for credit losses for 2007 and 2006, respectively. We did not record a provision for credit losses for 2005.

At December 31, 2007, we reported an allowance for credit losses of \$33.0 million. This represents an increase of \$5.3 million, or 19.15%, over the allowance for credit losses of \$27.7 million at December 31, 2006. During 2007, we recorded a provision for credit losses of \$4.0 million and net charge-offs of \$1.4 million. We acquired \$2.7 million in allowance for credit losses as a result of the FCB acquisition. At December 31, 2006, we reported an allowance for credit losses of \$27.7 million. This represented an increase of \$4.5 million, or 19.54%, over the allowance for credit losses of \$23.2 million at December 31, 2005. During the year 2006, we recorded a provision for credit losses of \$3.0 million and net recoveries of \$1.5 million. (See Table 8 Summary of Credit Loss Experience.)

At December 31, 2007, we had \$1.4 million in non-performing loans. Of this amount, \$1.1 million consisted of one loan classified as impaired. We had no non-performing loans and no loans classified as impaired at December 31, 2006.

For 2007, total loans charged-off were \$2.1 million, offset by the recoveries of loans previously charged-off of \$739,000 resulting in net charge-offs of \$1.4 million. For 2006, total loans charged-off were \$200,000, offset by the recoveries of loans previously charged-off of \$1.7 million resulting in net recoveries of \$1.5 million.

In addition to the allowance for credit losses, the Company also has a reserve for undisbursed commitments for loans and letters of credit. This reserve is carried on the liabilities section of the balance sheet in other liabilities. Provisions to this reserve are included in other expense. For 2007, the Company recorded an increase of \$1.2 million in the reserve for undisbursed commitments. As of December 31, 2007, the balance in this reserve was \$2.9 million. The increase in provision for unfunded commitments was primarily due to an increase in loan commitments and more specifically, an increase in classified loans related to those commitments.

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Table 8 presents a comparison of net credit losses, the provision for credit losses (including adjustments incidental to mergers), and the resulting allowance for credit losses for each of the years indicated.

**TABLE 8 Summary of Credit Loss Experience**

|   | <b>As of and For Years Ended December 31,</b> |              |              |              |              |
|---|---|--------------|--------------|--------------|--------------|
|   | <b>2007</b>                                   | <b>2006</b>  | <b>2005</b>  | <b>2004</b>  | <b>2003</b>  |
|   | <b>(Amounts in thousands)</b>                 |              |              |              |              |
| Amount of Total Loans at End of Period(1)             | \$ 3,495,144                                  | \$ 3,070,196 | \$ 2,663,863 | \$ 2,140,074 | \$ 1,759,941 |
| Average Total Loans Outstanding(1)                    | \$ 3,226,086                                  | \$ 2,811,782 | \$ 2,277,304 | \$ 1,905,145 | \$ 1,529,944 |
| Allowance for Credit Losses at Beginning of Period    | \$ 27,737                                     | \$ 23,204    | \$ 22,494    | \$ 21,282    | \$ 21,666    |
| Loans Charged-Off:                                    |   |              |              |              |              |
| Real Estate   | 1,748   |              | 780          | 1,002        | 982          |
| Commercial and Industrial                             | 127   | 90           | 243          | 943          | 1,507        |
| Lease Finance Receivables                             | 182   | 79           | 91           | 110          | 396          |
| Consumer Loans  | 41  | 31           | 266          | 265          | 132          |
| Total Loans Charged-Off                               | 2,098   | 200          | 1,380        | 2,320        | 3,017        |
| Recoveries:   |   |              |              |              |              |
| Real Estate Loans                                     | 82  | 1,140        | 572          | 775          | 336          |
| Commercial and Industrial                             | 465   | 400          | 543          | 2,558        | 889          |
| Lease Finance Receivables                             | 148   | 82           | 101          | 86           | 262          |
| Consumer Loans  | 44  | 111          | 118          | 113          | 112          |
| Total Loans Recovered                                 | 739   | 1,733        | 1,334        | 3,532        | 1,599        |
| Net Loans Charged-Off (Recovered)                     | 1,359   | (1,533)      | 46           | (1,212)      | 1,418        |
| Provision Charged to Operating Expense                | 4,000   | 3,000        |              |              |              |
| Adjustments Incident to Mergers and reclassifications | 2,671   |              | 756          |              | 1,034        |
| Allowance for Credit Losses at End of period          | \$ 33,049                                     | \$ 27,737    | \$ 23,204    | \$ 22,494    | \$ 21,282    |
| Net Loans Charged-Off (Recovered) to Average          | 0.04%   | 0.05%        | 0.00%        | 0.06%        | 0.09%        |

|   |        |        |       |       |       |
|---|--------|--------|-------|-------|-------|
| Total Loans   |        |        |       |       |       |
| Net Loans Charged-Off<br>(Recovered) to Total Loans<br>at End of Period | 0.04%  | 0.05%  | 0.00% | 0.06% | 0.08% |
| Allowance for Credit Losses<br>to Average Total Loans                   | 1.02%  | 0.99%  | 1.02% | 1.18% | 1.39% |
| Allowance for Credit Losses<br>to Total Loans at End of<br>Period       | 0.95%  | 0.90%  | 0.87% | 1.05% | 1.21% |
| Net Loans Charged-Off<br>(Recovered) to Allowance<br>for Credit Losses  | 4.11%  | 5.53%  | 0.20% | 5.39% | 6.66% |
| Net Loans Recovered to<br>Provision for Credit Losses                   | 33.98% | 51.10% |       |       |       |

(1) Net of deferred loan origination fees.

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While we believe that the allowance at December 31, 2007, 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 our service areas or other circumstances will not be reflected in increased provisions or credit losses in the future.

Table 9 provides a summary of the allocation of the allowance for credit losses for specific loan categories at the dates indicated. The allocations presented should not be interpreted as an indication that loans charged to the allowance for credit losses will occur in these amounts or proportions, or that the portion of the allowance allocated to each loan category represents the total amount available for future losses that may occur within these categories.

|                                 | 2007                                 |   | 2006                                 |   | December 31,<br>2005                 |   | 2004                                 |   | 2003                                 |   |
|---------------------------------|--------------------------------------|---|--------------------------------------|---|--------------------------------------|---|--------------------------------------|---|--------------------------------------|---|
|                                 | Allowance<br>for<br>Credit<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Credit<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Credit<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Credit<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category | Allowance<br>for<br>Credit<br>Losses | % of<br>Loans<br>to<br>Total<br>Loans<br>in<br>Each<br>Category |
| (Amounts in thousands)          |                                      |   |                                      |   |                                      |   |                                      |   |                                      |   |
| Real Estate                     | \$ 12,724                            | 46.8%   | \$ 9,905                             | 46.8%   | \$ 10,536                            | 42.7%   | \$ 7,214                             | 36.6%   | \$ 3,892                             | 30.8%   |
| Commercial<br>and<br>Industrial | 19,398                               | 51.5%   | 17,215                               | 51.5%   | 15,408                               | 49.2%   | 16,232                               | 55.8%   | 15,508                               | 62.9%   |
| Consumer                        | 506                                  | 1.7%  | 297                                  | 1.7%  | 224                                  | 8.1%  | 126                                  | 7.6%  | 149                                  | 6.3%  |
| Unallocated                     | 421                                  |   | 320                                  |   | (2,964)                              |   | (1,078)                              |   | 1,733                                |   |
| <b>Total</b>                    | <b>\$ 33,049</b>                     | <b>100.0%</b>   | <b>\$ 27,737</b>                     | <b>100.0%</b>   | <b>\$ 23,204</b>                     | <b>100.0%</b>   | <b>\$ 22,494</b>                     | <b>100.0%</b>   | <b>\$ 21,282</b>                     | <b>100.0%</b>   |

**Market Risk**

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

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The table below provides the actual balances as of December 31, 2007 of interest-earning assets (net of deferred loan fees and allowance for credit losses) and interest-bearing liabilities, including the average rate earned or paid for 2007, the projected contractual maturities over the next five years, and the estimated fair value of each category determined using available market information and appropriate valuation methodologies.

|   | Balance<br>December 31, | Average<br>Rate | Maturing     |  |                |               | Five Years<br>and Beyond | Estimated<br>Fair Value |
|---|-------------------------|-----------------|--------------|--|----------------|---------------|--------------------------|-------------------------|
|   |                         |                 | One Year     | Two<br>Years<br>(Amounts in thousands) | Three<br>Years | Four<br>Years |                          |                         |
| <b>Interest-Earning Assets</b>                      |                         |                 |              |  |                |               |                          |                         |
| Investment securities                               |                         |                 |              |  |                |               |                          |                         |
| Available for sale                                  | \$ 2,390,566            | 4.68%           | \$ 15,311    | \$ 9,225                               | \$ 19,265      | \$ 27,563     | \$ 2,319,202             | \$ 2,390,566            |
| Loans and lease finance receivables, net            | 3,462,095               | 6.88%           | 844,585      | 211,227                                | 117,568        | 110,341       | 2,178,374                | 3,489,000               |
| Total interest earning assets                       | \$ 5,852,661            |                 | \$ 859,896   | \$ 220,452                             | \$ 136,833     | \$ 137,904    | \$ 4,497,576             | \$ 5,880,000            |
| <b>Interest-Bearing Liabilities</b>                 |                         |                 |              |  |                |               |                          |                         |
| Interest-bearing deposits and note to U.S. Treasury | \$ 2,068,390            | 3.25%           | \$ 2,047,432 | \$ 8,449                               | \$ 8,339       | \$ 458        | \$ 3,712                 | 2,068,390               |
| Loans   | 540                     | 4.17%           | 540          |  |                |               |                          | 540                     |
| Subordinated debt                                   | 2,339,809               | 4.85%           | 1,389,809    | 200,000                                | 400,000        | 100,000       | 250,000                  | 2,373,809               |
| Other interest-bearing liabilities                  | 115,055                 | 6.62%           |              |  |                |               | 115,055                  | 106,055                 |
| Total interest-bearing liabilities                  | \$ 4,523,794            |                 | \$ 3,437,781 | \$ 208,449                             | \$ 408,339     | \$ 100,458    | \$ 368,767               | \$ 4,549,000            |

**Interest Rate Risk**

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

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



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

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|  | <b>90 Days<br/>or Less</b>    | <b>Over<br/>90 Days to<br/>180 Days</b> | <b>Over<br/>180 Days to<br/>365 Days</b> | <b>Over<br/>365 Days</b> | <b>Total</b> |
|--|-------------------------------|---|--|--------------------------|--------------|
|  | <b>(Amounts in thousands)</b> |   |  |                          |              |
| <b>2007</b>                                |                               |   |  |                          |              |
| Earning Assets:                            |                               |   |  |                          |              |
| Investment Securities at<br>carrying value | \$ 122,700                    | \$ 126,059                              | \$ 218,086                               | \$ 1,923,721             | \$ 2,390,566 |
| Total Loans                                | 1,130,451                     | \$ 173,951                              | \$ 298,425                               | \$ 1,859,268             | 3,462,095    |
| Total                                      | \$ 1,253,151                  | \$ 300,010                              | \$ 516,511                               | \$ 3,782,989             | \$ 5,852,661 |
| Interest Bearing Liabilities               |                               |   |  |                          |              |
| Savings Deposits                           | \$ 745,571                    | \$                                      | \$                                       | \$ 532,465               | \$ 1,278,036 |
| Time Deposits                              | 558,410                       | \$ 142,184                              | \$ 68,685                                | \$ 21,075                | 790,354      |
| Demand Note to U.S. Treasury               | 540                           |   |  |                          | 540          |
| Other Borrowings                           | 1,089,809                     | \$                                      | \$ 550,000                               | \$ 700,000               | 2,339,809    |
| Junior subordinated debentures             | 32,579                        |   | 41,238                                   | 41,238                   | 115,055      |
| Total                                      | 2,426,909                     | 142,184                                 | 659,923                                  | 1,294,778                | 4,523,794    |
| Period GAP                                 | \$ (1,173,758)                | \$ 157,826                              | \$ (143,412)                             | \$ 2,488,211             | \$ 1,328,867 |
| Cumulative GAP                             | \$ (1,173,758)                | \$ (1,015,932)                          | \$ (1,159,344)                           | \$ 1,328,867             |              |
| <b>2006</b>                                |                               |   |  |                          |              |
| Earning Assets:                            |                               |   |  |                          |              |
| Investment Securities at<br>carrying value | \$ 140,153                    | \$ 152,523                              | \$ 214,686                               | \$ 2,075,540             | \$ 2,582,902 |
| Total Loans                                | 1,003,580                     | \$ 157,742                              | \$ 281,823                               | \$ 1,599,314             | 3,042,459    |
| Total                                      | \$ 1,143,733                  | \$ 310,265                              | \$ 496,509                               | \$ 3,674,854             | \$ 5,625,361 |
| Interest Bearing Liabilities               |                               |   |  |                          |              |
| Savings Deposits                           | \$ 780,720                    | \$                                      | \$                                       | \$ 434,699               | \$ 1,215,419 |
| Time Deposits                              | 596,882                       | \$ 128,776                              | \$ 71,080                                | \$ 31,240                | 827,978      |
| Demand Note to U.S. Treasury               | 7,245                         |   |  |                          | 7,245        |
| Other Borrowings                           | 1,234,250                     | \$ 85,000                               | \$ 120,000                               | \$ 700,000               | 2,139,250    |
| Junior subordinated debentures             |                               |   |  | 108,250                  | 108,250      |
| Total                                      | 2,619,097                     | 213,776                                 | 191,080                                  | 1,274,189                | 4,298,142    |
| Period GAP                                 | \$ (1,475,364)                | \$ 96,489                               | \$ 305,429                               | \$ 2,400,665             | \$ 1,327,219 |
| Cumulative GAP                             | \$ (1,475,364)                | \$ (1,378,875)                          | \$ (1,073,446)                           | \$ 1,327,219             |              |

Table 10 provides the Bank's maturity/re-pricing gap analysis at December 31, 2007, and 2006. We had a negative cumulative 180-day gap of \$1.02 billion and a negative cumulative 365-days gap of \$1.16 billion at December 31, 2007. This represented a decrease of \$362.9 million, over the 180-day cumulative negative gap of \$1.38 billion at December 31, 2006. In theory, this would indicate that at December 31, 2007, \$1.02 billion more in liabilities than assets would re-price if there were a change in interest rates over the next 180 days. If interest rates increase, the negative gap would tend to result in a lower net interest margin. If interest rates decrease, the negative gap would tend to result in an increase in the net interest margin. However, we do have the ability to anticipate the increase in deposit rates, and the ability to extend interest-bearing liabilities, offsetting, in part, the negative gap.

The interest rates paid on deposit accounts do not always move in unison with the rates charged on loans. In addition, the magnitude of changes in the rates charged on loans is not always proportionate to the magnitude of

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changes in the rate paid on deposits. Consequently, changes in interest rates do not necessarily result in an increase or decrease in the net interest margin solely as a result of the differences between re-pricing opportunities of earning assets or interest-bearing liabilities. The fact that the Bank reported a negative gap at December 31, 2007 for changes within the following 365 days does not necessarily indicate that, if interest rates decreased, net interest income would increase, or if interest rates increased, net interest income would decrease.

Approximately \$1.65 billion, or 69.58%, of the total investment portfolio at December 31, 2007 consisted of securities backed by mortgages. The final maturity of these securities can be affected by the speed at which the underlying mortgages repay. Mortgages tend to repay faster as interest rates fall, and slower as interest rates rise. As a result, we may be subject to a prepayment risk resulting from greater funds available for reinvestment at a time when available yields are lower. Conversely, we may be subject to extension risk resulting, as lesser amounts would be available for reinvestment at a time when available yields are higher. Prepayment risk includes the risk associated with the payment of an investment's principal faster than originally intended. Extension risk is the risk associated with the payment of an investment's principal over a longer time period than originally anticipated. In addition, there can be greater risk of price volatility for mortgage-backed securities as a result of anticipated prepayment or extension risk.

