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

# Form 10-K

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

For the fiscal year ended December 31, 2019
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:** 000-10140

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

| | |
|---|---|
| **California**<br>(State or other jurisdiction of incorporation or organization) | **95-3629339**<br>(I.R.S. Employer Identification No.) |
| **701 N. Haven Avenue, Suite 350**<br>**Ontario, California**<br>(Address of Principal Executive Offices) | **91764**<br>(Zip Code) |

Registrant's telephone number, including area code: **(909) 980-4030**
Securities registered pursuant to Section 12(b) of the Act:

| Title of Class | Trading Symbol | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock, no par value | CVBF | 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 ☐

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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, 2019, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $2,790,086,587.

Number of shares of common stock of the registrant outstanding as of February 14, 2020: 140,108,098.

| **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, 2019 | Part III of Form 10-K |

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**CVB FINANCIAL CORP.**

**2019 ANNUAL REPORT ON FORM 10-K**

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## INTRODUCTION

### Cautionary Note Regarding Forward-Looking Statements

Certain statements in this report constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, Rule 175 promulgated thereunder, Section 21E of the Securities and Exchange Act of 1934, as amended, Rule 3b-6 promulgated thereunder, or Exchange Act, and as such involve risk and uncertainties. All statements in this Form 10-K other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws. Words such as “will likely result, “aims”, “anticipates”, “believes”, “could”, “estimates”, “expects”, “hopes”, “intends”, “may”, “plans”, “projects”, “seeks”, “should”, “will”, “strategy”, “possibility”, and variations of these words and similar expressions help to identify these forward looking statements, which involve risks and uncertainties.

These forward-looking statements relate to, among other things, anticipated future operating and financial performance, the allowance for loan losses, our financial position and liquidity, business strategies, regulatory and competitive outlook, investment and expenditure plans, capital and financing needs and availability, plans and objectives of management for future operations, expectations of the environment in which we operate, projections of future performance, perceived opportunities in the market and strategies regarding our mission and vision and statements relating to any of the foregoing. Factors that could cause actual results to differ from those discussed in the forward-looking statements include but are not limited to:

- local, regional, national and international economic and market conditions and political events and the impact they may have on us, our customers and our assets and liabilities;
- our ability to attract deposits and other sources of funding or liquidity;
- supply and demand for commercial or residential real estate and periodic deterioration in real estate prices and/or values in California or other states where we lend;
- a sharp or prolonged slowdown or decline in real estate construction, sales or leasing activities;
- changes in the financial performance and/or condition of our borrowers, depositors, key vendors or counterparties;
- changes in our levels of delinquent loans, nonperforming assets, allowance for loan losses and charge-offs;
- the costs or effects of mergers, acquisitions or dispositions we may make, whether we are able to obtain any required governmental approvals in connection with any such mergers, acquisitions or dispositions, and/or our ability to realize the contemplated financial or business benefits associated with any such mergers, acquisitions or dispositions;
- the effect of changes in laws, regulations and applicable judicial decisions (including laws, regulations and judicial decisions concerning financial reforms, taxes, bank capital levels, allowance for loan losses, consumer, commercial or secured lending, securities and securities trading and hedging, bank operations, compliance, fair lending, the Community Reinvestment Act, employment, executive compensation, insurance, cybersecurity, vendor management and information security) with which we and our subsidiaries must comply or believe we should comply or which may otherwise impact us;
- the effects of additional legal and regulatory requirements to which we have or will become subject as a result of our total assets exceeding $10 billion, which first occurred in the third quarter of 2018 due to the closing of our merger transaction with Community Bank;
- changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant regulatory and accounting requirements, including changes in the Basel Committee framework establishing capital standards for bank credit, operations and market risk;

- the accuracy of the assumptions and estimates and the absence of technical error in implementation or calibration of models used to estimate the fair value of financial instruments or incurred or currently expected credit losses or delinquencies;
- inflation, changes in market interest rate, securities market and monetary fluctuations;
- changes in government or bank-established interest rates, reference rates (including the anticipated phase-out of LIBOR) or monetary policies;
- changes in the amount, cost and availability of deposit insurance;
- disruptions in the infrastructure that supports our business and the communities where we are located, which are concentrated in California, involving or related to physical site access and /or communications facilities;
- cyber incidents, or theft or loss of Company, customer or employee data or money;
- political developments, uncertainties or instability, catastrophic events, acts of war or terrorism, or natural disasters, such as earthquakes, drought, the effects of pandemic diseases (including the novel coronavirus), climate change or extreme weather events, that affect electrical, environmental, computer servers, and communications or other services we use or that affect our assets, customers, employees or third parties with whom we conduct business;
- our timely development and acceptance of new banking products and services and the perceived overall value of these products and services by our customers and potential customers;
- the Company's relationships with and reliance upon vendors with respect to certain of the Company's key internal and external systems and applications and controls;
- changes in commercial or consumer spending, borrowing and savings preferences or behaviors;
- technological changes and the expanding use of technology in banking (including the adoption of mobile banking, funds transfer applications, electronic marketplaces for loans, blockchain technology and other banking products, systems or services);
- our ability to retain and increase market share, retain and grow customers and control expenses;
- changes in the competitive environment among banks and other financial service and technology providers;
- competition and innovation with respect to financial products and services by banks, financial institutions and non-traditional providers including retail businesses and technology companies;
- volatility in the credit and equity markets and its effect on the general economy or local or regional business conditions or on the Company's assets and customers;
- fluctuations in the price of the Company's common stock or other securities, and the resulting impact on the Company's ability to raise capital or make acquisitions;
- the effect of changes in accounting policies and practices, as may be adopted from time-to-time by the principal regulatory agencies with jurisdiction over the Company, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard-setters;
- changes in our organization, management, compensation and benefit plans, and our ability to retain or expand or contract our workforce, management team, key executive positions and/or board of directors;
- the costs and effects of legal, compliance and regulatory actions, changes and developments, including the initiation and resolution of legal proceedings (including any securities, bank operations, financial product, consumer or employee class action litigation);

- regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations or reviews;
- our ongoing relations with our various federal and state regulators, including the SEC, Federal Reserve Board, FDIC and California DBO; and
- our success at managing the risks involved in the foregoing items and all other factors set forth in the Company's public reports and releases.

For additional information concerning risks we face, see "Item 1A. *Risk Factors*" and any additional information we set forth in our periodic reports filed pursuant to the Exchange Act, including our Annual Report on Form 10-K. We do not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances arising after the date of such statements, except as required by law. Any statements about future operating results, such as those concerning accretion and dilution to the Company's earnings or shareholders, are for illustrative purposes only, are not forecasts, and actual results may differ.

# 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", "our" or the "Company") is a bank holding company incorporated in California on April 27, 1981 and registered with the Board of Governors of the Federal Reserve System ("Federal Reserve") 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 ("CBB" or the "Bank"). The Bank is our principal asset. The Company also has one inactive subsidiary, Chino Valley Bancorp. The Company is also the common stockholder of CVB Statutory Trust III. CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company.

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. CVB has not engaged in any other material 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 and capital raised directly by CVB. 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 — Regulation and Supervision — Dividends*." As of December 31, 2019, the Company had $11.28 billion in total consolidated assets, $7.50 billion in net loans, $8.70 billion in deposits, and $1.99 billion in shareholders' equity.

On August 10, 2018, we completed the acquisition of Community Bank ("CB"), a California banking corporation headquartered in Pasadena, California. At such time, CB merged with and into the Bank and we issued approximately 29.8 million shares of Company common stock and paid approximately $180.7 million in aggregate cash consideration to the former Community Bank shareholders. Our consolidated financial operations for 2018 include CB operations, post-merger. See Note 4 — *Business Combinations* included herein.

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 the Federal Reserve System. At December 31, 2019, the Bank had $11.28 billion in assets, $7.50 billion in net loans, $8.74 billion in deposits, and $2.00 billion in total equity.

As of December 31, 2019, there were 58 Banking Centers ("Centers") located in the Inland Empire, Los Angeles County, Orange County, San Diego County, Ventura County, Santa Barbara County, and the Central Valley area of California. We also have one loan production office in Modesto, California

We also have three trust offices located in Ontario, Newport Beach and Pasadena. These offices serve as sales offices for the Bank's wealth management, trust and investment products.

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

We offer a standard range of bank 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 also provide a full complement of lending products, including commercial, agribusiness, consumer, SBA loans, 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 bank qualified lease financing for municipal governments. Commercial real estate and construction loans are secured by a range of property types and include both owner-occupied and investor owned properties. Financing products for consumers include automobile leasing and financing, lines of credit, credit cards, home mortgages, and home equity loans and lines of credit.

We also offer a wide range of specialized services designed for the needs of our commercial customers. These services include cash management systems for monitoring cash flow, a credit card program for merchants, courier pick-up and delivery, payroll services, remote deposit capture, electronic funds transfers by way of domestic and international wires and automated clearinghouse, and on-line account access. We make available investment products offered by other providers to our 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.

In addition, we offer a wide range of financial services and trust services through our CitizensTrust division. These services include fiduciary services, mutual funds, annuities, 401(k) plans and individual investment accounts.

**Business Segments**

We are a community bank with one reportable operating segment. See the sections captioned "Business Segments" in Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 3 — *Summary of Significant Accounting Policies — Business Segments* of the notes to consolidated financial statements.

**Competition**

The banking and financial services business is highly competitive. The competitive environment faced by banks is a result primarily of changes in laws and regulations, changes in technology and product delivery systems, and the ongoing consolidation among insured financial institutions. 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, including online banks and "peer-to-peer" or "marketplace" payment processors, lenders and other small business and consumer lenders. Many competitors are much larger in total assets and capitalization, have greater access to capital markets and/or offer a broader range of financial products and services, including technology-based services. Additionally, some smaller competitors, including non-bank entities, may be more nimble and responsive to customer preferences or requirements.

**Economic Conditions/Government Policies**

Our profitability, like most financial institutions, is primarily dependent on interest rate spreads and noninterest income. In general, the difference between the interest rates paid by the Bank on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by the Bank on interest-earning assets, such as loans extended 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, government monetary and other policies, and the impact which future changes in domestic and foreign economic conditions might have on us cannot be predicted.

Opportunity for banks to earn fees and other noninterest income have also been limited by restrictions imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and other

government regulations. As the following sections indicate, the impact of current and future changes in government laws and regulations on our ability to maintain current levels of fees and other noninterest income could be material and 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 Federal Reserve. The Federal Reserve implements national monetary policies (with objectives such as curbing inflation, increasing employment and combating recession) through its open-market operations in U.S. Government securities by buying and selling treasury and mortgage-backed 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 Federal Reserve in these areas influence the growth and performance of bank loans, investments, and deposits and also affect interest earned on interest-earning assets and paid on interest-bearing liabilities. In recent years, the impact of the Federal Reserve's actions and policies have tended to assume even greater importance and impact on the lending and securities markets, and these actions and policies are continuing to evolve and change based on political and economic events and incoming data. Government fiscal and budgetary policies, including deficit spending, can also have a significant impact on the capital markets and interest rates. The nature and impact of any future changes in monetary and fiscal policies on us cannot be predicted.

**Regulation and Supervision**

***General***

The Bank is subject to significant regulation and restrictions by federal and state laws and regulatory agencies. These regulations and restrictions are intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation ("FDIC") Deposit Insurance Fund ("DIF") and for the protection of borrowers, and secondarily for the stability of the U.S. banking system. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. From time to time, federal and state legislation is enacted and implemented by regulations 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 other legislation or new regulations may be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, may limit the types or pricing of the products and services we offer, and may subject us to increased regulation, disclosure, and reporting requirements.

***Legislation and Regulatory Developments***

The federal banking agencies continue to implement the remaining requirements in the Dodd-Frank Act as well as promulgating other regulations and guidelines intended to assure the financial strength and safety and soundness of banks and the stability of the U.S. banking system. On February 3, 2017 the President of the United States issued an executive order identifying certain "core principles" for the administration's financial services regulatory policy and directing the Secretary of the Treasury, in consultation with the heads of other financial regulatory agencies, to evaluate how the current regulatory framework promotes or inhibits the principles and what actions have been, and are being, taken to promote the principles. In response to the executive order, on June 12, 2017, October 6, 2017, October 26, 2017 and July 31, 2018, respectively, the United States Department of the Treasury issued four reports recommending a number of comprehensive changes in the current regulatory system for U.S. depository institutions, the U.S. capital markets and the U.S. asset management and insurance industries, around the following principles:

- Improving regulatory efficiency and effectiveness by critically evaluating mandates and regulatory fragmentation, overlap, and duplication across regulatory agencies;

- Aligning the financial system to help support the U.S. economy;
- Reducing regulatory burden by decreasing unnecessary complexity;
- Tailoring the regulatory approach based on size and complexity of regulated firms and requiring greater regulatory cooperation and coordination among financial regulators;
- Aligning regulations to support market liquidity, investment, and lending in the U.S. economy; and
- Creating a regulatory landscape that better supports nonbank financial institutions, embraces financial technology and fosters innovation.
- The scope and breadth of regulatory changes that will be implemented in response to the President’s executive order have not yet been determined.

***Capital Adequacy Requirements***

Bank holding companies and banks are subject to similar regulatory capital requirements administered by state and federal banking agencies. The current capital rule changes (the “Current Capital Rules”) adopted by the federal bank regulatory agencies, which were fully effective on January 1, 2015, have been fully phased in. The risk-based capital guidelines for bank holding companies, and additionally for banks, require capital ratios that vary based on the perceived degree of risk associated with a banking organization’s operations, both for transactions reported on the balance sheet as assets, such as loans, and for those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. 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 risks, and with the applicable ratios calculated by dividing qualifying capital by total risk-adjusted assets and off-balance sheet items. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards.

*Regulatory Capital and Risk-weighted Assets*

The Federal Reserve monitors our capital adequacy on a consolidated basis, and the FDIC and the DBO monitor the capital adequacy of our Bank. These rules implement the Basel III international regulatory capital standards in the United States, as well as certain provisions of the Dodd-Frank Act. These quantitative calculations are minimums, and the Federal Reserve, FDIC or DBO may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner.

Under the Basel III Capital Rules, the Company’s and the Bank’s assets, exposures and certain off-balance sheet items are subject to risk weights used to determine the institutions’ risk-weighted assets. These risk-weighted assets are used to calculate the following minimum capital ratios for the Company and the Bank:

- **Tier 1 Leverage Ratio**, equal to the ratio of Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets and certain other deductions).
- **CET1 Risk-Based Capital Ratio**, equal to the ratio of CET1 capital to risk-weighted assets. CET1 capital primarily includes common stockholders’ equity subject to certain regulatory adjustments and deductions, including with respect to goodwill, intangible assets and certain deferred tax assets. Certain of these adjustments and deductions were subject to phase-in periods that began on January 1, 2015 and ended on January 1, 2018. The last phase of the Basel III Capital Rules’ transition provisions relating to capital deductions for mortgage servicing assets, certain deferred tax assets and investments in the capital instruments of unconsolidated financial institutions, and the recognition of minority interests in regulatory capital was delayed for certain bank holding companies and banks, including us and the

Bank, but a revised rule was finalized in July 2019 that will be effective in April 2020. Hybrid securities, such as trust preferred securities, generally are excluded from being counted as Tier 1 capital. However, for bank holding companies like us that have less than $15 billion in total consolidated assets, certain trust preferred securities were grandfathered in as a component of Tier 1 capital. In addition, because we are not an advanced approach banking organization, we were permitted to make a one-time permanent election to exclude accumulated other comprehensive income items from regulatory capital. We made this election in order to avoid significant variations in our levels of capital depending upon the impact of interest rate fluctuations on the fair value of our Bank's available-for-sale securities portfolio.

- **Tier 1 Risk-Based Capital Ratio**, equal to the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital is primarily comprised of CET1 capital, perpetual preferred stock and certain qualifying capital instruments.
- **Total Risk-Based Capital Ratio**, equal to the ratio of total capital, including CET1 capital, Tier 1 capital and Tier 2 capital, to risk-weighted assets. Tier 2 capital primarily includes qualifying subordinated debt and qualifying ALLL. Tier 2 capital also includes, among other things, certain trust preferred securities.

The total minimum regulatory capital ratios and well-capitalized minimum ratios are reflected in the charts below. For purposes of the Federal Reserve's Regulation Y, including determining whether a bank holding company meets the requirements to be a financial holding company, bank holding companies, such as the Company, must maintain a Tier 1 Risk-Based Capital Ratio of 6.0% or greater and a Total Risk-Based Capital Ratio of 10.0% or greater. If the Federal Reserve were to apply the same or a very similar well-capitalized standard to bank holding companies as that applicable to the Bank, the Company's capital ratios as of December 31, 2019 would exceed such revised well-capitalized standard. The Federal Reserve may require bank holding companies, including the Company, to maintain capital ratios substantially in excess of mandated minimum levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on our operations or financial condition. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Company's or the Bank's ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications.

In addition to meeting the minimum capital requirements, under the Basel III Capital Rules, the Company and the Bank must also maintain the required Capital Conservation Buffer to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The Capital Conservation Buffer is calculated as a ratio of CET1 capital to risk-weighted assets, and it effectively increases the required minimum risk-based capital ratios. The Capital Conservation Buffer requirement was phased in over a three-year period that began on January 1, 2016. The phase-in period ended on January 1, 2019, and the Capital Conservation Buffer is now at its fully phased-in level of 2.5%.

The Tier 1 Leverage Ratio is not impacted by the Capital Conservation Buffer, and a banking institution may be considered well-capitalized while remaining out of compliance with the Capital Conservation Buffer.

The table below summarizes the capital requirements that the Company and the Bank must satisfy to avoid limitations on capital distributions and certain discretionary bonus payments (i.e., the required minimum capital ratios plus the Capital Conservation Buffer):

| | Minimum Basel III Regulatory Capital Ratio Plus Capital Conservation Buffer |
|---|---|
| | **Effective January 1, 2019** |
| CET1 risk-based capital ratio | 7.0% |
| Tier 1 risk-based capital ratio | 8.5% |
| Total risk-based capital ratio | 10.5% |

As of December 31, 2019, the Company and the Bank are well-capitalized for regulatory purposes. For a tabular presentation of the Company's and Bank's capital ratios as of December 31, 2019, see Note 18 — *Regulatory Matters* of the notes to the consolidated financial statements.

*Prompt Corrective Action Provisions*

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank's capital ratios, the agencies' regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank's activities, operational practices or the ability to pay dividends or executive bonuses. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were changed to conform with the New Capital Rules. Under the new standards, in order to be considered well-capitalized, the bank will be required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

The federal banking agencies also may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to certain restrictions such as taking brokered deposits.

*Volcker Rule*

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the "Volcker Rule." Under these rules and subject to certain exceptions, banking entities are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered "covered funds." These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the FRB. The Company and the Bank held no investment positions at December 31, 2019 which were subject to the final rule. Therefore, while these new rules may require us to conduct certain internal analysis and reporting to ensure continued compliance, they did not require any material changes in our operations or business.

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***Bank Holding Company Regulation***

Bank holding companies and their subsidiaries are subject to significant regulation and restrictions by Federal and State laws and regulatory agencies, which may affect the cost of doing business, and may limit permissible activities and expansion or impact the competitive balance between banks and other financial services providers.

A wide range of requirements and restrictions are contained in both federal and state banking laws, which together with implementing regulatory authority:

- Require periodic reports and such additional reports of information as the Federal Reserve may require;
- Require bank holding companies to meet or exceed increased levels of capital (See “Capital Adequacy Requirements”);
- Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank;
- Limit of dividends payable to shareholders and restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks. The Company’s ability to pay dividends on both its common and preferred stock is subject to legal and regulatory restrictions. Substantially all of CVB’s funds to pay dividends or to pay principal and interest on our debt obligations are derived from dividends paid by the Bank;
- Require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve 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;
- Require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination if an institution is in “troubled condition”;
- Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations;
- Require prior approval for the acquisition of 5% or more of the voting stock of a bank or bank holding company by bank holding companies or other acquisitions and mergers with banks and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S. financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required; and
- Require prior notice and/or prior approval of the acquisition of control of a bank or a bank holding company by a shareholder or individuals acting in concert with ownership or control of 10% of the voting stock being a presumption of control.

*Other Restrictions on the Company’s Activities*

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain “financial holding company” status pursuant to the Gramm-Leach-Bliley Act of 1999 (“GLBA”) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other activities that are determined to be “financial in nature” or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank

holding company must be considered well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act ("CRA"), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. CVB has not elected financial holding company status and neither CVB nor the Bank has engaged in any activities determined by the Federal Reserve to be financial in nature or incidental or complementary to activities that are financial in nature.

CVB is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, CVB and any of its subsidiaries are subject to examination by, and may be required to file reports with, the California Department of Business Oversight ("DBO"). DBO approvals may also be required for certain mergers and acquisitions.

*Securities Exchange Act of 1934*

CVB's common stock is publicly held and listed on the NASDAQ Stock Market ("NASDAQ"), and CVB is subject to the periodic reporting, information, proxy solicitation, insider trading, corporate governance and other requirements and restrictions of the Securities Exchange Act of 1934 and the regulations of the Securities and Exchange Commission ("SEC") promulgated thereunder as well as listing requirements of NASDAQ.

*Sarbanes-Oxley Act*

The Company is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial presentations, requirements for board audit committees and their members, and disclosure of controls and procedures and internal control over financial reporting.

***Bank Regulation***

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DBO and by the FDIC, as the Bank's primary Federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to "insiders", including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. Failure to comply with applicable bank regulation or adverse results from any examinations of the Bank could affect the cost of doing business, and may limit or impede otherwise permissible activities and expansion activities by the Bank.

Pursuant to the Federal Deposit Insurance Act ("FDI Act") and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called "closely related to banking" or "nonbanking" activities commonly conducted by national banks in operating subsidiaries or in subsidiaries of bank holding companies. Further, California banks may conduct certain "financial" activities permitted under GLBA in a "financial subsidiary" to the same extent as may a national bank, provided the bank is and remains "well-capitalized," "well-managed" and in satisfactory compliance with the CRA. The Bank currently has no financial subsidiaries.

***FDIC and DBO Enforcement Authority***

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of appropriate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. If, as a result of an examination, the DBO or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DBO and the FDIC, and separately the FDIC as insurer of the Bank's deposits, have residual authority to:

- Require affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which could preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- Enter into or issue informal or formal enforcement actions, including required Board resolutions, Matters Requiring Board Attention (MRBA), written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- Terminate FDIC insurance, revoke the charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

***Deposit Insurance***

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. The Dodd-Frank Act revised the FDIC's DIF management authority by setting requirements for the Designated Reserve Ratio (the DIF balance divided by estimated insured deposits) and redefining the assessment base, which is used to calculate banks' quarterly assessments. The amount of FDIC assessments paid by each DIF member institution is based on its asset size and relative risk of default as measured by regulatory capital ratios and other supervisory factors. 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 a bank would also result in the revocation of the bank's charter by the DBO.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. The FDIC is an independent federal agency that insures deposits through the DIF up to prescribed statutory limits of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The Dodd-Frank Act revised the FDIC's DIF management authority by setting requirements for the Designated Reserve Ratio (the "DRR", calculated as the DIF balance divided by estimated insured deposits) and redefining

the assessment base which is used to calculate banks' quarterly assessments. The amount of FDIC assessments paid by each DIF member institution is based on its asset size and its relative risk of default as measured by regulatory capital ratios and other supervisory factors. As a result of our acquisition of CB our FDIC assessments will increase.

On September 30, 2018, the DRR reached 1.36%. Because the reserve ratio has exceeded 1.35%, two deposit insurance assessment changes occurred under the FDIC regulations: 1) surcharges on large banks (total consolidated assets of $10 billion or more) ended; the last surcharge on large banks was collected on December 28, 2018. and 2) small banks (total consolidated assets of less than $10 billion) were awarded assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%.The FDIC will, at least semi-annually, update its income and loss projections for the Deposit Insurance Fund and, if necessary, propose rules to further increase assessment rates. Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

***Dividends***

It is the Federal Reserve's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. In addition, a bank holding company may be unable to pay dividends on its common stock if it fails to maintain an adequate capital conservation buffer under the Current Capital Rules.

The Bank is a legal entity that is separate and distinct from its holding company. CVB relies on dividends received from the Bank for use in the operation of the Company and the ability of CVB to pay dividends to shareholders. Future cash dividends by the Bank will also depend upon management's assessment of future capital requirements, contractual restrictions, and other factors. The Current Capital Rules may restrict dividends by the Bank if the additional capital conservation buffer is not achieved. See "Capital Adequacy Requirements".

The ability of the Bank to declare a cash dividend to CVB is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank's retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DBO, in an amount not exceeding the greatest of (1) retained earnings of the bank; (2) the net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year.

***Compensation***

The Dodd-Frank Act requires the federal bank regulators and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including the Company and the Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations initially in April 2011 and in April 2016, the Federal Reserve and other federal financial agencies re-proposed restrictions on incentive-based compensation. For institutions with at least $1 billion but less than $50 billion in total consolidated assets, such as the Company and the Bank, the proposal would impose principles-based restrictions that are broadly consistent with existing interagency guidance on incentive-based compensation. Such institutions would be prohibited from entering into incentive compensation arrangements that encourage inappropriate risks by the institution (1) by providing an executive officer,

employee, director, or principal shareholder with excessive compensation, fees, or benefits, or (2) that could lead to material financial loss to the institution. The proposal would also impose certain governance and recordkeeping requirements on institutions of the Company's and the Bank's size. The regulatory organizations would reserve the authority to impose more stringent requirements on institutions of the Company's and the Bank's size.

***Cybersecurity and Data Breaches***

Federal regulators have issued multiple statements regarding cybersecurity and that financial institutions need to design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. In addition, a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations in the event of a cyber-attack. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to a cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states, notably including California where we conduct substantially all our banking business, have adopted laws and/or regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many such states have also recently implemented or modified their data breach notification and data privacy requirements including California which adopted the California Consumer Privacy Act in 2018 and New York which adopted the Shield Act in 2019. We expect this trend of state-level activity in those areas to continue, and we continue to monitor relevant legislative and regulatory developments in California where nearly all our customers are located.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our operations and to store sensitive data. We employ a layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not detected a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. In addition, to the extent we experience any data breaches, we may become subject to governmental fines or enforcement actions as well as potential liability arising out of governmental or private litigation. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity and data breaches.

***Operations and Consumer Compliance Laws***

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the California Consumer Privacy Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection

laws, including the Telephone Consumer Protection Act , CAN-SPAM Act. Noncompliance with any of these laws could subject the Bank to compliance enforcement actions as well as lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank and the Company to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

The Bank received a "Satisfactory" rating in its most recent FDIC overall CRA performance evaluation, which measures how financial institutions support their communities in the areas of lending, investment and service, although the Bank received "Low Satisfactory" ratings on certain of the components within its most recent overall CRA performance rating evaluation.

The Dodd-Frank Act provided for the creation of the Bureau of Consumer Finance Protection ("CFPB") as an independent entity within the Federal Reserve with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB's functions include investigating consumer complaints, conducting market research, rulemaking, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all covered persons and banks with $10 billion or more in assets are subject to supervision including examination by the CFPB, including the Bank following completion of the acquisition of CB.

The CFPB has finalized a number of significant rules which impact nearly every aspect of the lifecycle of a residential mortgage loan. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. Among other things, the rules adopted by the CFPB require covered persons including banks making residential mortgage loans to: (i) develop and implement procedures to ensure compliance with an "ability-to-repay" test and identify whether a loan meets a new definition for a "qualified mortgage", in which case a rebuttable presumption exists that the creditor extending the loan has satisfied the ability-to-repay test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages including, but not limited to, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower's principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for higher-priced mortgage loans for a longer period of time.

The review of products and practices to prevent unfair, deceptive or abusive acts or practices ("UDAAP") is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged violations of UDAAP and other legal requirements and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. State regulation of financial products and potential enforcement actions could also adversely affect the Bank's business, financial condition or results of operations.

The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions.

Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

As a result of our acquisition of CB, we became subject to the interchange fee cap on July 1, 2019. The interchange fee cap did not have a material impact on our noninterest income.

***Commercial Real Estate Concentration Limits***

In December 2006, the federal banking regulators issued guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” to address increased concentrations in commercial real estate, or CRE, loans. In addition, in December 2015, the federal bank agencies issued additional guidance entitled “Statement on Prudent Risk Management for Commercial Real Estate Lending.” Together, these guidelines describe the criteria the agencies will use as indicators to identify institutions potentially exposed to CRE concentration risk. An institution that has (i) experienced rapid growth in CRE lending, (ii) notable exposure to a specific type of CRE, (iii) total reported loans for construction, land development, and other land representing 100% or more of the institution’s capital, or (iv) total CRE loans representing 300% or more of the institution’s capital, and the outstanding balance of the institutions CRE portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of the level and nature of its CRE concentration risk. As of December 31, 2019, the Bank’s total CRE loans and unfunded loan commitments represented 265% of its capital.

***Office of Foreign Assets Control Regulation***

The U.S. Treasury Department’s Office of Foreign Assets Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. We are responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious financial, legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

***Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act")***

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("Tax Reform Act") was signed into law. The Tax Reform Act included a number of provisions that impact us, including the following:

• Tax Rate. The Tax Reform Act replaces the corporate tax rates applicable under prior law, which imposed a maximum tax rate of 35%, with a reduced 21% tax rate for 2018. Although the reduced tax rate generally should be favorable to us by resulting in lower tax expense in future periods, it decreased the value of our existing deferred tax assets as of December 31, 2017. Generally accepted accounting principles ("GAAP") requires that the impact of the provisions of the Tax Reform Act be accounted for in the period of enactment. Accordingly, the incremental income tax expense recorded by the Company in the fourth quarter of 2017 related to the Tax Reform Act was $13.2 million, resulting primarily from a re-measurement of deferred tax assets;

• FDIC Insurance Premiums. The Tax Reform Act prohibits taxpayers with consolidated assets over $50 billion from deducting any FDIC insurance premiums and prohibits taxpayers with consolidated assets between $10 and $50 billion from deducting the portion of their FDIC premiums equal to the ratio, expressed as a percentage, that (i) the taxpayer's total consolidated assets over $10 billion, as of the close of the taxable year, bears to (ii) $40 billion;

• Employee Compensation. A "publicly held company" is not permitted to deduct compensation in excess of $1 million per year paid to certain employees. The Tax Reform Act eliminates certain exceptions to the $1 million limit applicable under prior law related to performance-based compensation, such as equity grants and cash bonuses that are paid only on the attainment of performance goals. As a result, our ability to deduct certain compensation paid to our most highly compensated employees is limited; and

• Business Asset Expensing. The Tax Reform Act allows taxpayers immediately to expense the entire cost (instead of only 50%, as under prior law) of certain depreciable tangible property and real property improvements acquired and placed in service after September 27, 2017 and before January 1, 2023 (with an additional year for certain property). This 100% "bonus" depreciation is phased out proportionately for property placed in service on or after January 1, 2023 and before January 1, 2027 (with an additional year for certain property).

The foregoing description of the impact of the Tax Reform Act on us should be read in conjunction with Note 11 — *Income Taxes* of the notes to consolidated financial statements for more information.

***Future Legislation and Regulation***

Congress may enact, modify or repeal legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact, modify or repeal legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of proposed legislation (or modification or repeal of existing legislation) could impact the regulatory structure under which the Company and Bank operate and may significantly increase its costs, impede the efficiency of its internal business processes, require the Bank to increase its regulatory capital and modify its business strategy, and limit its ability to pursue business opportunities in an efficient manner. The Company's business, financial condition, results of operations or prospects may be adversely affected, perhaps materially.

***Available Information***

Reports filed with the SEC include our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The SEC maintains a website that contains the reports, proxy and

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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 Proxy Statement, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and any amendments thereto, 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.

***Executive Officers of the Company***

The following sets forth certain information regarding our executive officers, their positions and their ages.

**Executive Officers:**

| Name | Position | Age |
|---|---|---|
| Christopher D. Myers | President and Chief Executive Officer of the Company and the Bank | 57 |
| E. Allen Nicholson | Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank | 52 |
| David F. Farnsworth | Executive Vice President and Chief Credit Officer of the Bank | 63 |
| David A. Brager | Executive Vice President and Sales Division Manager of the Bank | 52 |
| David C. Harvey | Executive Vice President and Chief Operations Officer of the Bank | 52 |
| Richard H. Wohl | Executive Vice President and General Counsel | 61 |
| Yamynn DeAngelis | Executive Vice President and Chief Risk Officer | 63 |

*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. As previously announced on July 18, 2019, Mr. Myers will be retiring effective March 15, 2020. After March 15, 2020, Mr. Myers will remain as a consultant through December 31, 2020 to facilitate a smooth and orderly transition to the next Chief Executive Officer.

*Mr. Nicholson* was appointed Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank on May 4, 2016. Previously, Mr. Nicholson served as Executive Vice President and Chief Financial Officer of Pacific Premier Bank and its holding company, Pacific Premier Bancorp Inc. from June of 2015 to May of 2016, and from 2008 to 2014, Mr. Nicholson was Chief Financial Officer of 1st Enterprise Bank. From 2005 to 2008, he was the Chief Financial Officer of Mellon First Business Bank.

*Mr. Farnsworth* was appointed Executive Vice President and Chief Credit Officer of the Bank on July 18, 2016. Prior to his appointment, Mr. Farnsworth was Executive Vice President, Global Risk Management, and National CRE Risk Executive at BBVA Compass. Previously, Mr. Farnsworth held senior credit management positions with US Bank and AmSouth.

*Mr. Brager* assumed the position of Executive Vice President and Sales Division Manager of the Bank on November 22, 2010. From 2007 to 2010, he served as Senior Vice President and Regional Manager of the Central Valley Region for the Bank. From 2003 to 2007, he served as Senior Vice President and Manager of the Fresno Business Financial Center for the Bank. From 1997 to 2003, Mr. Brager held management positions with Westamerica Bank. As previously announced on February 19, 2020, Mr. Brager was appointed as the Company's Chief Executive Officer, effective March 16, 2020. In addition, Mr. Brager has been appointed to the respective Board of Directors of CVB and the Bank.

*Mr. Harvey* assumed the position of Executive Vice President and Chief Operations Officer of the Bank on December 31, 2009. From 2000 to 2008, he served as Senior Vice President and Operations Manager at Bank of the West. From 2008 to 2009 he served as Executive Vice President and Commercial and Treasury Services Manager at Bank of the West.

