

Edgar Filing: CVB FINANCIAL CORP - Form 10-Q

CVB FINANCIAL CORP  
Form 10-Q  
May 09, 2008

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

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

For the quarterly period ended March 31, 2008

or

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

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

Commission File Number: 0-10140

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

California	95-3629339
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
701 North Haven Ave, Suite 350, Ontario, California	91764
(Address of Principal Executive Offices)	(Zip Code)
(Registrant's telephone number, including area code)	(909) 980-4030

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer or smaller reporting company. See definition 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock of the registrant: 83,095,678 outstanding as of May 5, 2008.

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**CVB FINANCIAL CORP.**  
**2008 QUARTERLY REPORT ON FORM 10-Q**

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**PART I FINANCIAL INFORMATION (UNAUDITED)**

**ITEM 1. FINANCIAL STATEMENTS**

**CVB FINANCIAL CORP. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(unaudited)**

**Dollar amounts in thousands**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 110,102	\$ 89,486
Investment securities available-for-sale	2,546,367	2,390,566
Investment securities held-to-maturity	7,638	
Interest-bearing balances due from depository institutions	475	475
Investment in stock of Federal Home Loan Bank (FHLB)	85,852	79,983

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	March 31, 2008	December 31, 2007
Loans and lease finance receivables, net	3,392,192	3,495,144
Allowance for credit losses	(34,711)	(33,049)
Total earning assets	5,997,813	5,933,119
Premises and equipment, net	46,585	46,855
Bank owned life insurance	104,499	103,400
Accrued interest receivable	29,452	29,734
Intangibles	13,713	14,611
Goodwill	55,097	55,167
Other assets	17,541	21,591
<b>TOTAL ASSETS</b>	<b>\$6,374,802</b>	<b>\$6,293,963</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 1,218,660	\$ 1,295,959
Interest-bearing	2,042,008	2,068,390
Total deposits	3,260,668	3,364,349
Demand Note to U.S. Treasury	3,622	540
Repurchase agreements	616,502	586,309
Short-term borrowings	1,140,851	1,048,500
Long-term borrowings	605,000	705,000
Deferred tax liabilities	14,808	1,307
Accrued interest payable	17,156	13,312
Deferred compensation	8,984	8,166
Junior subordinated debentures	115,055	115,055
Other liabilities	140,367	26,477
<b>TOTAL LIABILITIES</b>	<b>5,923,013</b>	<b>5,869,015</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
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 83,095,678 (2008) and 83,164,906 (2007)	353,928	354,249
Retained earnings	75,089	66,569
Accumulated other comprehensive income, net of tax	22,772	4,130
Total stockholders equity	451,789	424,948
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$6,374,802</b>	<b>\$6,293,963</b>

See accompanying notes to the consolidated financial statements.

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(unaudited)

Dollar amounts in thousands, except per share

	For the Three Months Ended March 31,	
	2008	2007
Interest income:		
Loans, including fees	\$54,046	\$52,714
Investment securities:		
Taxable	20,877	23,093
Tax-preferred	7,188	7,231
Total investment income	28,065	30,324
Dividends from FHLB stock	1,093	1,138
Federal funds sold and Interest bearing deposits with other institutions	15	6
Total interest income	83,219	84,182
Interest expense:		
Deposits	12,278	17,158
Short-term borrowings	15,188	10,130
Long-term borrowings	9,764	15,331
Junior subordinated debentures	1,859	1,799
Total interest expense	39,089	44,418
Net interest income before provision for credit losses	44,130	39,764
Provision for credit losses	1,700	
Net interest income after provision for credit losses	42,430	39,764
Other operating income:		
Service charges on deposit accounts	3,745	3,276
Trust and Investment Services	1,913	1,951
Bankcard services	581	602
BOLI income	1,072	896
Other	829	1,173
Total other operating income	8,140	7,898
Other operating expenses:		
Salaries and employee benefits	15,543	14,072
Occupancy and Equipment	4,520	4,140
Professional services	1,541	1,103
Amortization of intangibles	898	588
Other	5,897	5,997
Total other operating expenses	28,399	25,900
Earnings before income taxes	22,171	21,762
Income taxes	5,987	6,620
Net earnings	\$16,184	\$15,142
Comprehensive income	\$34,826	\$20,573
Basic earnings per common share	\$ 0.19	\$ 0.18
Diluted earnings per common share	\$ 0.19	\$ 0.18
Cash dividends per common share	\$ 0.085	\$ 0.085

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See accompanying notes to the consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income	Total
<b>Balance January 1, 2008</b>	83,165	\$ 354,249	\$ 66,569	\$ 4,130		\$ 424,948
Issuance of common stock	2	7				7
Repurchase of common stock	(71)	(650)				(650)
Stock-based Compensation Expense		322				322
Adoption of EITF 06-4 Split Dollar Life Insurance			(571)			(571)
Cash dividends (\$0.085 per share)			(7,093)			(7,093)
Comprehensive income:						
Net earnings			16,184		\$ 16,184	16,184
Other comprehensive income:						
Unrealized gain on securities available-for-sale, net				18,642	18,642	18,642
Comprehensive income					\$ 34,826	
<b>Balance March 31, 2008</b>	83,096	\$ 353,928	\$ 75,089	\$ 22,772		\$ 451,789