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

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

The following reflects our net interest income sensitivity analysis as of December 31, 2007:

| <b>Simulated<br/>Rate Changes</b> | <b>Estimated Net Interest<br/>Income Sensitivity</b> |
|-----------------------------------|--|
| + 200 basis points                | (3.51%)  |
| – 200 basis points                | 2.23%  |

The Company is currently more liability sensitive. The estimated sensitivity does not necessarily represent a forecast and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash-flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions including how customer preferences or competitor influences might change. See NOTE 17 of the Notes to the Consolidated Financial Statements.

**Liquidity Risk**

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

In general, liquidity risk is managed daily by controlling the level of fed funds and the use of funds provided by the cash flow from the investment portfolio. To meet unexpected demands, lines of credit are maintained with correspondent banks, the Federal Home Loan Bank and the FRB. 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.

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### ***Transaction Risk***

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

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

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

### **Compliance Risk**

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

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

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

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

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

The branch or department that is the subject of an audit is required to respond to the audit and correct any violations noted. The Compliance Officer will review audit findings and the response provided by the branch or department to

identify areas which pose a significant compliance risk to the Bank.

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

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

## **Strategic Risk**

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

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

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

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

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

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

## **Reputation Risk**

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

## **Price and Foreign Exchange Risk**

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

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

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



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

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

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**Recent Accounting Pronouncements**

See Note 1, Summary of Significant Accounting Policies, Recent Accounting Pronouncements, in the accompanying notes to the consolidated financial statements.

**Item 7A. *Quantitative And Qualitative Disclosures About Market Risk***

Market risk is the risk of loss from adverse changes in the market prices and interest rates. Our market risk arises primarily from interest rate risk inherent in our lending and deposit taking activities. We currently do not enter into futures, forwards, or option contracts. For greater discussion on the risk management of the Company, see Item 7. Management's Discussion and Analysis of Financial Condition and the Results of Operations Risk Management.

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**Item 8. *Financial Statements And Supplementary Data***

**CVB FINANCIAL CORP.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULES**

|   | <b>Page</b> |
|---|-------------|
| Consolidated Financial Statements   |             |
| <u>Consolidated Balance Sheets December 31, 2007 and 2006</u>   | 63          |
| <u>Consolidated Statements of Earnings Years Ended December 31, 2007, 2006 and 2005</u>                                     | 64          |
| <u>Consolidated Statements of Stockholders Equity and Comprehensive Income Years Ended December 31, 2007, 2006 and 2005</u> | 65          |
| <u>Consolidated Statements of Cash Flows Years Ended December 31, 2007, 2006 and 2005</u>                                   | 66          |
| <u>Notes to Consolidated Financial Statements</u>   | 68          |
| <u>Report of Independent Registered Public Accounting Firm</u>  | 99          |

All schedules are omitted because they are not applicable, not material or because the information is included in the financial statements or the notes thereto.

For information about the location of management’s annual reports on internal control, our financial reporting and the audit report of KPMG, LLP thereon. See Item 9A. Controls and Procedures.

**Item 9. *Changes In And Disagreements With Accountants On Accounting And Financial Disclosure***

On June 1, 2007, the Company elected KPMG, LLP as the Company’s independent auditors. During the 2006 and 2007 fiscal years and through the interim period ended June 30, 2007, there were no disagreements between the Company and McGladrey & Pullen, LLP, our predecessor auditors, on any matter of accounting principles or practices, internal controls, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of McGladrey & Pullen, LLP, would have caused it to make reference to the subject matter of the disagreement in connection with its reports.

**Item 9A. *Controls And Procedures***

**1) Management’s Report on Internal Control over Financial Reporting**

Management of CVB Financial Corp., together with its consolidated subsidiaries (the Company), is responsible for establishing and maintaining adequate internal control over financial reporting. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made

only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

As of December 31, 2007, management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2007 is effective. KPMG, LLP, independent registered public accounting firm, has issued an unqualified opinion on the effectiveness of internal control over financial reporting as of December 31, 2007.

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**2) Auditor attestation**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
CVB Financial Corp.:

We have audited CVB Financial Corp. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CVB Financial Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of CVB Financial Corp. and subsidiaries as of December 31, 2007, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for the year then ended, and our report dated February 28, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG, LLP  
KPMG, LLP

Costa Mesa, California  
February 28, 2008

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**3) Changes in Internal Control over Financial Reporting**

We maintain controls and procedures designed to ensure that information is recorded and reported in all filings of financial reports. Such information is reported to our management, including our Chief Executive Officer and Chief Financial Officer to allow timely and accurate disclosure based on the definition of disclosure controls and procedures in SEC Rule 13a-15(e) and 15d-15(e).

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer. Based on the foregoing, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

During the fiscal quarter ended December 31, 2007, there have been no changes in our internal control over financial reporting that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. *Other Information***

None.

**Table of Contents****PART III****Item 10. *Directors, Executive Officers and Corporate Governance***

Except as hereinafter noted, the information concerning directors and executive officers of the Company and our audit committee financial expert is incorporated by reference from the section entitled "Discussion of Proposals recommended by the Board" Proposal 1: Election of Directors and Beneficial Ownership Reporting Compliance and Audit Committee of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year. For information concerning directors and executive officers of the Company, see Item 1 of part I Business Executive Officers and Directors.

The Company has adopted a Code of Ethics that applies to all of the Company's employees, including the Company's principal executive officer, the principal financial and accounting officer, and all employees who perform these functions. A copy of the Code of Ethics is available to any person without charge by submitting a request to the Company's Chief Financial Officer at 701 N. Haven Avenue, Suite 350, Ontario, CA 91764.

**Item 11. *Executive Compensation***

Information concerning management remuneration and transactions is incorporated by reference from the section entitled "Executive Compensation" of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The following table summarizes information as of February 15, 2008 relating to our equity compensation plans pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

**Equity Compensation Plan Information**

| <b>Plan Category</b>                                       | <b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b> | <b>Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)</b> | <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)</b> |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 1,853,193  | \$ 11.19   | 3,951,439  |
| Equity compensation plans not approved by security holders |  |  |  |



|       |           |    |       |           |
|-------|-----------|----|-------|-----------|
| Total | 1,853,193 | \$ | 11.19 | 3,951,439 |
|-------|-----------|----|-------|-----------|

Information concerning security ownership of certain beneficial owners and management is incorporated by reference from the sections entitled **Stock Ownership** of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

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**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

Information concerning certain relationships and related transactions with management and others and information regarding director independence is incorporated by reference from the section entitled *Executive Compensation Certain Relationships and Related Transactions* of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

**Item 14. *Principal Accountant Fees and Services***

Information concerning principal accounting fees and services is incorporated by reference from the section entitled *Ratification of Appointment of Independent Public Accountants* of our definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

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**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules***

**Financial Statements**

Reference is made to the Index to Financial Statements at page 56 for a list of financial statements filed as part of this Report.

**Exhibits**

See Index to Exhibits at Page 101 of this Form 10-K.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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, on the 28th day of February 2008.

Cvb Financial Corp.

By: /s/ Christopher D. Myers  
 Christopher D. Myers  
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

| <b>Signature</b>                         | <b>Title</b>  | <b>Date</b>       |
|--|---|-------------------|
| /s/ George A. Borba<br>George A. Borba   | Chairman of the Board   | February 28, 2008 |
| /s/ John A. Borba<br>John A. Borba       | Director  | February 28, 2008 |
| /s/ Ronald O. Kruse<br>Ronald O. Kruse   | Vice Chairman   | February 28, 2008 |
| /s/ Robert M. Jacoby<br>Robert M. Jacoby | Director  | February 28, 2008 |
| /s/ James C. Seley<br>James C. Seley     | Director  | February 28, 2008 |
| /s/ San E. Vaccaro<br>San E. Vaccaro     | Director  | February 28, 2008 |
| /s/ D. Linn Wiley<br>D. Linn Wiley       | Vice Chairman   | February 28, 2008 |
| /s/ Christopher D. Myers                 | Director, President and Chief Executive Officer (Principal Executive Officer) | February 28, 2008 |

Christopher D. Myers

/s/ Edward J. Biebrich, Jr.

Chief Financial Officer (Principal Financial  
and Accounting Officer)

February 28, 2008

Edward J. Biebrich, Jr.

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

|  | <b>December 31,<br/>2007</b>  | <b>December 31,<br/>2006</b> |
|--|-------------------------------|------------------------------|
|  | <b>(Amounts in thousands)</b> |                              |
| <b>ASSETS</b>  |                               |                              |
| Cash and due from banks                                    | \$ 89,486                     | \$ 146,411                   |
| Investment securities available-for-sale                   | 2,390,566                     | 2,582,902                    |
| Interest-bearing balances due from depository institutions | 475                           |                              |
| Investment in stock of Federal Home Loan Bank (FHLB)       | 79,983                        | 78,866                       |
| Loans and lease finance receivables                        | 3,495,144                     | 3,070,196                    |
| Allowance for credit losses                                | (33,049)                      | (27,737)                     |
| <br>   |                               |                              |
| Total earning assets                                       | 5,933,119                     | 5,704,227                    |
| Premises and equipment, net                                | 46,855                        | 44,963                       |
| Cash value life insurance                                  | 103,400                       | 99,861                       |
| Accrued interest receivable                                | 29,734                        | 29,146                       |
| Deferred tax asset   |                               | 13,487                       |
| Intangibles  | 14,611                        | 10,121                       |
| Goodwill   | 55,167                        | 31,531                       |
| Other assets   | 21,591                        | 12,501                       |
| <br>   |                               |                              |
| <b>TOTAL ASSETS</b>  | <b>\$ 6,293,963</b>           | <b>\$ 6,092,248</b>          |
| <br><b>LIABILITIES AND STOCKHOLDERS EQUITY</b>             |                               |                              |
| Liabilities:   |                               |                              |
| Deposits:  |                               |                              |
| Noninterest-bearing  | \$ 1,295,959                  | \$ 1,363,411                 |
| Interest-bearing   | 2,068,390                     | 2,043,397                    |
| <br>   |                               |                              |
| Total deposits   | 3,364,349                     | 3,406,808                    |
| Demand Note to U.S. Treasury                               | 540                           | 7,245                        |
| Repurchase agreements                                      | 586,309                       | 344,350                      |
| Short-term borrowings                                      | 1,048,500                     | 1,094,900                    |
| Long-term borrowings                                       | 705,000                       | 700,000                      |
| Deferred tax liabilities                                   | 1,307                         |                              |
| Accrued interest payable                                   | 13,312                        | 16,156                       |
| Deferred compensation                                      | 8,166                         | 7,946                        |
| Junior subordinated debentures                             | 115,055                       | 108,250                      |
| Other liabilities  | 26,477                        | 19,268                       |
| <br>   |                               |                              |
| <b>TOTAL LIABILITIES</b>                                   | <b>5,869,015</b>              | <b>5,704,923</b>             |

COMMITMENTS AND CONTINGENCIES

Stockholders' Equity:

Preferred stock (authorized, 20,000,000 shares without par; none issued or outstanding)

Common stock (authorized, 122,070,312 shares without par; issued and outstanding 83,164,906 (2007) and 84,281,722 (2006))

Retained earnings

Accumulated other comprehensive income (loss), net of tax

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

|              |              |
|--------------|--------------|
| 354,249      | 366,082      |
| 66,569       | 34,464       |
| 4,130        | (13,221)     |
| 424,948      | 387,325      |
| \$ 6,293,963 | \$ 6,092,248 |

See accompanying notes to the consolidated financial statements.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**Three Years Ended December 31, 2007**

|   | <b>2007</b>  | <b>2006</b> | <b>2005</b> |
|---|--|-------------|-------------|
|   | <b>(Amounts in thousands,<br/>except earnings per share)</b> |             |             |
| <b>INTEREST INCOME:</b>                                   |  |             |             |
| Loans, including fees                                     | \$ 221,809   | \$ 194,704  | \$ 148,421  |
| Investment securities:                                    |  |             |             |
| Taxable   | 85,899   | 91,029      | 76,573      |
| Tax-advantaged  | 29,231   | 26,545      | 19,078      |
|   | 115,130  | 117,574     | 95,651      |
| Dividends from FHLB                                       | 4,229  | 3,721       | 2,559       |
| Federal funds sold  | 9  | 32          | 2           |
| Interest-bearing deposits with other institutions         | 100  | 60          | 251         |
| Total interest income                                     | 341,277  | 316,091     | 246,884     |
| <b>INTEREST EXPENSE:</b>                                  |  |             |             |
| Deposits  | 69,297   | 67,180      | 28,908      |
| Short-term borrowings                                     | 57,847   | 55,859      | 25,487      |
| Long-term borrowings                                      | 45,469   | 17,520      | 17,701      |
| Junior subordinated debentures                            | 7,522  | 6,905       | 5,340       |
| Total interest expense                                    | 180,135  | 147,464     | 77,436      |
| NET INTEREST INCOME BEFORE PROVISION FOR<br>CREDIT LOSSES | 161,142  | 168,627     | 169,448     |
| PROVISION FOR CREDIT LOSSES                               | 4,000  | 3,000       |             |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT<br>LOSSES  | 157,142  | 165,627     | 169,448     |
| <b>OTHER OPERATING INCOME:</b>                            |  |             |             |
| Service charges on deposit accounts                       | 13,381   | 13,080      | 13,251      |
| Financial Advisory services                               | 7,226  | 7,385       | 6,652       |
| Bankcard services   | 2,530  | 2,486       | 2,453       |
| BOLI Income   | 3,839  | 3,051       | 2,797       |
| Other   | 4,349  | 6,199       | 4,668       |
| Gain/(Loss) on sale of securities, net                    |  | 1,057       | (46)        |



|  |           |           |           |
|--|-----------|-----------|-----------|
| Impairment charge on investment securities |           |           | (2,270)   |
| Total other operating income               | 31,325    | 33,258    | 27,505    |
| OTHER OPERATING EXPENSES:                  |           |           |           |
| Salaries and employee benefits             | 55,303    | 50,509    | 51,535    |
| Occupancy                                  | 10,540    | 8,572     | 8,327     |
| Equipment                                  | 7,026     | 7,025     | 7,578     |
| Stationery and supplies                    | 6,712     | 6,492     | 5,569     |
| Professional services                      | 6,274     | 5,896     | 4,268     |
| Promotion                                  | 5,953     | 6,251     | 5,835     |
| Amortization of Intangibles                | 2,969     | 2,353     | 2,061     |
| Other                                      | 10,627    | 8,726     | 4,880     |
| Total other operating expenses             | 105,404   | 95,824    | 90,053    |
| EARNINGS BEFORE INCOME TAXES               | 83,063    | 103,061   | 106,900   |
| INCOME TAXES                               | 22,479    | 32,481    | 36,710    |
| NET EARNINGS                               | \$ 60,584 | \$ 70,580 | \$ 70,190 |
| COMPREHENSIVE INCOME                       | \$ 77,935 | \$ 70,745 | \$ 47,912 |
| BASIC EARNINGS PER COMMON SHARE            | \$ 0.72   | \$ 0.84   | \$ 0.83   |
| DILUTED EARNINGS PER COMMON SHARE          | \$ 0.72   | \$ 0.83   | \$ 0.83   |
| CASH DIVIDENDS PER COMMON SHARE            | \$ 0.340  | \$ 0.355  | \$ 0.420  |