*Mr. Wohl* was initially appointed Executive Vice President and General Counsel of the Company and the Bank on October 11, 2011, and he rejoined the Company and the Bank in the same position on July 10, 2017 after a one-year hiatus at another financial institution. Prior to his initial appointment in 2011, Mr. Wohl served in senior business and legal roles at Indymac Bank, the law firm of Morrison & Foerster, and the U.S. Department of State.

*Ms. DeAngelis* assumed the position of Executive Vice President and Chief Risk Officer of the Bank on January 5, 2009. From 2006 to 2008, she served as Executive Vice President and Service Division Manager for the Bank. From 1995 to 2005, she served as Senior Vice President and Division Service Manager for the Bank.

## 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.

### Strategic and External Risks

***Changes in economic, market and political conditions can adversely affect our liquidity, results of operations and financial condition.***

Our success depends, to a certain extent, upon local, national and global economic and political conditions, as well as governmental monetary policies. Conditions such as an economic recession, rising unemployment, changes in interest rates, money supply and other factors beyond our control may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. Because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which could have an adverse impact on our earnings. In addition, we may face the following risks in connection with any downward turn in the economy:

- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process;
- The Company’s commercial, residential and consumer borrowers may be unable to make timely repayments of their loans, or the decrease in value of real estate collateral securing the payment of such loans could result in significant credit losses, increasing delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company’s operating results;
- A sustained environment of low interest rates would continue to cause lending margins to stay compressed, which in turn may limit our revenues and profitability;
- The value of the portfolio of investment securities that we hold may be adversely affected by increasing interest rates and defaults by debtors;
- Further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in changes in applicable rates of interest, difficulty in accessing capital or an inability to borrow on favorable terms or at all from other financial institutions; and
- Increased competition among financial services companies due to expected further consolidation in the industry may adversely affect the Company’s ability to market its products and services.

Although the Company and the Bank exceed the minimum capital ratio requirements to be deemed well capitalized for regulatory purposes and have not suffered any significant liquidity issues as a result of these types of events, the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline as our borrowers and customers continue to realize the impact of slower than customary economic growth, after-effects of the previous recession and ongoing underemployment

of the workforce. 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 adverse economic conditions in the state of California, where our business is concentrated. In addition, adverse economic conditions may exacerbate our exposure to credit risk and adversely affect the ability of borrowers to perform, and thereby, adversely affect our liquidity, financial condition, results or operations and profitability.

***Our earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies.***

The policies of the Federal Reserve impact us significantly. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments we hold. Changes in those policies are beyond our control and are difficult to predict. Federal Reserve policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. As an example, monetary tightening by the Federal Reserve could adversely affect our borrowers' earnings and ability to repay their loans, which could have a material adverse effect on our financial condition and results of operations. In addition, the Federal Reserve's recent actions to reduce its own balance sheet of government and mortgage-backed securities could impact the credit markets and thus prevailing interest rates.

***Future legislation, regulatory reform or policy changes under the current U.S. administration could have a material effect on our business and results of operations.***

New legislation, regulatory reform or policy changes under the current U.S. administration, including financial services regulatory reform, U.S. oil deregulation, tax reform, government-sponsored enterprise (GSE) reform and increased infrastructure spending, could impact our business. At this time, we cannot predict the scope or nature of these changes or assess what the overall effect of such potential changes could be on our results of operations or cash flows.

***We face strong competition from financial services companies and other companies that offer banking services***

We conduct most of our operations in the state of California. The banking and financial services businesses in the state of California are highly competitive and increased competition in our primary market area may adversely impact the level of our loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage companies and other financial intermediaries. In addition, as noted below, we face competition from certain non-traditional entities, including so called "FinTech" companies which specialize in the provision of technology-based financial services, such as payment processing and lending marketplaces, and which may offer or be perceived to offer more responsive or currently desirable financial products and services.

In particular, our competitors include major financial companies whose greater resources may afford them a marketplace advantage by enabling them to offer products at lower costs, 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.

***Potential acquisitions may disrupt our business and dilute shareholder value***

We generally seek merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches

including our recently completed acquisition of Community Bank, involves various risks commonly associated with acquisitions, including, among other things:

- Potential exposure to unknown or contingent liabilities of the target company;
- Exposure to potential asset quality issues of the target company;
- Potential disruption to our business;
- Potential diversion of our management’s time and attention;
- The possible loss of key employees and customers of the target company;
- Difficulty in estimating the value of the target company; and
- Potential changes in banking or tax laws or regulations that may affect the target company.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations.

***Consumers may decide not to use banks to complete their financial transactions.***

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions, such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

## Credit Risks

***Our allowance for loan losses may not be sufficient to cover actual losses***

A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for loan losses to provide for loan and lease defaults and non-performance, which also includes increases for new loan growth. While we believe that our allowance for loan losses is appropriate to cover inherent losses, we cannot assure you that we will not increase the allowance for loan losses further or that regulators will not require us to increase this allowance.

***We may be required to make additional provisions for credit losses and charge-off additional loans in the future, which could adversely affect our results of operations***

For the year ended December 31, 2019, we recorded $5.0 million in loan loss provision. During 2019 we experienced charge-offs of $454,000 and recoveries of $501,000. Because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. As of December 31, 2019, we had $5.37 billion in commercial real estate loans, $116.9 million in construction loans, and $283.5 million in single-family residential mortgages. Although the U.S. economy has emerged from a prior period of severe recession followed by slower than normal growth, business activity and real estate values

continue to grow more slowly than in past economic recoveries, and may not recover fully or could again decline from current levels, and this in turn could affect the ability of our loan customers to service their debts, including those customers whose loans are secured by commercial or residential real estate. This, in turn, could result in loan charge-offs and provisions for credit losses in the future, which could have a material adverse effect on our financial condition, net income and capital. In addition, the Federal Reserve Board and other government officials have expressed concerns about banks' concentration in commercial real estate lending and the ability of commercial real estate borrowers to perform pursuant to the terms of their loans.

***Dairy & livestock and agribusiness lending presents unique credit risks.***

As of December 31, 2019, approximately 5.1% of our total gross loan portfolio was comprised of dairy & livestock and agribusiness loans. As of December 31, 2019, we had $383.7 million in dairy & livestock and agribusiness loans, including $323.5 in dairy & livestock loans, $60.2 million in agribusiness loans. Repayment of dairy & livestock and agribusiness loans depends primarily on the successful raising and feeding of livestock or planting and harvest of crops and marketing the harvested commodity (including milk production). Collateral securing these loans may be illiquid. In addition, the limited purpose of some agricultural-related collateral affects credit risk because such collateral may have limited or no other uses to support values when loan repayment problems emerge. Our dairy & livestock and agribusiness lending staff have specific technical expertise that we depend on to mitigate our lending risks for these loans and we may have difficulty retaining or replacing such individuals. Many external factors can impact our agricultural borrowers' ability to repay their loans, including adverse weather conditions, water issues, commodity price volatility (i.e. milk prices), diseases, land values, production costs, changing government regulations and subsidy programs, changing tax treatment, technological changes, labor market shortages/increased wages, and changes in consumers' preferences, over which our borrowers may have no control. These factors, as well as recent volatility in certain commodity prices, including milk prices, could adversely impact the ability of those to whom we have made dairy & livestock and agribusiness loans to perform under the terms of their borrowing arrangements with us, which in turn could result in credit losses and adversely affect our business, financial condition and results of operations.

***The FASB has recently issued an accounting standard update that will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.***

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update ("ASU"), "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current generally accepted accounting principles ("GAAP"), which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will affect how we determine our allowance under CECL. Moreover, the Company may experience more volatility in the level of our allowance for loan losses.

We established a company-wide, cross-functional governance structure for implementation of this ASU. We performed parallel testing, including multiple iterations of our overall allowance process. Management assessed the potential impact of this standard on our consolidated financial statements and we do not currently expect adoption of this ASU to have a material impact on our allowance for credit losses.

***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 renewed 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, prolonged drought and disasters particular to California. Substantially all of our real estate collateral is located in the state of California. If real estate values, including values of land held for development, should again start to decline, 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. Commercial real estate loans typically involve large balances to single borrowers or a group of related borrowers. Since payments on these loans are often dependent on the successful operation or management of the properties, as well as the business and financial condition of the borrower(s), repayment of such loans may be subject to adverse conditions in the real estate market, adverse economic conditions or changes in applicable government regulations.

Additional risks associated with our real estate construction loan portfolio include failure of developers and/or contractors to complete construction on a timely basis or at all, market deterioration during construction, cost overruns and failure to sell or lease the security underlying the construction loans so as to generate the cash flow anticipated by our borrower.

A decline in the economy may cause renewed declines in real estate values and increases in unemployment, which may result in higher than expected loan delinquencies or problem assets, a decline in demand for our products and services, or a lack of growth or decrease in deposits, which may cause us to incur losses, adversely affect our capital or hurt our business.

***Our commercial real estate loan portfolio exposes us to risks that may be greater than the risks related to our other loans***

Federal and state banking regulators are examining commercial real estate lending activity with heightened scrutiny and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. Because a significant portion of our loan portfolio is comprised of commercial real estate loans, the banking regulators may require us to maintain higher levels of capital than we would otherwise be expected to maintain, which could limit our ability to leverage our capital and have a material adverse effect on our business, financial condition, results of operations and prospects.

***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. While we will take steps to mitigate this risk, 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 we may be required to investigate or clean-up hazardous or toxic substances, or chemical releases at one or more properties. The costs associated with investigation or remediation activities could be substantial. In addition, while there are certain statutory protections afforded lenders who take title to property through foreclosure on a loan, 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.

***Liquidity risk could impair our ability to fund operations and jeopardize our financial condition***

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Many if not all of these same factors could also significantly raise the cost of deposits to our Company and/or to the banking industry in general. This in turn could negatively affect the amount of interest we pay on our interest-bearing liabilities, which could have an adverse impact on our interest rate spread and profitability.

***The actions and commercial soundness of other financial institutions could affect our ability to engage in routine funding transactions***

Financial service institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different industries and counterparties, and execute transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Defaults by financial services institutions, even rumors or questions about one or more financial institutions or the financial services industry in general, could lead to market wide liquidity problems and further, could lead to losses or defaults by the Company or other institutions. Many of these transactions expose us to credit risk in the event of default of the applicable counterparty or client. In addition, our credit risk may increase when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. Any such losses could materially and adversely affect our consolidated financial statements.

***Changes in interest rates could reduce the value of our investment securities holdings.***

The Bank maintains an investment portfolio consisting of various high quality liquid fixed-income securities. The total book value of the securities portfolio as of December 31, 2019 was $2.41 billion, of which $1.74 billion is available for sale. The nature of fixed-income securities is such that changes in market interest rates impact the value of these assets.

***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 the 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, 2019 our balance sheet was positioned with an asset sensitive bias over both a one and two-year horizon assuming no balance sheet growth, and as a result, our net interest margin tends to expand in a rising interest rate environment and decrease 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, as well as loan origination and prepayment volume.

***We may be adversely impacted by the transition from LIBOR as a reference rate***

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("**LIBOR**"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

We have a number of loans, derivative contracts, borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR could create additional costs and risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition could change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

***We will be subject to additional regulatory scrutiny following our acquisition of CB.***

Following our acquisition of CB in the third quarter of 2018, our total assets exceeded $10 billion. As a result, we will be subject to a number of additional regulatory requirements, including general oversight by the CFPB, that will impose additional compliance costs on our business. The $10 billion threshold is calculated in different ways for the various requirements (from simply reaching the $10 billion as of a certain date, to reaching it for four consecutive quarters or to reaching it by averaging total consolidated assets for four consecutive quarters) and the dates the new requirements are triggered also vary (from immediate application to a period of over two years to achieve compliance). Being subject to these additional requirements may also result in higher expectations from regulators. The CFPB has near exclusive supervision authority, including examination authority, over institutions of that size and their affiliates to assess compliance with federal consumer financial laws, to obtain information about the institutions' activities and compliance systems and procedures, and to detect and assess risks to consumers and markets.

Under the Dodd-Frank Act, our assessment base for federal deposit insurance changed from the amount of insured deposits to consolidated average assets less tangible capital to a scorecard method. The scorecard method uses a performance score and a loss severity score, which are combined and converted into an initial base assessment rate. The performance score is based on measures of the bank's ability to withstand asset-related stress and funding-related stress and weighted CAMELS ratings, which are ratings ascribed under the CAMELS supervisory rating system and assigned based on a supervisory authority's analysis of a bank's financial statements and on-site examinations. The loss severity score is a measure of potential losses to the FDIC in the event of the bank's failure. Under a formula, the performance score and loss severity score are combined and converted to a total score that determines the bank's initial base assessment rate. The FDIC has the discretion to alter the total score based on factors not captured by the scorecard. The resulting initial base assessment rate is also subject to adjustments downward based on long term unsecured debt issued by the bank, to adjustment upward based on long term unsecured debt held by the bank that is issued by other FDIC-insured institutions, and to further adjustment upward if the bank's brokered deposits exceed 10% of its domestic deposits.

In addition, all financial institutions with total assets exceeding $10 billion, such as us, are required to centrally clear their derivative trades through a central clearing house. This regulatory requirement imposed additional compliance costs on our business.

Further, we have been affected by the Durbin Amendment to the Dodd-Frank Act regarding limits on debit card interchange fees. The Durbin Amendment gave the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by a payment card issuer that, together with its affiliates, has assets of $10 billion or more and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. The FRB has adopted rules under this provision that limit the swipe fees that a debit card issuer can charge a merchant for a transaction to the sum of 21 cents and five basis points times the value of the transaction, plus up to one cent for fraud prevention costs.

As a result of the above, deposit insurance assessments and expenses related to regulatory compliance are likely to increase, and interchange fee income will decrease.

***We may experience goodwill impairment***

If our estimates of fair value change due to changes in our businesses or other factors, we may determine that impairment charges on goodwill recorded as a result of acquisitions are necessary. Estimates of fair value are determined based on a complex model using cash flows, the fair value of our Company as determined by our stock price, and company comparisons. If management’s estimates of future cash flows are inaccurate, fair value determined could be inaccurate and impairment may not be recognized in a timely manner. If the fair value of the Company declines, we may need to recognize goodwill impairment in the future which would have a material adverse effect on our results of operations and capital levels.

***Our accounting estimates and risk management processes rely on analytical and forecasting models***

The processes we use to estimate our inherent loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

***Our decisions regarding the fair value of assets acquired could be different than initially estimated, which could materially and adversely affect our business, financial condition, results of operations, and future prospects***

In business combinations, we acquire significant portfolios of loans that are marked to their estimated fair value. There is no assurance that the acquired loans will not suffer deterioration in value. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge-offs in the loan portfolio that we acquire and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition, even if other favorable events occur.

**Operational Risks**

***Failure to manage our growth may adversely affect our performance***

Our financial performance and profitability depend on our ability to manage past and possible future growth, including the significant growth we experienced following the acquisition of CB. Future acquisitions and

our continued growth may present operating, integration, regulatory, management and other issues that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations***

As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity-related incidents that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, on-line banking, takeover, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity-related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other cyber-attacks. There continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. In recent periods, several large corporations, including financial institutions, medical providers and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity that could involve their accounts with us.

Information pertaining to us and our clients is maintained, and transactions are executed, such as our online banking or core systems on the networks and systems of ours, our clients and certain of our third party providers. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain our clients' confidence. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, our inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our clients; our loss of business and/or clients; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability — any of which could have a material adverse effect on our business, financial condition and results of operations.

More generally, continued publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web-based applications or solutions as a means of conducting commercial transactions for us and other financial institutions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition and results of operations could be adversely affected.

***Our business is exposed to the risk of changes in technology***

The rapid pace of technology changes and the impact of such changes on financial services generally and on our Company specifically could impact our cost structure and our competitive position with our customers. Such developments include the rapid movement by customers and some competitor financial institutions to web-based services, mobile banking and cloud computing. Our failure or inability to anticipate, plan for or implement technology change could adversely affect our competitive position, financial condition and profitability.

***Our controls and procedures could fail or be circumvented***

Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and on the conduct of individuals, and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition.

***Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis***

A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements.

***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 the security of these systems could result in failures or interruptions to serve our customers, including deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, which may result in increased costs or other consequences that in turn could have an adverse effect on our business, including damage to the Bank’s reputation.

***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. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, risk management, 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, including our President and Chief Executive Officer, and certain other employees.

**Legal, Regulatory, Compliance and Reputational Risks**

***We are subject to extensive government regulation that could limit or restrict our activities, which, in turn, 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 we are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Similarly, the lending, credit and deposit products we offer are subject to broad oversight and regulation. 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. Current and future federal and state legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd-Frank and those adopted to facilitate data privacy, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules, and may make it more difficult for us to attract and retain qualified executive officers and employees. The implementation of certain final Dodd-Frank rules is delayed or phased in over several years; therefore, as yet we cannot definitively assess what may be the short or longer term specific or aggregate effect of the full implementation of Dodd-Frank on us.

***We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations***

The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations.

***Mortgage regulations may adversely impact our business***

Revisions made pursuant to Dodd-Frank to Regulation Z, which implements the Truth in Lending Act (TILA), effective in January 2014, apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans), and mandate specific underwriting criteria and “ability to repay” requirements for home loans. This may impact our offering and underwriting of single family residential loans in our residential mortgage lending operation and could have a resulting unknown effect on potential delinquencies. In addition, the relatively uniform requirements may make it difficult for regional and community banks to compete against the larger national banks for single family residential loan originations.

***The impact of current capital rules imposed enhanced capital adequacy requirements on us and may materially affect our operations***

We are subject to more stringent capital requirements. Pursuant to Dodd-Frank and to implement for U.S. banking institutions the principles of the international “Basel III” standards, the federal banking agencies have adopted a set of rules on minimum leverage and risk-based capital that will apply to both insured banks and their holding companies. These regulations were issued in July 2013, and have been phased in for the Bank and the Company beginning in 2016. The current capital rules, among other things:

- impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital;
- introduce a new category of capital, called Common Equity Tier 1 capital, which must be at least 4.5% of risk-based assets, net of regulatory deductions, and a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, raising the target minimum common equity ratio to 7%;

- increase the minimum Tier 1 capital ratio to 8.5% inclusive of the capital conservation buffer;
- increase the minimum total capital ratio to 10.5% inclusive of the capital conservation buffer; and
- introduce a non-risk adjusted Tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets, and new liquidity standards.

The current capital rules, which have now been fully implemented, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our business, liquidity, financial condition and results of operations.

The new Basel III-based capital standards could limit our ability to pay dividends or make stock repurchases and our ability to compensate our executives with discretionary bonuses. Under the current capital standards, if our Common Equity Tier 1 Capital does not include the required “capital conservation buffer,” we will be prohibited from making distributions to our stockholders. The capital conservation buffer requirement, which is measured in addition to the minimum Common Equity Tier 1 capital of 4.5%, was phased in over four years, starting at 0.625% for 2016, and is now 2.5% for 2019 and subsequent years. Additionally, under the capital standards, if our Common Equity Tier 1 Capital does not include the “capital conservation buffer,” we will also be prohibited from paying discretionary bonuses to our executive employees. This may affect our ability to attract or retain employees, or alter the nature of the compensation arrangements that we may enter into with them.

***Managing reputational risk is important to attracting and maintaining customers, investors and employees***

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee mistakes, misconduct or fraud, failure to deliver minimum standards of service or quality, failure of any product or service offered by us to meet our customers’ expectations, compliance deficiencies, government investigations, litigation, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental scrutiny and regulation.

***We are subject to legal and litigation risk which could adversely affect us***

Because our Company is extensively regulated by a variety of federal and state agencies, and because we are subject to a wide range of business, consumer and employment laws and regulations at the federal, state and local levels, we are at risk of governmental investigations and lawsuits as well as claims and litigation from private parties. We are from time to time involved in disputes with and claims from investors, customers, government agencies, vendors, employees and other business parties, and such disputes and claims may result in litigation or settlements, any one of which or in the aggregate could have an adverse impact on the Company’s operating flexibility, employee relations, financial condition or results of operations, as a result of the costs of any judgment, the terms of any settlement and/or the expenses incurred in defending the applicable claim.

We are unable, at this time, to estimate our potential liability in these matters, but we may be required to pay judgments, settlements or other penalties and incur other costs and expenses in connection with any one or more of these lawsuits, which in turn could have a material adverse effect on our business, results of operations and financial condition. In addition, responding to requests for information in connection with discovery demanded by the plaintiffs in any of these lawsuits may be costly and divert internal resources away from managing our business. See Item 3 – *Legal Proceedings* below.

We may be subject to customer claims and legal actions pertaining to our ability to safeguard our customers’ information and the performance of our fiduciary responsibilities. Whether or not such customer

claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

***Federal and state laws and regulations may restrict our ability to pay dividends***

The ability of the Bank to pay dividends to the Company and of the Company to pay dividends to its shareholders is limited by applicable federal and California law and regulations. See “Business — Regulation and Supervision” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Cash Flow.”

**Risks Associated with our Common Stock**

***The price of our common stock may be volatile or may decline***

The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in its share prices and trading volumes that affect the market prices of the shares of many companies. These specific and broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are:

- actual or anticipated fluctuations in our operating results and financial condition;
- changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts;
- credit events or losses;
- failure to meet analysts’ revenue or earnings estimates;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actions or trades by institutional shareholders or other large shareholders;
- our capital position;
- fluctuations in the stock price and operating results of our competitors;
- actions by hedge funds, short term investors, activist shareholders or shareholder representative organizations;
- general market conditions and, in particular, developments related to market conditions for the financial services industry;
- proposed or adopted regulatory changes or developments;
- anticipated or pending investigations, proceedings or litigation that involve or affect the Company and/or the Bank; or
- domestic and international economic factors, whether related or unrelated to the Company’s performance.

The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility in recent years. The market price of our common stock and the trading volume in our common stock may fluctuate and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time,

including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in “Cautionary Note Regarding Forward-Looking Statement”. The capital and credit markets have been experiencing volatility and disruption for more than five years. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers’ underlying financial strength. A significant decline in our stock price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation. Extensive sales by large shareholders could also exert sustained downward pressure on our stock price.

***An investment in our common stock is not an insured deposit***

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment.

***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 and certain other actions we have taken could delay or prevent a third-party from acquiring us, even if doing so might be beneficial to our shareholders. 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, regulatory approval and/or appropriate regulatory filings may be required from either or all the Federal Reserve, the FDIC, the DBO prior to any person or entity acquiring “control” (as defined in the applicable regulations) of a state non-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 our clients and also 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.

***CVB is a holding company and depends on the Bank for dividends, distributions and other payments***

CVB is a legal entity separate and distinct from the Bank. CVB’s principal source of cash flow, including cash flow to pay dividends to our shareholders is dividends from the Bank. CVB’s ability to pay dividends to its stockholders is substantially dependent upon the Bank’s ability to pay dividends to CVB. Federal and state law imposes limits on the ability of the Bank to pay dividends and make other distributions and payments. If the Bank is unable to meet regulatory requirements to pay dividends or make other distributions to CVB, CVB will be unable to pay dividends to its shareholders.

***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 SEC. For further discussion on additional areas of risk, see “Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations*.”

## 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.

As of December 31, 2019, the Bank occupied a total of 61 premises consisting of (i) 58 Banking Centers ("Centers") of which one Center is located at our Corporate Headquarters in Ontario California, (ii) three operation and technology centers, and (iii) one loan production office in Modesto, California. We own 16 of these locations and the remaining properties are leased under various agreements with expiration dates ranging from 2020 through 2028, some with lease renewal options that could extend certain leases through 2039. All properties are located in Southern and Central California.

For additional information concerning properties, see Note 9 — *Premises and Equipment* of the Notes to the consolidated financial statements included in this report. See "Item 8 — *Financial Statements and Supplemental Data*."

## ITEM 3. *LEGAL PROCEEDINGS*

The Company and its subsidiaries are parties to various lawsuits and threatened lawsuits in the ordinary and non-ordinary course of business. From time to time, such lawsuits and threatened lawsuits may include, but are not limited to, actions involving securities litigation, employment matters, wage-hour and labor law claims, consumer, lender liability claims and negligence claims, some of which may be styled as "class action" or representative cases. Some of these lawsuits may be similar in nature to other lawsuits pending against the Company's competitors.

For lawsuits where the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded in accordance with FASB guidance over loss contingencies (ASC 450). However, as a result of inherent uncertainties in judicial interpretation and application of a myriad of laws applicable to the Company's business, and the unique, complex factual issues presented in any given lawsuit, the Company often cannot determine the probability of loss or estimate the amount of damages which a plaintiff might successfully prove if the Company were found to be liable. For lawsuits or threatened lawsuits where a claim has been asserted or the Company has determined that it is probable that a claim will be asserted, and there is a reasonable possibility that the outcome will be unfavorable, the Company will disclose the existence of the loss contingency, even if the Company is not able to make an estimate of the possible loss or range of possible loss with respect to the action or potential action in question, unless the Company believes that the nature, potential magnitude or potential timing (if known) of the loss contingency is not reasonably likely to be material to the Company's liquidity, consolidated financial position, and/or results of operations.

Our accruals and disclosures for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose a loss contingency and/or the amount accrued if we believe it is reasonably likely to be material or if we believe such disclosure is necessary for our financial statements to not be misleading. If we determine that an exposure to loss exists in excess of an amount previously accrued or disclosed, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred, and we adjust our accruals and disclosures accordingly.

We do not presently believe that the ultimate resolution of any lawsuits currently pending against the Company will have a material adverse effect on the Company's results of operations, financial condition, or cash

flows. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal matters currently pending or threatened against the Company could have a material adverse effect on our results of operations, financial condition or cash flows.

## ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

# PART II

**ITEM 5.** ***MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

CVB's common stock is traded on the NASDAQ Global Select National Market under the symbol "CVBF." CVB had approximately 140,108,098 shares of common stock outstanding with 1,625 registered shareholders of record as of February 14, 2020.

For information on the statutory and regulatory limitations on the ability of the Company to pay dividends to its shareholders and on the Bank to pay dividends to CVB, see "Item 1. *Business-Regulation and Supervision — Dividends*" and "Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Cash Flow*."

**Issuer Purchases of Equity Securities**

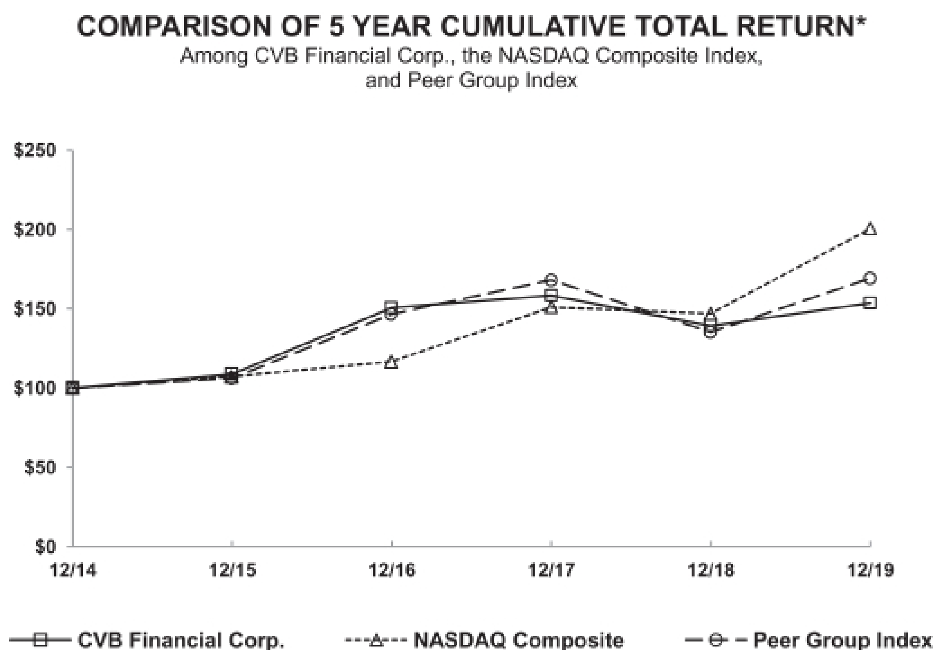
On August 11, 2016, our Board of Directors approved a program to repurchase up to 10,000,000 shares of our common stock in the open market or in privately negotiated transactions. There is no expiration date for this repurchase program. During the three months ended December 31, 2019, the Company repurchased 47,577 shares of CVB common stock. As of December 31, 2019, we have 9,529,435 shares of CVB common stock available for repurchase under our common stock repurchase program.

| Period | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Average Price Paid Per Share | Maximum Number of Shares Available for Repurchase Under the Plans or Programs |
|---|---|---|---|
| October 1 - 31, 2019 | 47,577 | $ 20.02 | 9,529,435 |
| November 1 - 30, 2019 | - | $ - | 9,529,435 |
| December 1 - 31, 2019 | - | $ - | 9,529,435 |
| Total | 47,577 | $ 20.02 | 9,529,435 |

**Performance Graph**

*The following Performance Graph and related information shall not be deemed "soliciting material" or 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's cumulative total shareholder return (stock price appreciation plus reinvested dividends) on common stock (i) the cumulative total return of the Nasdaq Composite Index; and (ii) a published index comprised by Morningstar (formerly Hemscott, Inc.) of banks and bank holding companies in the Pacific region (the peer group line depicted below). The graph assumes an initial investment of $100 on December 31, 2014, and reinvestment of dividends through December 31, 2019. 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.




**ASSUMES $100 INVESTED ON DECEMBER 31, 2014**
**ASSUMES DIVIDEND REINVESTED**
**FISCAL YEAR ENDING DECEMBER 31, 2019**

| Company/Market/Peer Group | 12/31/2014 | 12/31/2015 | 12/31/2016 | 12/31/2017 | 12/31/2018 | 12/31/2019 |
|---|---|---|---|---|---|---|
| **CVB Financial Corp.** | **100.00** | **108.65** | **150.44** | **158.10** | **139.16** | **153.37** |
| **NASDAQ Composite** | **100.00** | **106.96** | **116.45** | **150.96** | **146.67** | **200.49** |
| **Peer Group Index** | **100.00** | **106.03** | **146.50** | **167.78** | **135.06** | **168.89** |

Source: Research Data Group, Inc., www.researchdatagroup.com

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## 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.

| | At or For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | *(Dollars in thousands, except per share amounts)* | | | | |
| Interest income | $ 457,850 | $ 361,860 | $ 287,226 | $ 265,050 | $ 261,513 |
| Interest expense | 22,078 | 12,815 | 8,296 | 7,976 | 8,571 |
| Net interest income | 435,772 | 349,045 | 278,930 | 257,074 | 252,942 |
| Provision for (recapture of) loan losses | 5,000 | 1,500 | (8,500) | (6,400) | (5,600) |
| Noninterest income | 59,042 | 43,481 | 42,118 | 35,552 | 33,483 |
| Noninterest expense | 198,740 | 179,911 | 140,753 | 136,740 | 140,659 |
| Earnings before income taxes | 291,074 | 211,115 | 188,795 | 162,286 | 151,366 |
| Income taxes | 83,247 | 59,112 | 84,384 | 60,857 | 52,221 |
| **NET EARNINGS** | $ 207,827 | $ 152,003 | $ 104,411 | $ 101,429 | $ 99,145 |
| Basic earnings per common share | $ 1.48 | $ 1.25 | $ 0.95 | $ 0.94 | $ 0.93 |
| Diluted earnings per common share | $ 1.48 | $ 1.24 | $ 0.95 | $ 0.94 | $ 0.93 |
| Cash dividends declared per common share | $ 0.72 | $ 0.56 | $ 0.54 | $ 0.48 | $ 0.48 |
| Cash dividends declared on common shares | $ 100,940 | $ 70,203 | $ 59,483 | $ 51,849 | $ 51,040 |
| Dividend pay-out ratio (1) | 48.57% | 46.19% | 56.97% | 51.12% | 51.48% |
| Weighted average common shares: | | | | | |
| Basic | 139,757,355 | 121,670,113 | 109,409,301 | 107,282,332 | 105,715,247 |
| Diluted | 139,934,211 | 121,957,364 | 109,806,710 | 107,686,955 | 106,192,472 |
| **Common Stock Data:** | | | | | |
| Common shares outstanding at year end | 140,102,480 | 140,000,017 | 110,184,922 | 108,251,981 | 106,384,982 |
| Book value per share | $ 14.23 | $ 13.22 | $ 9.70 | $ 9.15 | $ 8.68 |
| **Financial Position:** | | | | | |
| Assets | $ 11,282,450 | $ 11,529,153 | $ 8,270,586 | $ 8,073,707 | $ 7,671,200 |
| Investment securities available-for-sale | 1,740,257 | 1,734,085 | 2,080,985 | 2,270,466 | 2,368,646 |
| Investment securities held-to-maturity | 674,452 | 744,440 | 829,890 | 911,676 | 850,989 |
| Net loans (2) | 7,495,917 | 7,700,998 | 4,771,046 | 4,333,524 | 3,957,781 |
| Deposits | 8,704,928 | 8,827,490 | 6,546,853 | 6,309,680 | 5,917,260 |
| Borrowings | 428,659 | 722,255 | 553,773 | 656,028 | 736,704 |
| Junior subordinated debentures | 25,774 | 25,774 | 25,774 | 25,774 | 25,774 |
| Stockholders' equity | 1,994,098 | 1,851,190 | 1,069,266 | 990,862 | 923,399 |
| Equity-to-assets ratio (3) | 17.67% | 16.06% | 12.93% | 12.27% | 12.04% |
| **Financial Performance:** | | | | | |
| Return on beginning equity | 11.23% | 14.22% | 10.54% | 10.98% | 11.29% |
| Return on average equity (ROAE) | 10.71% | 11.00% | 9.84% | 10.26% | 10.87% |
| Return on average assets (ROAA) | 1.84% | 1.60% | 1.26% | 1.26% | 1.31% |
| Net interest margin, tax-equivalent (TE) (4) | 4.36% | 4.03% | 3.63% | 3.46% | 3.62% |
| Efficiency ratio (5) | 40.16% | 45.83% | 43.84% | 46.73% | 49.11% |
| Noninterest expense to average assets | 1.76% | 1.89% | 1.70% | 1.70% | 1.86% |
| **Credit Quality:** | | | | | |
| Allowance for loan losses | $ 68,660 | $ 63,613 | $ 59,585 | $ 61,540 | $ 59,156 |
| Allowance/gross loans | 0.91% | 0.82% | 1.23% | 1.40% | 1.47% |
| Total nonaccrual loans | $ 5,277 | $ 19,951 | $ 10,716 | $ 7,152 | $ 21,019 |
| Nonaccrual loans/gross loans, net of deferred loan fees | 0.07% | 0.26% | 0.22% | 0.16% | 0.52% |
| Allowance/nonaccrual loans | 1301.12% | 318.85% | 556.04% | 860.46% | 281.44% |
| Net recoveries | $ 47 | $ 2,528 | $ 6,545 | $ 8,784 | $ 4,931 |
| Net recoveries/average loans | 0.001% | 0.04% | 0.14% | 0.21% | 0.13% |
| **Regulatory Capital Ratios:** | | | | | |
| **Company:** | | | | | |
| Tier 1 leverage ratio | 12.33% | 10.98% | 11.88% | 11.49% | 11.22% |
| Common equity Tier 1 risk-based capital ratio | 14.83% | 13.04% | 16.43% | 16.48% | 16.49% |
| Tier 1 risk-based capital ratio | 15.11% | 13.32% | 16.87% | 16.94% | 16.98% |
| Total risk-based capital ratio | 16.01% | 14.13% | 18.01% | 18.19% | 18.23% |
| **Bank:** | | | | | |
| Tier 1 leverage ratio | 12.19% | 10.90% | 11.77% | 11.36% | 11.11% |
| Common equity Tier 1 risk-based capital ratio | 14.94% | 13.22% | 16.71% | 16.76% | 16.81% |
| Tier 1 risk-based capital ratio | 14.94% | 13.22% | 16.71% | 16.76% | 16.81% |
| Total risk-based capital ratio | 15.83% | 14.03% | 17.86% | 18.01% | 18.06% |

(1) Dividends declared on common stock divided by net earnings.
(2) 2015-2018 includes PCI loans.
(3) Stockholders' equity divided by total assets.
(4) Net interest income (TE) divided by average interest-earning assets.
(5) Noninterest expense divided by net interest income before provision for loan losses plus noninterest income. Also refer to "Noninterest Expense and Efficiency Ratio Reconciliation (non-GAAP)" under *Analysis of the Results of Operations* of Item 7 of this Form 10-K.

## ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of CVB Financial Corp. and its wholly owned subsidiary. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with this Annual Report on Form 10-K, and the audited consolidated financial statements and accompanying notes presented elsewhere in this report.

### CRITICAL ACCOUNTING POLICIES

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations. The following is a summary of the more judgmental and complex accounting estimates and principles. In each area, we have identified the variables most important in the estimation process. We have used the best information available to make the necessary estimates to value the related assets and liabilities. Actual performance that differs from our estimates and future changes in the key variables could change future valuations and impact the results of operations.

***Allowance for Loan Losses ("ALLL")*** — Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. Our allowance for loan 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 loan 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 appropriate 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 loan losses is charged to expense. For a full discussion of our methodology of assessing the adequacy of the allowance for loan losses, see "Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operation — Risk Management*" and Note 3 — *Summary of Significant Accounting Policies* and Note 6 — *Loans and Lease Finance Receivables and Allowance for Loan Losses* of our consolidated financial statements presented elsewhere in this report.

***Business Combinations*** — The Company applies the acquisition method of accounting for business combinations. Under the acquisition method, the acquiring entity in a business combination recognizes the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes prevailing valuation techniques appropriate for the asset or liability being measured in determining these fair values. These fair values are estimates and are subject to adjustment for up to one year after the acquisition date or when additional information relative to the closing date fair values becomes available and such information is considered final, whichever is earlier. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. Where amounts allocated to assets acquired and liabilities assumed is greater than the purchase price, a bargain purchase gain would be recognized. Acquisition related costs are expensed as incurred. Refer to Note 4 — *Business Combinations* of our consolidated financial statements presented elsewhere in this report.

***Valuation and Recoverability of Goodwill*** — Goodwill represented $663.7 million of our $11.28 billion in total assets as of December 31, 2019. The Company has one reportable segment. Goodwill has an indefinite

useful life and is not amortized, but is tested for impairment at least annually, or more frequently, if events and circumstances exist that indicate that a goodwill impairment test should be performed. Such events and circumstances may include among others, a significant adverse change in legal factors or in the general business climate, significant decline in our stock price and market capitalization, unanticipated competition, the testing for recoverability of a significant asset group within the reporting unit, and an adverse action or assessment by a regulating body. Any adverse change in these factors could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.

Based on the results of our annual goodwill impairment test, we determined that no goodwill impairment charges were required as our single reportable segment's fair value exceeded its carrying amount. As of December 31, 2019, we determined there were no events or circumstances which would more likely than not reduce the fair value of our reportable segment below its carrying amount. Note 3 — *Summary of Significant Accounting Policies* of our consolidated financial statements presented elsewhere in this report

***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 tax effects from an uncertain tax position are recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of other operating expense.

For complete discussion and disclosure of other accounting policies see Note 3 — *Summary of Significant Accounting Policies* of the Company's consolidated financial statements presented elsewhere in this report.

***Recently Issued Accounting Pronouncements but Not Adopted as of December 31, 2019***

| Standard | Description | Adoption Timing | Impact on Financial Statements |
|---|---|---|---|
| ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments<br><br>*Issued June 2016* | The FASB issued ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current "incurred loss" approach with an "expected loss" model. The new model, referred to as the Current Expected Credit Loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, | 1st Quarter 2020 | We established a company-wide, cross-functional governance structure for implementation of this standard. We have developed a CECL allowance model that calculates reserves over the life of the loan and is largely driven by portfolio characteristics, risk-grading, macroeconomic variables and the associated economic outlook, as well as other key methodology assumptions. Those assumptions are based upon historical lifetime loss rate models segregated by three loan segments: Commercial and Industrial, Commercial Real Estate, and Consumer Retail. In addition to determining the quantitative life of loan loss rate to be applied against the portfolio segments, the ASU indicates management has the |

| Standard | Description | Adoption Timing | Impact on Financial Statements |
| --- | --- | --- | --- |
| | held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to AFS debt securities. For AFS debt securities with unrealized losses, entities will measure credit impairment in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. | | opportunity to layer on current conditions and forecast adjustments to ensure that the life of loan loss rate reflects both the current state of the portfolio, and expectations for macroeconomic changes in the near future. We will utilize a single economic forecast that is based on probability weighted scenarios to incorporate macroeconomic uncertainty over a 2 or 3-year forecast horizon. After the initial 2 to 3 year forecast horizon, we will use an input reversion methodology in the model structure to complete a reasonable and supportable forecast period for the life of the loan. We performed parallel testing, including multiple iterations of our overall allowance process. Initial model validation has been completed for the models. Management assessed the potential impact of this standard on our consolidated financial statements and management does not expect a material impact to our allowance for credit losses. |
| ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement"<br><br>*Issued August 2018* | The FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities may early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. | 1st Quarter 2020 | The adoption of this ASU will result in a slight modification of disclosures but will not have an impact on our consolidated financial statements. |

| Standard | Description | Adoption Timing | Impact on Financial Statements |
|---|---|---|---|
| ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes”<br><br>*Issued December 2019* | The FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” This ASU removes certain exceptions for: recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. This ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. ASU 2019-12 is effective for interim and annual reporting periods beginning after December 15, 2020; early adoption is permitted. | 1st Quarter 2021 | We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements. |

## OVERVIEW

For the year ended December 31, 2019, we reported net earnings of $207.8 million, compared with $152.0 million for 2018. This represented a $55.8 million, or 36.73%, increase from the prior year. Diluted earnings per share were $1.48 for the year ended December 31, 2019, compared to $1.24 for 2018.

On August 10, 2018, we completed the acquisition of Community Bank (“CB”). Our financial statements for the year ended 2018 include 143 days of CB operations, post-merger. At close, Citizens Business Bank acquired $2.73 billion of loans. We also assumed $1.26 billion of noninterest-bearing deposits and $2.87 billion of total deposits.

At December 31, 2019, total assets of $11.28 billion decreased $246.7 million, or 2.14%, from total assets of $11.53 billion at December 31, 2018. Interest-earning assets of $10.03 billion at December 31, 2019 decreased $261.3 million, or 2.54%, when compared with $10.29 billion at December 31, 2018. The decrease in interest-earning assets was primarily due to a $200.0 million decrease in total loans and a $63.8 million decrease in investment securities, partially offset by a $7.3 million increase in interest-earning balances due from the Federal Reserve. Our tax equivalent yield on interest-earnings assets was 4.58% for 2019, compared to 4.17% for 2018.

Total investment securities were $2.41 billion at December 31, 2019, a decrease of $63.8 million, or 2.57%, from $2.48 billion at December 31, 2018. At December 31, 2019, investment securities HTM totaled $674.5 million. At December 31, 2019, investment securities AFS totaled $1.74 billion, inclusive of a pre-tax unrealized gain of $21.9 million. HTM securities declined by $70.0 million, or 9.40%, and AFS securities increased by $6.2 million, or 0.36%, from December 31, 2018. Our tax equivalent yield on investments was 2.50% for 2019, compared to 2.48% for 2018.

Total loans and leases, net of deferred fees and discount, of $7.56 billion at December 31, 2019, decreased by $200.0 million, or 2.58%, from $7.76 billion at December 31, 2018. The decrease in total loans included declines of $67.6 million in commercial and industrial loans, $46.3 million in SBA loans, $34.0 million in commercial real estate loans, $13.2 million in SFR loans, $10.8 million in dairy & livestock and agribusiness loans, $11.0 million in municipal lease finance receivables, and $12.3 million in consumer and other loans. The decline in these loan categories was generally the result of increased competition for new loan originations and higher levels of loan prepayments including a higher level of prepayment on loans from CB acquisition. Our yield on loans was 5.26% for the year ended December 31, 2019, compared to 4.97% for 2018. Interest income for yield adjustments related to discount accretion on acquired loans and nonrecurring nonaccrual interest paid was $30.8 million for 2019, compared to $16.9 million for 2018. Excluding the impact from discount accretion and nonaccrual interest paid, the yield on loans increased by 0.20%.

Noninterest-bearing deposits were $5.25 billion at December 31, 2019, an increase of $40.7 million, or 0.78%, compared to $5.20 billion at December 31, 2018. At December 31, 2019, noninterest-bearing deposits were 60.26% of total deposits, compared to 58.96% at December 31, 2018. Interest-bearing deposits of $3.46 billion declined by $163.3 million when compared to December 31, 2018. The cost of interest-bearing deposits for 2019 grew by 16 basis points but our overall cost of deposits of 0.20% increased by only seven basis points. This was due to the continued strength and concentration of noninterest-bearing deposits, which represented over 59% of total average deposits for 2019.

Customer repurchase agreements totaled $428.7 million at December 31, 2019, compared to $442.3 million at December 31, 2018. Our average cost of total deposits including customer repurchase agreements was 0.21% for 2019, compared to 0.14% for 2018.

At December 31, 2019, we had no short-term borrowings, compared to $280.0 million at December 31, 2018. At December 31, 2019, we had $25.8 million of junior subordinated debentures, unchanged from December 31, 2018. These debentures bear interest at three-month LIBOR plus 1.38% and mature in 2036. Our average cost of funds was 0.24% for 2019, compared to 0.16% for 2018.

The allowance for loan losses totaled $68.7 million at December 31, 2019, compared to $63.6 million at December 31, 2018. The allowance for loan losses was increased by $5.0 million in provision for loan losses and $47,000 in net recoveries. The allowance for loan losses was 0.91% and 0.82% of total loans and leases outstanding at December 31, 2019 and 2018, respectively. As of December 31, 2019, credit related discounts on acquired loans were $33.1 million.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory standards. As of December 31, 2019, the Company’s Tier 1 leverage capital ratio totaled 12.33%, common equity Tier 1 ratio totaled 14.83%, Tier 1 risk-based capital ratio totaled 15.11%, and total risk-based capital ratio totaled 16.01%. Refer to our *Analysis of Financial Condition-Capital Resources*.

***Recent Acquisitions***

On August 10, 2018, we completed the acquisition of CB with approximately $4.09 billion in total assets and 16 banking centers. The total assets acquired from CB included $2.74 billion of acquired loans, net of an $82.7 million discount, $717.0 million of investment securities, and $70.9 million in bank-owned life insurance. The acquisition resulted in approximately $547.1 million of goodwill and $52.2 million in core deposit premium. At the close of the merger, the entire CB security portfolio was liquidated at fair market value, as was $297.6 million of FHLB term advances and $166.0 million of overnight borrowings assumed from CB. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The change in goodwill resulted from finalizing the fair value of impaired loans. The purchase price allocation was finalized in the second quarter of 2019. The consolidation of 10 banking centers was completed during the second quarter of 2019, in which four additional banking centers were consolidated into CBB banking centers.

We have included the financial results of the business combination in the consolidated statement of earnings and comprehensive income beginning on the acquisition date.

***Business Segments***

For the year ended December 31, 2017, we operated as two reportable segments: Banking Centers and Dairy & Livestock and Agribusiness. As a result of the Community Bank acquisition, along with changes in personnel, reporting structure, and operations, we re-evaluated our segment reporting for the third quarter ended September 30, 2018.

As of December 31, 2018 and 2019, we operated as one reportable segment. The factors considered in making this determination included the nature of products and offered services, geographic regions in which we operate, the applicable regulatory environment, and the materiality of discrete financial information reviewed by our key decision makers.

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## ANALYSIS OF THE RESULTS OF OPERATIONS

### *Financial Performance*

| | For the Year Ended December 31, | | | Variance | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2019 | | 2018 | |
| | 2019 | 2018 | 2017 | $ | % | $ | % |
| | *(Dollars in thousands, except per share amounts)* | | | | | | |
| Net interest income | $ 435,772 | $ 349,045 | $ 278,930 | $ 86,727 | 24.85% | $ 70,115 | 25.14% |
| (Provision for) recapture of loan losses | (5,000) | (1,500) | 8,500 | (3,500) | -233.33% | (10,000) | -117.65% |
| Noninterest income | 59,042 | 43,481 | 42,118 | 15,561 | 35.79% | 1,363 | 3.24% |
| Noninterest expense | (198,740) | (179,911) | (140,753) | (18,829) | -10.47% | (39,158) | -27.82% |
| Income taxes | (83,247) | (59,112) | (84,384 )(1) | (24,135) | -40.83% | 25,272 | 29.95% |
| Net earnings | $ 207,827 | $ 152,003 | $ 104,411 | $ 55,824 | 36.73% | $ 47,592 | 45.58% |
| Earnings per common share: | | | | | | | |
| Basic | $ 1.48 | $ 1.25 | $ 0.95 | $ 0.23 | | $ 0.30 | |
| Diluted | $ 1.48 | $ 1.24 | $ 0.95 | $ 0.24 | | $ 0.29 | |
| Return on average assets | 1.84% | 1.60% | 1.26% **(1)** | 0.24% | | 0.34% | |
| Return on average shareholders' equity | 10.71% | 11.00% | 9.84% **(1)** | -0.29% | | 1.16% | |
| Efficiency ratio | 40.16% | 45.83% | 43.84% | -5.67% | | 1.99% | |
| Noninterest expense to average assets | 1.76% | 1.89% | 1.70% | -0.13% | | 0.19% | |

(1) Includes $13.2 million DTA revaluation resulting from the Tax Reform Act.

### *Return on Average Tangible Common Equity Reconciliations (Non-GAAP)*

The return on average tangible common equity is a non-GAAP disclosure. The Company uses certain non-GAAP financial measures to provide supplemental information regarding the Company's performance. The following is a reconciliation of net income, adjusted for tax-effected amortization of intangibles, to net income computed in accordance with GAAP; a reconciliation of average tangible common equity to the Company's average stockholders' equity computed in accordance with GAAP; as well as a calculation of return on average tangible common equity.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | *(Dollars in thousands)* | | |
| Net Income | $ 207,827 | $ 152,003 | $ 104,411 |
| Add: Amortization of intangible assets | 10,798 | 5,254 | 1,329 |
| Less: Tax effect of amortization of intangible assets (1) | (3,192) | (1,553) | (559) |
| Tangible net income | $ 215,433 | $ 155,704 | $ 105,181 |
| Average stockholders' equity | $ 1,939,961 | $ 1,382,392 | $ 1,061,557 |
| Less: Average goodwill | (665,026) | (330,613) | (112,916) |
| Less: Average intangible assets | (48,296) | (26,055) | (6,957) |
| Average tangible common equity | $ 1,226,639 | $ 1,025,724 | $ 941,684 |
| Return on average equity | 10.71% | 11.00% | 9.84% |
| Return on average tangible common equity | 17.56% | 15.18% | 11.17% |

(1) Tax effected at respective statutory rates.

During the fourth quarter of 2017, we recorded a $13.2 million one-time charge to income tax expense due to the tax rate reduction and re-measurement of our net DTA.

### *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 (interest-earning assets) and the interest paid on deposits and borrowed

funds (interest-bearing liabilities). Net interest margin is net interest income as a percentage of average interest-earning assets for the period. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income and net interest margin. The net interest spread is the yield on average interest-earning assets minus the cost of average interest-bearing liabilities. Net interest margin and net interest spread are included on a tax equivalent (TE) basis by adjusting interest income utilizing the federal statutory tax rates of 21%, 21% and 35% in effect for the years ended December 31, 2019, 2018 and 2017, respectively. The substantial change in rates were due to the Tax Reform Act. 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 international, national and state economies, in general, and more specifically, 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. We manage net interest income through affecting changes in the mix of interest-earning assets as well as the mix of interest-bearing liabilities, changes in the level of interest-bearing liabilities in proportion to interest-earning assets, and in the growth and maturity of earning assets. See Item 7 — *Management's Discussion and Analysis of Financial Condition and Results of Operations — Asset/Liability and Market Risk Management — Interest Rate Sensitivity Management* included herein.

The table below presents the interest rate spread, net interest margin and 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 average yield/rate between these respective periods.

**Interest-Earning Assets and Interest-Bearing Liabilities**

| | For the Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | | 2017 | | |
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| | *(Dollars in thousands)* | | | | | | | | |
| INTEREST-EARNING ASSETS | | | | | | | | | |
| Investment securities (1) | | | | | | | | | |
| Available-for-sale securities: | | | | | | | | | |
| Taxable | $ 1,580,850 | $ 38,189 | 2.42% | $ 1,869,842 | $ 44,423 | 2.38% | $ 2,137,332 | $ 47,596 | 2.24% |
| Tax-advantaged | 41,991 | 1,141 | 3.76% | 52,550 | 1,565 | 3.98% | 68,522 | 2,182 | 4.73% |
| Held-to-maturity securities: | | | | | | | | | |
| Taxable | 504,814 | 11,498 | 2.28% | 534,642 | 11,848 | 2.22% | 586,673 | 12,558 | 2.14% |
| Tax-advantaged | 211,899 | 5,890 | 3.36% | 243,955 | 7,053 | 3.50% | 278,109 | 8,457 | 4.11% |
| Investment in FHLB stock | 17,688 | 1,235 | 6.98% | 19,441 | 2,045(4) | 10.52% | 18,046 | 1,375 | 7.62% |
| Interest-earning deposits with other institutions | 120,247 | 2,269 | 1.89% | 97,266 | 1,642 | 1.69% | 86,537 | 932 | 1.08% |
| Loans (2) | 7,552,505 | 397,628 | 5.26% | 5,905,674 | 293,284 | 4.97% | 4,623,244 | 214,126 | 4.63% |
| Total interest-earning assets | 10,029,994 | 457,850 | 4.58% | 8,723,370 | 361,860 | 4.17% | 7,798,463 | 287,226 | 3.74% |
| Total noninterest-earning assets | 1,272,907 | | | 789,299 | | | 503,258 | | |
| Total assets | $ 11,302,901 | | | $ 9,512,669 | | | $ 8,301,721 | | |
| INTEREST-BEARING LIABILITIES | | | | | | | | | |
| Savings deposits (3) | $ 3,048,785 | 12,698 | 0.42% | $ 2,656,660 | 7,250 | 0.27% | $ 2,337,142 | 4,903 | 0.21% |
| Time deposits | 487,221 | 4,422 | 0.91% | 453,031 | 2,575 | 0.57% | 401,033 | 1,141 | 0.28% |
| Total interest-bearing deposits | 3,536,006 | 17,120 | 0.48% | 3,109,691 | 9,825 | 0.32% | 2,738,175 | 6,044 | 0.22% |
| FHLB advances, other borrowings, and customer repurchase agreements | 537,964 | 4,958 | 0.91% | 499,526 | 2,990 | 0.60% | 571,991 | 2,252 | 0.39% |
| Interest-bearing liabilities | 4,073,970 | 22,078 | 0.54% | 3,609,217 | 12,815 | 0.35% | 3,310,166 | 8,296 | 0.25% |
| Noninterest-bearing deposits | 5,177,035 | | | 4,449,110 | | | 3,856,987 | | |
| Other liabilities | 111,935 | | | 71,950 | | | 73,011 | | |
| Stockholders’ equity | 1,939,961 | | | 1,382,392 | | | 1,061,557 | | |
| Total liabilities and stockholders’ equity | $ 11,302,901 | | | $ 9,512,669 | | | $ 8,301,721 | | |
| Net interest income | | $435,772 | | | $349,045 | | | $278,930 | |
| Net interest spread - tax equivalent | | | 4.04% | | | 3.82% | | | 3.49% |
| Net interest margin | | | 4.35% | | | 4.00% | | | 3.58% |
| Net interest margin - tax equivalent | | | 4.36% | | | 4.03% | | | 3.63% |

(1) Includes tax equivalent (TE) adjustments utilizing a federal statutory rate of 21%, 21% and 35% in effect for the years ended December 31, 2019, 2018 and 2017, respectively. Non tax-equivalent (TE) rate was 2.43%, 2.41% and 2.31% for the years ended December 31, 2019, 2018 and 2017, respectively.
(2) Includes loan fees of $3.1 million, $3.4 million and $3.6 million for the years ended December 31, 2019, 2018 and 2017, respectively. Prepayment penalty fees of $5.4 million, $3.0 million and $2.7 million are included in interest income for the years ended December 31, 2019, 2018 and 2017, respectively.
(3) Includes interest-bearing demand and money market accounts.
(4) Includes a special dividend from the FHLB of $520,000.

The following table presents a comparison of interest income and interest expense resulting from changes in the volumes and rates on average interest-earning assets and average interest-bearing liabilities for the periods indicated. Changes in interest income or expense attributable to volume changes are calculated by multiplying the change in volume by the initial average interest rate. The change in interest income or expense attributable to changes in interest rates is calculated by multiplying the change in interest rate by the initial volume. The changes attributable to interest rate and volume changes are calculated by multiplying the change in rate times the change in volume.

**Rate and Volume Analysis for Changes in Interest Income, Interest Expense and Net Interest Income**

| | Comparision of Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 Compared to 2018 Increase (Decrease) Due to | | | | 2018 Compared to 2017 Increase (Decrease) Due to | | | |
| | Volume | Rate | Rate/ Volume | Total | Volume | Rate | Rate/ Volume | Total |
| | (Dollars in thousands) | | | | | | | |
| Interest income: | | | | | | | | |
| Available-for-sale securities: | | | | | | | | |
| Taxable investment securities | $ (6,919) | $ 811 | $ (126) | $ (6,234) | $ (5,743) | $ 2,929 | $ (359) | $ (3,173) |
| Tax-advantaged investment securities | (315) | (137) | 28 | (424) | (509) | (141) | 33 | (617) |
| Held-to-maturity securities: | | | | | | | | |
| Taxable investment securities | (706) | 377 | (21) | (350) | (1,118) | 448 | (40) | (710) |
| Tax-advantaged investment securities | (927) | (272) | 36 | (1,163) | (1,022) | (434) | 52 | (1,404) |
| Investment in FHLB stock | (184) | (688) | 62 | (810) | 106 | 524 | 40 | 670 |
| Interest-earning deposits with other institutions | 388 | 193 | 46 | 627 | 117 | 528 | 65 | 710 |
| Loans | 81,775 | 17,648 | 4,921 | 104,344 | 59,330 | 15,522 | 4,306 | 79,158 |
| Total interest income | 73,112 | 17,932 | 4,946 | 95,990 | 51,161 | 19,376 | 4,097 | 74,634 |
| Interest expense: | | | | | | | | |
| Savings deposits | 1,070 | 3,815 | 563 | 5,448 | 673 | 1,473 | 201 | 2,347 |
| Time deposits | 194 | 1,537 | 116 | 1,847 | 144 | 1,142 | 148 | 1,434 |
| FHLB advances, other borrowings, and customer repurchase agreements | 234 | 1,610 | 124 | 1,968 | (279) | 1,164 | (147) | 738 |
| Total interest expense | 1,498 | 6,962 | 803 | 9,263 | 538 | 3,779 | 202 | 4,519 |
| Net interest income | $ 71,614 | $ 10,970 | $ 4,143 | $ 86,727 | $ 50,623 | $ 15,597 | $ 3,895 | $ 70,115 |

*2019 Compared to 2018*

Net interest income, before provision for loan losses, of $435.8 million for 2019 increased $86.7 million, or 24.85%, compared to $349.0 million for 2018. Interest-earning assets increased on average by $1.31 billion, or 14.98%, from $8.72 billion for 2018 to $10.03 billion for 2019. The growth in interest-earning assets was primarily the result of loan growth from the acquisition of CB. Our net interest margin (TE) was 4.36% for 2019, compared to 4.03% for 2018.

Interest income for 2019 was $457.9 million, which represented a $96.0 million, or 26.53%, increase when compared to 2018. Average interest-earning assets increased by $1.31 billion and the average interest-earning asset yield of 4.58%, compared to 4.17% for 2018. The 41 basis point increase in the interest-earning asset yield over 2018 resulted from the combination of a 29 basis point increase in loan yields and the change in mix of earning assets. Average loans as a percentage of earning assets grew from 67.7% in 2018 to 75.3% in 2019. Conversely, average investment securities declined as a percentage of earning assets from 31.0% in the prior year to 23.3% in 2019.

Interest income and fees on loans for 2019 of $397.6 million increased $104.3 million, or 35.58% when compared to 2018 primarily due to loans acquired from CB. Average loans increased $1.65 billion for 2019 when compared with 2018. Discount accretion on acquired loans and nonrecurring nonaccrual interest paid was $30.8 million for 2019, compared to $16.9 million for 2018, which increased loan yields by nine basis points. In addition, loan yields increased by an additional 20 basis points from the prior year primarily due to higher rates on loans indexed to variable interest rates, such as the Bank’s prime rate.

In general, we stop accruing interest on a loan after its principal or interest becomes 90 days or more past due. When a loan is placed on nonaccrual, all interest previously accrued but not collected is charged against earnings. There was no interest income that was accrued and not reversed on nonaccrual loans at December 31, 2019 and 2018. As of December 31, 2019 and 2018, we had $5.3 million and $20.0 million of nonaccrual loans,

respectively. Had these nonaccrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been approximately $526,000 and $1.3 million greater for 2019 and 2018, respectively.

Interest income from investment securities was $56.7 million for 2019, an $8.2 million, or 12.59%, decrease from $64.9 million for 2018. This decrease was the net result of a $361.4 million decrease in the average investment securities for 2019 compared to 2018, partially offset by a two basis point increase in the non tax-equivalent yield on securities. Dividend income from FHLB stock decreased by $810,000 from 2019, primarily due to a special dividend of $520,000 received from the FHLB in the fourth quarter of 2018.

Interest expense of $22.1 million for 2019 increased $9.3 million, or 72.28%, compared to $12.8 million for 2018. The average rate paid on interest-bearing liabilities increased by 19 basis points, to 0.54% for 2019, from 0.35% for 2018. The rate on interest-bearing deposits for 2019 increased by 16 basis points from 2018, as a result of higher rates on deposits acquired from CB and competition from higher interest rates offered by our competitors. Average interest-bearing liabilities increased by $464.8 million when compared to 2018, primarily due to deposits assumed from CB. Average noninterest-bearing deposits represented 59.42% of our total deposits for 2019, compared to 58.86% for 2018. The overall cost of funds increased by only eight basis points due to the continued strength and growth of noninterest-bearing deposits, during a period of higher short-term interest rates.

*2018 Compared to 2017*

Net interest income, before provision for (recapture of) loan losses, of $349.0 million for 2018 increased $70.1 million, or 25.14%, compared to $278.9 million for 2017. Interest-earning assets increased on average by $924.9 million, or 11.86%, from $7.80 billion for 2017 to $8.72 billion for 2018. Our net interest margin (TE) was 4.03% for 2018, compared to 3.63% for 2017. On a nominal basis, excluding the impact from tax-exempt interest, the net interest margin for 2018 grew by 42 basis points over 2017. The increase in our net interest margin was primarily the result of loan growth from the acquisition of CB and a higher level of discount accretion from the acquired loans.

Interest income for 2018 was $361.9 million, which represented a $74.63 million, or 25.98%, increase when compared to 2017. Average interest-earning assets increased by $924.9 million and the average interest-earning asset yield of 4.17% increased by 43 basis points compared to 2017, primarily due to loans acquired from CB. The 43 basis point increase in the interest-earning asset yield over 2017 resulted from the combination of a 34 basis point increase in loan yields, a four basis point increase in investment yields and the change in mix of earning assets, represented by an increase in average loans as a percentage of earning assets from 59.3% in 2017 to 67.7% in 2018. Conversely, average investment securities declined as a percentage of earning assets from 39.4% in the prior year to 31.0% in 2018.

Interest income and fees on loans for 2018 of $293.3 million increased $79.2 million, or 36.97% when compared to 2017 primarily due to loans acquired from CB. Average loans increased $1.28 billion for 2018 when compared with 2017. As a result of higher levels of discount accretion on acquired loans and nonaccrual interest paid, 2018 interest income increased by $11.2 million in comparison to 2017. Also contributing to the 34 basis point increase in loan yield were increases in the rate on loans indexed to variable interest rates, such as the Bank's Prime rate, which increased by 1.00% when compared to the end of 2017. Excluding discount accretion on acquired loans and nonaccrual interest paid, our loan yields grew by 18 basis points over the prior year.

There was no interest income that was accrued and not reversed on nonaccrual loans at December 31, 2018 and 2017. As of December 31, 2018 and 2017, we had $20.0 million and $10.7 million of nonaccrual loans (excluding PCI loans), respectively. Had these nonaccrual loans for which interest was no longer accruing complied with the original terms and conditions, interest income would have been approximately $1.3 million and $889,000 greater for 2018 and 2017, respectively.

Interest income from investment securities was $64.9 million for 2018, a $5.9 million, or 8.34%, decrease from $70.8 million for 2017. This decrease was primarily the result of a $369.6 million decrease in the average

investment securities for 2018, compared to 2017. The nominal yield on investments increased by 9 basis points compared to 2017, while the tax equivalent yield increased by only four basis points due to the reduction of the federal tax rate on tax-exempt investments resulting from the Tax Reform Act. Dividend income from FHLB stock increased by $670,000 from 2017, due to a special dividend of $520,000 received from the FHLB in the fourth quarter of 2018.

Interest expense of $12.8 million for 2018 increased $4.5 million, or 54.47%, compared to $8.3 million for 2017. The average rate paid on interest-bearing liabilities increased 10 basis points, to 0.35% for 2018, from 0.25% for 2017. Average interest-bearing liabilities were $299.1 million higher in 2018, compared to 2017, as we assumed $1.61 billion interest-bearing deposits from CB during the third quarter of 2018. Average noninterest-bearing deposits represented 58.86% of our total deposits for 2018, compared to 58.48% for 2017. Our total cost of funds in 2018 was 0.16%, compared to 0.12% in 2017.

***Provision for Loan Losses***

The allowance for loan losses is increased by the provision for loan losses and recoveries of prior losses, and is decreased by recapture of provisions and by charge-offs taken when management believes the uncollectability of any loan is confirmed. The provision for loan losses is determined by management as the amount to be added to (subtracted from) the allowance for loan losses after net charge-offs have been deducted to bring the allowance to an appropriate level which, in management's best estimate, is necessary to absorb probable loan losses within the existing loan portfolio.

The allowance for loan losses totaled $68.7 million at December 31, 2019, compared to $63.6 million at December 31, 2018. The allowance for loan losses was increased by a $5.0 million loan loss provision for 2019 and by net recoveries of $47,000. This compares to a $1.5 million loan loss provision and net recoveries of $2.5 million for 2018 and an $8.5 million loan loss provision recapture and net recoveries of $6.5 million for 2017. The increase in provision for loan losses was primarily due to lower levels of net recoveries and additional provision due to loan growth during the period experienced within the commercial and industrial and commercial real estate segments of the non-acquired loan portfolio. We periodically assess the quality of our portfolio to determine whether additional provisions for loan losses are necessary. In addition to the growth in the non-acquired loan portfolio, the provision was the result of the net effect of modest increases in certain qualitative loss factors and reduced reserve requirements for moderate reductions in historical loss rates across the portfolio. We believe the allowance is appropriate at December 31, 2019. The ratio of the allowance for loan losses to total loans and leases outstanding, net of deferred fees and discount, as of December 31, 2019, 2018 and 2017 was 0.91%, 0.82% and 1.23%, respectively. As of December 31, 2019, remaining credit related discounts on acquired loans were $33.1 million. Refer to the discussion of Allowance for Loan Losses in Item 7 — *Management's Discussion and Analysis of Financial Condition and Results of Operations* contained herein for discussion concerning observed changes in the credit quality of various components of our loan portfolio as well as changes and refinements to our methodology.

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 loan losses in the future, as the nature of this process requires considerable judgment. See "Allowance for Loan Losses" under *Analysis of Financial Condition* herein.

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***Noninterest Income***

Noninterest income includes income derived from financial services offered, such as CitizensTrust, BankCard services, international banking, and other business services. Also included in noninterest income are service charges and fees, primarily from deposit accounts, gains (net of losses) from the disposition of investment securities, loans, other real estate owned, and fixed assets, and other revenues not included as interest on earning assets.