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Comprehensive Income	Total
<b>Balance January 1, 2007</b>	84,282	\$ 366,082	\$ 34,464	\$ (13,221)		\$ 387,325
Issuance of common stock	69	386				386
Repurchase of common stock	(814)	(9,819)				(9,819)
Tax benefit from exercise of stock options		143				143
Stock-based Compensation Expense		292				292
Cash dividends (\$0.085 per share)			(7,109)			(7,109)
Comprehensive income:						
Net earnings			15,142		\$ 15,142	15,142
Other comprehensive income(loss):						
Unrealized gain on securities available-for-sale, net				5,431	5,431	5,431
Comprehensive income					\$ 20,573	
<b>Balance March 31, 2007</b>	83,537	\$ 357,084	\$ 42,497	\$ (7,790)		\$ 391,791

At March 31,

	At March 31,	
	2008	2007
<b>Disclosure of reclassification amount</b>		
Unrealized gains on securities arising during the period	\$ 32,142	\$ 9,362
Tax expense	(13,500)	(3,931)
Net unrealized gain on securities	\$ 18,642	\$ 5,431

See accompanying notes to the consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Interest and dividends received	\$ 82,743	\$ 83,873
Service charges and other fees received	8,127	8,331
Interest paid	(35,245)	(40,710)
Cash paid to vendors and employees	(32,731)	(29,786)
Net cash provided by operating activities	22,894	21,708
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from repayment of MBS	85,161	119,476
Proceeds from repayment of investment securities	590	
Proceeds from maturity of investment securities	4,240	3,355
Purchases of investment securities available-for-sale		(16,073)
Purchases of investment securities held-to-maturity	(7,716)	
Purchases of MBS	(94,906)	(2,742)
Purchases of FHLB stock	(5,869)	(1,960)
Net decrease/(increase) in loans and lease finance receivables	103,497	(25,947)
Proceeds from sales of premises and equipment	44	37
Purchase of premises and equipment	(1,501)	(2,184)
Purchase of Bank Owned Life Insurance	(28)	
Net cash provided by investing activities	83,512	73,962
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in transaction deposits	(51,041)	(22,820)
Net (decrease)/increase in time deposits	(52,640)	5,624
Advances from Federal Home Loan Bank	100,000	600,000
Repayment of advances from Federal Home Loan Bank	(50,000)	(275,000)
Net decrease in borrowings	(54,567)	(529,177)
Net increase in repurchase agreements	30,194	113,672
Cash dividends on common stock	(7,093)	(7,109)
Repurchase of common stock	(650)	(9,819)
Proceeds from exercise of stock options	7	386

	For the Three Months Ended March 31,	
Tax benefit related to exercise of stock options		143
Net cash used in financing activities	(85,790)	(124,100)
NET DECREASE IN CASH AND CASH EQUIVALENTS	20,616	(28,430)
CASH AND CASH EQUIVALENTS, beginning of period	89,486	146,411
CASH AND CASH EQUIVALENTS, end of period	\$ 110,102	\$ 117,981

See accompanying notes to the consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2008	2007
<b>RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net earnings	\$ 16,184	\$ 15,142
Adjustments to reconcile net earnings to net cash provided by operating activities:		
(Gain)/Loss on sale of premises and equipment	31	(7)
Increase in bank owned life insurance	(1,072)	(896)
Net amortization of premiums on investment securities	446	893
Provisions for credit losses	1,700	
Stock-based compensation	322	292
Depreciation and amortization	2,661	2,123
Change in accrued interest receivable	282	(1,179)
Change in accrued interest payable	3,844	3,708
Change in other assets and liabilities	(1,504)	1,632
Total adjustments	6,710	6,566
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 22,894	\$ 21,708

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES**

Securities purchased and not settled	\$ 119,112	\$
Other Real Estate Owned (OREO)	\$ 1,137	\$

See accompanying notes to the consolidated financial statements.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

For the three months ended March 31, 2008 and 2007

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated unaudited financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission for Form 10-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim financial reporting. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the Securities and Exchange Commission. In the opinion of management, the accompanying condensed consolidated unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair representation of financial results for the interim periods presented. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

**Principles of Consolidation** The consolidated financial statements include the accounts of CVB Financial Corp. (the Company) and its wholly owned subsidiary: Citizens Business Bank (the Bank) after elimination of all intercompany transactions and balances. The Company also has three inactive subsidiaries; CVB Ventures, Inc.; Chino Valley Bancorp; and ONB Bancorp. The Company is also the common stockholder of CVB Statutory Trust I, CVB Statutory Trust II and CVB Statutory Trust III. 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 also 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 offers trust services to customers through its CitizensTrust Division. The Bank's customers consist primarily of small to mid-sized businesses and individuals located in San Bernardino County, Riverside County, Orange County, Los Angeles County, Madera County, Fresno County, Tulare County, and Kern County. The Bank operates 45 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) is comprised of loans, deposits, products and services the Bank offers to the majority of its customers. The other segment is Treasury, which manages the investment portfolio of the Company. The Company's remaining centralized functions and eliminations of inter-segment amounts have been aggregated and included in Other.

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

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

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

**Investment Securities** The Company classifies as held-to-maturity those debt securities that the Company has the positive intent and ability to hold to maturity. Securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term. All other debt and equity securities are classified as available-for-sale. Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized 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



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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. Interest on loans and lease finance receivables is credited to income based on the principal amount outstanding. Interest income is not recognized on loans and lease finance receivables when collection of interest is deemed by management to be doubtful. In the ordinary course of business, the Company enters into commitments to extend credit to its customers. These commitments are not reflected in the accompanying consolidated financial statements. As of March 31, 2008, the Company entered into commitments with certain customers amounting to \$866.5 million compared to \$747.5 million at December 31, 2007. Letters of credit at March 31, 2008, and December 31, 2007, were \$62.2 million and \$60.9 million, respectively.

The