See accompanying notes to consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME  
Three Years Ended December 31, 2007**

|   | Common<br>Shares<br>Outstanding   | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Comprehensive<br>Income | Total      |
|---|-----------------------------------|-----------------|----------------------|--|-------------------------|------------|
|   | (Amounts and shares in thousands) |                 |                      |  |                         |            |
| <b>Balance January 1, 2005</b>                            | 60,666                            | 236,277         | 72,054               | 8,892  |                         | 317,223    |
| Issuance of common stock                                  | 460                               | 1,789           |                      |  |                         | 1,789      |
| 5-for-4 stock split                                       | 15,284                            |                 |                      |  |                         |            |
| Repurchase of common stock                                | (676)                             | (863)           | (11,423)             |  |                         | (12,286)   |
| Shares issued for acquisition<br>of<br>Granite State Bank | 696                               | 13,427          |                      |  |                         | 13,427     |
| Tax benefit from exercise of<br>stock options             |                                   | 2,087           |                      |  |                         | 2,087      |
| Cash dividends (\$0.42 per<br>share)                      |                                   |                 | (27,963)             |  |                         | (27,963)   |
| Comprehensive income:                                     |                                   |                 |                      |  |                         |            |
| Net earnings  |                                   |                 | 70,190               |  | \$ 70,190               | 70,190     |
| Other comprehensive income:                               |                                   |                 |                      |  |                         |            |
| Unrealized loss on securities<br>available-for-sale, net  |                                   |                 |                      | (22,278)   | (22,278)                | (22,278)   |
| Comprehensive income                                      |                                   |                 |                      |  | \$ 47,912               |            |
| <b>Balance December 31, 2005</b>                          | 76,430                            | \$ 252,717      | \$ 102,858           | \$ (13,386)  |                         | \$ 342,189 |
| Issuance of common stock                                  | 190                               | 983             |                      |  |                         | 983        |
| 10% Stock Dividend  | 7,662                             | 111,098         | (111,098)            |  |                         |            |
| Tax benefit from exercise of<br>stock options             |                                   | 331             |                      |  |                         | 331        |
| Stock-based Compensation<br>Expense                       |                                   | 953             |                      |  |                         | 953        |
| Cash dividends (\$0.36 per<br>share)                      |                                   |                 | (27,876)             |  |                         | (27,876)   |
| Comprehensive income:                                     |                                   |                 |                      |  |                         |            |
| Net earnings  |                                   |                 | 70,580               |  | \$ 70,580               | 70,580     |
| Other comprehensive income:                               |                                   |                 |                      |  |                         |            |
| Unrealized gain on securities<br>available-for-sale, net  |                                   |                 |                      | 165  | 165                     | 165        |
| Comprehensive income                                      |                                   |                 |                      |  | \$ 70,745               |            |

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|   |         |            |           |             |            |
|---|---------|------------|-----------|-------------|------------|
| <b>Balance December 31, 2006</b>                      | 84,282  | \$ 366,082 | \$ 34,464 | \$ (13,221) | \$ 387,325 |
| Issuance of common stock                              | 372     | 2,082      |           |             | 2,082      |
| Repurchase of common stock                            | (3,095) | (33,918)   |           |             | (33,918)   |
| Shares issued for acquisition of                      |         |            |           |             |            |
| First Coastal Bancshares                              | 1,606   | 18,046     |           |             | 18,046     |
| Tax benefit from exercise of stock options            |         | 544        |           |             | 544        |
| Stock-based Compensation Expense                      |         | 1,413      |           |             | 1,413      |
| Cash dividends (\$0.34 per share)                     |         |            | (28,479)  |             | (28,479)   |
| Comprehensive income:                                 |         |            |           |             |            |
| Net earnings  |         |            | 60,584    | \$ 60,584   | 60,584     |
| Other comprehensive income:                           |         |            |           |             |            |
| Unrealized gain on securities available-for-sale, net |         |            | 17,351    | 17,351      | 17,351     |
| Comprehensive income                                  |         |            |           | \$ 77,935   |            |
| <b>Balance December 31, 2007</b>                      | 83,165  | \$ 354,249 | \$ 66,569 | \$ 4,130    | \$ 424,948 |

**At December 31,**  
**2007                      2006                      2005**  
**(Amounts in thousands)**

**Disclosure of reclassification amount**

|  |           |         |             |
|--|-----------|---------|-------------|
| Unrealized holding (losses)/gains on securities arising during the period        | 29,915    | 1,341   | (40,679)    |
| Tax benefit (expense)  | (12,564)  | (563)   | 17,058      |
| <b>Less:</b>   |           |         |             |
| Reclassification adjustment for (gain)/loss on securities included in net income | 0         | (1,057) | 2,316       |
| <b>Add:</b>  |           |         |             |
| Tax (benefit)/expense on reclassification adjustments                            | 0         | 444     | (973)       |
| Net unrealized (loss) gain on securities   | \$ 17,351 | 165     | \$ (22,278) |

See accompanying notes to consolidated financial statements.

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

|   | <b>Three Years Ended December 31,</b> |               |               |
|---|---------------------------------------|---------------|---------------|
|   | <b>2007</b>                           | <b>2006</b>   | <b>2005</b>   |
|   | <b>(Dollar amounts in thousands)</b>  |               |               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                        |                                       |               |               |
| Interest and dividends received                                     | \$ 342,090                            | \$ 310,651    | \$ 250,202    |
| Service charges and other fees received                             | 31,777                                | 31,426        | 29,779        |
| Interest paid   | (182,979)                             | (146,355)     | (71,290)      |
| Cash paid to vendors and employees                                  | (99,978)                              | (93,786)      | (88,507)      |
| Income taxes paid   | (19,795)                              | (31,050)      | (31,100)      |
| <br>Net cash provided by operating activities                       | <br>71,115                            | <br>70,886    | <br>89,084    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                        |                                       |               |               |
| Proceeds from sale of FHLB Stock                                    | 5,550                                 |               |               |
| Proceeds from sales of MBS, available-for-sale                      |                                       | 57,127        | 126,598       |
| Proceeds from repayment of MBS, available-for-sale                  | 417,098                               | 416,723       | 414,804       |
| Proceeds from repayment of investment securities available-for-sale |                                       | 55            | 122           |
| Proceeds from repayment of Fed Funds Sold                           | 52,000                                |               |               |
| Proceeds from maturity of investment securities                     | 62,485                                | 7,608         | 18,598        |
| Purchases of investment securities available-for-sale               | (96,610)                              | (234,841)     | (177,415)     |
| Purchases of MBS  | (167,013)                             | (489,488)     | (677,451)     |
| Purchases of FHLB stock   | (2,927)                               | (8,096)       | (17,205)      |
| Net increase in loans and lease finance receivables                 | (284,798)                             | (394,603)     | (449,842)     |
| Proceeds from sales of premises and equipment                       | 113                                   | 2,253         | 73            |
| Purchase of premises and equipment                                  | (7,514)                               | (11,617)      | (11,881)      |
| Cash paid for acquisitions, net of cash acquired                    | 743                                   |               | 12,232        |
| Purchase of Bank Owned Life Insurance                               | (254)                                 | (25,000)      |               |
| Investment in common stock of CVB Statutory Trust III               |                                       | (774)         |               |
| <br>Net cash provided by/(used in) investing activities             | <br>(21,127)                          | <br>(680,653) | <br>(761,367) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                        |                                       |               |               |
| Net (decrease)/increase in transaction deposits                     | (142,802)                             | (62,038)      | 163,718       |
| Net (decrease)/increase in time deposits                            | (93,194)                              | 44,802        | 282,786       |
| Advances from Federal Home Loan Bank                                | 600,000                               | 850,000       | 370,000       |
| Repayment of advances from Federal Home Loan Bank                   | (480,000)                             | (620,000)     | (106,000)     |
| Net (decrease) increase in short-term borrowings                    | (173,105)                             | 319,711       | 45,980        |
| Net increase in repurchase agreements                               | 241,959                               | 94,350        |               |
| Cash dividends on common stock                                      | (28,479)                              | (27,876)      | (27,963)      |
| Repurchase of common stock  | (33,918)                              |               | (12,286)      |
| Issuance of junior subordinated debentures                          |                                       | 25,774        |               |

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|   |           |            |            |
|---|-----------|------------|------------|
| Proceeds from exercise of stock options             | 2,082     | 983        | 1,789      |
| Tax benefit related to exercise of stock options    | 544       | 331        |            |
| Net cash (used in)/provided by financing activities | (106,913) | 626,037    | 718,024    |
| NET DECREASE IN CASH AND CASH EQUIVALENTS           | (56,925)  | 16,270     | 45,741     |
| CASH AND CASH EQUIVALENTS, beginning of period      | 146,411   | 130,141    | 84,400     |
| CASH AND CASH EQUIVALENTS, end of period            | \$ 89,486 | \$ 146,411 | \$ 130,141 |

See accompanying notes to the consolidated financial statements.

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

|   | <b>Three Years Ended December 31,</b> |                  |                  |
|---|---------------------------------------|------------------|------------------|
|   | <b>2007</b>                           | <b>2006</b>      | <b>2005</b>      |
| <b>RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b> |                                       |                  |                  |
| Net earnings  | \$ 60,584                             | \$ 70,580        | \$ 70,190        |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                       |                  |                  |
| (Gain)/loss on sale of investment securities  |                                       | (1,057)          | 46               |
| (Gain)/loss on sale of premises and equipment                                       | (14)                                  | (436)            | 34               |
| Impairment charge on investment securities  |                                       |                  | 2,270            |
| Increase in cash value of life insurance  | (3,839)                               | (3,051)          | (2,253)          |
| Net amortization of premiums on investment securities                               | 3,665                                 | 7,061            | 13,195           |
| Provisions for credit losses  | 4,000                                 | 3,000            |                  |
| Stock-based compensation  | 1,413                                 | 953              |                  |
| Depreciation and amortization   | 9,571                                 | 8,036            | 8,435            |
| Change in accrued interest receivable   | (2,310)                               | (6,717)          | (5,043)          |
| Change in accrued interest payable  | (2,844)                               | 1,109            | 6,147            |
| Deferred tax provision  | 99                                    | 4,813            | (585)            |
| Change in other assets and liabilities  | 790                                   | (13,405)         | (3,352)          |
| Total adjustments   | 10,531                                | 306              | 18,894           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                    | <b>\$ 71,115</b>                      | <b>\$ 70,886</b> | <b>\$ 89,084</b> |
| <b>Supplemental Schedule of Noncash Investing and Financing Activities</b>          |                                       |                  |                  |
| <b>Purchase of First Coastal Bancshares(2007) &amp; Granite State Bank (2005):</b>  |                                       |                  |                  |
| Assets acquired   | \$ 190,711                            | \$ 826           | \$ 85,898        |
| Goodwill & Intangibles  | 30,978                                | (826)            | 21,176           |
| Liabilities assumed   | (204,387)                             |                  | (105,879)        |
| Stock issued  | (18,046)                              |                  | (13,427)         |
| Purchase price of acquisition, net of cash received                                 | \$ (743)                              | \$               | \$ (12,232)      |
| Securities purchased and not settled  |                                       | 4,029            | 25,854           |

See accompanying notes to the consolidated financial statements.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three Years Ended December 31, 2007**

**1. Summary Of Significant Accounting Policies**

The accounting and reporting policies of CVB Financial Corp. and subsidiaries are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry. 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 ) after elimination of all intercompany transactions and balances. The Company also has three inactive subsidiaries; CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp. The Company is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II, CVB Statutory Trust III, and FCB Trust I and II. CVB Statutory Trusts I and II were created in December 2003 and CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. The Company acquired trust preferred securities through the acquisition of First Coastal Bancshares ( FCB ). In accordance with Financial Accounting Standards Board Interpretation No. 46R Consolidation of Variable Interest Entities ( FIN No. 46R ), these trusts do not meet the criteria for consolidation.

*Nature of Operations* The Company s primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides automobile and equipment leasing, and brokers mortgage loans to customers through its Citizens Financial Services Division (formerly known as Golden West Financial Division) and trust services to customers through its CitizensTrust Division. The Bank s customers consist primarily of small to mid-sized businesses and individuals located in San Bernardino County, Riverside County, Orange County, Madera County, Fresno County, Tulare County, Kern County, and Los Angeles County. The Bank operates 44 Business Financial Centers with its headquarters located in the city of Ontario.

The Company s operating business units have been combined into two main segments: Business Financial Centers and Treasury. Business Financial Centers (branches) comprise the loans, deposits, products and services the Bank offers to the majority of its customers. The other segment is Treasury Department, which manages the investment portfolio of the Company. The Company s remaining centralized functions have been aggregated and included in Other.

The internal reporting of the Company considers all business units. Funds are allocated to each business unit based on its need to fund assets (use of funds) or its need to invest funds (source of funds). Net income is determined based on the actual net income of the business unit plus the allocated income or expense based on the sources and uses of funds for each business unit. Non-interest income and non-interest expense are those items directly attributable to a business unit.

*Correction of Immaterial Error* The Company revised its consolidated financial statements for the year ended December 31, 2006, 2005, and 2004, due to corrections of immaterial prior years errors identified in the current year. The Company understated tax expense for 2006 and 2005 primarily related to the accounting treatment of tax credits associated with Qualified Zone Academy Bonds and also over-accrued FHLB Stock dividend income. The result of the correction was a decrease of previously reported net income by approximately \$1.3 million for the year ended

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December 31, 2006; \$428,000 for the year ended December 31, 2005 and \$260,000 for the year ended December 31, 2004. As a result retained earnings at January 1, 2005 decreased by \$260,000. Basic earnings per share decreased by \$.01 per share from previously reported amounts for 2006 and 2005. Diluted earnings per share



**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

decreased by \$.02 per share for 2006 and \$.01 per share for 2005. The following tables present the consolidated balance sheet and statement of earnings and the effect of the change from the correction of error.

| <b>Consolidated Balance Sheet</b>   |                     |                     |                   |
|-------------------------------------|---------------------|---------------------|-------------------|
| <b>December 31, 2006</b>            |                     |                     |                   |
|                                     | <b>As</b>           |                     |                   |
|                                     | <b>Originally</b>   | <b>As</b>           | <b>Effect of</b>  |
|                                     | <b>Reported</b>     | <b>Adjusted</b>     | <b>Change</b>     |
| Cash & due from banks               | \$ 146,411          | \$ 146,411          | \$                |
| Total earning assets                | 5,704,227           | 5,704,227           |                   |
| Accrued interest receivable         | 30,225              | 29,146              | (1,079)           |
| Other Assets                        | 213,399             | 212,464             | (935)             |
| <b>Total Assets</b>                 | <b>\$ 6,094,262</b> | <b>\$ 6,092,248</b> | <b>\$ (2,014)</b> |
| <b>Total Liabilities</b>            | <b>5,704,923</b>    | <b>5,704,923</b>    |                   |
| Common Stock                        | 366,082             | 366,082             |                   |
| Retained Earnings                   | 36,478              | 34,464              | (2,014)           |
| Accumulated OCI                     | (13,221)            | (13,221)            |                   |
| <b>Total Equity</b>                 | <b>389,339</b>      | <b>387,325</b>      | <b>(2,014)</b>    |
| <b>Total Liabilities and Equity</b> | <b>\$ 6,094,262</b> | <b>\$ 6,092,248</b> | <b>\$ (2,014)</b> |

| <b>Consolidated Statement of Earnings</b> |                   |                 |                  |
|---|-------------------|-----------------|------------------|
| <b>2006</b>                               |                   |                 |                  |
|   | <b>As</b>         |                 |                  |
|   | <b>Originally</b> | <b>As</b>       | <b>Effect of</b> |
|   | <b>Reported</b>   | <b>Adjusted</b> | <b>Change</b>    |
| Total interest income                     | \$ 316,660        | \$ 316,091      | \$ (569)         |
| Total interest expense                    | 147,464           | 147,464         |                  |
| Provision for credit losses               | 3,000             | 3,000           |                  |
| <b>Net interest income</b>                | <b>166,196</b>    | <b>165,627</b>  | <b>(569)</b>     |
| Other income                              | 33,258            | 33,258          |                  |
| Other expense                             | 95,824            | 95,824          |                  |
| <b>Earnings before taxes</b>              | <b>103,630</b>    | <b>103,061</b>  | <b>(569)</b>     |
| Income Taxes                              | 31,724            | 32,481          | 757              |

|              |           |           |            |
|--------------|-----------|-----------|------------|
| Net Earnings | \$ 71,906 | \$ 70,580 | \$ (1,326) |
|--------------|-----------|-----------|------------|

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

|                        | <b>Consolidated Statement of Earnings<br/>2005</b> |                        |                             |
|------------------------|--|------------------------|-----------------------------|
|                        | <b>As<br/>Originally<br/>Reported</b>              | <b>As<br/>Adjusted</b> | <b>Effect of<br/>Change</b> |
| Total interest income  | \$ 246,948   | \$ 246,884             | \$ (64)                     |
| Total interest expense | 77,436   | 77,436                 |                             |
| Net interest income    | 169,512  | 169,448                | (64)                        |
| Other income           | 27,505   | 27,505                 |                             |
| Other expense          | 90,053   | 90,053                 |                             |
| Earnings before taxes  | 106,964  | 106,900                | (64)                        |
| Income Taxes           | 36,346   | 36,710                 | 364                         |
| Net Earnings           | \$ 70,618  | \$ 70,190              | \$ (428)                    |

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

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

*Loans and Lease Finance Receivables* Loans and lease finance receivables are reported at the principal amount outstanding less deferred net loan origination fees 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.