The following table sets forth the various components of noninterest income for the periods presented.

| | For the Year Ended December 31, | | | Variance | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2019 | | 2018 | |
| | 2019 | 2018 | 2017 | $ | % | $ | % |
| | (Dollars in thousands) | | | | | | |
| Noninterest income: | | | | | | | |
| Service charges on deposit accounts | $ 20,010 | $ 17,070 | $ 15,809 | $ 2,940 | 17.22% | $ 1,261 | 7.98% |
| Trust and investment services | 9,525 | 8,774 | 9,845 | 751 | 8.56% | (1,071) | -10.88% |
| Bankcard services | 3,163 | 3,485 | 3,406 | (322) | -9.24% | 79 | 2.32% |
| BOLI income | 5,798 | 4,018 | 3,420 | 1,780 | 44.30% | 598 | 17.49% |
| Gain on sale of investment securities, net | 5 | - | 402 | 5 | - | (402) | -100.00% |
| Gain on OREO, net | 129 | 3,546 | 6 | (3,417) | -96.36% | 3,540 | 59000.00% |
| Gain on sale of building, net | 4,776 | - | 542 | 4,776 | - | (542) | -100.00% |
| Gain on sale of branches, net | - | - | 906 | - | - | (906) | -100.00% |
| Gain on eminent domain condemnation, net | 5,685 | - | 2,894 | 5,685 | - | (2,894) | -100.00% |
| Other | 9,951 | 6,588 | 4,888 | 3,363 | 51.05% | 1,700 | 34.78% |
| Total noninterest income | $ 59,042 | $ 43,481 | $ 42,118 | $ 15,561 | 35.79% | $ 1,363 | 3.24% |

*2019 Compared to 2018*

The $15.6 million growth in noninterest income was primarily due to a $5.7 million net gain from the legal settlement of an eminent domain condemnation of one of our business financial center buildings in Bakersfield and a $4.8 million net gain on the sale of our bank owned buildings, compared with a $3.5 million net gain on the sale of one OREO in 2018. Service charges on deposit accounts increased by $2.9 million from 2018, primarily due to growth in service charges on deposits assumed in the acquisition of CB. The $3.4 million increase in other income included increases of $1.5 million in swap fee income, $1.0 million increase in international banking fee income, and $1.1 million in SBA servicing income and dividend income from various equity investments. For 2019, the Durbin Amendment’s cap on interchange fees became effective for the Company, which reduced our debit card interchange fee income for bankcard services by approximately $600,000 when compared to 2018.

CitizensTrust consists of Wealth Management and Investment Services income. The Wealth Management group provides a variety of services, which include asset management, financial planning, estate planning, retirement planning, private, and corporate trustee services, and probate services. Investment Services provides self-directed brokerage, 401(k) plans, mutual funds, insurance and other non-insured investment products. At December 31, 2019, CitizensTrust had approximately $2.86 billion in assets under management and administration, including $2.01 billion in assets under management. CitizensTrust generated fees of $9.5 million for 2019, an increase of $751,000 compared to $8.8 million for 2018, due to the growth in assets under management.

The Bank’s investment in BOLI includes life insurance policies acquired through acquisitions and the purchase of life insurance by the Bank on a selected group of employees. The Bank is the owner and beneficiary of these policies. BOLI is recorded as an asset at its cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties. Death benefits of $502,000 were included in our BOLI policies for 2019.

*2018 Compared to 2017*

The $43.5 million in noninterest income included $3.5 million of net gain on the sale of one OREO. 2017 included $2.9 million in one-time gains related to an eminent domain condemnation of one of our banking center buildings, a $906,000 net gain on the sale of a branch acquired from VBB, a $542,000 net gain on the sale of our former operations and technology center, and a $402,000 gain on sale of an investment security. Excluding the net gains realized in 2018 and 2017, noninterest income increased by $2.5 million over 2017. Service charges on deposit accounts increased by $1.3 million over 2017, primarily due to the acquisition of CB.

At December 31, 2018, CitizensTrust had approximately $2.54 billion in assets under management and administration, including $1.80 billion in assets under management. CitizensTrust generated fees of $8.8 million for 2018, a decrease of $1.1 million compared to $9.8 million for 2017.

The $598,000 increase in BOLI income included $706,000 in BOLI income from $70.9 million of BOLI policies acquired from CB in the third quarter of 2018, which partially offset the $775,000 in income recorded in 2017 on the death benefit of a former director.

***Noninterest Expense***

The following table summarizes the various components of noninterest expense for the periods presented.

| | For the Year Ended December 31, | | | Variance 2019 | | Variance 2018 | |
|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | $ | % | $ | % |
| | *(Dollars in thousands)* | | | | | | |
| Noninterest expense: | | | | | | | |
| Salaries and employee benefits | $ 119,475 | $ 100,601 | $ 87,065 | $ 18,874 | 18.76% | $ 13,536 | 15.55% |
| Occupancy | 16,565 | 16,386 | 13,188 | 179 | 1.09% | 3,198 | 24.25% |
| Equipment | 4,724 | 4,455 | 3,568 | 269 | 6.04% | 887 | 24.86% |
| Professional services | 7,752 | 6,477 | 5,940 | 1,275 | 19.69% | 537 | 9.04% |
| Software licenses and maintenance | 9,826 | 8,655 | 6,385 | 1,171 | 13.53% | 2,270 | 35.55% |
| Marketing and promotion | 5,890 | 5,302 | 4,839 | 588 | 11.09% | 463 | 9.57% |
| Amortization of intangible assets | 10,798 | 5,254 | 1,329 | 5,544 | 105.52% | 3,925 | 295.33% |
| Telecommunications expense | 2,785 | 2,564 | 2,352 | 221 | 8.62% | 212 | 9.01% |
| Regulatory assessments | 1,958 | 3,218 | 3,119 | (1,260) | -39.15% | 99 | 3.17% |
| Insurance | 1,475 | 1,735 | 1,780 | (260) | -14.99% | (45) | -2.53% |
| Loan expense | 1,439 | 1,103 | 752 | 336 | 30.46% | 351 | 46.68% |
| Recapture of provision for unfunded loan commitments | - | (250) | (400) | 250 | 100.00% | 150 | 37.50% |
| Directors' expenses | 1,230 | 1,073 | 954 | 157 | 14.63% | 119 | 12.47% |
| Stationery and supplies | 1,179 | 1,207 | 1,246 | (28) | -2.32% | (39) | -3.13% |
| Acquisition related expenses | 6,447 | 16,404 | 2,251 | (9,957) | -60.70% | 14,153 | 628.74% |
| Other | 7,197 | 5,727 | 6,385 | 1,470 | 25.67% | (658) | -10.31% |
| Total noninterest expense | $ 198,740 | $ 179,911 | $ 140,753 | $ 18,829 | 10.47% | $ 39,158 | 27.82% |
| Noninterest expense to average assets | 1.76% | 1.89% | 1.70% | | | | |
| Efficiency ratio (1) | 40.16% | 45.83% | 43.84% | | | | |

(1) Noninterest expense divided by net interest income before provision for loan losses plus noninterest income.

Our ability to control noninterest expenses in relation to asset growth can be measured in terms of total noninterest expenses as a percentage of average assets. Noninterest expense as a percentage of average assets was 1.76% for 2019, compared to 1.89% and 1.70% for 2018 and 2017, respectively.

Our ability to control noninterest expenses in relation to the level of total revenue (net interest income before provision for loan losses plus noninterest income) is measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. The efficiency ratio was 40.16% for 2019, compared to 45.83% for 2018 and 43.84% for 2017.

*2019 Compared to 2018*

Noninterest expense of $198.7 million for the year ended December 31, 2019 was $18.8 million higher than 2018. Salaries and employee benefit costs increased $18.9 million primarily due to additional compensation related to the newly hired and former CB employees who were retained after the merger and $1.9 million in higher stock related compensation expense. Higher expense for accelerated vesting of stock grants related to the amended employment agreement and additional stock grants related to the consulting agreement for the Company's retiring Chief Executive Officer contributed to the increase in compensation costs for 2019. The year-over-year increase also included a $5.5 million increase in CDI amortization as a result of core deposits assumed from CB. Increases of $1.3 million in professional services, $1.2 million in software licenses and maintenance, and $1.5 million in other expense was primarily related to higher expenses related to the operations of a larger bank after the merger with CB. These increases were partially offset by a $10.0 million decrease in merger related expenses.

*2018 Compared to 2017*

Noninterest expense of $179.9 million for the year ended December 31, 2018 was $39.2 million higher than 2017. The year-over-year increase included $16.4 million in merger related expenses for the acquisition of CB in 2018, compared to $2.1 million in acquisition costs related to the integration and systems conversion of VBB for the same period of 2017. Salaries and benefit costs increased by $13.5 million due to additional compensation related expenses for the newly hired and former CB employees. CB related expenses were the primary driver of a $3.2 million increase in occupancy expense and a $2.3 million increase in software licenses and maintenance. The year-over-year increase also included a $3.9 million increase in amortization of intangible assets due to core deposits assumed from CB.

***Income Taxes***

The Company's effective tax rate for the year ended December 31, 2019 was 28.60%, compared with 28.00% and 44.70% for the year ended December 31, 2018 and 2017, respectively. On December 22, 2017, the Tax Reform Act was enacted into law. Beginning in 2018, the Tax Reform Act reduces the federal tax rate for corporations from 35% to 21% and changes or limits certain tax deductions. During the fourth quarter of 2017, we recorded a $13.2 million one-time charge to income tax expense due to the tax rate reduction and re-measurement of our net DTA. Our estimated annual effective tax rate also varies depending upon the level of tax-advantaged income as well as available tax credits. Refer to Note 11 — *Income Taxes* of the notes to consolidated financial statements for more information.

The effective tax rates are below the nominal combined Federal and State tax rate as a result of tax-advantaged income from certain municipal security investments, municipal loans and leases and BOLI, as well as available tax credits for each period.

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## ANALYSIS OF FINANCIAL CONDITION

Total assets of $11.28 billion at December 31, 2019 decreased $246.7 million, or 2.14%, from total assets of $11.53 billion at December 31, 2018. Interest-earning assets totaled $10.03 billion at December 31, 2019, a decrease of $261.3 million, or 2.54%, when compared with earning assets of $10.29 billion at December 31, 2018. The decrease in interest-earning assets was primarily due to a $200.0 million decrease in total loans and a $63.8 million decrease in investment securities, partially offset by a $7.3 million increase in interest-earning balances due from the Federal Reserve. Total liabilities were $9.29 billion at December 31, 2019, a decrease of $389.6 million, or 4.03%, from total liabilities of $9.68 billion at December 31, 2018. Total deposits declined by $122.6 million, or 1.39%. Total equity increased $142.9 million, or 7.72%, to $1.99 billion at December 31, 2019, compared to $1.85 billion at December 31, 2018. The $142.9 million increase in equity was due to $207.8 million in net earnings, a $30.9 million increase in other comprehensive income, net of tax, resulting from the net increase in market value of our investment securities portfolio, and $7.8 million for various stock based compensation items. This was offset by $100.9 million in cash dividends declared, and $2.6 million for the repurchase of common stock. During 2019, under our common stock repurchase program, we repurchased 48,000 shares of common stock at an average price of $20.02.

***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. At December 31, 2019, we reported total investment securities of $2.41 billion. This represented a decrease of $63.8 million, or 2.57%, from total investment securities of $2.48 billion at December 31, 2018. At December 31, 2019, investment securities HTM totaled $674.5 million. At December 31, 2019, our investment securities AFS totaled $1.74 billion, inclusive of a pre-tax unrealized gain of $21.9 million. The after-tax unrealized gain reported in AOCI on investment securities AFS was $15.4 million.

As of December 31, 2019, the Company had a pre-tax net unrealized holding gain on AFS investment securities of $21.9 million, compared to a pre-tax net unrealized holding loss of $23.6 million at December 31, 2018. The changes in the net unrealized holding gain resulted primarily from fluctuations in market interest rates. For 2019, total repayments/maturities of investment securities totaled $485.8 million, compared to $489.6 million for 2018. The Company purchased additional investment securities totaling $540.6 million and $98.7 million for 2019 and 2018, respectively. During 2019, we sold 14 investment securities at book value of approximately $152.6 million. At the close of the merger in the third quarter of 2018, we liquidated the entire investment security portfolio of $717.0 million acquired from CB. No other investment securities were sold in 2018.

The tables below summarize the fair value of AFS and HTM investment securities as of the dates presented.

| | December 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Fair Value | Percent | Fair Value | Percent |
| | (Dollars in thousands) | | | |
| Investment securities available-for-sale | | | | |
| Mortgage-backed securities | $1,206,313 | 69.32% | $1,474,508 | 85.03% |
| CMO/REMIC | 493,710 | 28.37% | 214,051 | 12.34% |
| Municipal bonds | 39,354 | 2.26% | 44,810 | 2.59% |
| Other securities | 880 | 0.05% | 716 | 0.04% |
| Total available-for-sale securities | $1,740,257 | 100.00% | $1,734,085 | 100.00% |

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| | December 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amortized Cost | Percent | Amortized Cost | Percent |
| | *(Dollars in thousands)* | | | |
| Investment securities held-to-maturity | | | | |
| Government agency/GSE | $ 117,366 | 17.40% | $ 138,274 | 18.57% |
| Mortgage-backed securities | 168,479 | 24.98% | 153,874 | 20.67% |
| CMO/REMIC | 192,548 | 28.55% | 215,336 | 28.93% |
| Municipal bonds | 196,059 | 29.07% | 236,956 | 31.83% |
| Total held-to-maturity securities | $ 674,452 | 100.00% | $ 744,440 | 100.00% |
| Fair Value | $ 678,948 | | $ 721,537 | |

The maturity distribution of the AFS and HTM portfolios consist of the following as of the date presented.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | One Year or Less | After One Year Through Five Years | After Five Years Through Ten Years | After Ten Years | Total | Percent to Total |
| | *(Dollars in thousands)* | | | | | |
| Investment securities available-for-sale: | | | | | | |
| Mortgage-backed securities | $ 2,119 | $1,056,151 | $ 146,105 | $ 1,938 | $1,206,313 | 69.32% |
| CMO/REMIC | 6,863 | 377,444 | 109,403 | - | 493,710 | 28.37% |
| Municipal bonds (1) | 6,313 | 2,052 | 10,841 | 20,148 | 39,354 | 2.26% |
| Other securities | 880 | - | - | - | 880 | 0.05% |
| Total | $ 16,175 | $1,435,647 | $ 266,349 | $ 22,086 | $1,740,257 | 100.00% |
| Weighted average yield: | | | | | | |
| Mortgage-backed securities | 3.27% | 2.64% | 2.56% | 3.12% | 2.63% | |
| CMO/REMIC | 3.13% | 2.53% | 2.55% | - | 2.54% | |
| Municipal bonds (1) | 0.83% | 3.92% | 2.86% | 2.51% | 2.41% | |
| Other securities | 2.57% | - | - | - | 2.57% | |
| Total | 2.22% | 2.61% | 2.57% | 2.56% | 2.60% | |

(1) The weighted average yield for the portfolio is based on projected duration and is not tax-equivalent. The tax-equivalent yield at December 31, 2019 was 3.05%.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | One Year or Less | After One Year Through Five Years | After Five Years Through Ten Years | After Ten Years | Total | Percent to Total |
| | (Dollars in thousands) | | | | | |
| Investment securities held-to-maturity: | | | | | | |
| Government agency/GSE | $ - | $ - | $ - | $ 117,366 | $117,366 | 17.40% |
| Mortgage-backed securities | - | 130,304 | 35,482 | 2,693 | 168,479 | 24.98% |
| CMO/REMIC | - | 180,101 | 12,447 | - | 192,548 | 28.55% |
| Municipal bonds (1) | - | 28,727 | 92,214 | 75,118 | 196,059 | 29.07% |
| Total | $ - | $ 339,132 | $ 140,143 | $ 195,177 | $674,452 | 100.00% |
| Weighted average yield: | | | | | | |
| Government agency/GSE | - | - | - | 1.91% | 1.91% | |
| Mortgage-backed securities | - | 2.50% | 2.48% | 3.42% | 2.51% | |
| CMO/REMIC | - | 2.25% | 2.21% | - | 2.25% | |
| Municipal bonds (1) | - | 2.99% | 2.90% | 2.48% | 2.75% | |
| Total | - | 2.41% | 2.73% | 2.15% | 2.40% | |

(1) The weighted average yield for the portfolio is based on projected duration and is not tax-equivalent. The tax equivalent yield at December 31, 2019 was 3.49%.

The maturity of each security category is defined as the contractual maturity except for the categories of mortgage-backed securities and CMO/REMIC whose maturities are defined as the estimated average life. The final maturity of mortgage-backed securities and CMO/REMIC 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 mortgage-backed securities and CMO/REMIC 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 discounts 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 on the total investment portfolio at December 31, 2019 was 2.54% with a weighted-average life of 3.6 years. This compares to a weighted-average yield of 2.55% at December 31, 2018 with a weighted-average life of 4.3 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.

Approximately 90% of the securities in the total investment portfolio, at December 31, 2019, are issued by the U.S. government or U.S. government-sponsored agencies and enterprises, which have the implied guarantee of payment of principal and interest. As of December 31, 2019, approximately $76.0 million in U.S. government agency bonds are callable. The Agency CMO/REMIC are backed by agency-pooled collateral. Municipal bonds, which represented approximately 10% of the total investment portfolio, are predominately AA or higher rated securities.

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The Company held investment securities in excess of 10% of shareholders' equity from the following issuers as of the dates presented.

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Book Value | Market Value | Book Value | Market Value |
| | *(Dollars in thousands)* | | | |
| Major issuer: | | | | |
| Federal National Mortgage Association | $ 963,002 | $ 976,431 | $ 955,546 | $ 944,989 |
| Federal Home Loan Mortgage Corporation | 805,841 | 815,311 | 871,257 | 856,427 |
| Government National Mortgage Association | 271,154 | 268,879 | 253,735 | 241,130 |

Municipal securities held by the Company are issued by various states and their various local municipalities. The following tables present municipal securities by the top holdings by state as of the dates presented.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Amortized Cost | Percent of Total | Fair Value | Percent of Total |
| | *(Dollars in thousands)* | | | |
| Municipal Securities available-for-sale: | | | | |
| Minnesota | $ 11,067 | 28.7% | $ 11,274 | 28.6% |
| Connecticut | 5,976 | 15.5% | 6,103 | 15.5% |
| Iowa | 5,831 | 15.1% | 5,907 | 15.0% |
| California | 5,675 | 14.7% | 5,845 | 14.9% |
| Massachusetts | 4,150 | 10.8% | 4,260 | 10.8% |
| Ohio | 2,125 | 5.5% | 2,219 | 5.6% |
| All other states (3 states) | 3,682 | 9.7% | 3,746 | 9.6% |
| Total | $ 38,506 | 100.0% | $ 39,354 | 100.0% |
| Municipal Securities held-to-maturity: | | | | |
| Minnesota | $ 47,999 | 24.5% | $ 48,695 | 24.4% |
| Massachusetts | 24,700 | 12.6% | 25,328 | 12.7% |
| Texas | 21,586 | 11.0% | 21,758 | 10.9% |
| Wisconsin | 12,276 | 6.2% | 12,416 | 6.2% |
| Washington | 11,680 | 6.0% | 11,873 | 6.0% |
| Ohio | 9,523 | 4.9% | 9,909 | 5.0% |
| All other states (20 states) | 68,295 | 34.8% | 69,382 | 34.8% |
| Total | $ 196,059 | 100.0% | $199,361 | 100.0% |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Amortized Cost | Percent of Total | Fair Value | Percent of Total |
| | (Dollars in thousands) | | | |
| Municipal Securities available-for-sale: | | | | |
| Minnesota | $ 11,078 | 24.3% | $ 10,599 | 23.7% |
| Iowa | 8,617 | 18.9% | 8,615 | 19.2% |
| Connecticut | 6,305 | 13.8% | 6,167 | 13.8% |
| California | 5,641 | 12.4% | 5,758 | 12.8% |
| Massachusetts | 4,153 | 9.1% | 3,934 | 8.8% |
| Ohio | 2,135 | 4.7% | 2,141 | 4.8% |
| All other states (9 states) | 7,692 | 16.8% | 7,596 | 16.9% |
| Total | $ 45,621 | 100.0% | $ 44,810 | 100.0% |
| Municipal Securities held-to-maturity: | | | | |
| Minnesota | $ 54,370 | 22.9% | $ 52,732 | 22.8% |
| Texas | 28,510 | 12.0% | 27,893 | 12.1% |
| Massachusetts | 27,191 | 11.5% | 26,369 | 11.4% |
| Louisiana | 12,804 | 5.4% | 12,364 | 5.3% |
| Wisconsin | 12,315 | 5.2% | 11,777 | 5.1% |
| Pennsylvania | 11,682 | 4.9% | 11,731 | 5.1% |
| All other states (21 states) | 90,084 | 38.1% | 88,458 | 38.2% |
| Total | $ 236,956 | 100.0% | $231,324 | 100.0% |

The tables below 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, 2019 and 2018. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market rates have fluctuated. However, we have the ability to hold and do not have the intent to sell these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily- impaired (“OTTI”). A summary of our analysis of these securities and the unrealized losses is described more fully in Note 5 — *Investment Securities* of the notes to the consolidated financial statements. Economic trends may adversely affect the value of the portfolio of investment securities that we hold.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| | (Dollars in thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| Mortgage-backed securities | $ 20,289 | $ (6) | $ 97,964 | $ (744) | $118,253 | $ (750) |
| CMO/REMIC | 177,517 | (705) | 34,565 | (191) | 212,082 | (896) |
| Municipal bonds | - | - | 563 | (2) | 563 | (2) |
| Total available-for-sale securities | $197,806 | $ (711) | $ 133,092 | $ (937) | $330,898 | $ (1,648) |
| Investment securities held-to-maturity: | | | | | | |
| Government agency/GSE | $ 28,359 | $ (252) | $ 19,405 | $ (405) | $ 47,764 | $ (657) |
| Mortgage-backed securities | 10,411 | (54) | - | - | 10,411 | (54) |
| CMO/REMIC | 23,897 | (104) | 166,193 | (2,354) | 190,090 | (2,458) |
| Municipal bonds | 7,583 | (32) | 29,981 | (533) | 37,564 | (565) |
| Total held-to-maturity securities | $ 70,250 | $ (442) | $ 215,579 | $ (3,292) | $285,829 | $ (3,734) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| | (Dollars in thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| Mortgage-backed securities | $692,311 | $ (4,864) | $ 593,367 | $ (16,082) | $1,285,678 | $ (20,946) |
| CMO/REMIC | 36,582 | (365) | 135,062 | (3,160) | 171,644 | (3,525) |
| Municipal bonds | 9,568 | (188) | 14,181 | (955) | 23,749 | (1,143) |
| Total available-for-sale securities | $738,461 | $ (5,417) | $ 742,610 | $ (20,197) | $1,481,071 | $ (25,614) |
| Investment securities held-to-maturity: | | | | | | |
| Government agency/GSE | $ 7,479 | $ (15) | $ 54,944 | $ (2,607) | $ 62,423 | $ (2,622) |
| Mortgage-backed securities | 59,871 | (484) | 90,863 | (2,656) | 150,734 | (3,140) |
| CMO/REMIC | - | - | 203,254 | (12,081) | 203,254 | (12,081) |
| Municipal bonds | 70,989 | (778) | 77,723 | (5,410) | 148,712 | (6,188) |
| Total held-to-maturity securities | $138,339 | $ (1,277) | $ 426,784 | $ (22,754) | $ 565,123 | $ (24,031) |

The Company did not record any charges for other-than-temporary impairment losses for the years ended December 31, 2019 and 2018.

***Loans***

Prior to April 1, 2019, our loans and lease finance receivables consisted of purchase credit impaired ("PCI") loans associated with the acquisition of San Joaquin Bank ("SJB") on October 16, 2009, and loans and leases receivables excluding PCI loans ("Non-PCI loans"). The PCI loans are more fully discussed in Note 3 — *Summary of Significant Accounting Policies* of the notes to the consolidated financial statements. At December 31, 2019 and December 31, 2018, the remaining discount associated with PCI loans was zero and our total gross PCI loan portfolio represented less than 0.2% of total gross loans and leases at December 31, 2019 and December 31, 2018. Beginning with June 30, 2019, PCI loans were accounted for and combined with Non-PCI loans and were reflected in total loans and lease finance receivables.

Total loans and leases, net of deferred fees and discounts, of $7.56 billion at December 31, 2019, decreased by $200.0 million, or 2.58%, from $7.76 billion at December 31, 2018. The decrease in total loans included declines of $67.6 million in commercial and industrial loans, $46.3 million in SBA loans, $34.0 million in commercial real estate loans, $13.2 million in SFR loans, $10.8 million in dairy & livestock and agribusiness loans, $11.0 million in municipal lease finance receivables, and $12.3 million in consumer and other loans. The decline in these loan categories was generally the result of increased competition for new loan originations and higher levels of loan prepayments, including higher levels of prepayment on loans acquired from CB.

Total loans, net of deferred loan fees, comprise 75.44% of our total earning assets as of December 31, 2019. The following table presents our loan portfolio by type for the periods presented.

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**Distribution of Loan Portfolio by Type**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 (1) | 2018 | 2017 | 2016 | 2015 |
| | | | (Dollars in thousands) | | |
| Commercial and industrial | $ 935,127 | $ 1,002,209 | $ 513,325 | $ 485,078 | $ 434,099 |
| SBA | 305,008 | 350,043 | 122,055 | 97,184 | 106,867 |
| Real estate: | | | | | |
| Commercial real estate | 5,374,617 | 5,394,229 | 3,376,713 | 2,930,141 | 2,643,184 |
| Construction | 116,925 | 122,782 | 77,982 | 85,879 | 68,563 |
| SFR mortgage | 283,468 | 296,504 | 236,202 | 250,605 | 233,754 |
| Dairy & livestock and agribusiness | 383,709 | 393,843 | 347,289 | 338,631 | 305,509 |
| Municipal lease finance receivables | 53,146 | 64,186 | 70,243 | 64,639 | 74,135 |
| Consumer and other loans | 116,319 | 128,429 | 64,229 | 78,274 | 69,278 |
| Gross loans (Non-PCI) | 7,568,319 | 7,752,225 | 4,808,038 | 4,330,431 | 3,935,389 |
| Less: Deferred loan fees, net | (3,742) | (4,828) | (6,289) | (6,952) | (8,292) |
| Gross loans, net of deferred loan fees (Non-PCI) | 7,564,577 | 7,747,397 | 4,801,749 | 4,323,479 | 3,927,097 |
| Less: Allowance for loan losses | (68,660) | (63,409) | (59,218) | (60,321) | (59,156) |
| Net loans (Non-PCI) | 7,495,917 | 7,683,988 | 4,742,531 | 4,263,158 | 3,867,941 |
| PCI Loans | | 17,214 | 30,908 | 73,093 | 93,712 |
| Discount on PCI loans | | - | (2,026) | (1,508) | (3,872) |
| Less: Allowance for loan losses | | (204) | (367) | (1,219) | - |
| PCI loans, net | | 17,010 | 28,515 | 70,366 | 89,840 |
| Total loans and lease finance receivables | | $ 7,700,998 | $ 4,771,046 | $ 4,333,524 | $ 3,957,781 |

(1) Beginning with June 30, 2019, PCI loans were accounted for and combined with Non-PCI loans and were reflected in total loans and lease finance receivables.

As of December 31, 2019, $241.8 million, or 4.50% of the total commercial real estate loans included loans secured by farmland, compared to $231.0 million, or 4.27%, at December 31, 2018. The loans secured by farmland included $125.9 million for loans secured by dairy & livestock land and $115.9 million for loans secured by agricultural land at December 31, 2019, compared to $126.9 million for loans secured by dairy & livestock land and $104.1 million for loans secured by agricultural land at December 31, 2018. As of December 31, 2019, dairy & livestock and agribusiness loans of $383.7 million were comprised of $323.5 million for dairy & livestock loans and $60.2 million for agribusiness loans, compared to $340.5 million for dairy & livestock loans and $54.0 million for agribusiness loans at December 31, 2018.

Real estate loans are loans secured by conforming trust deeds on real property, including property under construction, land development, commercial property and single-family and multi-family residences. Our real estate loans are comprised of industrial, office, retail, medical, single-family residences, multi-family residences, and farmland. Consumer loans include installment loans to consumers as well as home equity loans, auto and equipment leases and other loans secured by junior liens on real property. Municipal lease finance receivables are leases to municipalities. Dairy & livestock and agribusiness loans are loans to finance the operating needs of wholesale dairy farm operations, cattle feeders, livestock raisers, and farmers.

As of December 31, 2019, the Company had $170.0 million of total SBA 504 loans. SBA 504 loans include term loans to finance capital expenditures and for the purchase of commercial real estate. Initially the Bank provides two separate loans to the borrower representing a first and second lien on the collateral. The loan with the first lien is typically at a 50% advance to the acquisition costs and the second lien loan provides the financing for 40% of the acquisition costs with the borrower's down payment of 10% of the acquisition costs. The Bank retains the first lien loan for its term and sells the second lien loan to the SBA subordinated debenture program.

A majority of the Bank's 504 loans are granted for the purpose of commercial real estate acquisition. As of December 31, 2019, the Company had $135.0 million of total SBA 7(a) loans that include a guarantee of payment form the SBA (typically 75% of the loan amount, but up to 90% in certain cases) in the event of default. The SBA 7(a) loans include revolving lines of credit (SBA Express) and term loans of up to ten (10) years to finance long-term working capital requirements, capital expenditures, and/or for the purchase or refinance of commercial real estate.

As of December 31, 2019, the Company had $116.9 million in construction loans. This represents 1.54% of total gross loans held-for-investment. Although our construction loans are located throughout our market footprint, the majority of construction loans consist of commercial land development and construction projects in Los Angeles County, Orange County, and the Inland Empire region of Southern California. There were no nonperforming construction loans at December 31, 2019.

Our loan portfolio is geographically disbursed throughout our marketplace. The following is the breakdown of our total held-for-investment commercial real estate loans, by region as of December 31, 2019.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Total Loans** | | **Commercial Real Estate Loans** | |
| | *(Dollars in thousands)* | | | |
| Los Angeles County | $3,290,456 | 43.5% | $ 2,238,348 | 41.6% |
| Central Valley | 1,187,620 | 15.7% | 885,594 | 16.5% |
| Orange County | 1,002,344 | 13.2% | 661,403 | 12.3% |
| Inland Empire | 976,078 | 12.9% | 851,712 | 15.8% |
| Central Coast | 444,807 | 5.9% | 365,426 | 6.8% |
| San Diego | 208,760 | 2.7% | 128,469 | 2.4% |
| Other California | 140,870 | 1.9% | 79,618 | 1.5% |
| Out of State | 317,384 | 4.2% | 164,047 | 3.1% |
| | $7,568,319 | 100.0% | $ 5,374,617 | 100.0% |

The table below breaks down our real estate portfolio.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Loan Balance** | **Percent** | **Percent Owner-Occupied (1)** | **Average Loan Balance** |
| | *(Dollars in thousands)* | | | |
| Commercial real estate: | | | | |
| Industrial | $ 1,871,133 | 34.8% | 54.4% | $ 1,416 |
| Office | 942,624 | 17.5% | 25.8% | 1,533 |
| Retail | 781,616 | 14.6% | 12.3% | 1,656 |
| Multi-family | 583,220 | 10.9% | 0.5% | 1,620 |
| Medical | 280,317 | 5.2% | 45.3% | 1,832 |
| Secured by farmland (2) | 241,762 | 4.5% | 100.0% | 2,015 |
| Other (3) | 673,945 | 12.5% | 52.8% | 1,428 |
| Total commercial real estate | $ 5,374,617 | 100.0% | 38.8% | 1,530 |

(1) Represents percentage of reported owner-occupied at origination in each real estate loan category.

(2) The loans secured by farmland included $125.9 million for loans secured by dairy & livestock land and $115.9 million for loans secured by agricultural land at December 31, 2019.

(3) Other loans consist of a variety of loan types, none of which exceeds 2.0% of total commercial real estate loans.

The table below provides the maturity distribution for held-for-investment total gross loans as of December 31, 2019. The loan amounts are based on contractual maturities although the borrowers have the ability to prepay the loans. Amounts are also classified according to repricing opportunities or rate sensitivity.

**Loan Maturities and Interest Rate Category at December 31, 2019**

| | Within One Year | After One But Within Five Years | After Five Years | Total |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Types of Loans: | | | | |
| Commercial and industrial | $ 429,671 | $ 337,566 | $ 167,890 | $ 935,127 |
| SBA | 7,773 | 19,066 | 278,169 | 305,008 |
| Real estate: | | | | |
| Commercial real estate | 224,477 | 1,728,532 | 3,421,608 | 5,374,617 |
| Construction | 110,764 | 5,881 | 280 | 116,925 |
| SFR mortgage | 2,812 | 2,614 | 278,042 | 283,468 |
| Dairy & livestock and agribusiness | 268,402 | 101,437 | 13,870 | 383,709 |
| Municipal lease finance receivables | 993 | 3,083 | 49,070 | 53,146 |
| Consumer and other loans | 17,619 | 13,524 | 85,176 | 116,319 |
| Total gross loans | $1,062,511 | $ 2,211,703 | $4,294,105 | $7,568,319 |
| Amount of Loans based upon: | | | | |
| Fixed Rates | $ 243,155 | $ 1,532,722 | $2,086,792 | $3,862,669 |
| Floating or adjustable rates | 819,356 | 678,981 | 2,207,313 | 3,705,650 |
| Total gross loans | $1,062,511 | $ 2,211,703 | $4,294,105 | $7,568,319 |

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, and real property has been taken as collateral, 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, 2019, 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 loan losses.

***Nonperforming Assets***

The following table provides information on nonperforming assets as of the dates presented.

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 (1) | 2017 (1) | 2016 (1) | 2015 (1) |
| | | | (Dollars in thousands) | | |
| Nonaccrual loans | $ 5,033 | $ 16,442 | $ 6,516 | $ 5,526 | $ 8,397 |
| Troubled debt restructured loans (nonperforming) | 244 | 3,509 | 4,200 | 1,626 | 12,622 |
| OREO, net | 4,889 | 420 | 4,527 | 4,527 | 6,993 |
| Total nonperforming assets | $10,166 | $ 20,371 | $ 15,243 | $ 11,679 | $ 28,012 |
| Troubled debt restructured performing loans | $ 3,112 | $ 3,594 | $ 4,809 | $ 19,233 | $ 42,687 |
| Percentage of nonperforming assets to total loans outstanding, net of deferred fees, and OREO | 0.13% | 0.26% | 0.32% | 0.27% | 0.70% |
| Percentage of nonperforming assets to total assets | 0.09% | 0.18% | 0.18% | 0.14% | 0.37% |

(1) Excludes PCI loans.

At December 31, 2019, loans classified as impaired totaled $8.4 million, or 0.11% of total gross loans, compared to $23.5 million, or 0.30% of total loans at December 31, 2018. At December 31, 2019, impaired loans resulting from troubled debt restructures represented $3.4 million, of which $244,000 were nonperforming and $3.1 million were performing.

Of the $8.4 million total impaired loans as of December 31, 2019, $5.5 million were considered collateral dependent and measured using the fair value of the collateral based on current appraisals (obtained within 1 year). The amount of impaired loans measured using the present value of expected future cash flows discounted at the loans effective rate were $2.9 million.