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

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

*Provision and Allowance for Credit Losses* The determination of the balance in the allowance for credit losses is based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflects an amount that, in management's judgment, is adequate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors as deserve current recognition in estimating inherent credit losses. The estimate is

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

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.

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, if the loan is determined to be collateral dependent.

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

*Other Real Estate Owned* Other real estate owned 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.

*Business Combinations, Goodwill 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 and Other Intangible Assets , 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 for impairment. The Company completed its annual impairment test as of July 1, 2007; there was no impairment of goodwill.

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

*Income Taxes* Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future

realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the tax law. Based on historical and future expected taxable earnings and available strategies, the Company considers the future realization of these deferred tax assets more likely than not.

The Company adopted Fin 48, Accounting for Uncertainty in Income Taxes. Fin 48 clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of other operating expense.

*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 year. The computation of diluted earnings per share considers the number of tax-effected shares issuable upon the assumed exercise of outstanding common stock options. Earnings per common share and stock option amounts have been retroactively restated to give effect to all stock splits and dividends. A reconciliation of the numerator and the denominator used in the computation of basic and diluted earnings per common share is included in Note 14.

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

*Stock Compensation Plans* At December 31, 2007, the Company has three stock-based employee compensation plans, which are described more fully in Note 15.

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment ( SFAS No. 123R ) on January 1, 2006, using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured and accounted for in accordance with SFAS No. 123R. Also under this method, unvested stock awards as of January 1, 2006 are recognized over the remaining service period with no change in historical reported earnings. Prior to the adoption of SFAS No. 123R, the Company accounted for stock compensation under the intrinsic value method permitted by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB No. 25 ) and related interpretations. Accordingly, the Company previously recognized no compensation cost for employee stock options that were granted with an exercise price equal to the market value of the underlying common stock on the date of grant. The Company provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS No. 148), as if the fair value method defined by SFAS No. 123 had been applied to its stock-based compensation.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123R requires the tax benefits resulting from deductions in excess of the compensation cost recognized for those options ( excess tax benefits ) to be classified as financing cash flows. The Company has \$544,000 and \$331,000 of excess tax benefit resulting from disqualified dispositions classified as financing activities in the Consolidated Statements of Cash Flows for the year ended December 31, 2007 and 2006, respectively.

The following table illustrates the effect on net income and earnings per share had the Company accounted for stock-based compensation in accordance with SFAS 123R for the years ended December 31, 2005:

**2005**  
**(Dollars in thousands)**

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|   |    |        |
|---|----|--------|
| Net income, as reported   | \$ | 70,190 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects |    | 1,114  |
| Pro forma net income  | \$ | 69,076 |
| Earnings per share:   |    |        |
| Basic as reported   | \$ | 0.83   |
| Basic pro forma   | \$ | 0.82   |
| Diluted as reported   | \$ | 0.83   |
| Diluted pro forma   | \$ | 0.81   |



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**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

*CitizensTrust* 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. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses. Other significant estimates which may be subject to change include fair value disclosures, impairment of investments and goodwill, and valuation of deferred tax assets and other intangibles.

*Recent Accounting Pronouncements* In September 2006, the Emerging Issues Task Force ( EITF ) reached a final consensus on Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements ( EITF 06-4 ). EITF 06-4 requires that for a split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with SFAS 106, Employers Accounting for Postretirement Benefits Other Than Pensions or APB Opinion No. 12, Omnibus Opinion 1967. Under the guidance, the purchase of an endorsement type policy does not constitute a settlement since the policy does not qualify as nonparticipating because the policyholders are subject to the favorable and unfavorable experience of the insurance company. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 06-4 did not have a material effect on the Company s consolidated financial position or results of operations.

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement No. 157, Fair Value Measurements ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 did not have a material effect on the Company s consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 are elective; however, the amendment to SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available for sale or trading securities. For financial instruments elected to be accounted for at fair value, an entity will report the unrealized gains and losses in earnings. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The adoption of SFAS No. 159 did not have a material effect on the Company s consolidated financial position or results of operations.

In December 2007, the FASB issued a revision to SFAS No. 141, Business Combinations, SFAS No. 141(R). SFAS No. 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with

limited exceptions specified in the Statement. This replaces SFAS No. 141's cost-allocation process, which required the cost of the acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS No. 141(R) is applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company does not expect the adoption of SFAS 141(R) to have a material effect on the Company's consolidated financial position or results of operations.

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**Three Years Ended December 31, 2007 (Continued)**

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interest in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for fiscal years, and interim periods, within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The Company does not expect the adoption of SFAS 160 to have a material effect on the Company's consolidated financial position or results of operations.

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

**2. Investment Securities**

The amortized cost and estimated fair value of investment securities are shown below. The majority of securities held are publicly traded, and the estimated fair values were obtained from an independent pricing service based upon market quotes.

|   | <b>December 31, 2007</b>  |  |  |                       |                          |
|---|---------------------------|--|--|-----------------------|--------------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Gain</b> | <b>Gross<br/>Unrealized<br/>Holding<br/>Loss</b> | <b>Fair<br/>Value</b> | <b>Total<br/>Percent</b> |
| <b>(Amounts in thousands)</b>                           |                           |  |  |                       |                          |
| Investment Securities                                   |                           |  |  |                       |                          |
| Available-for-Sale:                                     |                           |  |  |                       |                          |
| U.S. Treasury Obligations                               | \$ 992                    | \$ 6   | \$   | \$ 998                | 0.04%                    |
| Government agency &<br>government-sponsored enterprises | 50,192                    | 698  | (55)   | 50,835                | 2.13%                    |
| Mortgage-backed securities                              | 1,028,272                 | 4,542  | (9,753)  | 1,023,061             | 42.80%                   |
| CMOs / REMICs   | 620,526                   | 3,154  | (874)  | 622,806               | 26.05%                   |
| Municipal bonds   | 683,464                   | 12,629   | (3,227)  | 692,866               | 28.98%                   |
| Total Investment Securities                             | \$ 2,383,446              | \$ 21,029  | \$ (13,909)                                      | \$ 2,390,566          | 100.00%                  |

**December 31, 2006**  
**Gross  
Unrealized**      **Gross  
Unrealized**

|   | <b>Amortized<br/>Cost</b> | <b>Holding<br/>Gain</b> | <b>Holding<br/>Loss</b> | <b>Fair<br/>Value</b> | <b>Total<br/>Percent</b> |
|---|---------------------------|-------------------------|-------------------------|-----------------------|--------------------------|
|   | (Amounts in thousands)    |                         |                         |                       |                          |
| Investment Securities                                   |                           |                         |                         |                       |                          |
| Available-for-Sale:                                     |                           |                         |                         |                       |                          |
| U.S. Treasury securities                                | \$ 971                    | \$                      | \$ (1)                  | \$ 970                | 0.04%                    |
| Government agency &<br>government-sponsored enterprises | 68,679                    | 124                     | (503)                   | 68,300                | 2.64%                    |
| Mortgage-backed securities                              | 1,103,664                 | 1,793                   | (27,606)                | 1,077,851             | 41.73%                   |
| CMO s / REMICs  | 791,265                   | 2,589                   | (6,584)                 | 787,270               | 30.48%                   |
| Municipal bonds   | 638,391                   | 12,249                  | (4,855)                 | 645,785               | 25.00%                   |
| Other securities  | 2,726                     |                         |                         | 2,726                 | 0.11%                    |
| Total Investment Securities                             | \$ 2,605,696              | \$ 16,755               | \$ (39,549)             | \$ 2,582,902          | 100.00%                  |

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Three Years Ended December 31, 2007 (Continued)**

At December 31, 2007, approximately 98% of the mortgage-backed securities and CMO/REMICs (which represent collateralized mortgage obligations and real estate mortgage investment conduits) securities are issued by U.S. government-sponsored agencies that guarantee payment of principal and interest of the underlying mortgages.

There were no realized gains or losses during the year ended December 31, 2007. Gross realized gains were \$1.73 million and \$1.38 million for years ended December 31, 2006 and 2005, respectively. Gross realized losses were \$670,000 and \$1.42 million for years ended December 31, 2006 and 2005, respectively.

The remaining CMO/REMICs are backed by agency-pooled collateral or whole loan collateral. All non-agency CMO/REMICs issues held are rated AAA by either Standard & Poor's or Moody's, as of December 31, 2007.

| Description of Securities                            | Less than 12 Months |                                 | December 31, 2007<br>12 Months or Longer |                                 | Total        |                                 |
|--|---------------------|---------------------------------|--|---------------------------------|--------------|---------------------------------|
|  | Fair Value          | Gross Unrealized Holding Losses | Fair Value                               | Gross Unrealized Holding Losses | Fair Value   | Gross Unrealized Holding Losses |
|  |                     |                                 | (Amounts in thousands)                   |                                 |              |                                 |
| U.S. Treasury Obligations                            | \$                  | \$                              | \$                                       | \$                              | \$           | \$                              |
| Government agency & government-sponsored enterprises |                     |                                 | 10,434                                   | 55                              | 10,434       | 55                              |
| Mortgage-backed securities                           | 26,109              | 30                              | 703,159                                  | 9,723                           | 729,268      | 9,753                           |
| CMO/REMICs   | 26,131              | 32                              | 140,779                                  | 842                             | 166,910      | 874                             |
| Municipal bonds                                      | 196,945             | 2,108                           | 78,479                                   | 1,119                           | 275,424      | 3,227                           |
|  | \$ 249,185          | \$ 2,170                        | \$ 932,851                               | \$ 11,739                       | \$ 1,182,036 | \$ 13,909                       |

| Description of Securities | Less than 12 Months |                                 | December 31, 2006<br>12 Months or Longer |                                 | Total      |                                 |
|---------------------------|---------------------|---------------------------------|--|---------------------------------|------------|---------------------------------|
|                           | Fair Value          | Gross Unrealized Holding Losses | Fair Value                               | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
|                           |                     |                                 | (Amounts in thousands)                   |                                 |            |                                 |
| U.S. Treasury Obligations | \$ 970              | \$ 1                            | \$                                       | \$                              | \$ 970     | \$ 1                            |

|  |            |          |              |           |              |           |
|--|------------|----------|--------------|-----------|--------------|-----------|
| Government agency & government-sponsored enterprises | 12,040     | 45       | 41,101       | 458       | 53,141       | 503       |
| Mortgage-backed securities                           | 74,274     | 388      | 880,162      | 27,218    | 954,436      | 27,606    |
| CMO/REMICs   | 53,681     | 241      | 454,693      | 6,343     | 508,374      | 6,584     |
| Municipal bonds                                      | 276,512    | 3,474    | 60,065       | 1,381     | 336,577      | 4,855     |
|  | \$ 417,477 | \$ 4,149 | \$ 1,436,021 | \$ 35,400 | \$ 1,853,498 | \$ 39,549 |

The tables above show the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2007 and 2006. The Company has reviewed individual securities classified as available-for-sale to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition, an other-than-temporary impairment shall be considered to have occurred. If an

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other-than-temporary impairment occurs, the cost basis of the security would be written down to its fair value as a new cost basis and the write down accounted for as a realized loss.

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

*U.S. Treasury Obligations and Government Agency & Government-Sponsored Enterprise* The U.S. Treasury Obligations and government agency are backed by the full faith and credit of the U.S. Treasury and government-sponsored agencies. These securities are bullet securities, that is, they have a defined maturity date on which the principal is paid. The contractual term of these investments provides that the Bank will receive the face value of the bond at maturity which will equal the amortized cost of the bond. Interest is received throughout the life of the security. At December 31, 2007, the unrealized loss greater than 12 months of \$55,000 is comprised of one FNMA issue. This security matures within 1.5 years. The agencies are rated AAA and, although FNMA has had some accounting difficulties in the past few years, this has not impacted its credit worthiness. Because we believe the decline in market value is attributable to the changes in interest rates and not credit quality, and the Bank has the ability and intent to hold this security until recovery of fair value, which may be at maturity, the Bank does not consider this investment to be other than temporarily impaired at December 31, 2007.

*Mortgage-Backed Securities and CMO/REMICs* Almost all of the mortgage-backed and CMO/REMICs securities are issued by the government-sponsored enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying mortgages. All mortgage-backed securities are rated AAA with average life of approximately 3.5 years. The contractual cash flows of 96.5% of these investments are guaranteed by U.S. government-sponsored agencies. The remaining 3.5% are issued by banks. Accordingly, it is expected the securities would not be settled at a price less than the amortized cost of the bond. The unrealized loss greater than 12 months on these securities at December 31, 2007 is \$10.6 million. This loss is comprised of three main blocks of securities: FNMA s with a loss of \$5.2 million, Freddie Mac with a loss of \$4.9 million and non-government sponsored enterprises such as financial institutions with a loss of \$481,000. Because we believe the decline in market value is attributable to the changes in interest rates and not credit quality, and the Company has the ability and intent to hold these securities until recovery of fair value, which may be at maturity, management does not consider these investments to be other than temporarily impaired at December 31, 2007.

*Municipal Bonds* The municipal bonds in the Bank s portfolio are all rated AAA and they are insured by the largest bond insurance companies with maturities of approximately 7.7 years. The unrealized loss greater than 12 months on these securities at December 31, 2007 is \$1.11 million. As with the other securities in the portfolio, we believe this loss is due to the rising rate environment and not the credit risk of these securities. The Bank diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Bank s exposure to any single adverse event. Because we believe the decline in market value is attributable to the changes in interest rates and not credit quality, and the Bank has the ability and intent to hold these securities until recovery of fair value, which may be at maturity, the Bank does not consider these

investments to be other than temporarily impaired at December 31, 2007.

At December 31, 2007 and 2006, investment securities having an amortized cost of approximately \$2.29 billion and \$2.44 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at December 31, 2007, by contractual maturity, are shown below. Although mortgage-backed securities and CMO/REMICs have contractual maturities through 2036,



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Three Years Ended December 31, 2007 (Continued)**

expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed securities and CMO/REMICs are included in maturity categories based upon estimated prepayment speeds.

|  | <b>Amortized<br/>Cost</b>     | <b>Available-for-sale<br/>Fair Value</b> | <b>Weighted-<br/>Average<br/>Yield</b> |
|--|-------------------------------|--|--|
|  | <b>(Amounts in thousands)</b> |  |  |
| Due in one year or less                | \$ 77,617                     | \$ 78,294                                | 4.95%                                  |
| Due after one year through five years  | 1,663,627                     | 1,667,509                                | 4.73%                                  |
| Due after five years through ten years | 448,888                       | 453,114                                  | 4.73%                                  |
| Due after ten years                    | 193,817                       | 191,649                                  | 4.00%                                  |
|  | \$ 2,383,949                  | \$ 2,390,566                             | 4.68%                                  |

**3. Loan and Lease Finance Receivables**

The following is a summary of the components of loan and lease finance receivables at December 31:

|   | <b>December 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|------------------------------|------------------------------|
| Commercial and Industrial                           | \$ 365,214                   | \$ 264,416                   |
| Real Estate:  |                              |                              |
| Construction  | 308,354                      | 299,112                      |
| Commercial Real Estate                              | 1,805,946                    | 1,642,370                    |
| SFR Mortgage  | 365,849                      | 284,725                      |
| Consumer  | 58,999                       | 54,125                       |
| Municipal lease finance receivables                 | 156,646                      | 126,393                      |
| Auto and equipment leases, net of unearned discount | 58,505                       | 51,420                       |
| Dairy and Livestock                                 | 387,488                      | 358,259                      |
| Gross Loans   | 3,507,001                    | 3,080,820                    |
| Less:   |                              |                              |
| Allowance for credit losses                         | (33,049)                     | (27,737)                     |
| Deferred net loan fees                              | (11,857)                     | (10,624)                     |
| Net Loans   | \$ 3,462,095                 | \$ 3,042,459                 |

At December 31, 2007, the Company held approximately \$1.5 billion of fixed rate loans. As of December 31, 2007, 51.5% of the loan portfolio consisted of commercial real estate loans. Substantially all of the Company's real estate loans are secured by real properties located in California.

#### **4. Transactions Involving Directors and Shareholders**

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers, and the businesses with which they are associated. All such loans and commitments to lend were made under terms that are consistent with the Bank's normal lending policies. All related party loans were current as to principal and interest at December 31, 2007 and 2006.

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Three Years Ended December 31, 2007 (Continued)**

The following is an analysis of the activity of all such loans:

|  | <b>As of December 31,</b>     |             |
|--|-------------------------------|-------------|
|  | <b>2007</b>                   | <b>2006</b> |
|  | <b>(Amounts in thousands)</b> |             |
| Outstanding balance, beginning of year | \$ 8,879                      | \$ 7,303    |
| Credit granted, including renewals     | 2,273                         | 3,128       |
| Repayments                             | (2,373)                       | (1,552)     |
| Outstanding balance, end of year       | \$ 8,779                      | \$ 8,879    |

**5. Allowance for Credit Losses and Other Real Estate Owned**

Activity in the allowance for credit losses was as follows:

|  | <b>2005</b>                   | <b>2006</b> | <b>2007</b> |
|--|-------------------------------|-------------|-------------|
|  | <b>(Amounts in thousands)</b> |             |             |
| Balance, beginning of year                 | \$ 27,737                     | \$ 23,204   | \$ 22,494   |
| Provision charged to operations            | 4,000                         | 3,000       |             |
| Acquisition of First Coastal Bancshares    | 2,671                         |             | 756         |
| Loans charged off                          | (2,098)                       | (200)       | (1,380)     |
| Recoveries on loans previously charged off | 739                           | 1,733       | 1,334       |
| Balance, end of year                       | \$ 33,049                     | \$ 27,737   | \$ 23,204   |

The allowance for off-balance sheet credit exposure relates to commitments to extend credit, letters of credit and undisbursed funds on lines of credit. The Company evaluates credit risk associated with the loan and lease portfolio at the same time it evaluates credit risk associated with the off-balance sheet commitments. For 2007, the Company recorded an increase of \$1.2 million in the reserve for undisbursed commitments. As of December 31, 2007 and 2006, the balance in this reserve was \$2.9 million and \$1.7 million.

The Bank measures an impaired loan by using the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. If the calculated measurement of an impaired loan is less than the recorded investment in the loan, a portion of the Bank's general reserve is allocated as an impairment reserve.

At December 31, 2007, the Bank had classified as impaired, one loan with a balance of \$1.1 million. There were no loans classified as impaired at December 31, 2006. The average recorded investment in impaired loans during the years ended December 31, 2007, 2006, and 2005 was approximately \$804,000, \$177,000, and \$3,000, respectively. Interest income of \$161,000 was recognized, based on cash receipts, on impaired loans during the year ended December 31, 2007. No interest income was recognized, based on cash receipts, on impaired loans during the years ended December 31, 2006 and 2005.

The accrual of interest on impaired loans is discontinued when the loan becomes 90 days past due, or when the full collection of principal and interest is in doubt. When an asset is placed on non-accrual status, previously accrued but unpaid interest is reversed against income. Subsequent collections of cash may be applied as reductions to the principal balance, or recorded as income, depending on management's assessment of the ultimate collectibility of the asset. Non-accrual assets may be restored to accrual status when principal and interest become current and full payment of principal and interest is expected. For 2007, non-performing loans were \$1.4 million. Had non-performing loans for which interest was no longer accruing complied with the original terms and conditions of their

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Three Years Ended December 31, 2007 (Continued)**

notes, interest income would have been \$90,000 greater for 2007. For 2006, there were no non-performing or non-accrual loans.

The Company had no other real estate owned at December 31, 2007 or 2006. There were no expenses incurred in 2007, 2006, and 2005, related to holding and disposition of OREO.

**6. Premises and Equipment**

Premises and equipment consist of:

|   | <b>As of December 31,</b>     |             |
|---|-------------------------------|-------------|
|   | <b>2007</b>                   | <b>2006</b> |
|   | <b>(Amounts in thousands)</b> |             |
| Land                                      | \$ 7,231                      | \$ 7,231    |
| Bank premises                             | 41,618                        | 38,371      |
| Furniture and equipment                   | 44,623                        | 39,636      |
| Leased property under capital lease       | 649                           | 649         |
|   | 94,121                        | 85,887      |
| Accumulated depreciation and amortization | (47,266)                      | (40,924)    |
|   | \$ 46,855                     | \$ 44,963   |

**7. Income Taxes**

The Company is subject to federal income tax and income tax of the state of California. Our federal income tax returns for the years ended December 31, 2004, 2005 and 2006 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2003, 2004, 2005 and 2006 are open to audit by state authorities.

We record interest and penalties related to uncertain tax positions as part of other operating expense. There was no penalty or interest expense recorded as of December 31, 2007. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

Income tax expense consists of the following:

| <b>For The Years Ended December 31,</b> |             |             |
|---|-------------|-------------|
| <b>2007</b>                             | <b>2006</b> | <b>2005</b> |
| <b>(Amounts in thousands)</b>           |             |             |

|                               |           |           |           |
|-------------------------------|-----------|-----------|-----------|
| Current provision:            |           |           |           |
| Federal                       | \$ 14,138 | \$ 18,588 | \$ 26,740 |
| State                         | 8,242     | 9,080     | 10,555    |
|                               | 22,380    | 27,668    | 37,295    |
| Deferred provision (benefit): |           |           |           |
| Federal                       | 173       | 3,701     | (585)     |
| State                         | (74)      | 1,112     |           |
|                               | 99        | 4,813     | (585)     |
| Total                         | \$ 22,479 | \$ 32,481 | \$ 36,710 |

Table of Contents**CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

Income tax asset (liability) consists of the following:

|           | <b>December 31,</b>           |             |
|-----------|-------------------------------|-------------|
|           | <b>2007</b>                   | <b>2006</b> |
|           | <b>(Amounts in thousands)</b> |             |
| Current:  |                               |             |
| Federal   | \$ 9,060                      | \$ 8,681    |
| State     | (2,572)                       | (1,883)     |
|           | 6,488                         | 6,798       |
| Deferred: |                               |             |
| Federal   | (829)                         | 10,771      |
| State     | (478)                         | 2,716       |
|           | (1,307)                       | 13,487      |
| Total     | \$ 5,181                      | \$ 20,285   |

The components of the net deferred tax (liability) asset are as follows:

|   | <b>December 31,</b>           |             |
|---|-------------------------------|-------------|
|   | <b>2007</b>                   | <b>2006</b> |
|   | <b>(Amounts in thousands)</b> |             |
| <b>Federal</b>                                |                               |             |
| Deferred tax liabilities:                     |                               |             |
| Depreciation                                  | \$ 6,159                      | \$ 5,243    |
| Intangibles Acquisitions                      | 6,142                         | 4,198       |
| Deferred income                               | 8,168                         | 7,242       |
| Unrealized gain on investment securities, net | 2,482                         |             |
| Other, net                                    | 89                            | 253         |
| Gross deferred tax liability                  | 23,040                        | 16,936      |
| Deferred tax assets:                          |                               |             |
| California franchise tax                      | 2,874                         | 2,928       |
| Bad debt and credit loss deduction            | 12,551                        | 10,288      |

|   |          |           |
|---|----------|-----------|
| Net operating loss carryforward               | 1,442    | 1,470     |
| Deferred compensation                         | 2,714    | 2,756     |
| Unrealized loss on investment securities, net |          | 7,978     |
| Capital loss carryforward                     | 2,630    | 2,287     |
| Gross deferred tax asset                      | 22,211   | 27,707    |
| Net deferred tax (liability) asset federal    | \$ (829) | \$ 10,771 |



Table of Contents**CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

|   | <b>December 31,</b>           |              |
|---|-------------------------------|--------------|
|   | <b>2007</b>                   | <b>2006</b>  |
|   | <b>(Amounts in thousands)</b> |              |
| <b>State</b>                                  |                               |              |
| Deferred tax liabilities:                     |                               |              |
| Depreciation                                  | \$ 1,598                      | \$ 736       |
| Intangibles Acquisitions                      | 1,902                         | 1,299        |
| Deferred income                               | 2,530                         | 2,244        |
| Unrealized gain on investment securities, net | 508                           |              |
| Other, net                                    | 15                            | 72           |
| <br>Gross deferred tax liability              | <br>6,553                     | <br>4,351    |
| Deferred tax assets:                          |                               |              |
| Bad debt and credit loss deduction            | 3,892                         | 3,195        |
| Net operating loss carryforward               | 484                           | 793          |
| Deferred compensation                         | 885                           | 775          |
| Unrealized loss on investment securities, net |                               | 1,596        |
| Capital loss carryforward                     | 814                           | 708          |
| <br>Gross deferred tax asset                  | <br>6,075                     | <br>7,067    |
| <br>Net deferred tax (liability) asset state  | <br>\$ (478)                  | <br>\$ 2,716 |

A reconciliation of the statutory income tax rate to the consolidated effective income tax rate follows:

|   | <b>For Years Ended December 31,</b> |                |               |                |               |                |
|---|-------------------------------------|----------------|---------------|----------------|---------------|----------------|
|   | <b>2007</b>                         |                | <b>2006</b>   |                | <b>2005</b>   |                |
|   | <b>Amount</b>                       | <b>Percent</b> | <b>Amount</b> | <b>Percent</b> | <b>Amount</b> | <b>Percent</b> |
|   | <b>(amounts in thousands)</b>       |                |               |                |               |                |
| Federal income tax at statutory rate          | \$ 29,072                           | 35.0%          | \$ 36,071     | 35.0%          | \$ 37,415     | 35.0%          |
| State franchise taxes, net of federal benefit | 5,691                               | 6.9%           | 7,091         | 6.9%           | 7,229         | 6.8%           |
| Tax-exempt income                             | (12,012)                            | (14.5)%        | (10,694)      | (10.4)%        | (8,066)       | (7.5)%         |
| Other, net                                    | (272)                               | (0.3)%         | 13            | 0.0%           | 132           | 0.1%           |
|   | \$ 22,479                           | 27.1%          | \$ 32,481     | 31.5%          | \$ 36,710     | 34.3%          |

**8. Deposits**

The composition of deposits is as follows:

|                               | <b>December 31, 2007</b>      |        | <b>December 31, 2006</b> |        |
|-------------------------------|-------------------------------|--------|--------------------------|--------|
|                               | <b>(Amounts in thousands)</b> |        |                          |        |
| Non-interest bearing deposits |                               |        |                          |        |
| Demand deposits               | \$ 1,295,959                  | 38.5%  | \$ 1,363,411             | 40.0%  |
| Interest bearing deposits     |                               |        |                          |        |
| Savings Deposits              | 1,278,035                     | 38.0%  | 1,215,419                | 35.7%  |
| Time deposits                 | 790,355                       | 23.5%  | 827,978                  | 24.3%  |
| Total deposits                | \$ 3,364,349                  | 100.0% | \$ 3,406,808             | 100.0% |

Time certificates of deposit with balances of \$100,000 or more amounted to approximately \$685.5 million and \$733.7 million at December 31, 2007 and 2006, respectively. Interest expense on such deposits amounted to approximately \$33.7 million, \$31.6 million, and \$11.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

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Three Years Ended December 31, 2007 (Continued)**

At December 31, 2007, the scheduled maturities of time certificates of deposit are as follows (000 s omitted):

|                     |            |
|---------------------|------------|
| 2008                | \$ 769,397 |
| 2009                | 8,449      |
| 2010                | 8,339      |
| 2011                | 458        |
| 2012 and thereafter | 3,712      |
|                     | \$ 790,355 |

At December 31, 2007, the Company had a single depositor with certificates of deposit balances of approximately \$160.5 million.

**9. Borrowings**

During 2007 and 2006, the Bank entered into short-term borrowing agreements with the FHLB. The Bank had outstanding balances of \$954.0 million and \$887.9 million under these agreements at December 31, 2007 and 2006, respectively, with weighted-average interest rates of 4.67% and 4.28%, respectively. FHLB held certain investment securities of the Bank as collateral for those borrowings. The average outstanding balance of short-term borrowings for 2007 and 2006 was \$1.1 billion and \$1.3 billion, respectively. The maximum outstanding at any month-end was \$1.8 billion during 2007 and \$1.7 billion during 2006. On December 31, 2007 and 2006, the Bank entered into overnight agreements with certain financial institutions and customers with a balance outstanding of \$430.8 million and \$301.4 million, respectively, at a weighted average annual interest rate of 3.85% and 5.08%, respectively.

In June 2006, the Company purchased securities totaling \$250.0 million. This purchase was funded by a repurchase agreement of \$250.0 million with a double cap embedded in the repurchase agreement. The interest rate on this agreement is tied to three-month LIBOR and resets quarterly. The Company entered into this arrangement to protect itself from continued rising rates while benefiting from declining rates.

In November 2006, we began a repurchase agreement product with our customers. This product, known as Citizens Sweep Manager, sells our securities overnight to our customers under an agreement to repurchase them the next day. As of December 31, 2007 and 2006, total funds borrowed under these agreements were \$336.3 million and \$94.4 million, respectively, with weighted average interest rates of 4.23% and 4.63%.

The Bank entered into an agreement, known as the Treasury Tax & Loan ( TT&L ) Note Option Program, in 1996 with the Federal Reserve Bank and the U.S. Department of the Treasury in which federal tax deposits made by depositors can be held by the Bank until called (withdrawn) by the U.S. Department of the Treasury. The maximum amount of accumulated federal tax deposits allowable to be held by the Bank, as set forth in the agreement, is \$15.0 million. On December 31, 2007 and 2006, the amounts held by the Bank in the TT&L Note Option Program were \$540,000 and \$7.2 million respectively, collateralized by securities. Amounts are payable on demand. The Bank borrows at a variable rate of 86 and 75 basis points less than the average weekly federal funds rate, which was 5.03% and 5.08% at

December 31, 2007 and 2006, respectively. The average amounts held in 2007 and 2006 were \$3.1 million and \$3.9 million, respectively.