***Troubled Debt Restructurings***

Total TDRs were $3.4 million at December 31, 2019, compared to $7.1 million at December 31, 2018. At December 31, 2019, we had $244,000 in nonperforming TDRs and $3.1 million of performing TDRs were accruing interest as restructured loans. Performing TDRs were generally provided a modification of loan repayment terms in response to borrower financial difficulties. The performing restructured loans represent the only impaired loans accruing interest at each respective reporting date. A performing restructured loan is categorized as such if we believe that it is reasonably assured of repayment and is performing in accordance with the modified terms.

The following table provides a summary of TDRs as of the dates presented.

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Balance | Number of Loans | Balance | Number of Loans |
| | *(Dollars in thousands)* | | | |
| Performing TDRs: | | | | |
| Commercial and industrial | $ 78 | 2 | $ 135 | 2 |
| SBA | 536 | 1 | 575 | 1 |
| Real Estate: | | | | |
| Commercial real estate | 397 | 1 | 472 | 1 |
| Construction | - | - | - | - |
| SFR mortgage | 2,101 | 8 | 2,412 | 9 |
| Dairy & livestock and agribusiness | - | - | - | - |
| Consumer and other | - | - | - | - |
| Total performing TDRs | $ 3,112 | 12 | $ 3,594 | 13 |
| Nonperforming TDRs: | | | | |
| Commercial and industrial | $ - | - | $ 21 | 1 |
| SBA | - | - | - | - |
| Real Estate: | | | | |
| Commercial real estate | - | - | 3,143 | 1 |
| Construction | - | - | - | - |
| SFR mortgage | - | - | - | - |
| Dairy & livestock and agribusiness | - | - | 78 | 1 |
| Consumer and other | 244 | 1 | 267 | 1 |
| Total nonperforming TDRs | $ 244 | 1 | $ 3,509 | 4 |
| Total TDRs | $ 3,356 | 13 | $ 7,103 | 17 |

At December 31, 2019, there was no allowance for loan losses specifically allocated to TDRs. At December 31, 2018, $490,000 of the allowance for loan losses was specifically allocated to TDRs. Impairment amounts identified are typically charged off against the allowance at the time a probable loss is determined. Total charge-offs on TDRs for the year ended December 31, 2019 were $78,000, compared to no charge-offs for the same period of 2018.

*Nonperforming Assets and Delinquencies*

The table below provides trends in our nonperforming assets and delinquencies as of the dates presented.

| | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Nonperforming loans:** | | | | | |
| Commercial and industrial | $ 1,266 | $ 1,550 | $ 1,993 | $ 8,388 | $ 7,490 |
| SBA | 2,032 | 2,706 | 5,082 | 4,098 | 2,892 |
| Real estate: | | | | | |
| Commercial real estate | 724 | 1,083 | 1,095 | 1,134 | 6,068 |
| Construction | - | - | - | - | - |
| SFR mortgage | 878 | 888 | 2,720 | 2,894 | 2,937 |
| Dairy & livestock and agribusiness | - | - | - | - | 78 |
| Consumer and other loans | 377 | 385 | 397 | 477 | 486 |
| **Total** | **$ 5,277** | **$ 6,612** | **$ 11,287** | **$ 16,991** | **$ 19,951** |
| **% of Total gross loans** | **0.07%** | **0.09%** | **0.15%** | **0.22%** | **0.26%** |
| **Past due 30-89 days:** | | | | | |
| Commercial and industrial | $ 2 | $ 756 | $ 310 | $ 369 | $ 909 |
| SBA | 1,402 | 303 | - | 601 | 1,307 |
| Real estate: | | | | | |
| Commercial real estate | - | 368 | - | 124 | 2,789 |
| Construction | - | - | - | - | - |
| SFR mortgage | 249 | - | - | - | 285 |
| Dairy & livestock and agribusiness | - | - | - | - | - |
| Consumer and other loans | - | - | 22 | 101 | - |
| **Total** | **$ 1,653** | **$ 1,427** | **$ 332** | **$ 1,195** | **$ 5,290** |
| **% of Total gross loans** | **0.02%** | **0.02%** | **0.004%** | **0.02%** | **0.07%** |
| **OREO:** | | | | | |
| SBA | $ 797 | $ 444 | $ - | $ - | $ - |
| Real estate: | | | | | |
| Commercial real estate | 2,275 | 2,275 | 2,275 | 2,275 | - |
| SFR mortgage | 1,817 | 6,731 | - | - | 420 |
| **Total** | **$ 4,889** | **$ 9,450** | **$ 2,275** | **$ 2,275** | **$ 420** |
| **Total nonperforming, past due, and OREO** | **$ 11,819** | **$ 17,489** | **$ 13,894** | **$ 20,461** | **$ 25,661** |
| **% of Total gross loans** | **0.16%** | **0.23%** | **0.18%** | **0.27%** | **0.33%** |

Nonperforming loans, defined as nonaccrual loans plus nonperforming TDR loans, were $5.3 million at December 31, 2019, or 0.07% of total loans. Total nonperforming loans at December 31, 2019 included $3.5 million of nonperforming loans acquired from CB in the third quarter of 2018. This compares to nonperforming loans of $20.0 million, or 0.26% of total loans, at December 31, 2018. The $14.7 million decrease in nonperforming loans was primarily due to a $6.2 million decrease in nonperforming commercial and industrial loans, a $5.3 million decrease in nonperforming commercial real estate loans, a $2.1 million decrease in nonperforming SFR mortgage loans, and an $860,000 decrease in nonperforming SBA loans.

At December 31, 2019, we had four OREO properties with a carrying value of $4.9 million, compared to one property with a carrying value of $420,000 at December 31, 2018. During 2019, we sold one OREO property, realizing a net gain on sale of $105,000. There were four additions to OREO for the year ended December 31, 2019.

Changes in economic and business conditions have had an impact on our market area and on our loan portfolio. We continually monitor these conditions in determining our estimates of needed reserves. However, we cannot predict the extent to which the deterioration in general economic conditions, real estate values, changes in

general rates of interest and changes in the financial conditions or business of a borrower may adversely affect a specific borrower's ability to pay or the value of our collateral. See "*Risk Management — Credit Risk Management*" included herein.

***Allowance for Loan Losses***

The allowance for loan losses is established as management's estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance is increased (decreased) by the provision for losses and decreased by charge-offs when management believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are added to the allowance. The determination of the balance in the allowance for loan 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 appropriate to provide for probable credit losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past loan loss experience, and such other factors that are considered in estimating inherent credit losses.

The allowance for loan losses totaled $68.7 million as of December 31, 2019, compared to $63.6 million as of December 31, 2018. The allowance for loan losses was increased by a $5.0 million loan loss provision and $47,000 net recoveries for the year ended December 31, 2019. This compares to a $1.5 million loan loss provision and net recoveries of $2.5 million for the same period of 2018.

The table below presents a summary of net charge-offs and recoveries by type and the resulting allowance for loan losses and recapture of provision for loan losses for the periods presented.

| | As of and For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| | (Dollars in thousands) | | | | |
| Allowance for loan losses at beginning of period | $ 63,613 | $ 59,585 | $ 61,540 | $ 59,156 | $ 59,825 |
| Charge-offs: | | | | | |
| Commercial and industrial | (48) | (10) | (138) | (120) | (411) |
| SBA | (321) | (257) | - | - | (37) |
| Commercial real estate | - | - | - | - | (117) |
| Construction | - | - | - | - | - |
| SFR mortgage | - | (13) | - | (102) | (215) |
| Dairy & livestock and agribusiness | (78) | - | - | - | - |
| Consumer and other loans | (7) | (11) | (13) | (16) | (229) |
| Total charge-offs | (454) | (291) | (151) | (238) | (1,009) |
| Recoveries: | | | | | |
| Commercial and industrial | 255 | 82 | 118 | 630 | 319 |
| SBA | 9 | 20 | 78 | 40 | 41 |
| Commercial real estate | - | - | 154 | 792 | 4,330 |
| Construction | 12 | 2,506 | 6,036 | 7,174 | 581 |
| SFR mortgage | 196 | 51 | 212 | - | 186 |
| Dairy & livestock and agribusiness | 19 | 19 | 19 | 216 | 407 |
| Consumer and other loans | 10 | 141 | 79 | 170 | 76 |
| Total recoveries | 501 | 2,819 | 6,696 | 9,022 | 5,940 |
| Net recoveries | 47 | 2,528 | 6,545 | 8,784 | 4,931 |
| Provision for (recapture of ) loan losses | 5,000 | 1,500 | (8,500) | (6,400) | (5,600) |
| Allowance for loan losses at end of period | $ 68,660 | $ 63,613 | $ 59,585 | $ 61,540 | $ 59,156 |
| Summary of reserve for unfunded loan commitments: | | | | | |
| Reserve for unfunded loan commitments at beginning of period | $ 8,959 | $ 6,306 | $ 6,706 | $ 7,156 | $ 7,656 |
| Estimated fair value of reserve for unfunded loan commitment assumed from Community Bank | - | 2,903 | - | - | - |
| Recapture of provision for unfunded loan commitments | - | (250) | (400) | (450) | (500) |
| Reserve for unfunded loan commitments at end of period | $ 8,959 | $ 8,959 | $ 6,306 | $ 6,706 | $ 7,156 |
| Reserve for unfunded loan commitments to total unfunded loan commitments | 0.56% | 0.51% | 0.66% | 0.76% | 0.92% |
| Amount of total loans at end of period (1) | $ 7,564,577 | $ 7,764,611 | $ 4,830,631 | $ 4,395,064 | $ 4,016,937 |
| Average total loans outstanding (1) | $ 7,552,505 | $ 5,905,674 | $ 4,623,244 | $ 4,195,129 | $ 3,782,133 |
| Net recoveries to average total loans | 0.00% | 0.04% | 0.14% | 0.21% | 0.13% |
| Net recoveries to total loans at end of period | 0.00% | 0.03% | 0.14% | 0.20% | 0.12% |
| Allowance for loan losses to average total loans | 0.91% | 1.08% | 1.29% | 1.47% | 1.56% |
| Allowance for loan losses to total loans at end of period | 0.91% | 0.82% | 1.23% | 1.40% | 1.47% |
| Net recoveries to allowance for loan losses | 0.07% | 3.97% | 10.98% | 14.27% | 8.34% |
| Net recoveries to provision for (recapture of) loan losses | 0.94% | 168.53% | -77.00% | -137.25% | -88.05% |

(1) Net of deferred loan origination fees, costs and discounts.

**Specific allowance:** For impaired loans, we incorporate specific allowances based on loans individually evaluated utilizing one of three valuation methods, as prescribed under ASC 310-10. If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the ALLL or, alternatively, a specific allocation will be established and included in the overall ALLL balance. The specific allocation represents $508,000 (0.74%) and $561,000 (0.88%) of the total allowance as of December 31, 2019 and 2018, respectively.

**General allowance:** The remaining loan portfolio is collectively evaluated for impairment under ASC 450-20 and is divided into risk rating classes of loan receivables between “Classified” loans (including substandard and doubtful loans) “Special Mention” loans and “Pass” loans, and is further disaggregated into loan segments by loan type with similar risk characteristics. Both the classified and non-classified loan categories are divided into eight (8) specific loan segments. An allowance is provided for each segment based upon that segment’s average historical loss experience over an established look back period, adjusted for the applicable loss emergence periods (i.e., the amount of time from the point at which a loss is incurred to the point at which the loss is confirmed). For each segment, the allowance is adjusted further for current conditions based on our analysis of specific environmental or qualitative loss factors (as prescribed in the 2006 Interagency Policy Statement on ALLL) affecting the collectability of our loan portfolio that may cause actual loss rates to differ from historical loss experience.

There have been no material changes to the Bank’s ALLL methodology during 2019. The ALLL balance increased during the year ended December 31, 2019 by $5.0 million in provision for loan losses and a net recovery of loans of $47,000. The Bank determined that the ALLL balance of $68.7 million was appropriate and the result of the net effect of additional requirements related to loan growth experienced during the nine month period within the commercial and industrial and commercial real estate segments of the non-acquired loan portfolio, modest increase in certain qualitative loss factors and reduced reserve requirements for the continued but moderate reductions in the historical loss rates for predominately all portfolio segments. The ALLL balance also increased as a result of reserve requirements for acquired loan portfolios that exceeded remaining unaccreted fair value credit discounts.

While we believe that the allowance at December 31, 2019 was appropriate to absorb losses from known or inherent risks in the portfolio, no assurance can be given that economic conditions, interest rate fluctuations, conditions of our borrowers (including fraudulent activity), or natural disasters, which adversely affect our service areas or other circumstances or conditions, including those defined above, will not be reflected in increased provisions for loan losses in the future.

The following table provides a summary of the allocation of the allowance for loan losses for specific loan categories at the dates indicated for total loans. The allocations presented should not be interpreted as an indication that loans charged to the allowance for loan 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.

**Allocation of Allowance for Loan Losses**

| | December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
| | Allowance for Loan Losses | % of Loans to Total Loans in Each Category | Allowance for Loan Losses | % of Loans to Total Loans in Each Category | Allowance for Loan Losses | % of Loans to Total Loans in Each Category | Allowance for Loan Losses | % of Loans to Total Loans in Each Category | Allowance for Loan Losses | % of Loans to Total Loans in Each Category |
| | (Dollars in thousands) | | | | | | | | | |
| Commercial and industrial | $ 8,880 | 12.4% | $ 7,520 | 12.9% | $ 7,280 | 10.6% | $ 8,154 | 11.0% | $ 8,588 | 10.8% |
| SBA | 1,453 | 4.0% | 1,062 | 4.5% | 869 | 2.5% | 871 | 2.2% | 993 | 2.7% |
| Real estate: | | | | | | | | | | |
| Commercial real estate | 48,629 | 71.0% | 44,934 | 69.4% | 41,722 | 69.8% | 37,443 | 66.6% | 36,995 | 65.7% |
| Construction | 858 | 1.5% | 981 | 1.6% | 984 | 1.6% | 1,096 | 1.9% | 2,389 | 1.7% |
| SFR mortgage | 2,339 | 3.8% | 2,196 | 3.8% | 2,112 | 4.9% | 2,287 | 5.7% | 2,103 | 5.8% |
| Dairy & livestock and agribusiness | 5,255 | 5.1% | 5,215 | 5.1% | 4,647 | 7.2% | 8,541 | 7.7% | 6,029 | 7.6% |
| Municipal lease finance receivable | 623 | 0.7% | 775 | 0.8% | 851 | 1.5% | 941 | 1.5% | 1,153 | 1.8% |
| Consumer and other loans | 623 | 1.5% | 726 | 1.7% | 753 | 1.3% | 988 | 1.8% | 906 | 1.7% |
| PCI loans | - | - | 204 | 0.2% | 367 | 0.6% | 1,219 | 1.6% | - | 2.2% |
| Total | $ 68,660 | 100.0% | $ 63,613 | 100.0% | $ 59,585 | 100.0% | $ 61,540 | 100.0% | $ 59,156 | 100.0% |

***Deposits***

The primary source of funds to support earning assets (loans and investments) is the generation of deposits.

Total deposits were $8.70 billion at December 31, 2019. This represented a decrease of $122.6 million, or 1.39%, over total deposits of $8.83 billion at December 31, 2018.

The average balance of deposits by category and the average effective interest rates paid on deposits is summarized for the periods presented in the table below.

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Average | | | | | |
| | Balance | Rate | Balance | Rate | Balance | Rate |
| | (Dollars in thousands) | | | | | |
| Noninterest-bearing deposits | $ 5,177,035 | - | $ 4,449,110 | - | $ 3,856,987 | - |
| Interest-bearing deposits | | | | | | |
| Investment checking | 452,437 | 0.11% | 438,112 | 0.08% | 421,795 | 0.08% |
| Money market | 2,197,194 | 0.54% | 1,834,540 | 0.36% | 1,547,565 | 0.27% |
| Savings | 399,154 | 0.10% | 384,008 | 0.10% | 367,782 | 0.10% |
| Time deposits | 487,221 | 0.91% | 453,031 | 0.57% | 401,033 | 0.28% |
| Total deposits | $ 8,713,041 | | $ 7,558,801 | | $ 6,595,162 | |

The amount of noninterest-bearing deposits in relation to total deposits is an integral element in achieving a low cost of funds. Average noninterest-bearing deposits totaled $5.18 billion for 2019, representing an increase

of $727.9 million, or 16.36%, from average demand deposits of $4.45 billion for 2018. Average noninterest-bearing deposits represented 59.42% of total average deposits for 2019, compared to 58.86% of total average deposits for 2018.

Average savings deposits, which include savings, interest-bearing demand, and money market accounts, were $3.05 billion for 2019, representing an increase of $392.1 million, or 14.76%, from average savings deposits of $2.66 billion for 2018.

Average time deposits totaled $487.2 million for 2019, representing an increase of $34.2 million, or 7.55%, from total average time deposits of $453.0 million for 2018.

The following table provides the remaining maturities of large denomination ($250,000 or more) time deposits, including public funds, at December 31, 2019.

**Maturity Distribution of Large Denomination Time Deposits**

| | December 31, 2019 |
|---|---|
| | *(Dollars in thousands)* |
| 3 months or less | $ 42,959 |
| Over 3 months through 6 months | 17,161 |
| Over 6 months through 12 months | 28,310 |
| Over 12 months | 19,438 |
| Total | $ 107,868 |

Time deposits totaled $446.3 million at December 31, 2019, representing a decrease of $85.6 million, or 16.10%, from total time deposits of $531.9 million for December 31, 2018.

***Borrowings***

In order to enhance the Bank's spread between its cost of funds and interest-earning assets, we first seek noninterest-bearing deposits (the lowest cost of funds to the Bank). Next, we pursue growth in interest-bearing deposits, and finally, we supplement the growth in deposits with borrowed funds (borrowings and customer repurchase agreements). Average borrowed funds, as a percent of total funding (total deposits plus borrowed funds), was 5.55% for 2019, compared to 5.90% for 2018.

The following table summarizes information about our term FHLB advances, repurchase agreements and other borrowings outstanding for the periods presented.

| | Repurchase Agreements | FHLB Advances | Other Borrowings | Total |
|---|---|---|---|---|
| | | *(Dollars in thousands)* | | |
| **At December 31, 2019** | | | | |
| Amount outstanding | $ 428,659 | $ - | $ - | $ 428,659 |
| Weighted-average interest rate | 0.44% | - | - | 0.44% |
| **Year ended December 31, 2019** | | | | |
| Highest amount at month-end | $ 547,730 | $ - | $ 295,000 | $ 842,730 |
| Daily-average amount outstanding | $ 435,317 | $ - | $ 76,873 | $ 512,190 |
| Weighted-average interest rate | 0.47% | - | 2.51% | 0.77% |
| **At December 31, 2018** | | | | |
| Amount outstanding | $ 442,255 | $ - | $ 280,000 | $ 722,255 |
| Weighted-average interest rate | 0.39% | - | 2.53% | 1.22% |
| **Year ended December 31, 2018** | | | | |
| Highest amount at month-end | $ 556,356 | $ - | $ 280,000 | $ 836,356 |
| Daily-average amount outstanding | $ 439,658 | $ 2,446 | $ 31,648 | $ 473,752 |
| Weighted-average interest rate | 0.31% | 1.59% | 2.09% | 0.44% |
| **At December 31, 2017** | | | | |
| Amount outstanding | $ 553,773 | $ - | $ - | $ 553,773 |
| Weighted-average interest rate | 0.30% | - | - | 0.30% |
| **Year ended December 31, 2017** | | | | |
| Highest amount at month-end | $ 607,777 | $ - | $ 63,000 | $ 670,777 |
| Daily-average amount outstanding | $ 529,447 | $ - | $ 16,770 | $ 546,217 |
| Weighted-average interest rate | 0.27% | - | 1.00% | 0.29% |

At December 31, 2019, our borrowings included $428.7 million of repurchase agreements. At December 31, 2018, our borrowings included $442.3 million in repurchase agreements and $280.0 million in other short-term borrowings.

We offer a repurchase agreement product to our customers. This product, known as Citizens Sweep Manager, sells our investment securities overnight to our customers under an agreement to repurchase them the next day at a price which reflects the market value of the use of funds by the Bank for the period concerned. These repurchase agreements are signed with customers who want to invest their excess deposits, above a pre-determined balance in a demand deposit account, in order to earn interest. As of December 31, 2019, total funds borrowed under these agreements were $428.7 million with a weighted average interest rate of 0.44%, compared to $442.3 million with a weighted average rate of 0.39% as of December 31, 2018.

At December 31, 2019, borrowed funds (customer repurchase agreements, FHLB advances and other borrowings) totaled $428.7 million. This represented a decrease of $293.6 million, or 40.65%, from total borrowed funds of $722.3 million at December 31, 2018. At December 31, 2019, we had no short-term borrowings. At December 31, 2018, we had $280.0 million overnight borrowings with the FHLB at a cost of 2.53%.

At December 31, 2019, $6.03 billion of loans and $1.64 billion of investment securities, at carrying value, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

***Aggregate Contractual Obligations***

The following table summarizes the aggregate contractual obligations as of December 31, 2019.

| | | Maturity by Period | | | |
|---|---|---|---|---|---|
| | Total | Less Than One Year | One Year Through Three Years | Four Years Through Five Years | Over Five Years |
| | *(Dollars in thousands)* | | | | |
| Deposits (1) | $ 8,704,928 | $ 8,625,722 | $ 67,975 | $ 2,866 | $ 8,365 |
| Customer repurchase agreements (1) | 428,659 | 428,659 | - | - | - |
| Junior subordinated debentures (1) | 25,774 | - | - | - | 25,774 |
| Deferred compensation | 23,529 | 779 | 1,341 | 755 | 20,654 |
| Operating leases | 22,903 | 7,248 | 9,837 | 4,037 | 1,781 |
| Affordable housing investment | 3,159 | 1,851 | 1,217 | 55 | 36 |
| Total | $ 9,208,952 | $ 9,064,259 | $ 80,370 | $ 7,713 | $ 56,610 |

(1) Amounts exclude accrued interest.

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

Customer repurchase agreements represent excess amounts swept from customer demand deposit accounts, which mature the following business day and are collateralized by investment securities. These amounts are due to customers.

At December 31, 2019 we had no short-term borrowings, compared to $280,000 million at December 31, 2018.

Junior subordinated debentures represent the amounts that are due from the Company to CVB Statutory Trust III. The debentures have the same maturity as the Trust Preferred Securities. These debentures bear interest at three-month LIBOR plus 1.38% and mature in 2036.

Deferred compensation represents the amounts that are due to former employees based on salary continuation agreements as a result of acquisitions and amounts due to current and retired employees under our deferred compensation plans.

Operating leases represent the total minimum lease payments due under non-cancelable operating leases. Refer to Note 23 — *Leases* of the notes to the consolidated financial statements for a more detailed discussion about leases.

***Off-Balance Sheet Arrangements***

The following table summarizes the off-balance sheet items at December 31, 2019.

| | Total | Maturity by Period: Less Than One Year | One Year to Three Years | Four Years to Five Years | After Five Years |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| Commitment to extend credit: | | | | | |
| Commercial and industrial | $ 940,266 | $ 698,006 | $ 142,441 | $ 5,393 | $ 94,426 |
| SBA | 219 | 60 | 4 | - | 155 |
| Real estate: | | | | | |
| Commercial real estate | 262,219 | 57,002 | 84,601 | 103,765 | 16,851 |
| Construction | 71,220 | 51,901 | 16,119 | - | 3,200 |
| SFR Mortgage | 5,580 | 3,500 | - | - | 2,080 |
| Dairy & livestock and agribusiness (1) | 126,684 | 68,281 | 57,987 | 416 | - |
| Consumer and other loans | 132,644 | 15,753 | 7,745 | 4,368 | 104,778 |
| Total commitment to extend credit | 1,538,832 | 894,503 | 308,897 | 113,942 | 221,490 |
| Obligations under letters of credit | 53,085 | 49,726 | 3,111 | 248 | - |
| Total | $ 1,591,917 | $ 944,229 | $ 312,008 | $ 114,190 | $ 221,490 |

(1) Total commitments to extend credit to agribusiness were $15.5 million at December 31, 2019.

As of December 31, 2019, we had commitments to extend credit of approximately $1.54 billion, and obligations under letters of credit of $53.1 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. We use the same credit underwriting policies in granting or accepting such commitments or contingent obligations as we do for on-balance sheet instruments, which consist of evaluating customers' creditworthiness individually. The Company recorded no provision or recapture of provision for unfunded loan commitments for 2019, compared to a recapture of provision for unfunded loan commitments of $250,000 for 2018. The Company had a reserve for unfunded loan commitments of $9.0 million as of December 31, 2019 and 2018 included in other liabilities.

Standby letters of credit 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 or purchase 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.

***Capital Resources***

Our primary source of capital has been the retention of operating earnings and issuance of common stock in connection with periodic acquisitions. In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources, needs and uses of capital in conjunction with projected increases in assets and the level of risk. As part of this ongoing assessment, the Board of Directors reviews the various components of capital.

The Company's total equity was $1.99 billion at December 31, 2019. This represented an increase of $142.9 million, or 7.72%, from total equity of $1.85 billion at December 31, 2018. This increase was due to $207.8 million in net earnings, a $30.9 million increase in other comprehensive income resulting from the tax effected impact of the increase in market value of our investment securities portfolio, and $5.1 million for

various stock based compensation items, net of repurchases of common stock. This was offset by $100.9 million in cash dividends declared by the Company during 2019.

During 2019, the Board of Directors of CVB declared quarterly cash dividends totaling $0.72 per share. Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. CVB's ability to pay cash dividends to its shareholders is subject to restrictions under federal and California law, including restrictions imposed by the Federal Reserve, and covenants set forth in various agreements we are a party to including covenants set forth in our junior subordinated debentures.

On August 11, 2016, our Board of Directors approved a program to repurchase up to 10,000,000 shares of CVB common stock in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal considerations. There is no expiration date for this repurchase program. Up to 9,577,917 of such shares may be repurchased from time to time under the Company's current 10b5-1 plan originally adopted in November, 2018 and subsequently amended in July, 2019. For the year ended December 31, 2019, the Company repurchased 48,482 shares of CVB common stock outstanding under this program. As of December 31, 2019, we have 9,529,435 shares of CVB common stock remaining that are eligible for repurchase under the common stock repurchase program.

The Bank and the Company are required to meet risk-based capital standards under the revised capital framework referred to as Basel III set by their respective regulatory authorities. The risk-based capital standards require the achievement of a minimum total risk-based capital ratio of 8.0%, a Tier 1 risk-based capital ratio of 6.0% and a common equity Tier 1 ("CET1") capital ratio of 4.5%. In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. To be considered "well-capitalized" for bank regulatory purposes, the Bank and the Company are required to have a CET1 capital ratio equal to or greater than 6.5%, a Tier 1 risk-based capital ratio equal to or greater than 8.0%, a total risk-based capital ratio equal to or greater than 10.0% and a Tier 1 leverage ratio equal to or greater than 5.0%. At December 31, 2019, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios required to be considered "well-capitalized" for regulatory purposes. For further information about capital requirements and our capital ratios, see "Item 1. *Business — Regulation and Supervision — Capital Adequacy Requirements*".

At December 31, 2019, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios, under the revised capital framework referred to as Basel III, required to be considered "well-capitalized" for regulatory purposes.

The table below presents the Company's and the Bank's risk-based and leverage capital ratios for the periods presented.

| | | | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|---|
| **Capital Ratios** | **Adequately Capitalized Ratios** | **Well Capitalized Ratios** | **CVB Financial Corp. Consolidated** | **Citizens Business Bank** | **CVB Financial Corp. Consolidated** | **Citizens Business Bank** |
| Tier 1 leverage capital ratio | 4.00% | 5.00% | 12.33% | 12.19% | 10.98% | 10.90% |
| Common equity Tier I capital ratio | 4.50% | 6.50% | 14.83% | 14.94% | 13.04% | 13.22% |
| Tier 1 risk-based capital ratio | 6.00% | 8.00% | 15.11% | 14.94% | 13.32% | 13.22% |
| Total risk-based capital ratio | 8.00% | 10.00% | 16.01% | 15.83% | 14.13% | 14.03% |

Basel III also introduces a new "capital conservation buffer," composed entirely of CET1, on top of minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum requirement but below the capital conservation buffer will face constraints on dividends, equity repurchases and payment of discretionary bonuses based on the amount of the shortfall. The implementation of the capital

conservation buffer began on January 1, 2016 at 0.625% and has been fully phased in over a four-year period reaching 2.5% on January 1, 2019. The Company and the Bank are now required to maintain minimum capital ratios as follows:

| | Common Equity Tier 1 Ratio | Tier 1 Capital Ratio | Total Capital Ratio | Tier 1 Leverage Ratio |
|---|---|---|---|---|
| Regulatory minimum ratio | 4.5% | 6.0% | 8.0% | 4.0% |
| Plus: Capital conservation buffer requirement | 2.5% | 2.5% | 2.5% | - |
| Regulatory minimum ratio plus capital conservation buffer | 7.0% | 8.5% | 10.5% | 4.0% |

It is possible that further increases in regulatory capital may be required in response to the implementation of the Basel III final rule. The exact amount, however, will depend upon regulatory determinations and our prevailing risk profile under various stress scenarios.

## RISK MANAGEMENT

All financial institutions must manage and control a variety of business risks that can significantly affect their financial performance. Our Board of Directors (Board) and executive management team have overall and ultimate responsibility for management of these risks, which they carry out through committees with specific and well-defined risk management functions. The Risk Management Plan that we have adopted seeks to implement the proper control and management of key risk factors inherent in the operation of the Company and the Bank. Some of the key risks that we must manage are credit risks, asset/liability, interest rate and market risks, counterparty risk, transaction risk, compliance risk, strategic risk, cybersecurity risk, price risk and foreign exchange risk. These specific risk factors are not mutually exclusive. It is recognized that any product or service offered by us may expose the Bank to one or more of these risks. Our Risk Management Committee and Risk Management Division monitor these risks to minimize exposure to the Company. The Board and its committees work closely with management in overseeing risk. Each Board committee receives reports and information regarding risk issues directly from management.

***Credit Risk Management***

Loans represent the largest component of assets on our balance sheet and their related credit risk is among the most significant risks we manage. We define credit risk as the risk of loss associated with a borrower or counterparty default (failure to meet obligations in accordance with agreed upon terms). Credit risk is found in all activities where success depends on a counter party, issuer, or borrower performance. Credit risk arises through the extension of loans and leases, certain securities, and letters of credit.

Natural disasters, such as storms, earthquakes, drought and other weather conditions, as well as natural disasters and problems related to possible climate changes, may from time-to-time cause or create the risk of damage to facilities, buildings, property or other assets of Bank customers, borrowers or municipal debt issuers. This could in turn affect their financial condition or results of operations and as a consequence their ability or capacity to repay debt or fulfill other obligations to the Bank. While we do not currently have reason to believe that any of the Bank’s loans or municipal securities are materially impaired as a result of such damage, there can be no assurance that this will continue to be the case, particularly where recent storms and natural disasters whose impact is still being evaluated by the concerned parties.

Credit risk in the investment portfolio and correspondent bank accounts is in part addressed through defined limits in the Company’s policy statements. In addition, certain securities carry insurance to enhance the 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 Company.

The Bank’s loan policy is updated annually and approved by the Board of Directors. It prescribes underwriting guidelines and procedures for all loan categories in which the Bank participates to establish risk tolerance and parameters that are communicated throughout the Bank to ensure consistent and uniform lending practices. The underwriting guidelines include, among other things, approval limitation and hierarchy, documentation standards, loan-to-value limits, debt coverage ratio, overall credit-worthiness of the borrower, guarantor support, etc. All loan requests considered by the Bank should be for a clearly defined legitimate purpose with a determinable primary source, as well as alternate sources of repayment. All loans should be supported by appropriate documentation including, current financial statements, credit reports, collateral information, guarantor asset verification, tax returns, title reports, appraisals (where appropriate), and other documents of quality that will support the credit.

The major lending categories are commercial and industrial loans, SBA loans, owner-occupied and non owner-occupied commercial real estate loans, construction loans, dairy & livestock and agribusiness loans, residential real estate loans, and various consumer loan products. Loans underwritten to borrowers within these

diverse categories require underwriting and documentation suited to the unique characteristics and inherent risks involved.

Commercial and industrial loans require credit structures that are tailored to the specific purpose of the business loan, involving a thorough analysis of the borrower's business, cash flow, collateral, industry risks, economic risks, credit, character, and guarantor support. Owner-occupied real estate loans are primarily based upon the capacity and stability of the cash flow generated by the occupying business and the market value of the collateral, among other things. Non owner-occupied real estate is typically underwritten to the income produced by the subject property and many considerations unique to the various types of property (i.e. office, retail, warehouse, shopping center, medical, etc.), as well as, the financial support provided by sponsors in recourse transactions. Construction loans will often depend on the specific characteristics of the project, the market for the specific development, real estate values, and the equity and financial strength of the sponsors. Dairy & livestock and agribusiness loans are largely predicated on the revenue cycles and demand for milk and crops, commodity prices, collateral values of herd, feed, and income-producing dairies or croplands, and the financial support of the guarantors. Underwriting of residential real estate and consumer loans are generally driven by personal income and debt service capacity, credit history and scores, and collateral values.

SBA loans require credit structures that conform to the various requirements of the SBA programs specific to the type of loan request and the Bank's loan policy as it relates to these loans. The SBA 7(a) loans are similar to the commercial and industrial loans that are tailored to the specific purpose of the business loan, involving a thorough analysis of the borrower's business, cash flow, collateral, industry risks, economic risks, credit, character, and guarantor support for both the Bank and the SBA. Once granted the SBA 7(a) loans require the Bank to follow SBA servicing guidelines to maintain the SBA guaranty which typically ranges from 50% to 75% depending on the type of 7(a) loan. SBA 504 loans are similar to the Bank's Owner-occupied real estate loans. As such they are primarily based upon the capacity and stability of the cash flow generated by the occupying business and the market value of the collateral, among other things. When the Bank funds an SBA 504 transaction, which includes the 50% first trust deed loan and the 40% second trust deed loan, the initial risk is centered in completing the SBA's requirements to provide for the payoff of the second trust deed loan from the subordinated debenture. Once the 504 second is paid off, the remaining first trust deed loan is then managed under the same requirements applied to the Bank's owner-occupied commercial real estate loan. It should be noted that both the SBA 7(a) and 504 programs provide loans for commercial real estate acquisition. However, the terms and advances rates available under the 7(a) program are outside of the Bank's standard loan programs and risk profile and therefore require a credit enhancement in the form of the SBA guaranty. Additionally, the interest rates for the 7(a) program are typically variable and can adjust as often as monthly with quarterly adjustment the most typical. SBA 504 loan interest rates for the first trust deed loan are at the Bank's discretion and subject to competitive pressures from other banks.