During 2007 and 2006, the Bank entered into long-term borrowing agreements with the FHLB. The Bank had outstanding balances of \$700.0 million under these agreements at December 31, 2007 and 2006, with weighted-average interest rates of 4.88% and 4.90% in 2007 and 2006, respectively. FHLB held certain investment securities of the Bank as collateral for those borrowings. The maturity dates of the outstanding balances at December 31, 2007 are as follows: \$200.0 million in 2009, \$400.0 million in 2010 and \$100.0 million in 2011.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Bank acquired subordinated debt of \$5.0 million from the acquisition of FCB in June 2007 which is included in long-term borrowings. The debt has a variable interest rate which resets quarterly at three-month LIBOR plus 1.65%. The debt matures on January 7, 2016, but becomes callable on January 7, 2011.

**10. Junior Subordinated Debentures**

On December 17, 2003, CVB Statutory Trust I completed a \$40,000,000 offering of Trust Preferred Securities and used the gross proceeds from the offering and other cash, totaling \$41,238,000 to purchase a like amount of junior subordinated debenture of the Company. The junior subordinated debenture was issued concurrent with the issuance of the Trust Preferred Securities. The interest on junior subordinated debenture, paid by the Company to CVB Statutory Trust I, represents the sole revenues of CVB Statutory Trust I and the sole source of dividend distribution to the holders of the Trust Preferred Securities. The Company has fully and conditionally guaranteed all of CVB Statutory Trust I's obligations under the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payments of interest on the junior subordinated debenture at any time for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature on December 17, 2033, but become callable in part or in total on December 17, 2008 by CVB Statutory Trust I. The Trust Preferred Securities have a fixed interest rate of 6.51% during the first five years, after which the interest rate will float and reset quarterly at the three-month Libor rate plus 2.85%.

On December 15, 2003, CVB Statutory Trust II completed a \$40,000,000 offering of Trust Preferred Securities and used the gross proceeds from the offering and other cash totaling \$41,238,000 to purchase a like amount of junior subordinated debenture of the Company. The junior subordinated debenture was issued concurrent with the issuance of the Trust Preferred Securities. The interest on junior subordinated debenture, paid by the Company to CVB Statutory Trust II, represents the sole revenues of CVB Statutory Trust II and the sole source of dividend distribution to the holders of the Trust Preferred Securities. The Company has fully and conditionally guaranteed all of CVB Statutory Trust II's obligations under the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payments of interest on the junior subordinated debenture at any time for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature on January 7, 2034, but become callable in part or in total on January 7, 2009 by CVB Statutory Trust II. The Trust Preferred Securities have a fixed interest rate of 6.46% during the first five years, after which the interest rate will float and reset quarterly at the three-month Libor rate plus 2.85%.

On January 31, 2006, CVB Statutory Trust III completed a \$25,000,000 offering of Trust Preferred Securities and used the gross proceeds from the offering and other cash totaling \$25,774,000 to purchase a like amount of junior subordinated debenture of the Company. The junior subordinated debenture was issued concurrent with the issuance of the Trust Preferred Securities. The interest on junior subordinated debenture, paid by the Company to CVB Statutory Trust III, represents the sole revenues of CVB Statutory Trust III and the sole source of dividend distribution to the holders of the Trust Preferred Securities. The Company has fully and conditionally guaranteed all of CVB Statutory Trust III's obligations under the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payments of interest on the junior subordinated debenture at any time for a period not to exceed 20 consecutive quarters. The Trust Preferred Securities will mature on March 15, 2036, but become callable in part or in total on March 15, 2011 by CVB Statutory Trust III. The Trust Preferred Securities have a variable per annum rate equal to LIBOR (as defined in the indenture dated as of January 31, 2006 ( Indenture ) between the Company and

U.S. Bank National Association, as debenture trustee) plus 1.38% (the Variable Rate ). As of December 31, 2007, the three-month LIBOR was 4.85%.

On June 22, 2007, we acquired FCB Statutory Trust I and II as a result of the FCB acquisition. Junior subordinated debentures were issued concurrent with the issuance of the Trust Preferred Securities. The Trust Preferred Securities under Trust I had a principal amount of \$804,120 with a fixed interest rate of 11.875%. The maturity date was December 31, 2028 and was callable at par. We paid-off this trust during the fourth quarter of

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Three Years Ended December 31, 2007 (Continued)**

2007. The Trust Preferred Securities under Trust II have a principal amount of \$6.8 million and mature on October 7, 2033. These securities become callable on July 7, 2008 and have a variable per annum rate equal to LIBOR plus 3.25%.

**11. Commitments and Contingencies***Leases*

The Company leases land and buildings under operating leases for varying periods extending to 2020, at which time the Company can exercise options that could extend certain leases through 2026. The future minimum annual rental payments required for leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2007, excluding property taxes and insurance, are as follows (000 s omitted):

|                                 |           |
|---------------------------------|-----------|
| 2008                            | \$ 5,468  |
| 2009                            | 4,606     |
| 2010                            | 3,549     |
| 2011                            | 2,985     |
| 2012                            | 2,568     |
| Succeeding years                | 7,258     |
| Total minimum payments required | \$ 26,434 |

Total rental expense for the Company was approximately \$5.0 million, \$4.2 million, and \$4.0 million for the years ended December 31, 2007, 2006, and 2005, respectively.

*Commitments*

At December 31, 2007, the Company had commitments to extend credit of approximately \$747.5 million and obligations under letters of credit of \$60.9 million. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. The Bank uses the same credit underwriting policies in granting or accepting such commitments or contingent obligations as it does for on-balance-sheet instruments, which consist of evaluating customers' creditworthiness individually. The Company has a reserve for undisbursed commitments of \$2.9 million as of December 31, 2007.

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

commitments. Management does not anticipate any material losses as a result of these transactions.

The Bank has available lines of credit totaling \$621.1 million from certain financial institutions of which \$221.7 million were secured by pledged securities and loans.

***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



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**CVB FINANCIAL CORP. AND SUBSIDIARIES**

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Three Years Ended December 31, 2007 (Continued)**

one-thousandth of a share of our Series A Participating Preferred Stock at an exercise price of \$50.00 (subject to adjustment) upon the occurrence of certain triggering events.

The rights become exercisable, and will begin to trade separately from the Common Stock of the Company, upon the earlier of (i) 10 days following a public announcement that a person or group of affiliated persons has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding Common Stock or (ii) ten business days (or such later day as determined by the Board) after a person or group announces a tender offer or exchange offer, the consummation of which would result in ownership by a person or group of 20% or more of our Common Stock. Each right will entitle the holder to purchase Common Stock of the Company having a current market value of twice the exercise price of the right. If the Company is acquired through a merger or other business combination transaction, or if there is a sale of more than 50% of our assets or earning power, each right will entitle the holder (other than rights held by the acquiring person) to purchase, at the exercise price, common stock of the acquiring entity having a value of twice the exercise price at the time.

The Company's Board of Directors has the option, at any time after a person becomes a 20% holder of our outstanding common stock, to exchange all or part of the rights (other than rights held by the acquiring person) for shares of common stock of the Company provided the Company may not make such an exchange after the person becomes the beneficial owner of 50% or more of our outstanding stock.

The Company may redeem the rights for \$.01 each at any time on, or prior to, public announcement that a person has become the beneficial owner of 20% or more of our common stock. The rights will expire on June 21, 2010, unless earlier redeemed or exchanged.

***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. As of December 31, 2007, the Company does not have any litigation reserves and is not aware of any material pending legal action or complaint asserted against the Company.

**12. Deferred Compensation Plans**

As a result of the acquisition of Citizens Commercial Trust and Savings Bank of Pasadena ( CCT&SB ) in 1996, the Bank assumed deferred compensation and salary continuation agreements with several former employees of CCT&SB. These agreements call for periodic payments at the retirement of such employees who have normal retirement dates through 2021. In connection with these agreements, the Bank assumed life insurance policies, which it intends to use to fund the related liability. Benefits paid to retirees amounted to approximately \$106,000 in 2007, \$106,000 in 2006, and \$108,000 in 2005.

The Bank also assumed a death benefit program for certain former employees of CCT&SB, under which the Bank will provide benefits to the former employees' beneficiaries: 1) in the event of death while employed by the Bank; 2) after termination of employment for total and permanent disability; 3) after retirement, if retirement occurs after age 65. Amounts are to be paid to the former employees' beneficiaries over a 10-year period in equal installments. Further, the

Bank assumed life insurance policies to fund any future liability related to this program. Amounts paid for the benefit of retirees totaled approximately \$45,000 in 2007, \$62,000 in 2006, and \$135,000 in 2005.

The Company assumed certain deferred compensation and salary continuation agreements as a result of the merger with Orange National Bancorp ( ONB ) in 1999. These agreements called for periodic payments over 180 months in the event that ONB experienced a merger, acquisition, or other act wherein the employees were not retained in similar positions with the surviving company. Amounts paid under these agreements totaled approximately \$60,000 in each of 2007, 2006, and 2005.

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Three Years Ended December 31, 2007 (Continued)**

The Company assumed certain deferred compensation and salary continuation agreements as a result of the merger with Western Security Bank ( WSB ) in 2002. These agreements called for periodic payments over 180 months in the event that WSB experienced a merger, acquisition, or other act wherein the employees were not retained in similar positions with the surviving company. Amounts paid under these agreements totaled approximately \$498,000 in each of 2007, 2006 and 2005.

In 2003, the acquired Kaweah National Bank ( KNB ) had severance arrangements with several of its officers should they not retain a similar position upon a change of control. These monies totaling \$879,000 were paid into a Rabbi Trust by KNB prior to the closing of the acquisition. Amounts paid under these agreements totaled approximately \$118,950 in 2007, \$48,750 in 2006 and \$121,000 in 2005.

In February 2006, the acquired Granite State Bank ( GSB ) had a severance arrangement with an officer should he not retain a similar position upon a change of control. The total of \$1.2 million was paid into a Rabbi Trust by GSB prior to the closing of the acquisition. No amount was paid under this agreement in 2007 and 2006.

The total expense recorded under these deferred compensation agreements was \$326,000 in 2007, \$349,000 in 2006, and \$462,000 in 2005.

On December 22, 2006, the Company approved a deferred compensation plan for its President and Chief Executive Officer, Christopher D. Myers. Under the Plan, which became effective on January 1, 2007, Mr. Myers may defer up to 75% of his base salary and up to 100% of his bonus for each calendar year in which the Plan is effective. The Company has the discretion to make additional contributions to the Plan for the benefit of Mr. Myers.

On March 31, 2007, the Company approved the Executive Non-qualified Excess Plan, a deferred compensation plan for certain management employees to provide a means by which they may elect to defer receipt of compensation in order to provide retirement benefits. The Plan is intended to be unfunded and primarily serve the purpose of providing deferred compensation benefits for a select group of employees.

**13. 401(k) and Profit-Sharing Plan**

The Bank sponsors a 401(k) and profit-sharing plan for the benefit of its employees. Employees are eligible to participate in the plan immediately upon hire. Employees may make contributions to the plan under the plan's 401(k) component. The Bank contributes 3%, non-matching, to the plan to comply with ERISA's safe harbor provisions. The Bank may make additional contributions under the plan's profit-sharing component, subject to certain limitations. The Bank's total contributions are determined by the Board of Directors and amounted to approximately \$1.3 million in 2007, \$2.7 million in 2006 and \$2.6 million in 2005.

**14. Earnings Per Share Reconciliation**

| <b>Income</b> | <b>Weighted<br/>Average<br/>Shares</b> | <b>Per Share</b> |
|---------------|--|------------------|
|---------------|--|------------------|

**(Numerator) (Denominator) Amount**  
**(Amount and share in thousands,**  
**except per share amount)**

**2007**

|   |           |        |         |
|---|-----------|--------|---------|
| Basic EPS   |           |        |         |
| Income available to common stockholders                         | \$ 60,584 | 83,600 | \$ 0.72 |
| Effect of Dilutive Securities                                   |           |        |         |
| Incremental shares from assumed exercise of outstanding options |           | 406    | 0.00    |
| Diluted EPS   |           |        |         |
| Income available to common stockholders                         | \$ 60,584 | 84,006 | \$ 0.72 |

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Three Years Ended December 31, 2007 (Continued)**

|   | <b>Income<br/>(Numerator)<br/>(Amount and share in thousands,<br/>except per share amount)</b> | <b>Weighted<br/>Average<br/>Shares<br/>(Denominator)</b> | <b>Per Share<br/>Amount</b> |
|---|--|--|-----------------------------|
| <b>2006</b>   |  |  |                             |
| Basic EPS   |  |  |                             |
| Income available to common stockholders                         | \$ 70,580  | 84,154   | \$ 0.84                     |
| Effect of Dilutive Securities                                   |  |  |                             |
| Incremental shares from assumed exercise of outstanding options |  | 660  | (0.01)                      |
| Diluted EPS   |  |  |                             |
| Income available to common stockholders                         | \$ 70,580  | 84,814   | \$ 0.83                     |
| <b>2005</b>   |  |  |                             |
| Basic EPS   |  |  |                             |
| Income available to common stockholders                         | \$ 70,190  | 84,139   | \$ 0.83                     |
| Effect of Dilutive Securities                                   |  |  |                             |
| Incremental shares from assumed exercise of outstanding options |  | 773  | 0.00                        |
| Diluted EPS   |  |  |                             |
| Income available to common stockholders                         | \$ 70,190  | 84,912   | \$ 0.83                     |

**15. Stock Option Plans and Restricted Stock Grants**

In May 2000, the Company approved a stock option plan that authorizes the issuance of up to 6,499,024 shares (all share amounts have been adjusted to reflect stock dividends and splits) of our stock, and expires in March 2010. The Company also has a stock option plan approved in 1991 that authorized the issuance of up to 3,882,209 shares and expired in February 2001. The stock option plans were established to help the Company retain and motivate key employees and to compensate outside directors for their service to the Company. The plans authorize the issuance of both incentive and non-qualified stock options. Under both plans option prices are determined at the fair market value of such shares on the date of grant; those options generally vest based on 5 years of continuous service, which is the requisite service period, and have 10-year contractual terms.

As a result of adopting SFAS 123R on January 1, 2006, the Company expensed \$1.4 million and \$953,000 for the years ended December 31, 2007 and 2006, respectively.

The estimated fair value of the options granted during 2007 and prior years was calculated using the Black-Scholes options pricing model. There were 72,500, 604,946 and 141,625 options granted during 2007, 2006, and 2005

respectively. The fair value of each stock option granted in 2007, 2006, and 2005 was estimated on the date of grant using the following weighted-average assumptions:

|                         | <b>2007</b> | <b>2006</b> | <b>2005</b> |
|-------------------------|-------------|-------------|-------------|
| Dividend Yield          | 3.0%        | 2.2%        | 1.8%        |
| Volatility              | 39.3%       | 40.0%       | 40.4%       |
| Risk-free interest rate | 4.1%        | 5.1%        | 4.4%        |
| Expected life           | 7.2 years   | 7.4 years   | 6.9 years   |
| Fair Value              | \$ 3.85     | \$ 5.67     | \$ 5.54     |

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Three Years Ended December 31, 2007 (Continued)**

The expected volatility is solely based on the daily historical stock price volatility over the expected option life. The expected life of options granted is derived from the output of the option valuation model and represents the period of time an optionee will hold an option before exercising it. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury five-year constant maturity yield curve in effect at the time of the grant.

Option activity under the Company's stock option plan as of December 31, 2007 and December 31, 2006 and changes for the years ended December 31, 2007 and 2006 were as follows:

| <b>Options</b>                                  | <b>Number of<br/>Stock<br/>Options<br/>Outstanding<br/><br/>(000)</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term (in<br/>Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/><br/>(\$000)</b> |
|---|---|--|---|---|
| Outstanding at January 1, 2007                  | 2,398   | \$ 9.91  |   |   |
| Granted   | 73  | \$ 11.23   |   |   |
| Exercised                                       | (375)   | \$ 5.55  |   |   |
| Forfeited or expired                            | (53)  | \$ 13.49   |   |   |
| Outstanding at December 31, 2007                | 2,043   | \$ 10.66   | 5.81  | \$ 3,024  |
| Vested or expected to vest at December 31, 2007 | 1,241   | \$ 8.97  | 4.47  | \$ 2,991  |
| Exercisable at December 31, 2007                | 1,253   | \$ 8.97  | 4.47  | \$ 3,022  |

The weighted-average grant-date fair value of options granted was \$3.85, \$5.67 and \$5.54 for 2007, 2006, and 2005, respectively. The total intrinsic value of options exercised during the year ended 2007, 2006 and 2005 was \$1.9 million, \$1.2 million and \$7.0 million, respectively. SFAS 123R requires an estimate of forfeitures be used in the calculation. The Company estimates its forfeiture rates based on its historical experience. The forfeiture rate for 2007 was 1.02%.

As of December 31, 2007, there was \$2.9 million of total unrecognized compensation cost related to nonvested options granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 3.1 years. The total fair value of options vested was \$1.4 million during 2007 and \$1.1 million during 2006 and 2005. Cash received from stock option exercises was \$2.1 million, \$1.0 million, and \$1.8 million in 2007, 2006, and 2005, respectively.

As of December 31, 2007, 2006, and 2005, the Company had 3,973,499, 3,970,618, and 4,463,003 shares of common stock, respectively, available for granting of future options under the 2000 Stock Option Plan.

At December 31, 2007, options for the purchase of 2,042,911 shares of Company common stock were outstanding under the above plans, of which options to purchase 1,253,458 shares were exercisable at prices ranging from \$1.10 to \$15.53; 3,973,499 shares of common stock were available for the granting of future options under the May 2000 plan.

On August 1, 2006, we granted 50,000 (55,000 after the 10% stock dividend) shares of restricted stock at \$13.02 per share to our new President and Chief Executive Officer, Christopher D. Myers. The fair values of non-vested shares is determined based on the closing trading price of the Company's stock on the grant date. The stock will vest, in equal installments, over a five-year period. As of December 31, 2007, there were 11,000 shares vested. Compensation cost is recognized over the requisite service period, which is five years, and amounted to \$144,000 and \$60,000 during the years ended December 31, 2007 and 2006, respectively. Total unrecognized compensation cost related to shares was \$512,000 at December 31, 2007.



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Three Years Ended December 31, 2007 (Continued)**

A summary of the status of the Company's non-vested restricted shares as of December 31, 2007 and changes during the year ended December 31, 2007, is presented below:

| <b>Nonvested Restricted Shares</b> | <b>Shares<br/>(000)</b> | <b>2007<br/>Weighted<br/>Average<br/>Fair Value</b> |
|------------------------------------|-------------------------|---|
| Nonvested at January 1,            | 55                      | \$ 13.02  |
| Granted                            |                         | \$  |
| Vested                             | 11                      | \$ 13.02  |
| Forfeited                          |                         | \$  |
| Nonvested at December 31,          | 44                      | \$ 13.02  |

All per share prices and number of shares have been retroactively adjusted to reflect the 10% stock dividend declared December 20, 2006 and paid January 19, 2007, the 5-for-4 stock split declared on December 21, 2005, which became effective January 10, 2006, and the 5-for-4 stock split declared December 15, 2004, which became effective December 29, 2004.

The Company has a policy of issuing new shares to satisfy share option exercises.

**16. Regulatory Matters**

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct, material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgment by the regulators about components, risk-weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (primarily common stock and retained earnings, less goodwill) to risk-weighted assets, and of Tier I capital to average assets. Management believes that, as of December 31, 2007 and 2006, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007 and 2006, the most recent notifications from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the minimum total risk-based, Tier I risk-based, and Tier I leverage (tangible Tier I capital divided by average total assets) ratios as set forth in the table below must be maintained. There are no conditions or events since said notification that management believes have changed the Bank's category.

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

The Company has \$115.1 million of trust-preferred securities, which are included in Tier 1 capital for regulatory purposes. The actual amount and capital ratios of the Company and the Bank at December 31 are as follows:

|  | <b>Actual<br/>Amount<br/>(000s)</b> | <b>Ratio</b> | <b>For Capital<br/>Adequacy<br/>Purposes:<br/>Amount<br/>(000s)</b> | <b>Ratio</b>      | <b>To Be Well<br/>Capitalized<br/>under<br/>Prompt<br/>Corrective<br/>Action<br/>Provisions:<br/>Amount<br/>(000s)</b> | <b>Ratio</b>       |
|--|-------------------------------------|--------------|---|-------------------|--|--------------------|
| As of December 31, 2007:                             |                                     |              |   |                   |  |                    |
| Total Capital (to Risk-<br>Weighted Assets) Company  | \$502,770                           | 11.9%        | \$336,864   | <sup>3</sup> 8.0% |  | N/A                |
| Bank   | \$471,762                           | 11.2%        | \$335,774   | <sup>3</sup> 8.0% | \$419,717  | <sup>3</sup> 10.0% |
| Tier I Capital (to Risk-<br>Weighted Assets) Company | \$461,864                           | 11.0%        | \$168,410   | >4.0%             |  | N/A                |
| Bank   | \$435,857                           | 10.4%        | \$167,799   | >4.0%             | \$251,698  | >6.0%              |
| Tier I Capital (to Average-<br>Assets) Company       | \$461,864                           | 7.6%         | \$244,372   | >4.0%             |  | N/A                |
| Bank   | \$435,857                           | 7.1%         | \$244,520   | >4.0%             | \$305,650  | >5.0%              |
| As of December 31, 2006:                             |                                     |              |   |                   |  |                    |
| Total Capital (to Risk-<br>Weighted Assets) Company  | \$497,416                           | 13.0%        | \$305,867   | >8.0%             |  | N/A                |
| Bank   | \$450,402                           | 11.8%        | \$305,616   | <sup>3</sup> 8.0% | \$382,020  | <sup>3</sup> 10.0% |
| Tier I Capital (to Risk-<br>Weighted Assets) Company | \$467,946                           | 12.2%        | \$152,924   | <sup>3</sup> 4.0% |  | N/A                |
| Bank   | \$420,932                           | 11.0%        | \$152,788   | <sup>3</sup> 4.0% | \$229,183  | <sup>3</sup> 6.0%  |
| Tier I Capital (to Average-<br>Assets) Company       | \$467,946                           | 7.8%         | \$240,280   | <sup>3</sup> 4.0% |  | N/A                |
| Bank   | \$420,932                           | 7.0%         | \$240,189   | <sup>3</sup> 4.0% | \$300,237  | <sup>3</sup> 5.0%  |

In addition, California Banking Law limits the amount of dividends a bank can pay without obtaining prior approval from bank regulators. Under this law, the Bank could, as of December 31, 2007, declare and pay additional dividends of approximately \$98,606,000.

Banking regulations require that all banks maintain a percentage of their deposits as reserves at the Federal Reserve Board ( FRB ). On December 31, 2007, this reserve requirement was approximately \$200,000.



**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)****17. Fair Value Information**

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company could have realized in a current market exchange as of December 31, 2007 and 2006. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

|  | 2007               |   | 2006               |                         |
|--|--------------------|---|--------------------|-------------------------|
|  | Carrying<br>Amount | Estimated<br>Fair Value<br>(Amounts in thousands) | Carrying<br>Amount | Estimated<br>Fair Value |
| <b>Assets</b>  |                    |   |                    |                         |
| Cash and cash equivalents                                  | \$ 89,486          | \$ 89,486   | \$ 146,411         | \$ 146,411              |
| Interest-bearing balances due from depository institutions |                    |   |                    |                         |
| FHLB Stock   | 79,983             | 79,983  | 78,866             | 78,866                  |
| Investment securities available for sale                   | 2,390,566          | 2,390,566   | 2,582,902          | 2,582,902               |
| Loans and lease finance receivables, net                   | 3,462,095          | 3,489,626   | 3,042,459          | 3,041,813               |
| Accrued interest receivable                                | 29,734             | 29,734  | 30,225             | 30,225                  |
| <b>Liabilities</b>   |                    |   |                    |                         |
| Deposits:  |                    |   |                    |                         |
| Noninterest-bearing  | \$ 1,295,959       | \$ 1,295,959                                      | \$ 1,363,411       | \$ 1,363,411            |
| Interest-bearing   | 2,068,390          | 2,068,785   | 2,043,397          | 2,041,416               |
| Demand note to U.S. Treasury                               | 540                | 540   | 7,245              | 7,245                   |
| Short-term borrowings                                      | 1,389,809          | 1,389,809   | 1,189,250          | 1,189,250               |
| Long-term borrowings                                       | 950,000            | 984,145   | 950,000            | 947,849                 |
| Junior subordinated debentures                             | 115,055            | 106,385   | 108,250            | 132,293                 |
| Accrued interest payable                                   | 13,312             | 13,312  | 16,156             | 16,156                  |

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value are explained below:

The carrying amount of cash and cash equivalents is considered to be a reasonable estimate of fair value. For investment securities, fair values are based on quoted market prices, dealer quotes, and prices obtained from an independent pricing service.

The carrying amount of loans and lease finance receivables is their contractual amounts outstanding, reduced by deferred net loan origination fees and the allocable portion of the allowance for credit losses. Variable rate loans are

composed primarily of loans whose interest rates float with changes in the prime interest rate. The carrying amount of variable rate loans, other than such loans on non-accrual status, is considered to be their estimated fair value.

The fair value of fixed rate loans, other than such loans on non-accrual status, was estimated by discounting the remaining contractual cash flows using the estimated current rate at which similar loans would be made to borrowers with similar credit risk characteristics and for the same remaining maturities, reduced by deferred net loan origination fees and the allocable portion of the allowance for credit losses. Accordingly, in determining the estimated current rate for discounting purposes, no adjustment has been made for any change in borrowers' credit

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

risks since the origination of such loans. Rather, the allocable portion of the allowance for credit losses is considered to provide for such changes in estimating fair value.

The fair value of loans on non-accrual status has not been specifically estimated because it is not practicable to reasonably assess the credit risk adjustment that would be applied in the marketplace for such loans. As such, the estimated fair value of total loans at December 31, 2007 and 2006 includes the carrying amount of non-accrual loans at each respective date.

The fair value of commitments to extend credit and standby letters of credit were not significant at either December 31, 2007 or 2006, as these instruments predominantly have adjustable terms and are of a short-term nature.

The amounts of accrued interest receivable on loans and lease finance receivables and investments are considered to be stated at fair value.

The amounts payable to depositors for demand, savings, money market accounts, the demand note to the U.S. Treasury, short-term borrowings, and the related accrued interest payable are considered to be stated at fair value. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value of long-term borrowings and junior subordinated debentures is estimated using the rates currently offered for borrowings of similar remaining maturities.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2007 and 2006. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

**18. Goodwill and Intangible Assets**

*In June 2007, the Bank acquired FCB.* At the date of the acquisition, FCB had \$190.7 million in total assets, \$140.0 million in total loans, and \$193.5 million in total deposits. The Company issued 1,605,523 common shares and paid \$18.0 million in cash in connection with the purchase of FCB. This transaction gave rise to \$7.3 million in amortizable intangibles and \$23.6 million in goodwill. The weighted average amortization period for amortizable intangibles was 6 years.

During 2005, the Company acquired GSB and recorded an intangible asset classified as core deposit intangible in the amount of \$8.4 million and \$12.0 million in goodwill. The weighted average amortization period for amortizable intangibles was 7 years.

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Three Years Ended December 31, 2007 (Continued)**

The following is a summary of amortizable intangible assets, which consist of core deposit intangibles, at December 31:

|  | <b>2007</b>                          |  | <b>2006</b>                          |                                     |
|--|--------------------------------------|--|--------------------------------------|-------------------------------------|
|  | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization<br/>(amounts in thousands)</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> |
| <b>Amortizing intangible assets</b>    | \$ 27,095                            | \$ (12,484)  | \$ 19,636                            | \$ (9,515)                          |
| <b>Aggregate Amortization Expense:</b> |                                      |  |                                      |                                     |
| For year ended December 31,            | \$ 2,969                             |  | \$ 2,353                             |                                     |
| <b>Estimated Amortization Expense:</b> |                                      |  |                                      |                                     |
| For the year ended December 31:        |                                      |  |                                      |                                     |
| For the year ended 2008                | \$ 3,591                             |  |                                      |                                     |
| For the year ended 2009                | \$ 2,990                             |  |                                      |                                     |
| For the year ended 2010                | \$ 2,936                             |  |                                      |                                     |
| For the year ended 2011                | \$ 2,841                             |  |                                      |                                     |
| For the year ended 2012                | \$ 1,600                             |  |                                      |                                     |
| Thereafter                             | \$ 653                               |  |                                      |                                     |

At December 31, 2007 the weighted average remaining life of intangible assets is approximately 4.0 years.

The change in the carrying amount of goodwill for the years ended December 31, 2007 and 2006 are as follows:

|  | <b>2007</b>                   | <b>2006</b> |
|--|-------------------------------|-------------|
|  | <b>(Amounts in thousands)</b> |             |
| Balance as of January 1  | \$ 31,531                     | \$ 32,357   |
| Goodwill acquired during the year                                      | 23,636                        |             |
| Purchase price adjustment related to acquisition of Granite State Bank |                               | (826)       |
| Balance as of December 31  | \$ 55,167                     | \$ 31,531   |

**19. Business Segments**

The Company has identified two principal reportable segments: Business Financial Centers and the Treasury Department. The Company's subsidiary bank has 44 Business Financial Centers (branches), organized in 5 geographic regions, which are the focal points for customer sales and services. The company utilizes an internal reporting system to measure the performance of various operating segments within the Bank which is the basis for determining the



Bank's reportable segments. The Chief Operating Decision Maker regularly reviews the financial information of these segments in deciding how to allocate resources and assessing performance. The Bank's geographic regions are considered operating segments and have been aggregated for segment reporting purposes because the products and services are similar and are sold to similar types of customers, have similar production and distribution processes, have similar economic characteristics, and have similar reporting and organizational structures. The Treasury Department's primary focus is managing the Bank's investments, liquidity, and interest rate risk. Information related to the Company's remaining operating segments which include construction lending, dairy and livestock lending, SBA lending and leasing, centralized functions have been aggregated and included in Other. In addition, the Company allocates internal funds transfer pricing to the segments using a methodology that charges users of funds interest expense and credits providers of funds interest income with the net effect of this allocation being recorded in administration.