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 loan losses by charging a provision for loan losses to earnings. Loans, including impaired loans, determined to be losses are charged against the allowance for loan losses. Our allowance for loan losses is maintained at a level considered by us to be appropriate to provide for estimated probable losses inherent in the existing portfolio. In this regard, it is important to note that the Bank's practice with regard to impaired loans, including modified loans or troubled debt restructurings that are classified as impaired, is to generally charge off any impairment amount against the ALLL upon evaluating the loan using one of the three methods described in ASC 310-10-35 at the time a probable loss becomes recognized. As such, the Bank's specific allowance for impaired loans, including troubled debt restructurings, is relatively low as a percentage of impaired loans outstanding since any known impairment amount will generally have been charged off.

The allowance for loan 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 loan losses requires the exercise of considerable judgment. The amount actually observed 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.

Central to our credit risk management is its loan risk rating system. The originating credit officer assigns borrowers an initial risk rating, which is reviewed and possibly changed by credit management. The risk rating is based primarily on an analysis of each borrower's financial capacity in conjunction with industry and economic trends. Credit approvals are made based upon our evaluation of the 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 may be adjusted as necessary.

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

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

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 phases.

In the first phase, individual loans are reviewed to identify loans for impairment. A loan is generally considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the loan. A loan for which there is an insignificant delay in the amount of payments is not considered an impaired loan. Utilizing one of the three methods described in ASC 310-10-35-22, impairment is measured based on 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). If the measure of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the ALLL or, alternatively, a specific allocation will be established and included in the overall ALLL balance.

The Bank evaluates a loan's collectability from information developed through our loan risk rating system and process, and other sources of information that assist management in monitoring loan performance (e.g. past due loan reports). The Bank then identifies loans for evaluation of impairment and establishes specific allowances 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 impairment under ASC 310-10, which requires judgment and estimates, and allocate a portion of the allowance for losses as a specific allowance for each of these loans, or charge off the impairment amount as described above. The eventual outcomes may differ from the estimates used to determine the impairment amount.

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 ASC 450-10, *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, dairy & livestock and agribusiness 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.

Included in this second phase is our consideration of known relevant internal and external factors that may affect a loan's collectability. This includes our estimates of the amounts necessary for concentrations, economic

uncertainties, the volatility of the market value of collateral, and other relevant factors. 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 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;
- credit quality trends (including trends in past due loans, adversely graded loans, and nonperforming loans expected to result from existing conditions);
- collateral values, including changes in the value of underlying collateral for collateral-dependent loans'
- the existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- changes in lending policies and procedures;
- changes in loan volumes;
- specific industry conditions within portfolio segments;
- recent loss experience in particular segments of the portfolio;
- duration of the current business cycle; and
- the effect of external factors such as legal and regulatory requirements, including bank regulatory examination results and findings of the Company's external credit examiners.

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

Refer to additional discussion concerning loans, nonperforming assets, allowance for loan losses and related tables under the Analysis of Financial Condition contained herein.

## ASSET/LIABILITY AND MARKET RISK MANAGEMENT

***Liquidity and Cash Flow***

The objective of liquidity management is to ensure that funds are available in a timely manner to meet our financial obligations when they come due without incurring unnecessary cost or risk, or causing a disruption to our normal operating activities. This includes the ability to manage unplanned decreases or changes in funding sources, accommodating loan demand and growth, funding investments, repurchasing securities, paying creditors as necessary, and other operating or capital needs.

We regularly assess the amount and likelihood of projected funding requirements through a review of factors such as historical deposit volatility and funding patterns, present and forecasted market and economic conditions, individual customer funding needs, as well as current and planned business activities. Management has an Asset/Liability Committee that meets monthly. This committee analyzes the cash flows from loans, investments, deposits and borrowings. In addition, the Company has a Balance Sheet Management Committee of the Board of Directors that meets monthly to review the Company's balance sheet and liquidity position. This committee provides oversight to the balance sheet and liquidity management process and recommends policy guidelines for the approval of our Board of Directors, and courses of action to address our actual and projected liquidity needs.

Our primary sources and uses of funds for the Company are deposits and loans. Our deposit levels and cost of deposits may fluctuate from period-to-period due to a variety of factors, including the stability of our deposit base, prevailing interest rates, and market conditions. Total deposits of $8.70 billion at December 31, 2019 decreased $122.6 million, or 1.39%, over total deposits of $8.83 billion at December 31, 2018.

In general, our liquidity is managed daily by controlling the level of liquid assets as well as the use of funds provided by the cash flow from the investment portfolio, loan demand and deposit fluctuations. Our definition of liquid assets includes cash and cash equivalents in excess of minimum levels needed to fulfill normal business operations, short-term investment securities and other anticipated near term cash flows from investments. To meet unexpected demands, lines of credit are maintained with correspondent banks, the Federal Home Loan Bank and the Federal Reserve, although availability under these lines of credit are subject to certain conditions. The sale of investment securities can also serve as a contingent source of funds. We can obtain additional liquidity from deposit growth by offering competitive interest rates on deposits from both our local and national wholesale markets.

CVB is a holding company separate and apart from the Bank that must provide for its own liquidity and must service its own obligations. Substantially all of CVB's revenues are obtained from dividends declared and paid by the Bank to CVB. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to CVB. In addition, our regulators could limit the ability of the Bank or CVB to pay dividends or make other distributions. For the Bank, sources of funds include principal payments on loans and investments, growth in deposits, FHLB advances, and other borrowed funds. Uses of funds include withdrawal of deposits, interest paid on deposits, increased loan balances, purchases, and noninterest expenses.

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Below is a summary of our average cash position and statement of cash flows for the years ended December 31, 2019 and 2018. For further details, see our "*Consolidated Statements of Cash Flows*" under Part IV consolidated financial statements of this report.

*Consolidated Summary of Cash Flows*

| | Year Ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| | *(Dollars in thousands)* | |
| Average cash and cash equivalents | $ 288,425 | $ 227,887 |
| Percentage of total average assets | 2.55% | 2.40% |
| | | |
| Net cash provided by operating activities | $ 208,182 | $ 168,378 |
| Net cash provided by investing activities | 325,323 | 807,656 |
| Net cash used in financing activities | (511,935) | (956,463) |
| Net increase in cash and cash equivalents | $ 21,570 | $ 19,571 |

Average cash and cash equivalents increased by $60.5 million, or 26.56%, to $288.4 million for the year ended December 31, 2019, compared to $227.9 million for 2018.

At December 31, 2019, cash and cash equivalents totaled $185.5 million. This represented an increase of $21.6 million, or 13.16%, from $163.9 million at December 31, 2018.

***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 include securities, loans, deposits, debt, and derivative financial instruments.

The table below provides the actual balances as of December 31, 2019 of interest-earning assets and interest-bearing liabilities, including the average rate earned or incurred for 2019, 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.

| | | | Maturing | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **December 31, 2019** | **Average Rate** | **One Year** | **Two Years** | **Three Years** | **Four Years** | **Five Years and Beyond** | **Estimated Fair Value** |
| | | | | | *(Dollars in thousands)* | | | |
| **Interest-earning assets:** | | | | | | | | |
| Investment securities available-for-sale (1) | $ 1,740,257 | 2.46% | $ 17,284 | $ 47,050 | $ 562,968 | $ 698,461 | $ 414,494 | $ 1,740,257 |
| Investment securities held-to-maturity (1) | 674,452 | 2.60% | 52,380 | 28,293 | 27,283 | 154,133 | 412,363 | 678,948 |
| Investment in FHLB stock | 17,688 | 6.98% | - | - | - | - | 17,688 | 17,688 |
| Interest-earning deposits due from Federal | 30,139 | 1.89% | 29,399 | - | - | 740 | - | 30,146 |
| Loans and lease finance receivables (2) | 7,564,577 | 5.26% | 1,058,768 | 451,491 | 483,988 | 672,459 | 4,897,871 | 7,411,839 |
| Total interest-earning assets | $ 10,027,113 | | $ 1,157,831 | $ 526,834 | $ 1,074,239 | $ 1,525,793 | $ 5,742,416 | $ 17,222,045 |
| | | | | | | | | |
| **Interest-bearing liabilities:** | | | | | | | | |
| Interest-bearing deposits | $ 3,459,411 | 0.48% | $ 3,380,205 | $ 58,488 | $ 9,487 | $ 1,616 | $ 9,615 | $ 3,457,922 |
| Borrowings | 428,659 | 0.77% | 428,659 | - | - | - | - | 428,330 |
| Junior subordinated debentures | 25,774 | 3.82% | - | - | - | - | 25,774 | 20,669 |
| Total interest-bearing liabilities | $ 3,913,844 | | $ 3,808,864 | $ 58,488 | $ 9,487 | $ 1,616 | $ 35,389 | $ 3,906,921 |

(1) These include mortgage-backed securities which generally prepay before maturity.

(2) Gross loans, net of deferred loan fees, costs and discounts.

***Interest Rate Sensitivity Management***

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. The primary goal of interest rate risk management is to control exposure to interest rate risk, within policy limits approved by the Board of Directors. These limits and guidelines reflect our risk appetite for interest rate risk over both short-term and long-term horizons. We measure these risks and their impact by identifying and quantifying exposures through the use of sophisticated simulation and valuation models, which, as described in additional detail below, are employed by management to understand net interest income (NII) at risk and economic value of equity (EVE) at risk. Net interest income at risk sensitivity captures asset and liability re pricing mismatches and is considered a shorter term measure, while EVE sensitivity captures mismatches within the period end balance sheets through the financial instruments' respective maturities or estimated durations and is considered a longer term measure.

One of the primary methods that we use to quantify and manage interest rate risk is simulation analysis, which we use to model NII from the Company's balance sheet under various interest rate scenarios. We use simulation analysis to project rate sensitive income under many scenarios. The analyses may include rapid and gradual ramping of interest rates, rate shocks, basis risk analysis, and yield curve scenarios. Specific balance sheet management strategies are also analyzed to determine their impact on NII and EVE. Key assumptions in the simulation analysis relate to the behavior of interest rates and pricing spreads, the changes in product balances, and the behavior of loan and deposit clients in different rate environments. This analysis incorporates several assumptions, the most material of which relate to the re-pricing characteristics and balance fluctuations of deposits with indeterminate or non-contractual maturities, and prepayment of loans and securities.

Our interest rate risk policy measures the sensitivity of our net interest income over both a one-year and two-year cumulative time 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 either a 100 or 200 basis point downward shift in interest rates depending on the level of current market rates. The simulation model uses a parallel yield curve shift that ramps rates up or down on a pro rata basis over the 12-month and 24-month time horizon.

The following depicts the Company's net interest income sensitivity analysis for the periods presented below.

| | Estimated Net Interest Income Sensitivity (1) | | | | |
|---|---|---|---|---|---|
| | December 31, 2019 | | | December 31, 2018 | |
| Interest Rate Scenario | 12-month Period | 24-month Period (Cumulative) | Interest Rate Scenario | 12-month Period | 24-month Period (Cumulative) |
| + 200 basis points | 5.20% | 10.00% | + 200 basis points | 3.80% | 7.40% |
| - 100 basis points | -2.10% | -4.60% | - 200 basis points (2) | -5.29% | -10.26% |

(1) Percentage change from base.
(2) Policy at December 31, 2018.

Based on our current simulation models, we believe that the interest rate risk profile of the balance sheet is asset sensitive over both a one-year and a two-year horizon. 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, re-pricing characteristics and balance fluctuations of deposits with indeterminate or non-contractual maturities, 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.

We also perform valuation analysis, which incorporates all cash flows over the estimated remaining life of all material balance sheet and derivative positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of all asset cash flows and derivative cash flows minus the discounted present value of all liability cash flows, the net of which is referred to as EVE. The sensitivity of EVE to changes in the level of interest rates is a measure of the longer-term re-pricing risk and options risk embedded in the balance sheet. EVE uses instantaneous changes in rates, as shown in the table below. Assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected duration and pricing of the indeterminate deposit portfolios. EVE sensitivity is reported in both upward and downward rate shocks. At December 31, 2019 and December 31, 2018, the EVE profile indicates a decline in net balance sheet value due to instantaneous downward changes in rates, compared to an increase resulting from an increase in rates.

***Economic Value of Equity Sensitivity***

| Instantaneous Rate Change | December 31, 2019 | December 31, 2018 |
|---|---|---|
| 100 bp decrease in interest rates | -17.5% | -10.2% |
| 100 bp increase in interest rates | 14.2% | 5.8% |
| 200 bp increase in interest rates | 25.5% | 10.3% |
| 300 bp increase in interest rates | 30.0% | 13.8% |
| 400 bp increase in interest rates | 36.2% | 16.6% |

As EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon (i.e., the current year). Further, EVE does not take into account factors such as future balance sheet growth, changes in asset and liability mix, changes in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

***Counterparty Risk***

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

- We do not have any investments in the preferred stock of any other company;
- Most of our investment securities are either municipal securities or securities either issued or guaranteed by government, agencies, including Fannie Mae, Freddie Mac, SBA or FHLB;
- All of our commercial line insurance policies are with companies with the highest AM Best ratings of A or above;
- We have no significant exposure to our Cash Surrender Value of Life Insurance since the Cash Surrender Value balance is predominately supported by insurance companies that carry an AM Best rating of A- or greater;
- We have no significant Counterparty exposure related to derivatives such as interest rate swaps. Our Counterparty is a major financial institution and our agreement requires the Counterparty to post cash collateral for mark-to-market balances due to us;

- We believe our risk of loss associated with our counterparty borrowers related to interest rate swaps is generally mitigated as the loans with swaps are underwritten to take into account potential additional exposure;
- As of December 31, 2019, we had $394.0 million in Fed Funds lines of credit with other banks. All of these banks are major U.S. banks, each with over $60.0 billion in assets. These lines of credit are available for overnight borrowings; and
- At December 31, 2019, we had no short-term borrowings with FHLB. Our secured borrowing capacity with the FHLB was $3.18 billion, of which $3.18 billion was available as of December 31, 2019.

***Transaction Risk***

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

In general, transaction risk is defined as high, medium or low by the Company. The audit plan ensures that high risk areas are reviewed annually. We utilize internal auditors and independent audit firms to test key controls of operational processes and to audit information systems, compliance management programs, loan credit reviews and trust services.

The key to monitoring transaction risk is in the design, documentation and implementation of well-defined procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met.

***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 products or activities of the Bank's customers may be ambiguous or untested. Compliance risk exposes us to fines, civil money penalties, payment of damages, and the voiding of contracts. Compliance risk can also lead to a diminished reputation, reduced business value, limited business opportunities, lessened expansion potential, and lack of contract enforceability. The Company utilizes independent compliance audits as a means of identifying weaknesses in the compliance program.

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

Our Risk Management Policy and Program and the Code of Ethical Conduct are cornerstones for controlling compliance risk. An integral part of controlling this risk is the proper training of associates. The Chief Risk Officer is responsible for developing and executing a comprehensive compliance training program. The Chief Risk Officer, in consultation with our internal and external legal counsel, seeks to provide our associates with adequate training commensurate to their job functions to ensure compliance with banking laws and regulations.

Our Risk Management Policy and Program includes a risk-based audit program aimed at identifying internal control deficiencies and weaknesses. The Compliance Management Program includes two levels of

review. One is in-depth audits performed by our internal audit department under the direction of the Chief Auditor and supplemented by independent external firms, and the other is periodic monitoring performed by the Risk Management Division. Annually, an Audit Plan for the Company is developed and presented for approval to the Audit Committee of the Board.

The Risk Management Division conducts periodic monitoring of our compliance efforts with a special focus on those areas that expose us to compliance risk. The purpose of the periodic monitoring is to verify whether our associates are adhering to established policies and procedures. Any material exceptions identified are brought forward to the appropriate department head, the Audit Committee and the Risk Management Committee.

We recognize that customer complaints can often identify weaknesses in our compliance program which could expose us to risk. Therefore, we attempt to ensure that all complaints are given prompt attention. Our Compliance Management Policy and Program include provisions on how customer complaints are to be addressed. The Chief Risk Officer reviews formal complaints to determine if a significant compliance risk exists and communicates those findings to the Compliance Management and Risk Management Committees.

***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, with members of the Board of Directors and Senior Leadership, 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. Banks of comparable size;
2. High performing banks; and
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.

***Cybersecurity Risk***

Cybersecurity and fraud risk refers to the risk of failures, interruptions of services, or breaches of security with respect to the Company’s or the Bank’s communication, information, operations, devices, financial control, customer internet banking, customer information, email, data processing systems, or other bank or third party applications. The ability of the Company’s customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches. In addition, the Company and the Bank rely primarily on third party providers to develop, manage, maintain and protect these systems and applications. Any such failures, interruptions or fraud or security breaches, depending on the scope, duration, affected system(s) or customers(s), could expose the Company and/or the Bank to financial loss, reputation damage, litigation, or regulatory action. We continue to invest in technologies and training to protect our associates, our clients and our assets. While we have implemented various detective and preventative measures which seek to protect our Company, our customers’ information and the Bank from the risk of fraud, data security breaches or service interruptions, there can be no assurance that these measures will be effective in preventing potential breaches or losses for us or our customers.

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***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.

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

Our asset liability model seeks to calculate 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.

## 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 quantitative and qualitative disclosures about market risks in our portfolio, see "Asset/Liability Management and Interest Rate Sensitivity Management" included in Item 7 — *Management's Discussion and Analysis of Financial Condition and the Results of Operations* presented elsewhere in this report. Our analysis of market risk and market-sensitive financial information contain forward looking statements and is subject to the disclosure at the beginning of Part I regarding such forward-looking information.

**ITEM 8.** ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

**CVB Financial Corp.**
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**and Financial Statement Schedules**


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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***

None

**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 by, or 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, 2019, 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 (2013) 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, 2019 is effective. KPMG LLP, an independent registered public accounting firm, has issued their report on the effectiveness of internal control over financial reporting as of December 31, 2019.

**2) Auditor attestation**

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
CVB Financial Corp.:

*Opinion on Internal Control Over Financial Reporting*

We have audited CVB Financial Corp. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* 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) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of earnings and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 2, 2020 expressed an unqualified opinion on those consolidated financial statements.

*Basis for Opinion*

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

*Definition and Limitations of Internal Control Over Financial Reporting*

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.

/s/ KPMG LLP

Los Angeles, California
March 2, 2020

**3) Evaluation of Disclosure Controls and Procedures; Changes in Internal Control over Financial Reporting**

We maintain controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. 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) promulgated pursuant to the Exchange Act.

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of our disclosure controls and procedures under the supervision and with the participation of our management, including our 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, 2019, 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.

## PART III

### ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Except as hereinafter noted, the information concerning directors and executive officers of the Company, corporate governance and our audit committee financial experts 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,” “Corporate Governance Principles and Board Matters,” 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 the executive officers of the Company, see Item I of Part I hereto.

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 officer, accounting officers, 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. If the Company shall amend its Code of Ethics as applies to the principal executive officer, principal financial officer, principal accounting officer or controller (or persons performing similar functions) or shall grant a waiver from any provision of the code of ethics to any such person, the Company shall disclose such amendment or waiver on its website at www.cbbank.com under the tab “Investor Relations.”

### ITEM 11. *EXECUTIVE COMPENSATION*

Information concerning management remuneration and transactions is incorporated by reference from the section entitled “Election of Directors” and “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 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

The following table summarizes information as of December 31, 2019 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**

| Plan category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 358,600 | $ 17.99 | 8,060,466 |
| Equity compensation plans not approved by security holders | - | $ - | - |
| Total | 358,600 | $ 17.99 | 8,060,466 |

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" and "Director Independence" 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.

## PART IV

### ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

**Financial Statements**

*(a)* *(1) All Financial Statements*
Reference is made to the Index to Financial Statements on page 87 for a list of financial statements filed as part of this Annual Report on Form 10-K.

*(2) Financial Statement Schedules*
Reference is made to the Index to Financial Statements on page 87 for the listing of supplementary financial statement schedules required by this item.

*(3) Exhibits*
The listing of exhibits required by this item is set forth in the Index to Exhibits on page 93 of this Annual Report on Form 10-K.

*(b)* *Exhibits*
See Index to Exhibits on Page 93 of this Form 10-K.

*(c)* *Financial Statement Schedules*
There are no financial statement schedules required by Regulation S-X that have been excluded from the annual report to shareholders.

### ITEM 16. *FORM 10-K SUMMARY*

None

**INDEX TO EXHIBITS**

| Exhibit No. | |
|---|---|
| 2.1 | Agreement and Plan of Reorganization and Merger by and among CVB Financial Corp., Citizens Business Bank and Community Bank, dated February 26, 2018(1) |
| 3.1 | Articles of Incorporation of CVB Financial Corp., as amended (2) |
| 3.2 | Amended and Restated Bylaws of CVB Financial Corp.(3) |
| 4.1 | Form of CVB Financial Corp.'s Common Stock certificate (4) |
| 4.2 | Description of CVB Financial Corp. Common Stock* |
| 10.1(a) | Employment Agreement, dated as of September 12, 2018, by and between Christopher D. Myers, on the one hand, and CVB Financial Corp. and Citizens Business Bank, on the other hand†(5) |
| 10.1(b) | Deferred Compensation Plan for Christopher D. Myers, effective January 1, 2007†(6) |
| 10.1(c) | Retirement and Consulting Agreement for Christopher D. Myers, dated July 17, 2019†(7) |
| 10.1(d) | Amendment to Employment Agreement for Christopher D. Myers, Dated July 17, 2019†(8) |
| 10.2 | CVB Financial Corp. 401(k) & Profit Sharing Plan, as amended†(9) |
| 10.3 | Form of Indemnification Agreement (10) |
| 10.4(a) | CVB Financial Corp. 2008 Equity Incentive Plan†(11) |
| 10.4(b) | CVB Financial Corp. Amendment No. 1 to the 2008 Equity Incentive Plan†(12) |
| 10.4(c) | CVB Financial Corp. Amendment No. 2 to the 2008 Equity Incentive Plan†(13) |
| 10.4(d) | CVB Financial Corp. Amendment No. 3 to the 2008 Equity Incentive Plan†(14) |
| 10.4(e) | CVB Financial Corp. Amendment No. 4 to the 2008 Equity Incentive Plan†(15) |
| 10.4(f) | CVB Financial Corp. Amendment No. 5 to the 2008 Equity Incentive Plan†(16) |
| 10.4(g) | Form of Notice of Non-Qualified Stock Option Grant and Agreement pursuant to the 2008 Equity Incentive Plan†(17) |
| 10.4(h) | Form of Notice of Grant and Restricted Stock Agreement pursuant to the 2008 Equity Incentive Plan†(18) |
| 10.5(a) | CVB Financial Corp. 2018 Equity Incentive Plan†(19) |
| 10.5(b) | Form of Stock Option Agreement under 2018 Equity Incentive Plan†(20) |
| 10.5(c) | Form of Restricted Stock Agreement under 2018 Equity Incentive Plan†(21) |
| 10.5(d) | Form of Restricted Stock Unit Agreement under 2018 Equity Incentive Plan†(22) |
| 10.6 | The Executive NonQualified Excess Plan(SM) Plan Document effective February 21, 2007†(23) |
| 10.7(a) | Offer letter for David A. Brager, dated November 17, 2010†(24) |
| 10.7(b) | Amended and Restated Severance Compensation Agreement by and between David A. Brager and Citizens Business Bank, effective January 1, 2018†(25) |
| 10.8(a) | Offer letter for David C. Harvey, dated December 7, 2009†(26) |
| 10.8(b) | Amended and Restated Severance Compensation Agreement by and between David C. Harvey and Citizens Business Bank, effective January 1, 2018†(27) |
| 10.9 | CVB Financial Corp. 2015 Executive Incentive Plan†(28) |
| 10.10(a) | Offer Letter for E. Allen Nicholson executed April 30, 2016†(29) |
| 10.10(b) | Amended and Restated Severance Compensation Agreement by and between E. Allen Nicholson and Citizens Business Bank, effective January 1, 2018†(30) |
| 10.11(a) | Offer Letter for David Farnsworth dated July 1, 2016†(31) |
| 10.11(b) | Amended and Restated Severance Compensation Agreement by and between David Farnsworth and Citizens Business Bank, effective January 1, 2018†(32) |
| 10.12 | Amended and Restated Severance Compensation Agreement by and between Yamynn De Angelis and Citizens Business Bank, effective January 1, 2018†(33) |
| 10.13 | Severance Compensation Agreement by and between Richard H. Wohl and Citizens Business Bank, effective July 10, 2017†(34) |
| 21 | Subsidiaries of the Company* |
| 23 | Consent of KPMG LLP* |

| Exhibit No. | |
|---|---|
| 31.1 | Certification of Christopher D. Myers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2 | Certification of E. Allen Nicholson 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 E. Allen Nicholson pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |
| 104 | The cover page from the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, has been formatted in Inline XBRL |

* Filed herewith.

** Furnished herewith.

† Indicates a management contract or compensation plan.

‡ Except as noted below, Form 8-A12G, Form 8-K, Form 10-Q, Form 10-K and Form DEF 14A identified in the exhibit index have SEC file number 001-10140.

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

(a) 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).

(1) Incorporated herein by reference to Exhibit 2.1 to our Form 8-K filed with the SEC on February 27, 2018.

(2) Incorporated herein by reference to Exhibit 3.1 to our Form 10-Q filed with the SEC on August 9, 2010.

(3) Incorporated herein by reference to Exhibits 3.1 to our Form 8-K filed with the SEC on January 23, 2020.

(4) Incorporated herein by reference to Exhibit 4.1 to our Form 8-A12G filed with the SEC on June 11, 2001.

(5) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on September 13, 2018.

(6) Incorporated herein by reference to Exhibit 10.23 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.

(7) Incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed with the SEC on July 19, 2019.

(8) Incorporated herein by reference to Exhibit 10.2 to our Form 8-K filed with the SEC on July 19, 2019.

(9) Incorporated herein by reference to Exhibit 10.2 to the Annual Report on Form 10-K filed with the SEC on February 29, 2016.

(10) Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed June 29, 2016.

(11) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 16, 2008.

(12) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on September 22, 2009

(13) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on November 24, 2009.

(14) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on February 6, 2014.

(15) Incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 10, 2017.

(16) Incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on May 10, 2017.

(17) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.
(18) Incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.
(19) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 4, 2018.
(20) Incorporated herein by reference to Exhibit 10.2 to our Form 8-K filed with the SEC on May 24, 2018.
(21) Incorporated herein by reference to Exhibit 10.3 to our Form 8-K filed with the SEC on May 24, 2018.
(22) Incorporated hereby by reference to Exhibit 10.4 to our Form 8-K filed with the SEC on May 24, 2018.
(23) Incorporated herein by reference to Exhibit 10.26 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.
(24) Incorporated herein by reference to Exhibit 10.13(A) to our Annual Report on Form 10-K filed with the SEC on February 29, 2012.
(25) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on December 11, 2017.
(26) Incorporated herein by reference to Exhibit 10.21(A) to our Annual Report on Form 10-K filed with the SEC on March 4, 2010.
(27) Incorporated herein by reference to Exhibit 10.4 to our Current Report on Form 8-K filed with the SEC on December 11, 2017.
(28) Incorporated herein by reference to Exhibit A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 3, 2015.
(29) Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed May 5, 2016.
(30) Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed December 11, 2017.
(31) Incorporated herein by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed November 9, 2016.
(32) Incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed December 11, 2017.
(33) Incorporated herein by reference to Exhibit 10.12 to our Annual Report on Form 10-K filed with the SEC on March 1, 2018.
(34) Incorporated herein by reference to Exhibit 10.13 to our Annual Report on Form 10-K filed with the SEC on March 1, 2018.

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## 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 2nd day of March 2020.

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.

| Signature | Title | Date |
|---|---|---|
| /s/ RAYMOND V. O'BRIEN III<br>Raymond V. O'Brien III | Chairman of the Board | March 2, 2020 |
| /s/ GEORGE A. BORBA, JR.<br>George A. Borba, Jr. | Vice Chairman | March 2, 2020 |
| /s/ STEPHEN A. DEL GUERCIO<br>Stephen A. Del Guercio | Director | March 2, 2020 |
| /s/ RODRIGO GUERRA, JR.<br>Rodrigo Guerra, Jr. | Director | March 2, 2020 |
| /s/ ANNA KAN<br>Anna Kan | Director | March 2, 2020 |
| /s/ MARSHALL V. LAITSCH<br>Marshall V. Laitsch | Director | March 2, 2020 |
| /s/ KRISTINA M. LESLIE<br>Kristina M. Leslie | Director | March 2, 2020 |
| /s/ HAL W. OSWALT<br>Hal W. Oswalt | Director | March 2, 2020 |
| /s/ CHRISTOPHER D. MYERS<br>Christopher D. Myers | Director, President and Chief Executive Officer (Principal Executive Officer) | March 2, 2020 |
| /s/ E. ALLEN NICHOLSON<br>E. Allen Nicholson | Chief Financial Officer (Principal Financial and Accounting Officer) | March 2, 2020 |

**CVB FINANCIAL CORP. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
*(Dollars in thousands, except share amounts)*

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 158,310 | $ 144,008 |
| Interest-earning balances due from Federal Reserve | 27,208 | 19,940 |
| Total cash and cash equivalents | 185,518 | 163,948 |
| Interest-earning balances due from depository institutions | 2,931 | 7,670 |
| Investment securities available-for-sale, at fair value (with amortized cost of $1,718,357 at December 31, 2019, and $1,757,666 at December 31, 2018) | 1,740,257 | 1,734,085 |
| Investment securities held-to-maturity (with fair value of $678,948 at December 31, 2019, and $721,537 at December 31, 2018) | 674,452 | 744,440 |
| Total investment securities | 2,414,709 | 2,478,525 |
| Investment in stock of Federal Home Loan Bank (FHLB) | 17,688 | 17,688 |
| Loans and lease finance receivables | 7,564,577 | 7,764,611 |
| Allowance for loan losses | (68,660) | (63,613) |
| Net loans and lease finance receivables | 7,495,917 | 7,700,998 |
| Premises and equipment, net | 53,978 | 58,193 |
| Bank owned life insurance (BOLI) | 226,281 | 220,758 |
| Accrued interest receivable | 28,122 | 30,649 |
| Intangibles | 42,986 | 53,784 |
| Goodwill | 663,707 | 666,539 |
| Other real estate owned (OREO) | 4,889 | 420 |
| Income taxes | 35,587 | 62,174 |
| Other assets | 110,137 | 67,807 |
| **Total assets** | $ 11,282,450 | $ 11,529,153 |
| **Liabilities and Stockholders’ Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $ 5,245,517 | $ 5,204,787 |
| Interest-bearing | 3,459,411 | 3,622,703 |
| **Total deposits** | 8,704,928 | 8,827,490 |
| Customer repurchase agreements | 428,659 | 442,255 |
| Other borrowings | - | 280,000 |
| Deferred compensation | 22,666 | 20,033 |
| Junior subordinated debentures | 25,774 | 25,774 |
| Other liabilities | 106,325 | 82,411 |
| **Total liabilities** | 9,288,352 | 9,677,963 |
| **Commitments and Contingencies** | | |
| **Stockholders’ Equity** | | |
| Common stock, authorized, 225,000,000 shares without par; issued and outstanding 140,102,480 at December 31, 2019, and 140,000,017 at December 31, 2018 | 1,298,792 | 1,293,669 |
| Retained earnings | 682,692 | 575,805 |
| Accumulated other comprehensive income (loss), net of tax | 12,614 | (18,284) |
| **Total stockholders’ equity** | 1,994,098 | 1,851,190 |
| **Total liabilities and stockholders’ equity** | $ 11,282,450 | $ 11,529,153 |

See accompanying notes to the consolidated financial statements.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**
*(Dollars in thousands, except per share amounts)*

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Interest income: | | | |
| **Loans and leases, including fees** | $ 397,628 | $ 293,284 | $ 214,126 |
| Investment securities: | | | |
| Investment securities available-for-sale | 39,330 | 45,988 | 49,778 |
| Investment securities held-to-maturity | 17,388 | 18,901 | 21,015 |
| **Total investment income** | 56,718 | 64,889 | 70,793 |
| Dividends from FHLB stock | 1,235 | 2,045 | 1,375 |
| Interest-earning deposits with other institutions and federal funds sold | 2,269 | 1,642 | 932 |
| **Total interest income** | 457,850 | 361,860 | 287,226 |
| Interest expense: | | | |
| Deposits | 17,120 | 9,825 | 6,044 |
| Borrowings and customer repurchase agreements | 3,959 | 2,067 | 1,579 |
| Junior subordinated debentures | 999 | 923 | 673 |
| **Total interest expense** | 22,078 | 12,815 | 8,296 |
| Net interest income before provision for (recapture of) loan losses | 435,772 | 349,045 | 278,930 |
| Provision for (recapture of) loan losses | 5,000 | 1,500 | (8,500) |
| **Net interest income after provision for (recapture of) loan losses** | 430,772 | 347,545 | 287,430 |
| Noninterest income: | | | |
| Service charges on deposit accounts | 20,010 | 17,070 | 15,809 |
| Trust and investment services | 9,525 | 8,774 | 9,845 |
| Bankcard services | 3,163 | 3,485 | 3,406 |
| BOLI income | 5,798 | 4,018 | 3,420 |
| Gain on OREO, net | 129 | 3,546 | 6 |
| Gain on sale of building, net | 4,776 | - | 542 |
| Gain on eminent domain condemnation, net | 5,685 | - | 2,894 |
| Other | 9,956 | 6,588 | 6,196 |
| **Total noninterest income** | 59,042 | 43,481 | 42,118 |
| Noninterest expense: | | | |
| Salaries and employee benefits | 119,475 | 100,601 | 87,065 |
| Occupancy and equipment | 21,289 | 20,841 | 16,756 |
| Professional services | 7,752 | 6,477 | 5,940 |
| Software licenses and maintenance | 9,826 | 8,655 | 6,385 |
| Marketing and promotion | 5,890 | 5,302 | 4,839 |
| Recapture of provision for unfunded loan commitments | - | (250) | (400) |
| Amortization of intangible assets | 10,798 | 5,254 | 1,329 |
| Acquisition related expenses | 6,447 | 16,404 | 2,251 |
| Other | 17,263 | 16,627 | 16,588 |
| **Total noninterest expense** | 198,740 | 179,911 | 140,753 |
| Earnings before income taxes | 291,074 | 211,115 | 188,795 |
| Income taxes | 83,247 | 59,112 | 84,384 |
| **Net earnings** | $ 207,827 | $ 152,003 | $ 104,411 |
| Other comprehensive income (loss): | | | |
| Unrealized gain (loss) on securities arising during the period, before tax | $ 43,872 | $ (28,526) | $ (14,629) |
| Less: Reclassification adjustment for net gain on securities included in net income | (5) | - | (402) |
| Other comprehensive income (loss), before tax | 43,867 | (28,526) | (15,031) |
| Less: Income tax (expense) benefit related to items of other comprehensive income | (12,969) | 8,434 | 6,312 |
| Other comprehensive income (loss), net of tax | 30,898 | (20,092) | (8,719) |
| Comprehensive income | $ 238,725 | $ 131,911 | $ 95,692 |
| Basic earnings per common share | $ 1.48 | $ 1.25 | $ 0.95 |
| Diluted earnings per common share | $ 1.48 | $ 1.24 | $ 0.95 |

See accompanying notes to the consolidated financial statements.

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**CVB FINANCIAL CORP. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
*(Dollars and shares in thousands)*

| | Common Shares Outstanding | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| **Balance, January 1, 2017** | **108,252** | **$ 531,192** | **$ 449,499** | **$ 10,171** | **$ 990,862** |
| Cumulative adjustment upon adoption of ASU 2016-09 | - | 116 | (66) | - | 50 |
| Repurchase of common stock | (45) | (1,128) | - | - | (1,128) |
| Issuance of common stock for acquisition of Valley Commerce Bancorp | 1,634 | 37,637 | - | - | 37,637 |
| Exercise of stock options | 283 | 2,683 | - | - | 2,683 |
| Shares issued pursuant to stock-based compensation plan | 66 | 2,953 | - | - | 2,953 |
| Cash dividends declared on common stock ($0.54 per share) | - | - | (59,483) | - | (59,483) |
| Net earnings | - | - | 104,411 | - | 104,411 |
| Other comprehensive loss | - | - | - | (8,719) | (8,719) |
| **Balance, December 31, 2017** | **110,185** | **$ 573,453** | **$ 494,361** | **$ 1,452** | **$ 1,069,266** |
| Cumulative adjustment upon adoption of ASU 2018-02 | - | - | (356) | 356 | - |
| Repurchase of common stock | (389) | (7,760) | - | - | (7,760) |
| Issuance of common stock for acquisition of Community Bank | 29,482 | 722,767 | - | - | 722,767 |
| Exercise of stock options | 167 | 1,701 | - | - | 1,701 |
| Shares issued pursuant to stock-based compensation plan | 195 | 3,508 | - | - | 3,508 |
| Cash dividends declared on common stock ($0.56 per share) | - | - | (70,203) | - | (70,203) |
| Net earnings | - | - | 152,003 | - | 152,003 |
| Other comprehensive loss | - | - | - | (20,092) | (20,092) |
| **Balance, December 31, 2018** | **140,000** | **$ 1,293,669** | **$ 575,805** | **$ (18,284)** | **$ 1,851,190** |
| Repurchase of common stock | (125) | (2,640) | - | - | (2,640) |
| Exercise of stock options | 160 | 2,215 | - | - | 2,215 |
| Shares issued pursuant to stock-based compensation plan | 67 | 5,548 | - | - | 5,548 |
| Cash dividends declared on common stock ($0.72 per share) | - | - | (100,940) | - | (100,940) |
| Net earnings | - | - | 207,827 | - | 207,827 |
| Other comprehensive income | - | - | - | 30,898 | 30,898 |
| **Balance, December 31, 2019** | **140,102** | **$ 1,298,792** | **$ 682,692** | **$ 12,614** | **$ 1,994,098** |

See accompanying notes to the consolidated financial statements.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| **Cash Flows from Operating Activities** | | | |
| Interest and dividends received | $ 438,795 | $ 363,217 | $ 296,885 |
| Service charges and other fees received | 42,489 | 35,915 | 35,003 |
| Interest paid | (21,193) | (13,241) | (8,286) |
| Net cash paid to vendors, employees and others | (182,568) | (171,998) | (114,424) |
| Income taxes | (69,341) | (48,876) | (70,250) |
| Payments to FDIC, loss share agreement | - | (64) | (519) |
| Net cash provided by operating activities | 208,182 | 164,953 | 138,409 |
| **Cash Flows from Investing Activities** | | | |
| Proceeds from redemption of FHLB stock | - | 17,250 | 1,952 |
| Net change in interest-earning balances from depository institutions | 4,739 | 13,076 | 30,375 |
| Proceeds from sale of investment securities held-for-sale | 152,644 | 716,996 | 5,403 |
| Proceeds from repayment of investment securities available-for-sale | 364,126 | 383,155 | 425,666 |
| Proceeds from maturity of investment securities available-for-sale | 7,109 | 24,651 | 28,620 |
| Purchases of investment securities available-for-sale | (492,995) | (98,709) | (319,603) |
| Proceeds from repayment and maturity of investment securities held-to-maturity | 114,569 | 81,816 | 118,540 |
| Purchases of investment securities held-to-maturity | (47,587) | - | (42,400) |
| Net increase in equity investments | (16,488) | (24,863) | (1,470) |
| Net decrease (increase) in loan and lease finance receivables | 231,105 | (179,054) | (111,879) |
| Proceeds on eminent domain condemnation, net | 5,685 | 3,425 | - |
| Proceeds from sale of building, net | 5,755 | - | 4,012 |
| Purchase of premises and equipment | (5,522) | (4,194) | (4,893) |
| Proceeds from BOLI death benefit | 1,660 | 2,383 | 2,653 |
| Proceeds from sales of other real estate owned | 523 | 8,067 | - |
| Cash used in sale of branch, net | - | - | (25,266) |
| Cash acquired from acquisition, net of cash paid | - | (132,918) | 28,325 |
| Net cash provided by investing activities | 325,323 | 811,081 | 140,035 |
| **Cash Flows from Financing Activities** | | | |
| Net decrease in other deposits | (36,926) | (444,316) | (50,611) |
| Net decrease in time deposits | (85,636) | (145,033) | (47,342) |
| Repayment of FHLB advances | - | (297,571) | - |
| Net (decrease) increase in other borrowings | (280,000) | 114,000 | (53,000) |
| Net decrease in customer repurchase agreements | (13,596) | (111,518) | (49,255) |
| Cash dividends on common stock | (95,352) | (65,966) | (57,047) |
| Repurchase of common stock | (2,640) | (7,760) | (1,128) |
| Proceeds from exercise of stock options | 2,215 | 1,701 | 2,683 |
| Net cash used in financing activities | (511,935) | (956,463) | (255,700) |
| **Net increase in cash and cash equivalents** | $ 21,570 | $ 19,571 | $ 22,744 |
| **Cash and cash equivalents, beginning of period** | 163,948 | 144,377 | 121,633 |
| **Cash and cash equivalents, end of period** | $ 185,518 | $ 163,948 | $ 144,377 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| **Reconciliation of Net Earnings to Net Cash Provided by Operating Activities** | | | |
| Net earnings | $ 207,827 | $ 152,003 | $ 104,411 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Gain on sale of branch, net | - | - | (906) |
| Gain on sale of investment securities, net | (5) | - | (402) |
| Gain on eminent domain condemnation, net | (5,685) | - | (2,894) |
| Gain on sale of building, net | (4,776) | - | (542) |
| Gain on sale of other real estate owned | (105) | (3,540) | - |
| Increase in BOLI | (5,670) | (5,751) | (4,932) |
| Net amortization of premiums and discounts on investment securities | 10,298 | 13,531 | 18,017 |
| Accretion of discount for acquired loans, net | (28,831) | (15,400) | (5,159) |
| Recapture of loan losses | 5,000 | 1,500 | (8,500) |
| Recapture of provision for unfunded loan commitments | - | (250) | (400) |
| Payments to FDIC, loss share agreement | - | (64) | (519) |
| Stock-based compensation | 5,548 | 3,508 | 2,953 |
| Depreciation and amortization, net | 22,036 | 8,349 | 2,657 |
| Change in other assets and liabilities | 2,545 | 11,067 | 34,625 |
| Total adjustments | 355 | 12,950 | 33,998 |
| Net cash provided by operating activities | $ 208,182 | $ 164,953 | $ 138,409 |
| **Supplemental Disclosure of Non-cash Investing Activities** | | | |
| Transfer of loans to other real estate owned | $ 4,889 | $ 420 | $ - |
| Issuance of common stock for acquisition | $ - | $ 722,767 | $ 37,637 |

See accompanying notes to the consolidated financial statements.

**CVB FINANCIAL CORP. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**THREE YEARS ENDED DECEMBER 31, 2019**

## 1. BUSINESS

The consolidated financial statements include CVB Financial Corp. (referred to herein on an unconsolidated basis as "CVB" and on a consolidated basis as "we," "our" or the "Company") and its wholly owned subsidiary: Citizens Business Bank (the "Bank" or "CBB"), after elimination of all intercompany transactions and balances. The Company has one inactive subsidiary, Chino Valley Bancorp. The Company is also the common stockholder of CVB Statutory Trust III. CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, *Consolidation*, this trust does not meet the criteria for consolidation.

The Company's primary operations are related to traditional banking activities. This includes the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides trust and investment-related services to customers through its CitizensTrust Division. The Bank's customers consist primarily of small to mid-sized businesses and individuals located in the Inland Empire, Los Angeles County, Orange County, San Diego County, Ventura County, Santa Barbara County, and the Central Valley area of California. The Bank operates 58 banking centers, one loan production office in Modesto, California and three trust office locations. The Company is headquartered in the city of Ontario, California.

On March 10, 2017, we completed the acquisition of Valley Commerce Bancorp ("VCBP"), the holding company for Valley Business Bank ("VBB"), headquartered in the Central Valley area of California with four branch locations and total assets of approximately $400 million. This acquisition strengthens our market share in the Central Valley area of California. Our consolidated financial statements for 2017 include VBB operations, post-merger. See Note 4 — *Business Combinations*, included herein.

On August 10, 2018, we completed the acquisition of Community Bank ("CB"), headquartered in Pasadena, California with 16 banking centers located throughout the greater Los Angeles and Orange County areas and total assets of approximately $4.09 billion. Our condensed consolidated financial statements for 2018 include CB operations, post-merger. See Note 4 — *Business Combinations*, included herein.

## 2. BASIS OF PRESENTATION

The accompanying consolidated financial statements and notes thereto have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for Form 10-K 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 ("GAAP") for financial reporting.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Business Segments*** — We regularly assess our strategic plans, operations and reporting structures to identify our reportable segments. Changes to our reportable segments are expected to be infrequent. For the years ended December 31, 2016 through December 31, 2017, we operated as two reportable segments: Banking Centers and Dairy & Livestock and Agribusiness. As a result of the Community Bank acquisition, along with changes in personnel, reporting structure, and operations, we re-evaluated our segment reporting for the third quarter ended September 30, 2018.

As of December 31, 2018, we operated as one reportable segment. The factors considered in making this determination included the nature of products and offered services, geographic regions in which we operate, the applicable regulatory environment, and the materiality of discrete financial information reviewed by our key decision makers. Through our network of banking centers, we provide relationship-based banking products, services and solutions for small to mid-sized companies, real estate investors, non-profit organizations, professionals and other individuals. Our products include loans for commercial businesses, commercial real estate, multi-family, construction, land, dairy & livestock and agribusiness, consumer and government-guaranteed small business loans. We also provide business deposit products and treasury cash management services, as well as deposit products to the owners and employees of the businesses we serve. The decision to combine our two reportable segments was made to align the segment reporting with the changes in our operations and reporting structure, and to be consistent with the level and materiality of information reviewed by our key decision makers.

***Cash and cash equivalents*** — Cash on hand, cash items in the process of collection, and amounts due from correspondent banks, the Federal Reserve Bank and interest-bearing balances due from depository institutions with initial terms of ninety days or less, are included in Cash and cash equivalents.

***Investment Securities*** — The Company classifies as held-to-maturity (“HTM”) 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 (“AFS”). Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Trading securities are accounted for at fair value with the unrealized gains and losses being included in current earnings. Available-for-sale securities are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects, presented as a separate component of stockholders’ equity. 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 estimated 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 the Federal Home Loan Bank of San Francisco (“FHLB”) stock is carried at cost.

At each reporting date, securities are assessed to determine whether there is an other-than-temporary impairment (“OTTI”). Other-than-temporary impairment on investment securities is not recognized in earnings when there are credit losses on a debt security for which management does not intend to sell and for which it is more-likely-than-not that the Company will not have to sell prior to recovery of the noncredit impairment. Otherwise, the portion of the total impairment that is attributable to the credit loss would be recorded in earnings, and the remaining difference between the debt security’s amortized cost and its fair value would be included in other comprehensive income.

***Loans and Lease Finance Receivables*** — Loans and lease finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, less deferred net loan origination fees and purchase price discounts. Purchase Credit Impaired (“PCI”) loans are those loans that when we acquired them were deemed to be impaired. PCI loans are included in total loans and lease finance receivables as of December 31, 2019 and 2018. Refer to Note 6 — *Loans and Lease Finance Receivables and Allowance for Loan Losses* for total loans, by type.

In the ordinary course of business, the Company enters into commitments to extend credit to its customers. To the extent that such commitments are unfunded, the related unfunded amounts are not reflected in the accompanying consolidated financial statements.

The Company receives collateral to support loans, lease finance receivables, and commitments to extend credit for which collateral is deemed necessary. The most significant categories for which collateral is deemed

necessary are real estate, principally commercial and industrial income-producing properties, Small Business Administration ("SBA") loans, real estate mortgages, assets utilized in dairy & livestock and agribusiness, and various personal property assets utilized in commercial and industrial business governed by the Uniform Commercial Code.

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 and purchase price discounts are recognized in interest income over the loan term using the effective-yield method.

Interest on loans and lease finance receivables, is credited to income based on the principal amounts of such loans or receivables outstanding. Loans are considered delinquent when principal or interest payments are past due 30 days or more and generally remain on accrual status between 30 and 89 days past due. Interest income is not recognized on loans and lease finance receivables when collection of interest is deemed by management to be doubtful. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. In general, interest shall not accrue on any loan for which payment in full of principal and interest is not expected, or when the loan becomes 90 days past due, unless the loan is both well secured and in the process of collection. Factors considered in determining that the full collection of principal and interest is no longer probable include cash flow and liquidity of the borrower or property, the financial position of the guarantors and their willingness to support the loan as well as other factors, and this determination involves significant judgment. When an asset is placed on nonaccrual status, previously accrued but unpaid interest is reversed against income. Subsequent collections of cash are applied as reductions to the principal balance unless the loan is returned to accrual status. Interest is not recognized using a cash-basis method. Nonaccrual loans may be restored to accrual status when principal and interest become current and when the borrower is able to demonstrate payment performance for a sustained period, typically for six months. A nonaccrual loan may return to accrual status sooner based on other significant events or mitigating circumstances. This policy is consistently applied to all types of loans and lease finance receivables.

***Purchased Loans*** — Purchased loans are stated at the principal amount outstanding, net of unearned discounts or unamortized premiums. All loans acquired through acquisitions are initially measured and recorded at their fair value on the acquisition date. A component of the initial fair value measurement is an estimate of the credit losses over the life of the purchased loans. Purchased loans are also evaluated for impairment as of the acquisition date and are accounted for as "acquired non-impaired" or "purchased credit impaired" loans.

*Acquired non-impaired loans* — Acquired non-impaired loans are those loans for which there was no evidence of credit deterioration at their acquisition date and it was probable that we would be able to collect all contractually required payments. Acquired non-impaired loans, together with originated loans, are referred to as Non-PCI loans. Purchase discounts or premiums on acquired non-impaired loans are recognized as an adjustment to interest income over the contractual life of such loans using the effective interest method or taken into income when the related loans are paid off or sold.

*Purchased credit impaired loans* — PCI loans and are accounted for in accordance with ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." A purchased loan is deemed to be credit impaired when there is evidence of credit deterioration since its origination and it is probable at the acquisition date that collection of all contractually required payments is unlikely. We apply PCI loan accounting when we acquire loans deemed to be impaired, and as a general policy election when we acquire a portfolio of loans in a distressed bank acquisition. As our gross PCI loan portfolio represented approximately 0.2% of total loans as of December 31, 2018, beginning with June 30, 2019 PCI loans were accounted for and combined with Non-PCI loans and were reflected in total loans and lease finance receivables.

***Troubled Debt Restructurings*** — Loans are reported as a Troubled Debt Restructuring ("TDR") if the borrower is deemed to be financially troubled, and the Company grants a concession to the debtor that it would not otherwise consider. Types of modifications that may be considered concessions, which in turn result in a TDR include, but are not limited to, (i) a reduction of the stated interest rate for the remaining original life of the

debt, (ii) an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, (iii) a reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement, or (iv) a reduction of interest. As a result of these concessions, restructured loans are considered impaired.

In situations where the Company has determined that the borrower is experiencing financial difficulties and is evaluating whether a concession is insignificant, and therefore does not result in a TDR, such analysis is based on an evaluation of both the amount and the timing of the restructured payments, including the following factors:

1. Whether the amount of the restructured payments subject to delay is insignificant relative to the unpaid principal balance or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due; and
2. The delay is insignificant relative to any of the following:
   - The frequency of payments due;
   - The debt’s original contractual maturity; or
   - The debt’s original expected duration.

Nonaccrual restructured loans are included and treated with all other nonaccrual loans. In addition, all accruing restructured loans are reported as TDRs, which are considered and accounted for as impaired loans. A loan that has been placed on nonaccrual status that is subsequently restructured will remain on nonaccrual status until the borrower is able to demonstrate repayment performance in compliance with the restructured terms for a sustained period of time, generally for a minimum of six months. A restructured loan may return to accrual status sooner based on other significant events or circumstances.

***Impaired Loans*** — A loan is generally considered impaired when based on current events and information it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. A loan, including a restructured loan, for which there is an insignificant delay relative to the frequency of payments due, and/or the original contractual maturity, is not considered an impaired loan. Generally, impaired loans include loans on nonaccrual status and TDRs.

The Company’s policy is to record a specific valuation allowance, which is included in the allowance for loan losses, or to charge off that portion of an impaired loan that represents the impairment or shortfall amount as determined utilizing one of the three methods described in ASC 310-10-35-22. Impairment on non-collateral dependent restructured loans is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan’s carrying value. The impairment amount, if any, is generally charged off and recorded against the allowance for loan losses at the time impairment is measurable and a probable loss is determined. The Company measures impairment based on the present value of expected future cash flows discounted at the loan’s effective interest rate, except that as a practical expedient, the Company may also measure impairment based on an observable market price for the loan, or the value of the collateral, for collateral dependent loans. Impairment on collateral dependent restructured loans is measured by determining the amount by which our recorded investment in the impaired loan exceeds the fair value of the collateral less estimated selling costs. The fair value is generally determined by one or more appraisals of the collateral, performed by a Company-approved third-party independent appraiser. The majority of impaired loans that are collateral dependent are charged off down to their estimated fair value of the collateral (less selling costs) at each reporting date based on current appraised value.

Charge-offs of unsecured consumer loans are recorded when the loan reaches 120 days past due or sooner as circumstances indicate. Except for the charge-offs of unsecured consumer loans, the charge-off policy is applied consistently across all portfolio segments. Impaired single-family mortgage loans that have been modified in accordance with the various government modification programs are also measured based on the present value of the expected cash flows discounted at the loan’s pre-modification interest rate. The Company

recognizes the change in present value attributable to the passage of time as interest income on such performing SFR mortgage loans and the amount of interest income recognized to date has been insignificant.

***Provision and Allowance for Loan Losses*** — The allowance for loan losses is management's estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance is increased by the provision for loan losses and recoveries of prior loan losses, and it is decreased by recapture of provision for loan losses and by charge-offs taken when management believes the uncollectability of any loan is confirmed. Subsequent recoveries, if any, are added to the allowance. The determination of the balance in the allowance for loan 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 appropriate to provide for probable loan losses inherent in the portfolio, after giving consideration to the character of the loan portfolio, current economic conditions, past loan loss experience, and such other factors that would deserve current recognition in estimating inherent loan losses.

There are different qualitative risks for the loans in each portfolio segment. The construction and real estate segments' predominant risk characteristic is the collateral and the geographic location of the property collateralizing the loan as well as the operating cash flow for commercial real estate properties. The commercial and industrial segment's predominant risk characteristics are the cash flows of the businesses we lend to, the global cash flows and liquidity of the guarantors, as well as economic and market conditions. SBA 504 loans have risk characteristics that are similar to the real estate loan segment, while SBA 7(a) loans have risks that are similar to commercial and industrial loans. The dairy & livestock segment's predominant risk characteristics are milk and beef prices in the market as well as the cost of feed and cattle. The Agribusiness segment's predominant risk characteristics are the supply and demand conditions of the product, production seasonality, the scale of operations and ability to control costs, the availability and cost of water, and operator experience. The municipal lease segment's predominant risk characteristics are the municipality's general financial condition and tax revenues or if applicable the specific project related financial condition. The consumer, auto and other segment's predominant risk characteristics are employment and income levels as they relate to consumers and cash flows of the businesses as they relate to equipment and vehicle leases to businesses.

The Company's methodology is consistently applied across all portfolio segments taking into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans. A key factor in the Company's methodology is the loan risk rating (Pass, Special Mention, Substandard, Doubtful and Loss). Loan risk ratings are updated as facts related to the loan or borrower become available. In addition, all term loans in excess of $1.0 million are subject to an annual internal credit review process where all factors underlying the loan, borrower and guarantors are subject to review which may result in changes to the loan's risk rating.

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers the Bank's overall loan portfolio. The Bank's methodology consists of two major phases.

In the first phase, individual loans are reviewed to identify loans for impairment. Impairment is measured based on the Company's policy. 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 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, dairy & livestock and agribusiness loans, and real estate loans, are aggregated or pooled in determining the appropriate allowance. The Bank aggregates loans with similar risk characteristics into eight (8) segments in order to capture sufficient loss observations, and to produce more reliable historical loss rates for a given segment. The Bank's methodology employs a look back period based on a through-the-cycle time frame beginning with the first quarter of 2009 through the fourth quarter of 2019. This time period continues to expand by one quarter until such time the current economic cycle ends, triggered by independent evidence that a recession has begun. The through-the-cycle look back period produces meaningful results that more appropriately reflect the level of incurred losses in the Bank's loan portfolio given the current, extended credit cycle.

Included in this second phase is our consideration of qualitative factors, including, 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. Quantitative metrics are applied to each of the factors utilizing a comparison of current measurements to historical results within the range of the look back period. These qualitative factors are used to adjust the historical loan loss rates for each pool of loans to determine the probable loan losses inherent in the portfolio.

Periodically, we assess various attributes utilized in adjusting our historical loss factors to reflect current economic conditions. The methodology is consistently applied across all the portfolio segments taking into account the applicable historical loss rates and the qualitative factors applicable to each pool of loans.

Performing loans acquired through business combinations are evaluated separately by each acquired portfolio using the ALLL methodology. The results of the ALLL methodology are compared to the remaining fair value discounts by portfolio. If the remaining fair value discounts are determined to be insufficient, the allowance will be increased to reflect the additional risk in the portfolio. The ALLL methodology includes documentation, controls, validation and governance processes that ensure that the overall ALLL process is structured, transparent and repeatable. The Bank updates its ALLL methodology at least annually to ensure the relevance and reliability of key measures and assumptions that produce the allowance each quarter.

***Reserve for Unfunded Loan Commitments*** — The reserve 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 off-balance sheet loan commitments at the same time as it evaluates credit risk associated with the loan and lease portfolio. We use the historical loan loss factors described under our allowance for loan losses to calculate the loan loss experience if unfunded loan commitments are funded. Separately, we use historical trends to calculate a probability of an unfunded loan commitment being funded. We apply the loan funding probability factor to risk-factor adjusted unfunded loan commitments by credit risk-rating to derive the reserve for unfunded loan commitments, similar to funded loans. The reserve for unfunded loan commitments also includes certain qualitative allocations as deemed appropriate by management. We include the reserve for unfunded loan commitments in other liabilities and the related provision in other noninterest expense.

***Other Real Estate Owned*** — Other real estate owned (“OREO”) represents real estate acquired through foreclosure in lieu of repayment of commercial and real estate loans and is stated at fair value, less 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 loan 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. Gain recognition upon disposition of a property is dependent on the sale having met certain criteria relating to the buyer’s initial investment in the property sold.

***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 the estimated service lives of the respective asset and are computed on a straight-line basis. The ranges of useful lives of the principal classes of assets are as follows:

| | |
|---|---|
| Bank premises | 15 - 39 years |
| Leasehold improvements | Shorter of estimated economic lives of 15 years or term of the lease. |
| Computer equipment | 3 - 7 years |
| Furniture, fixtures and equipment | 5 - 10 years |

Long-lived assets are reviewed periodically for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The existence of impairment is based on undiscounted cash flows. To the extent impairment exists, the impairment is calculated as the difference in fair value of assets and their carrying value. The impairment loss, if any, would be recorded in noninterest expense.

Long-lived assets classified as held-for-sale are measured at the lower of its carrying amount or fair value less cost to sell. Assets-held-for sale include long-lived assets transferred from our “held-and-used” portfolio in the period in which the following criteria are met:

- Management, having the authority to approve the action, commits to a plan to sell the asset;
- The asset is available for immediate sale, an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated;
- The sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year;
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value;
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

***Goodwill and Intangible Assets*** — Goodwill resulting from business combinations prior to January 1, 2009, represents the excess of the purchase price over the fair value of the net assets of the businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interest in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but is tested for impairment at least annually, or more frequently, if events and circumstances exist that indicate that a goodwill impairment test should be performed.

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheets. Based on the Company’s annual impairment test, there was no recorded impairment as of December 31, 2019.

Other intangible assets consist of core deposit intangible assets arising from business combinations and are amortized using an accelerated method over their estimated useful lives.

***Use of Fair Value*** — We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. Investment securities available-for-sale and interest-rate swaps are financial instruments recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a non-recurring basis, such as impaired loans and OREO. These non-recurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets. Further, we include in Note 19 — *Fair Value Information* of the consolidated financial statements information about the extent to which fair value is used to measure assets and liabilities, the valuation methodologies used and its impact to earnings. Additionally, for financial instruments not recorded at fair value we disclose the estimate of their fair value.

***Bank Owned Life Insurance*** — The Company invests in Bank Owned Life Insurance (“BOLI”). BOLI involves the purchasing of life insurance by the Company on a select group of employees. The Company is the owner and primary beneficiary of these policies. BOLI is recorded as an asset at the cash surrender value. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in other noninterest income and are not subject to income tax for as long as they are held for the life of the covered employee.

***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 tax effects from an uncertain tax position are recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of other operating expense.

***Earnings per Common Share*** — The Company calculates earnings per common share (“EPS”) using the two-class method. The two-class method requires the Company to present EPS as if all of the earnings for the period are distributed to common shareholders and any participating securities. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities. The Company grants restricted shares under the 2008 Equity Incentive Plan that qualify as participating securities. Restricted shares issued under this plan are entitled to dividends at the same rate as common stock. A reconciliation of the numerator and the denominator used in the computation of basic and diluted earnings per common share is included in Note 16 — *Earnings Per Share Reconciliation* of these consolidated financial statements.

***Stock-Based Compensation*** — Consistent with the provisions of ASC 718, *Stock Compensation*, we recognize expense for the grant date fair value of stock options and restricted shares issued to employees, officers and non-employee directors over the requisite service periods (generally the vesting period). The service periods may be subject to performance conditions.

The fair value of each stock option grant is estimated as of the grant date using the Black-Scholes option-pricing model. Management assumptions used at the time of grant impact the fair value of the option calculated under the Black-Scholes option-pricing model, and ultimately, the expense that will be recognized over the life of the option.

The grant date fair value of restricted stock awards is measured at the fair value of the Company’s common stock as if the restricted share was vested and issued on the date of grant.

Additional information is included in Note 17 — *Stock-Based Compensation Plans* of the consolidated financial statements included herein.

***Derivative Financial Instruments*** — All derivative instruments, including certain derivative instruments embedded in other contracts, are recognized on the consolidated balance sheets at fair value. For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. Upon adoption of ASU 2017-12, all changes in fair value for cash flow hedges, are recorded in “Other Comprehensive Income,” net of deferred taxes, including any ineffectiveness as long as the hedge remains highly effective. The Company currently does not designate any derivative financial instruments as qualifying hedging relationships, and therefore, does not utilize hedge accounting.

***Statement of Cash Flows*** — Cash and cash equivalents, as reported in the statements of cash flows, include cash and due from banks, interest-bearing balances due from depository institutions and federal funds sold with original maturities of three months or less. Cash flows from loans and deposits are reported net.

***CitizensTrust*** — This division provides trust, investment and brokerage related services and asset management, as well as financial planning, estate planning, retirement planning, and business succession planning services. CitizensTrust services its clients through three offices in Southern California: Pasadena,

Ontario and Newport Beach. At December 31, 2019, CitizensTrust had approximately $2.86 billion in assets under management and administration, including $2.01 billion in assets under management. The amount of these funds and the related liability have not been recorded in the accompanying consolidated balance sheets because they are not assets or liabilities of the Bank or Company, with the exception of any funds held on deposit with the Bank.

***Use of Estimates in the Preparation of Financial Statements*** — The preparation of financial statements in conformity with GAAP 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 loan losses. Other significant estimates which may be subject to change include fair value determinations and disclosures, impairment of investments, goodwill, loans, as well as valuation of deferred tax assets.

***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 accruals as appropriate, for estimates of the probable outcome of all cases brought against the Company. Except as discussed in Note 14 — *Commitments and Contingencies* at December 31, 2019, the Company does not have any material litigation accruals and is not aware of any material pending legal action or complaints asserted against the Company.

***Adoption of New Accounting Standard*** — In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 changes the recognition and presentation requirements of hedge accounting and makes certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendments in this ASU better align an entity's financial reporting and risk management activities for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both non-financial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. ASU No. 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The Company currently does not designate any derivative financial instruments as qualifying hedging relationships, and therefore, does not utilize hedge accounting. The Company adopted this ASU and it did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployees Share-Based Accounting." The intention of ASU 2018-07 is to expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. These share-based payments will now be measured at grant-date fair value of the equity instrument issued. Upon adoption, only liability-classified awards that have not been settled and equity-classified awards for which a measurement date has not been established should be re-measured through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018 and is applied retrospectively. The Company adopted this ASU and it did not have a material impact on the Company's consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or

entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases," which clarifies and corrects errors in ASC 842. The effective date and transition requirements of ASU 2018-10 are the same as the effective date and transition requirements of 2016-02.

In July 2018, the FASB issued ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements," which creates a new optional transition method for implementing the new standard on leases, ASU No. 2016-02, and provides lessors with a practical expedient for separating lease and non-lease components. Specifically, under the amendments in ASU 2018-11: (1) the transition option allows entities to not apply the new leases standard in the comparative periods presented when transitioning to the new accounting standard for leases, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02.

*Practical Expedients to Topic 842, Leases* — The Company elected several practical expedients made available by the FASB. The Company elected not to restate comparative financial statements upon adoption of the new accounting standard. In addition, the Company elected the package of practical expedients whereby the Company did not reassess (i) whether existing contracts are, or contain, leases, and (ii) lease classification for existing leases. Lastly, the Company elected not to separate lease and non-lease components in determining the consideration in the lease agreement.

The Company's leasing portfolio consists of real estate leases, which are used primarily for the banking operations of the Company. All leases in the current portfolio have been classified as operating leases, although this may change in the future. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. The adoption of this ASU during the first quarter of 2019 did not have a material impact on the Company's consolidated financial statements. At adoption, the Company recognized a lease liability and a corresponding ROU asset of approximately $20 million on the consolidated balance sheet related to its future lease payments as a lessee under operating leases. See Note 23 — *Leases* for more information.

Operating lease ROU assets and lease liabilities are included in *other assets* and *other liabilities*, respectively, on the Company's consolidated balance sheet. The Company uses its incremental borrowing rate, factoring in the lease term, to determine the lease liability, which is measured at the present value of future lease payments. The ROU asset, at adoption of this ASU, was recorded at the amount of the lease liability plus any prepaid rent and initial direct costs, less any lease incentives and accrued rent. The lease terms include periods covered by options to extend or terminate the lease depending on whether the Company is reasonably certain to exercise such options.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 eliminates the second step in the goodwill impairment test that requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard will be effective for the Company beginning January 1, 2020, with early adoption permitted for goodwill impairment tests performed after January 1, 2017. The Company adopted this ASU as of December 31, 2019 and it did not have a material impact on the Company's consolidated financial statements.

## 4. BUSINESS COMBINATIONS

***Community Bank Acquisition***

On August 10, 2018, the Company completed the acquisition of CB, headquartered in Pasadena, California. The Company acquired all of the assets and assumed all of the liabilities of CB for $180.7 million in cash and

$722.8 million in stock. As a result, CB was merged with the Bank, the principal subsidiary of CVB. The primary reason for the acquisition was to further strengthen the Company's presence in Southern California. At close, CB had 16 banking centers located throughout the greater Los Angeles and Orange County areas. The systems integration of CB and CBB was completed in November 2018. The consolidation of banking centers was completed during the second quarter of 2019, in which four additional banking centers that were in close proximity were consolidated. For the first six months of 2019, a total of 10 banking centers were consolidated, including nine former CB centers.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the August 10, 2018 acquisition date. The purchase price allocation was finalized in the second quarter of 2019. The change in goodwill resulted from finalizing the fair value of impaired loans. The application of the acquisition method of accounting resulted in the recognition of goodwill of $547.1 million and a core deposit intangible ("CDI") of $52.2 million, or 2.26% of core deposits. Goodwill represents the excess purchase price over the fair value of the net assets acquired. Goodwill is not deductible for income tax purposes.