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Three Years Ended December 31, 2007 (Continued)**

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

The following tables present the operating results and other key financial measures for the individual operating segments for the year ended December 31, 2007, 2006 and 2005:

|  | <b>Business<br/>Financial<br/>Centers</b> | <b>Treasury</b> | <b>Other</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---|-----------------|--------------|---------------------|--------------|
| <b>2007</b>  |   |                 |              |                     |              |
| Interest income, including loan fees                     | \$ 169,955                                | \$ 119,544      | \$ 51,778    | \$                  | \$ 341,277   |
| Credit for funds provided(1)                             | 64,187                                    |                 | 9,582        | (73,769)            |              |
| Total interest income                                    | 234,142                                   | 119,544         | 61,360       | (73,769)            | 341,277      |
| Interest expense   | 63,120                                    | 99,230          | 17,785       |                     | 180,135      |
| Charge for funds used(1)                                 | 14,728                                    | 30,468          | 28,573       | (73,769)            |              |
| Total interest expense                                   | 77,848                                    | 129,698         | 46,358       | (73,769)            | 180,135      |
| Net interest income                                      | 156,294                                   | (10,154)        | 15,002       |                     | 161,142      |
| Provision for credit losses                              |   |                 | 4,000        |                     | 4,000        |
| Net interest income after provision<br>for credit losses | \$ 156,294                                | \$ (10,154)     | 11,002       | \$                  | \$ 157,142   |
| Non-interest income                                      | 18,148                                    | 1               | 13,176       |                     | 31,325       |
| Non-interest expense                                     | 44,558                                    | 1,148           | 59,698       |                     | 105,404      |
| Segment pretax profit (loss)                             | \$ 129,884                                | \$ (11,301)     | \$ (35,520)  | \$                  | \$ 83,063    |

|   |              |              |            |    |              |
|---|--------------|--------------|------------|----|--------------|
| Segment assets as of December 31,<br>2007 | \$ 3,486,922 | \$ 2,096,731 | \$ 710,310 | \$ | \$ 6,293,963 |
|---|--------------|--------------|------------|----|--------------|

**Table of Contents****CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)**

|  | <b>Business<br/>Financial<br/>Centers</b> | <b>Treasury</b> | <b>Other</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---|-----------------|--------------|---------------------|--------------|
| <b>2006</b>  |   |                 |              |                     |              |
| Interest income, including loan fees                     | \$ 148,595                                | \$ 121,438      | \$ 46,058    | \$                  | \$ 316,091   |
| Credit for funds provided(1)                             | 71,068                                    |                 | 6,821        | (77,889)            |              |
| Total interest income                                    | 219,663                                   | 121,438         | 52,879       | (77,889)            | 316,091      |
| Interest expense   | 50,762                                    | 87,821          | 8,881        |                     | 147,464      |
| Charge for funds used(1)                                 | 7,707                                     | 28,018          | 42,164       | (77,889)            |              |
| Total interest expense                                   | 58,469                                    | 115,839         | 51,045       | (77,889)            | 147,464      |
| Net interest income                                      | 161,194                                   | 5,599           | 1,834        |                     | 168,627      |
| Provision for credit losses                              |   |                 | 3,000        |                     | 3,000        |
| Net interest income after provision<br>for credit losses | \$ 161,194                                | \$ 5,599        | \$ (1,166)   | \$                  | \$ 165,627   |
| Non-interest income                                      | 15,136                                    | 1,058           | 17,064       |                     | 33,258       |
| Non-interest expense                                     | 41,258                                    | 1,123           | 53,443       |                     | 95,824       |
| Segment pretax profit (loss)                             | \$ 135,072                                | \$ 5,534        | \$ (37,545)  | \$                  | \$ 103,061   |
| Segment assets as of December 31,<br>2006                | \$ 3,354,892                              | \$ 2,271,341    | \$ 466,015   | \$                  | \$ 6,092,248 |
| <b>2005</b>  |   |                 |              |                     |              |
| Interest income, including loan fees                     | \$ 115,102                                | \$ 98,524       | \$ 33,258    | \$                  | \$ 246,884   |
| Credit for funds provided(1)                             | 42,372                                    |                 | 2,232        | (44,604)            |              |
| Total interest income                                    | 157,474                                   | 98,524          | 35,490       | (44,604)            | 246,884      |
| Interest expense   | 22,041                                    | 49,687          | 5,708        |                     | 77,436       |
| Charge for funds used(1)                                 | 4,191                                     | 26,059          | 14,354       | (44,604)            |              |
| Total interest expense                                   | 26,232                                    | 75,746          | 20,062       | (44,604)            | 77,436       |
| Net interest income                                      | 131,242                                   | 22,778          | 15,428       |                     | 169,448      |

|  |              |              |             |    |              |
|--|--------------|--------------|-------------|----|--------------|
| Provision for credit losses                              |              |              |             |    |              |
| Net interest income after provision<br>for credit losses | \$ 131,242   | \$ 22,778    | \$ 15,428   | \$ | \$ 169,448   |
| Non-interest income                                      | 12,256       | 2            | 15,247      |    | 27,505       |
| Non-interest expense                                     | 38,064       | 3,538        | 48,451      |    | 90,053       |
| Segment pretax profit (loss)                             | \$ 105,434   | \$ 19,242    | \$ (17,776) | \$ | \$ 106,900   |
| Segment assets as of December 31,<br>2005                | \$ 3,164,269 | \$ 1,856,453 | \$ 401,561  | \$ | \$ 5,422,283 |

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

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Three Years Ended December 31, 2007 (Continued)****20. Condensed Financial Information of Parent Company****CONDENSED****BALANCE SHEETS**

|  | <b>2007</b>                   | <b>2006</b> |
|--|-------------------------------|-------------|
|  | <b>(Amounts in thousands)</b> |             |
| Assets:                                    |                               |             |
| Investment in subsidiaries                 | \$ 510,337                    | \$ 449,363  |
| Other assets, net                          | 43,234                        | 54,942      |
| Total assets                               | \$ 553,571                    | \$ 504,305  |
| Liabilities                                | \$ 128,623                    | \$ 116,980  |
| Stockholders' equity                       | 424,948                       | 387,325     |
| Total liabilities and stockholders' equity | \$ 553,571                    | \$ 504,305  |

**CONDENSED****STATEMENTS OF EARNINGS**

|  | <b>2007</b>                   | <b>2006</b> | <b>2005</b> |
|--|-------------------------------|-------------|-------------|
|  | <b>(Amounts in thousands)</b> |             |             |
| Excess in net earnings of subsidiaries | \$ 19,632                     | \$ 40,903   | \$ 38,055   |
| Dividends from the Bank                | 46,800                        | 34,560      | 35,150      |
| Other expense, net                     | (5,848)                       | (4,883)     | (3,015)     |
| Net earnings                           | \$ 60,584                     | \$ 70,580   | \$ 70,190   |

Table of Contents**CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)****CONDENSED****STATEMENTS OF CASH FLOWS**

|  | <b>2007</b>                   | <b>2006</b>      | <b>2005</b>     |
|--|-------------------------------|------------------|-----------------|
|  | <b>(Amounts in thousands)</b> |                  |                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                               |                  |                 |
| Net earnings   | \$ 60,584                     | \$ 70,580        | \$ 70,190       |
| Adjustments to reconcile net earnings to cash used in by operating activities: |                               |                  |                 |
| Earnings of subsidiaries   | (66,432)                      | (75,463)         | (73,205)        |
| Other operating activities, net  | 1,205                         | (2,182)          | (984)           |
| Total adjustments  | (65,227)                      | (77,645)         | (74,189)        |
| Net cash used in operating activities  | (4,643)                       | (7,065)          | (3,999)         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |                               |                  |                 |
| Investment in CVB Statutory Trust III  |                               | (774)            |                 |
| Cash acquired from First Coastal Bancshares                                    | 601                           |                  |                 |
| Dividends received from the Bank   | 46,800                        | 34,560           | 35,150          |
| Net cash provided by investing activities                                      | 47,401                        | 33,786           | 35,150          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |                               |                  |                 |
| Cash dividends on common stock   | (28,479)                      | (27,876)         | (27,963)        |
| Proceeds from exercise of stock options  | 2,082                         | 983              | 1,789           |
| Tax benefit from exercise of stock options                                     | 544                           | 331              |                 |
| Repayment of advance from the Bank   |                               |                  | (2,336)         |
| Repurchase of common stock   | (33,918)                      |                  | (12,286)        |
| Issuance of junior subordinated debentures                                     |                               | 25,774           |                 |
| Net cash (used in) financing activities  | (59,771)                      | (788)            | (40,796)        |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                    | <b>(17,013)</b>               | <b>25,933</b>    | <b>(9,645)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                            | <b>34,959</b>                 | <b>9,026</b>     | <b>18,671</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                  | <b>17,946</b>                 | <b>\$ 34,959</b> | <b>\$ 9,026</b> |





Table of Contents**CVB FINANCIAL CORP. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Three Years Ended December 31, 2007 (Continued)****21. Quarterly Financial Data (Unaudited)**

Summarized quarterly financial data follows:

|                                  | <b>Three Months Ended</b>                               |                |                     |                    |
|----------------------------------|---|----------------|---------------------|--------------------|
|                                  | <b>March 31</b>   | <b>June 30</b> | <b>September 30</b> | <b>December 31</b> |
|                                  | <b>(Amounts in thousands, except per share amounts)</b> |                |                     |                    |
| <b>2007</b>                      |   |                |                     |                    |
| Net interest income              | \$ 39,764   | \$ 38,282      | \$ 41,708           | \$ 41,388          |
| Provision for credit losses      |   |                |                     | 4,000              |
| Net earnings                     | 15,142  | 15,954         | 16,121              | 13,367             |
| Basic earnings per common share  | 0.19  | 0.18           | 0.19                | 0.16               |
| Diluted earning per common share | 0.19  | 0.18           | 0.19                | 0.16               |
| <b>2006</b>                      |   |                |                     |                    |
| Net interest income              | \$ 43,854   | \$ 43,057      | \$ 41,730           | \$ 39,986          |
| Provision for credit losses      | 250   | 900            | 1,250               | 600                |
| Net earnings                     | 18,007  | 18,608         | 18,066              | 15,899             |
| Basic earnings per common share  | 0.22  | 0.22           | 0.21                | 0.19               |
| Diluted earning per common share | 0.21  | 0.22           | 0.21                | 0.19               |

\* \* \* \* \*

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
CVB Financial Corp.:

We have audited the accompanying consolidated balance sheet of CVB Financial Corp. and subsidiaries (the Company) as of December 31, 2007, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVB Financial Corp. and subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CVB Financial Corp.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG, LLP  
KPMG, LLP

Costa Mesa, California  
February 28, 2008

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
CVB Financial Corp.

We have audited the consolidated balance sheet of CVB Financial Corp. and subsidiaries as of December 31, 2006, and the related consolidated statements of earnings, stockholders' equity and comprehensive income and cash flows for each of the two years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CVB Financial Corp. and subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment, in 2006 and changed its method of accounting for stock-based compensation.

As discussed in Note 1 to the consolidated financial statements, the financial statements have been restated for the correction of an immaterial error related to accrual of FHLB stock dividend income and understated income tax expense.

/s/ McGladrey & Pullen, LLP  
McGladrey & Pullen, LLP

Pasadena, California

February 28, 2007, except for (the seventh paragraph in) Note 1, as to which the date is February 28, 2008

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**INDEX TO EXHIBITS**

**Exhibit  
No.**

|          |  |
|----------|--|
| 3.1      | Articles of Incorporation of the Company, as amended   |
| 3.2      | Bylaws of Company, as amended(1)   |
| 3.3      | Certificate of Determination of Participating Preferred Stock of Registrant (See Exhibit 4.2 hereto)   |
| 4.1      | Form of Registrant's Common Stock certificate(2)   |
| 4.2      | Preferred Shares Rights Agreement, dated as of June 21, 2000, between CVB Financial Corp. and U.S. Stock Transfer Corp., including the Certificate of Determination, the form of Rights Certificate and the Summary of Rights(3) |
| 4.3      | Certificate of Determination of Participating Preferred Stock of Registrant (See Exhibit 4.2 hereto)   |
| 4.4      | Form of Rights Certificate (See Exhibit 4.2 hereto)  |
| 4.5      | Summary of Rights (See Exhibit 4.2 hereto)   |
| 10.1(a)  | Employment Agreement by and among Christopher D. Myers, CVB Financial Corp. and Citizens Business Bank, dated June 1, 2006 (4)   |
| 10.1(b)  | Restricted Stock Agreement by and between CVB Financial Corp. and Christopher D. Myers dated June 1, 2006 (4)  |
| 10.1(c)  | Deferred Compensation Plan for Christopher D. Myers, effective January 1, 2007 (14)  |
| 10.2     | Chino Valley Bank Profit Sharing Plan, as amended (5)  |
| 10.3     | Form of Indemnification Agreement(6)   |
| 10.4     | CVB Financial Corp. 1991 Stock Option Plan, as amended (7)   |
| 10.5     | CVB Financial Corp. 2000 Stock Option Plan (8)   |
| 10.6     | Form 2000 Stock Option Agreement for Employees and Directors (1)   |
| 10.7     | CVB Financial Corp. Discretionary Performance Compensation Plan 2007 (9)   |
| 10.8     | The Executive NonQualified Excess Plan <sup>sm</sup> Plan Document effective February 21, 2009 (14)  |
| 10.9     | Severance Compensation Agreement for Jay W. Coleman, dated March 15, 2006 (10)   |
| 10.10    | Severance Compensation Agreement for Edward J. Biebrich dated March 15, 2006 (10)  |
| 10.11    | Severance Compensation Agreement for Edward J. Mylett, dated March 15, 2006 (10)   |
| 10.12    | Outside Directors' Compensation(11)  |
| 10.13    | Base Salaries for Named Executive Officers of the Registrant(12)   |
| 10.14(a) | Offer letter for Christopher A. Walters, dated June 13, 2007(13)   |
| 10.14(b) | Severance Compensation Agreement for Christopher A. Walters, dated June 27, 2007(13)   |
| 12       | Statement regarding computation of ratios (included in Form 10-K)  |
| 21       | Subsidiaries of Company (included in Form 10-K)  |
| 23.1     | Consent of McGladrey & Pullen, LLP   |
| 23.2     | Consent of KPMG LLP  |
| 31.1     | Certification of Christopher D. Myers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2     | Certification of Edward J. Biebrich, Jr. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 32.1     | Certification of Christopher D. Myers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2     | Certification of Edward J. Biebrich, Jr. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |

Indicates a management contract or compensation plan.

\* Except as noted below, Form 8-A12G, Form 8-K and Form 10-K identified in the exhibit index have SEC file number 000-10140.

ΔWe have entered into the following trust preferred security issuances and agree to furnish a copy to the SEC upon request:

(a) Indenture dated as of December 17, 2003 by and between CVB Financial Corp. and U.S. Bank, National Association, as Trustee (CVB Statutory Trust I).

(b) Indenture dated as of December 5, 2003 by and between CVB Financial Corp. and Wells Fargo Bank, National Association, as Trustee (CVB Statutory Trust II).

(c) Indenture by and between CVB Financial Corp. and U.S. Bank, National Association, as Trustee, dated as of January 31, 2006 (CVB Statutory Trust III).

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- (1) Incorporated herein by reference from our Current Report on Form 8-K filed with the SEC on June 26, 2006.
- (2) Incorporated herein by reference from our Form 8-A12G filed with the SEC on June 11, 2001.
- (3) Incorporated herein by reference from our Form 8-A12G filed with the SEC on June 22, 2000.
- (4) Incorporated herein by reference from our Current Report on Form 8-K filed with the SEC on June 7, 2006.
- (5) Filed as Exhibits 10.3 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, Commission file number 1-10394, which is incorporated herein by this reference.
- (6) Filed as Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, Commission file number 1-10394, which is incorporated herein by this reference.
- (7) Incorporated herein by reference from our Quarterly Report on Form 10-Q filed with the SEC on May 13, 1998, Commission file number 1-10394.
- (8) Incorporated herein by reference from our Registration Statement on Form S-8 filed with the SEC on July 12, 2000, Commission file number 333-41198.
- (9) Incorporated herein by reference from our Current Report on Form 8-K filed with the SEC on April 24, 2007.
- (10) Incorporated herein by reference from our Current Report on Form 8-K filed with the SEC on March 21, 2006.
- (11) Incorporated herein by reference from our Annual Report on Form 10-K filed with the SEC on March 14, 2005.
- (12) Incorporated herein by reference from our Current Report on Form 8-K filed with the SEC on April 3, 2007.
- (13) Incorporated herein by reference from our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2007.
- (14) Incorporated by reference from our Annual Report on Form 10-K filed with the SEC on March 1, 2007.