The table below summarizes the amounts recognized for the estimated fair value of assets acquired and the liabilities assumed as of the acquisition date.

| | August 10, 2018 | |
|---|---|---|
| | *(Dollars in thousands)* | |
| **Merger Consideration** | | |
| Cash paid | $ 180,719 | |
| CVBF common stock issued | 722,767 | |
| Total merger consideration | | $ 903,486 |
| **Identifiable net assets acquired, at fair value** | | |
| Assets Acquired | | |
| Cash and cash equivalents | 47,802 | |
| Investment securities | 716,996 | |
| FHLB stock | 17,250 | |
| Loans | 2,738,100 | |
| Accrued interest receivable | 7,916 | |
| Premises and equipment | 14,632 | |
| BOLI | 70,904 | |
| Core deposit intangible | 52,200 | |
| Other assets | 53,291 | |
| Total assets acquired | | 3,719,091 |
| Liabilities assumed | | |
| Deposits | 2,869,986 | |
| FHLB advances | 297,571 | |
| Other borrowings | 166,000 | |
| Other liabilities | 29,192 | |
| Total liabilities assumed | | 3,362,749 |
| Total fair value of identifiable net assets, at fair value | | 356,342 |
| **Goodwill** | | **$ 547,144** |

At the date of acquisition, the gross contractual loan amounts receivable, inclusive of all principal and interest, was approximately $3 billion. The Company's best estimate of the contractual principal cash flows for loans not expected to be collected at the date of acquisition was approximately $4.5 million.

We have included the financial results of the business combination in the consolidated statement of earnings and comprehensive income beginning on the acquisition date.

For the year ended December 31, 2019, the Company incurred merger related expenses associated with the CB acquisition of $6.4 million, compared to $16.4 million for the year ended December 31, 2018.

For illustrative purposes only, the following table presents certain unaudited pro forma information for the years ended December 31, 2018 and 2017. This unaudited estimated pro forma financial information was calculated as if CB had been acquired as of the beginning of the year prior to the date of acquisition. This unaudited pro forma information combines the historical results of CB with the Company's consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition occurred as of the beginning of the year prior to the acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value, cost savings, or business synergies. As a result, actual amounts would have differed from the unaudited pro forma information presented.

| | Unaudited Pro Forma Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | (Dollars in thousands, except per share amounts) | |
| Total revenues (net interest income plus noninterest income) | $ 488,620 | $ 477,235 |
| Net income | $ 181,433 | $ 139,129 |
| Earnings per share - basic | $ 1.30 | $ 1.00 |
| Earnings per share - diluted | $ 1.29 | $ 0.99 |

***Valley Commerce Bancorp Acquisition***

On March 10, 2017, the Company completed the acquisition of VCBP, the holding company for VBB, headquartered in the Central Valley area of California. The Company acquired all of the assets and assumed all of the liabilities of VCBP for $23.2 million in cash and $37.6 million in stock. As a result, VBB was merged with the Bank, the principal subsidiary of CVB. The Company believes this transaction serves to further strengthen its presence in the Central Valley area of California. At close, VBB had four branches located in Visalia, Tulare, Fresno, and Woodlake. The systems integration of VCBP and CBB was completed in May 2017. Three of these center locations were consolidated with nearby CBB locations in the third quarter of 2017 and the Company sold the Woodlake branch in the fourth quarter of 2017.

Goodwill of $27.0 million from the acquisition represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired.

The total fair value of assets acquired approximated $405.9 million, which included $28.3 million in cash and cash equivalents net of cash paid, $2.0 million in FHLB stock, $309.7 million in loans and lease finance receivables, $5.3 million in fixed assets, $9.4 million in Bank Owned Life Insurance ("BOLI"), $3.2 million in core deposit intangible assets acquired and $21.0 million in other assets. The total fair value of liabilities assumed was $368.3 million, which included $361.8 million in deposits, and $6.5 million in other liabilities. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of March 10, 2017. The assets acquired and liabilities assumed have been accounted for under the acquisition method accounting. The purchase price allocation was finalized in the third quarter of 2017.

We have included the financial results of the business combination in the condensed consolidated statement of earnings and comprehensive income beginning on the acquisition date.

For the year ended December 31, 2018, the Company did not incur any merger related expenses associated with the VCBP acquisition, compared to $2.1 million for the year ended December 31, 2017.

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## 5. INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are summarized below. The majority of securities held are available-for-sale securities with fair value based on quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not active. Estimated fair values were obtained from an independent pricing service based upon market quotes.

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Holding Gain | Gross Unrealized Holding Loss | Fair Value | Total Percent |
| | (Dollars in thousands) | | | | |
| Investment securities available-for-sale: | | | | | |
| Mortgage-backed securities | $ 1,185,757 | $ 21,306 | $ (750) | $ 1,206,313 | 69.32% |
| CMO/REMIC | 493,214 | 1,392 | (896) | 493,710 | 28.37% |
| Municipal bonds | 38,506 | 850 | (2) | 39,354 | 2.26% |
| Other securities | 880 | - | - | 880 | 0.05% |
| Total available-for-sale securities | $ 1,718,357 | $ 23,548 | $ (1,648) | $ 1,740,257 | 100.00% |
| Investment securities held-to-maturity: | | | | | |
| Government agency/GSE | $ 117,366 | $ 2,280 | $ (657) | $ 118,989 | 17.40% |
| Mortgage-backed securities | 168,479 | 2,083 | (54) | 170,508 | 24.98% |
| CMO/REMIC | 192,548 | - | (2,458) | 190,090 | 28.55% |
| Municipal bonds | 196,059 | 3,867 | (565) | 199,361 | 29.07% |
| Total held-to-maturity securities | $ 674,452 | $ 8,230 | $ (3,734) | $ 678,948 | 100.00% |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Holding Gain | Gross Unrealized Holding Loss | Fair Value | Total Percent |
| | (Dollars in thousands) | | | | |
| Investment securities available-for-sale: | | | | | |
| Mortgage-backed securities | $ 1,494,106 | $ 1,348 | $ (20,946) | $1,474,508 | 85.03% |
| CMO/REMIC | 217,223 | 353 | (3,525) | 214,051 | 12.34% |
| Municipal bonds | 45,621 | 332 | (1,143) | 44,810 | 2.59% |
| Other securities | 716 | - | - | 716 | 0.04% |
| Total available-for-sale securities | $ 1,757,666 | $ 2,033 | $ (25,614) | $1,734,085 | 100.00% |
| Investment securities held-to-maturity: | | | | | |
| Government agency/GSE | $ 138,274 | $ 572 | $ (2,622) | $ 136,224 | 18.57% |
| Mortgage-backed securities | 153,874 | - | (3,140) | 150,734 | 20.67% |
| CMO/REMIC | 215,336 | - | (12,081) | 203,255 | 28.93% |
| Municipal bonds | 236,956 | 556 | (6,188) | 231,324 | 31.83% |
| Total held-to-maturity securities | $ 744,440 | $ 1,128 | $ (24,031) | $ 721,537 | 100.00% |

The following table provides information about the amount of interest income earned on investment securities which is fully taxable and which is exempt from regular federal income tax.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (Dollars in thousands) | | |
| Investment securities available-for-sale: | | | |
| Taxable | $ 38,189 | $ 44,423 | $ 47,596 |
| Tax-advantaged | 1,141 | 1,565 | 2,182 |
| Total interest income from available-for-sale securities | 39,330 | 45,988 | 49,778 |
| Investment securities held-to-maturity: | | | |
| Taxable | 11,498 | 11,848 | 12,558 |
| Tax-advantaged | 5,890 | 7,053 | 8,457 |
| Total interest income from held-to-maturity securities | 17,388 | 18,901 | 21,015 |
| Total interest income from investment securities | $ 56,718 | $ 64,889 | $ 70,793 |

Approximately 90% of the total investment securities portfolio at December 31, 2019 represents securities issued by the U.S government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest.

The tables below 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, 2019 and 2018. Management has reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be OTTI.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| | (Dollars in thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| Mortgage-backed securities | $ 20,289 | $ (6) | $ 97,964 | $ (744) | $ 118,253 | $ (750) |
| CMO/REMIC | 177,517 | (705) | 34,565 | (191) | 212,082 | (896) |
| Municipal bonds | - | - | 563 | (2) | 563 | (2) |
| Total available-for-sale securities | $ 197,806 | $ (711) | $ 133,092 | $ (937) | $ 330,898 | $ (1,648) |
| Investment securities held-to-maturity: | | | | | | |
| Government agency/GSE | $ 28,359 | $ (252) | $ 19,405 | $ (405) | $ 47,764 | $ (657) |
| Mortgage-backed securities | 10,411 | (54) | - | - | 10,411 | (54) |
| CMO/REMIC | 23,897 | (104) | 166,193 | (2,354) | 190,090 | (2,458) |
| Municipal bonds | 7,583 | (32) | 29,981 | (533) | 37,564 | (565) |
| Total held-to-maturity securities | $ 70,250 | $ (442) | $ 215,579 | $ (3,292) | $ 285,829 | $ (3,734) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses | Fair Value | Gross Unrealized Holding Losses |
| | (Dollars in thousands) | | | | | |
| Investment securities available-for-sale: | | | | | | |
| Mortgage-backed securities | $ 692,311 | $ (4,864) | $ 593,367 | $ (16,082) | $ 1,285,678 | $ (20,946) |
| CMO/REMIC | 36,582 | (365) | 135,062 | (3,160) | 171,644 | (3,525) |
| Municipal bonds | 9,568 | (188) | 14,181 | (955) | 23,749 | (1,143) |
| Total available-for-sale securities | $ 738,461 | $ (5,417) | $ 742,610 | $ (20,197) | $ 1,481,071 | $ (25,614) |
| Investment securities held-to-maturity: | | | | | | |
| Government agency/GSE | $ 7,479 | $ (15) | $ 54,944 | $ (2,607) | $ 62,423 | $ (2,622) |
| Mortgage-backed securities | 59,871 | (484) | 90,863 | (2,656) | 150,734 | (3,140) |
| CMO/REMIC | - | - | 203,254 | (12,081) | 203,254 | (12,081) |
| Municipal bonds | 70,989 | (778) | 77,723 | (5,410) | 148,712 | (6,188) |
| Total held-to-maturity securities | $ 138,339 | $ (1,277) | $ 426,784 | $ (22,754) | $ 565,123 | $ (24,031) |

The following summarizes our analysis of these securities and the unrealized losses.

Government Agency & Government-Sponsored Enterprise ("GSE") — The government agency bonds are backed by the full faith and credit of agencies of the U.S. Government. While the Government-Sponsored Enterprise bonds are not expressly guaranteed by the U.S. Government, they are currently being supported by the U.S. Government under a conservatorship arrangement. 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 Company 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. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds.

Mortgage-Backed Securities (“MBS”) and CMO/REMIC — Most of the Company’s mortgage-backed and CMO/REMIC securities are issued by Government Agencies or Government-Sponsored Enterprises such as Ginnie Mae, Fannie Mae and Freddie Mac. These securities are collateralized or backed by the underlying residential or commercial mortgages. All mortgage-backed securities are considered to be rated investment grade with a weighted average life of approximately 3.5 years. Of the total MBS/CMO, 100.00% have the implied guarantee of U.S. Government-Sponsored Agencies and Enterprises. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the bonds. There were no credit-related OTTI recognized in earnings for the years ended December 31, 2019 and 2018.

Municipal Bonds — The majority of the Company’s municipal bonds, with maturities of approximately 9.0 years, represented approximately 10% of the total investment portfolio and are predominately AA or higher rated securities. The Company diversifies its holdings by owning selections of securities from different issuers and by holding securities from geographically diversified municipal issuers, thus reducing the Company’s exposure to any single adverse event. The decline in fair value is primarily due to the changes in interest rates. Since the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized costs, these investments are not considered OTTI at December 31, 2019.

At December 31, 2019 and 2018, investment securities having a carrying value of approximately $1.64 billion and $1.66 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, 2019, by contractual maturity, are shown in the table below. Although mortgage-backed securities and CMO/REMIC have contractual maturities through 2058, expected maturities will differ from contractual maturities because borrowers may have the right to prepay such obligations without penalty. Mortgage-backed and CMO/REMIC securities are included in maturity categories based upon estimated average lives which incorporate estimated prepayment speeds.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Available-for-sale | | Held-to-maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | *(Dollars in thousands)* | | | |
| Due in one year or less | $ 16,048 | $ 16,175 | $ - | $ - |
| Due after one year through five years | 1,414,580 | 1,435,647 | 339,132 | 338,758 |
| Due after five years through ten years | 266,108 | 266,349 | 140,143 | 141,903 |
| Due after ten years | 21,621 | 22,086 | 195,177 | 198,287 |
| Total investment securities | $ 1,718,357 | $ 1,740,257 | $ 674,452 | $ 678,948 |

The investment in FHLB stock is periodically evaluated for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through December 31, 2019.

## 6. LOANS AND LEASE FINANCE RECEIVABLES AND ALLOWANCE FOR LOAN LOSSES

Prior to April 1, 2019, our loans and lease finance receivables consisted of purchase credit impaired ("PCI") loans associated with the acquisition of San Joaquin Bank (SJB") on October 16, 2009, and loans and lease finance receivables excluding PCI loans ("Non-PCI loans"). The PCI loans are more fully discussed in Note 3 – *Summary of Significant Accounting Policies*. At December 31, 2019 and December 31, 2018, the remaining discount associated with the PCI loans was zero and our total gross PCI loan portfolio represented less than 0.2% of total gross loans and leases at December 31, 2019 and December 31, 2018. Beginning with June 30, 2019, PCI loans were accounted for and combined with Non-PCI loans and were reflected in total loans and lease finance receivables.

The following table provides a summary of total loans and lease finance receivables by type.

| | December 31, 2019 | December 31, 2018 | | |
|---|---|---|---|---|
| | Total Loans and Leases | Non-PCI Loans and Leases | PCI Loans | Total Loans and Leases |
| | (Dollars in thousands) | | | |
| Commercial and industrial | $ 935,127 | $ 1,002,209 | $ 519 | $ 1,002,728 |
| SBA | 305,008 | 350,043 | 1,258 | 351,301 |
| Real estate: | | | | |
| Commercial real estate | 5,374,617 | 5,394,229 | 14,407 | 5,408,636 |
| Construction | 116,925 | 122,782 | - | 122,782 |
| SFR mortgage | 283,468 | 296,504 | 145 | 296,649 |
| Dairy & livestock and agribusiness | 383,709 | 393,843 | 700 | 394,543 |
| Municipal lease finance receivables | 53,146 | 64,186 | - | 64,186 |
| Consumer and other loans | 116,319 | 128,429 | 185 | 128,614 |
| Gross loans | 7,568,319 | 7,752,225 | 17,214 | 7,769,439 |
| Less: Deferred loan fees, net | (3,742) | (4,828) | - | (4,828) |
| Gross loans, net of deferred loan fees | 7,564,577 | 7,747,397 | 17,214 | 7,764,611 |
| Less: Allowance for loan losses | (68,660) | (63,409) | (204) | (63,613) |
| Total loans and lease finance receivables | $ 7,495,917 | $ 7,683,988 | $ 17,010 | $ 7,700,998 |

As of December 31, 2019, 76.31% of the Company's total gross loan portfolio consisted of real estate loans, with commercial real estate loans representing 71.01% of total loans. Substantially all of the Company's real estate loans and construction loans are secured by real properties located in California. As of December 31, 2019, $241.8 million, or 4.50% of the total commercial real estate loans included loans secured by farmland, compared to $231.0 million, or 4.27%, at December 31, 2018. The loans secured by farmland included $125.9 million for loans secured by dairy & livestock land and $115.9 million for loans secured by agricultural land at December 31, 2019, compared to $126.9 million for loans secured by dairy & livestock land and $104.1 million for loans secured by agricultural land at December 31, 2018. As of December 31, 2019, dairy & livestock and agribusiness loans of $383.7 million were comprised of $323.5 million for dairy & livestock loans and $60.2 million for agribusiness loans, compared to $340.5 million for dairy & livestock loans and $54.0 million for agribusiness loans at December 31, 2018.

At December 31, 2019, the Company held approximately $3.86 billion of total fixed rate loans.

At December 31, 2019 and 2018, loans totaling $6.03 billion and $5.71 billion, respectively, were pledged to secure the borrowings and available lines of credit from the FHLB and the Federal Reserve Bank.

There were no outstanding loans held-for-sale as of December 31, 2019 and 2018.

***Credit Quality Indicators***

An important element of our approach to credit risk management is our loan risk rating system. The originating officer assigns each loan an initial risk rating, which is reviewed and confirmed or changed, as appropriate, by credit management. 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 or improvement 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 (Credit Quality Indicators): Pass, Special Mention, Substandard, Doubtful and Loss. Each of these groups is assessed for the proper amount to be used in determining the adequacy of our allowance for losses. These categories can be described as follows:

Pass — These loans, including loans on the Bank's internal watch list, range from minimal credit risk to lower than average, but still acceptable, credit risk. Watch list loans usually require more than normal management attention. Loans on the watch list may involve borrowers with adverse financial trends, higher debt/equity ratios, or weaker liquidity positions, but not to the degree of being considered a defined weakness or problem loan where risk of loss may be apparent.

Special Mention — Loans assigned to this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard — Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Company will sustain some loss if deficiencies are not corrected.

Doubtful — Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or the liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss — Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this asset with insignificant value even though partial recovery may be affected in the future.

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The following table summarizes loans by type, according to our internal risk ratings as of the dates presented.

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard (1) | Doubtful & Loss | Total |
| | (Dollars in thousands) | | | | |
| Commercial and industrial | $ 895,234 | $ 35,473 | $ 4,420 | $ - | $ 935,127 |
| SBA | 283,430 | 11,032 | 10,546 | - | 305,008 |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | 1,977,007 | 78,208 | 28,435 | - | 2,083,650 |
| Non-owner occupied | 3,280,580 | 10,005 | 382 | - | 3,290,967 |
| Construction | | | | | |
| Speculative | 106,895 | - | - | - | 106,895 |
| Non-speculative | 10,030 | - | - | - | 10,030 |
| SFR mortgage | 280,010 | 1,957 | 1,501 | - | 283,468 |
| Dairy & livestock and agribusiness | 320,670 | 35,920 | 27,119 | - | 383,709 |
| Municipal lease finance receivables | 52,676 | 470 | - | - | 53,146 |
| Consumer and other loans | 114,870 | 421 | 1,028 | - | 116,319 |
| Total gross loans | $ 7,321,402 | $ 173,486 | $ 73,431 | $ - | $ 7,568,319 |

(1) Includes $26.8 million of classified loans acquired from CB in the third quarter of 2018.

| | December 31, 2018 (1) | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard (2) | Doubtful & Loss | Total |
| | (Dollars in thousands) | | | | |
| Commercial and industrial | $ 961,909 | $ 29,358 | $ 10,942 | $ - | $ 1,002,209 |
| SBA | 336,033 | 7,375 | 6,635 | - | 350,043 |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | 2,008,169 | 95,841 | 13,980 | - | 2,117,990 |
| Non-owner occupied | 3,260,822 | 9,938 | 5,479 | - | 3,276,239 |
| Construction | | | | | |
| Speculative | 118,233 | - | - | - | 118,233 |
| Non-speculative | 4,549 | - | - | - | 4,549 |
| SFR mortgage | 289,607 | 3,310 | 3,587 | - | 296,504 |
| Dairy & livestock and agribusiness | 350,044 | 34,586 | 9,213 | - | 393,843 |
| Municipal lease finance receivables | 63,650 | 536 | - | - | 64,186 |
| Consumer and other loans | 126,085 | 1,263 | 1,081 | - | 128,429 |
| Total gross loans | $ 7,519,101 | $ 182,207 | $ 50,917 | $ - | $ 7,752,225 |

(1) Excludes PCI loans of $17.2 million as of December 31, 2018, of which $15.8 million were rated pass, $1.2 million were rated special mention, $224,000 were rated substandard, and zero were rated doubtful & loss.
(2) Includes $19.0 million of classified loans acquired from CB in the third quarter of 2018.

***Allowance for Loan Losses***

The Bank's Audit and Director Loan Committees provide Board oversight of the ALLL process and approve the ALLL methodology on a quarterly basis.

Our methodology for assessing the appropriateness of the allowance is conducted on a regular basis and considers the Bank's overall loan portfolio. Refer to Note 3 — *Summary of Significant Accounting Policies* for a more detailed discussion concerning the allowance for loan losses.

Management believes that the ALLL was appropriate at December 31, 2019 and 2018. 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 loan losses in the future.

The following tables present the balance and activity related to the allowance for loan losses for held-for-investment loans by type for the periods presented.

| | Year Ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Ending Balance December 31, 2018 | Charge-offs | Recoveries | Provision for (Recapture of) Loan Losses | Ending Balance December 31, 2019 |
| | (Dollars in thousands) | | | | |
| Commercial and industrial | $ 7,528 | $ (48) | $ 255 | $ 1,145 | $ 8,880 |
| SBA | 1,078 | (321) | 9 | 687 | 1,453 |
| Real estate: | | | | | |
| Commercial real estate | 45,097 | - | - | 3,532 | 48,629 |
| Construction | 981 | - | 12 | (135) | 858 |
| SFR mortgage | 2,197 | - | 196 | (54) | 2,339 |
| Dairy & livestock and agribusiness | 5,225 | (78) | 19 | 89 | 5,255 |
| Municipal lease finance receivables | 775 | - | - | (152) | 623 |
| Consumer and other loans | 732 | (7) | 10 | (112) | 623 |
| Total allowance for loan losses | $ 63,613 | $ (454) | $ 501 | $ 5,000 | $ 68,660 |

| | Year Ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Ending Balance December 31, 2017 | Charge-offs | Recoveries | Provision for (Recapture of) Loan Losses | Ending Balance December 31, 2018 |
| | (Dollars in thousands) | | | | |
| Commercial and industrial | $ 7,280 | $ (10) | $ 82 | $ 168 | $ 7,520 |
| SBA | 869 | (257) | 20 | 430 | 1,062 |
| Real estate: | | | | | |
| Commercial real estate | 41,722 | - | - | 3,212 | 44,934 |
| Construction | 984 | - | 2,506 | (2,509) | 981 |
| SFR mortgage | 2,112 | (13) | 51 | 46 | 2,196 |
| Dairy & livestock and agribusiness | 4,647 | - | 19 | 549 | 5,215 |
| Municipal lease finance receivables | 851 | - | - | (76) | 775 |
| Consumer and other loans | 753 | (11) | 141 | (157) | 726 |
| PCI loans | 367 | - | - | (163) | 204 |
| Total allowance for loan losses | $ 59,585 | $ (291) | $ 2,819 | $ 1,500 | $ 63,613 |

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| | Year Ended December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Ending Balance December 31, 2016 | Charge-offs | Recoveries | (Recapture of) Provision for Loan Losses | Ending Balance December 31, 2017 |
| | (Dollars in thousands) | | | | |
| Commercial and industrial | $ 8,154 | $ (138) | $ 118 | $ (854) | $ 7,280 |
| SBA | 871 | - | 78 | (80) | 869 |
| Real estate: | | | | | |
| Commercial real estate | 37,443 | - | 154 | 4,125 | 41,722 |
| Construction | 1,096 | - | 6,036 | (6,148) | 984 |
| SFR mortgage | 2,287 | - | 212 | (387) | 2,112 |
| Dairy & livestock and agribusiness | 8,541 | - | 19 | (3,913) | 4,647 |
| Municipal lease finance receivables | 941 | - | - | (90) | 851 |
| Consumer and other loans | 988 | (13) | 79 | (301) | 753 |
| PCI loans | 1,219 | - | - | (852) | 367 |
| Total allowance for loan losses | $ 61,540 | $ (151) | $ 6,696 | $ (8,500) | $ 59,585 |

The following tables present the recorded investment in loans held-for-investment and the related allowance for loan losses by loan type, based on the Company's methodology for determining the allowance for loan losses for the periods presented. Acquired loans are also supported by a credit discount established through the determination of fair value for the acquired loan portfolio.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Recorded Investment in Loans | | Allowance for Loan Losses | |
| | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
| | (Dollars in thousands) | | | |
| Commercial and industrial | $ 1,344 | $ 933,783 | $ 251 | $ 8,629 |
| SBA | 2,568 | 302,440 | 257 | 1,196 |
| Real estate: | | | | |
| Commercial real estate | 1,121 | 5,373,496 | - | 48,629 |
| Construction | - | 116,925 | - | 858 |
| SFR mortgage | 2,979 | 280,489 | - | 2,339 |
| Dairy & livestock and agribusiness | - | 383,709 | - | 5,255 |
| Municipal lease finance receivables | - | 53,146 | - | 623 |
| Consumer and other loans | 377 | 115,942 | - | 623 |
| Total | $ 8,389 | $ 7,559,930 | $ 508 | $ 68,152 |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment in Loans | | | Allowance for Loan Losses | | |
| | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Acquired with Deteriorated Credit Quality | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Acquired with Deteriorated Credit Quality |
| | (Dollars in thousands) | | | | | |
| Commercial and industrial | $ 7,625 | $ 994,584 | $ - | $ 3 | $ 7,517 | $ - |
| SBA | 3,467 | 346,576 | - | - | 1,062 | - |
| Real estate: | | | | | | |
| Commercial real estate | 6,540 | 5,387,689 | - | 478 | 44,456 | - |
| Construction | - | 122,782 | - | - | 981 | - |
| SFR mortgage | 5,349 | 291,155 | - | - | 2,196 | - |
| Dairy & livestock and agribusiness | 78 | 393,765 | - | 12 | 5,203 | - |
| Municipal lease finance receivables | - | 64,186 | - | - | 775 | - |
| Consumer and other loans | 486 | 127,943 | - | 68 | 658 | - |
| PCI loans | - | - | 17,214 | - | - | 204 |
| Total | $ 23,545 | $ 7,728,680 | $ 17,214 | $ 561 | $ 62,848 | $ 204 |

***Past Due and Nonperforming Loans***

The following tables present the recorded investment in, and the aging of, past due and nonaccrual loans, by type of loans as of the dates presented.

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Total Past Due and Accruing | Nonaccrual (1) (3) (4) | Current | Total Loans and Financing Receivables |
| | (Dollars in thousands) | | | | | |
| Commercial and industrial | $ 2 | $ - | $ 2 | $ 1,266 | $ 933,859 | $ 935,127 |
| SBA | 870 | 532 | 1,402 | 2,032 | 301,574 | 305,008 |
| Real estate: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | - | - | - | 479 | 2,083,171 | 2,083,650 |
| Non-owner occupied | - | - | - | 245 | 3,290,722 | 3,290,967 |
| Construction | | | | | | |
| Speculative (2) | - | - | - | - | 106,895 | 106,895 |
| Non-speculative | - | - | - | - | 10,030 | 10,030 |
| SFR mortgage | 6 | 243 | 249 | 878 | 282,341 | 283,468 |
| Dairy & livestock and agribusiness | - | - | - | - | 383,709 | 383,709 |
| Municipal lease finance receivables | - | - | - | - | 53,146 | 53,146 |
| Consumer and other loans | - | - | - | 377 | 115,942 | 116,319 |
| Total gross loans, excluding PCI loans | $ 878 | $ 775 | $ 1,653 | $ 5,277 | $ 7,561,389 | $ 7,568,319 |

(1) As of December 31, 2019, $1.2 million of nonaccruing loans were current, $59,000 were 30-59 days past due, $1.1 million were 60-89 days past due, and $2.9 million were 90+ days past due.
(2) Speculative construction loans are generally for properties where there is no identified buyer or renter.
(3) Includes $3.5 million of nonaccrual loans acquired from CB in the third quarter of 2018.
(4) Excludes $2.0 million of guaranteed portion of nonaccrual SBA loans that are in process of collection.

| | December 31, 2018 (1) | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Total Past Due and Accruing | Nonaccrual (2) (4) | Current | Total Loans and Financing Receivables |
| | (Dollars in thousands) | | | | | |
| Commercial and industrial | $ 820 | $ 89 | $ 909 | $ 7,490 | $ 993,810 | $ 1,002,209 |
| SBA | 1,172 | 135 | 1,307 | 2,892 | 345,844 | 350,043 |
| Real estate: | | | | | | |
| Commercial real estate | | | | | | |
| Owner occupied | 2,439 | 350 | 2,789 | 589 | 2,114,612 | 2,117,990 |
| Non-owner occupied | - | - | - | 5,479 | 3,270,760 | 3,276,239 |
| Construction | | | | | | |
| Speculative (3) | - | - | - | - | 118,233 | 118,233 |
| Non-speculative | - | - | - | - | 4,549 | 4,549 |
| SFR mortgage | - | 285 | 285 | 2,937 | 293,282 | 296,504 |
| Dairy & livestock and agribusiness | - | - | - | 78 | 393,765 | 393,843 |
| Municipal lease finance receivables | - | - | - | - | 64,186 | 64,186 |
| Consumer and other loans | - | - | - | 486 | 127,943 | 128,429 |
| Total gross loans, excluding PCI loans | $ 4,431 | $ 859 | $ 5,290 | $ 19,951 | $ 7,726,984 | $ 7,752,225 |

(1) Excludes PCI loans.
(2) As of December 31, 2018, $2.3 million of nonaccruing loans were current, $33,000 were 30-59 days past due, $57,000 were 60-89 days past due, and $17.6 million were 90+ days past due.
(3) Speculative construction loans are generally for properties where there is no identified buyer or renter.
(4) Includes $12.3 million of nonaccrual loans acquired from CB in the third quarter of 2018.

***Impaired Loans***

At December 31, 2019, the Company had impaired loans of $8.4 million. Impaired loans included $2.0 million of nonaccrual SBA loans, $1.3 million of nonaccrual commercial and industrial loans, $878,000 of nonaccrual SFR mortgage loans, $724,000 of nonaccrual commercial real estate loans, and $377,000 of nonaccrual consumer and other loans. These impaired loans included $3.4 million of loans whose terms were modified in a troubled debt restructuring, of which $244,000 are classified as nonaccrual. The remaining balance of $3.1 million consisted of 12 loans performing according to the restructured terms. The impaired loans had a specific allowance of $508,000 at December 31, 2019. At December 31, 2018, the Company had classified as impaired, loans with a balance of $23.5 million with a related allowance of $561,000.

The following tables present information for held-for-investment loans, individually evaluated for impairment by type of loans, as of and for the periods presented.

| | Year Ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| | (Dollars in thousands) | | | | |
| **With no related allowance recorded:** | | | | | |
| Commercial and industrial | $ 1,091 | $ 1,261 | $ - | $ 1,369 | $ 4 |
| SBA | 2,243 | 2,734 | - | 2,389 | 41 |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | 479 | 613 | - | 505 | - |
| Non-owner occupied | 642 | 643 | - | 681 | 26 |
| Construction | | | | | |
| Speculative | - | - | - | - | - |
| Non-speculative | - | - | - | - | - |
| SFR mortgage | 2,979 | 3,310 | - | 3,043 | 86 |
| Dairy & livestock and agribusiness | - | - | - | - | - |
| Municipal lease finance receivables | - | - | - | - | - |
| Consumer and other loans | 377 | 514 | - | 396 | - |
| Total | 7,811 | 9,075 | - | 8,383 | 157 |
| **With a related allowance recorded:** | | | | | |
| Commercial and industrial | 253 | 347 | 251 | 699 | - |
| SBA | 325 | 324 | 257 | 327 | - |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | - | - | - | - | - |
| Non-owner occupied | - | - | - | - | - |
| Construction | | | | | |
| Speculative | - | - | - | - | - |
| Non-speculative | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| Dairy & livestock and agribusiness | - | - | - | - | - |
| Municipal lease finance receivables | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | - |
| Total | 578 | 671 | 508 | 1,026 | - |
| Total impaired loans | $ 8,389 | $ 9,746 | $ 508 | $ 9,409 | $ 157 |

| | Year Ended December 31, 2018 (1) | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| | (Dollars in thousands) | | | | |
| **With no related allowance recorded:** | | | | | |
| Commercial and industrial | $ 7,436 | $ 11,457 | $ - | $ 7,718 | $ 7 |
| SBA | 3,467 | 5,746 | - | 3,919 | 44 |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | 589 | 705 | - | 624 | - |
| Non-owner occupied | 2,808 | 4,324 | - | 4,585 | 32 |
| Construction | | | | | |
| Speculative | - | - | - | - | - |
| Non-speculative | - | - | - | - | - |
| SFR mortgage | 5,349 | 6,270 | - | 5,484 | 80 |
| Dairy & livestock and agribusiness | - | - | - | - | - |
| Municipal lease finance receivables | - | - | - | - | - |
| Consumer and other loans | 418 | 526 | - | 459 | - |
| Total | 20,067 | 29,028 | - | 22,789 | 163 |
| **With a related allowance recorded:** | | | | | |
| Commercial and industrial | 189 | 191 | 3 | 203 | - |
| SBA | - | - | - | - | - |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | - | - | - | - | - |
| Non-owner occupied | 3,143 | 3,144 | 478 | 3,144 | - |
| Construction | | | | | |
| Speculative | - | - | - | - | - |
| Non-speculative | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| Dairy & livestock and agribusiness | 78 | 78 | 12 | 78 | - |
| Municipal lease finance receivables | - | - | - | - | - |
| Consumer and other loans | 68 | 100 | 68 | 76 | - |
| Total | 3,478 | 3,513 | 561 | 3,501 | - |
| Total impaired loans | $ 23,545 | $ 32,541 | $ 561 | $ 26,290 | $ 163 |

| | Year Ended December 31, 2017 (1) | | | | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| | | | (Dollars in thousands) | | |
| **With no related allowance recorded:** | | | | | |
| Commercial and industrial | $ 440 | $ 980 | $ - | $ 548 | $ 10 |
| SBA | 1,530 | 1,699 | - | 1,598 | 47 |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | 4,365 | 4,763 | - | 4,414 | 36 |
| Non-owner occupied | 3,768 | 5,107 | - | 3,951 | 94 |
| Construction | | | | | |
| Speculative | - | - | - | - | - |
| Non-speculative | - | - | - | - | - |
| SFR mortgage | 4,040 | 4,692 | - | 4,119 | 118 |
| Dairy & livestock and agribusiness | 829 | 1,091 | - | 988 | 1 |
| Municipal lease finance receivables | - | - | - | - | - |
| Consumer and other loans | 174 | 370 | - | 202 | - |
| Total | 15,146 | 18,702 | - | 15,820 | 306 |
| **With a related allowance recorded:** | | | | | |
| Commercial and industrial | - | - | - | - | - |
| SBA | 1 | 18 | 1 | 6 | - |
| Real estate: | | | | | |
| Commercial real estate | | | | | |
| Owner occupied | - | - | - | - | - |
| Non-owner occupied | - | - | - | - | - |
| Construction | | | | | |
| Speculative | - | - | - | - | - |
| Non-speculative | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| Dairy & livestock and agribusiness | - | - | - | - | - |
| Municipal lease finance receivables | - | - | - | - | - |
| Consumer and other loans | 378 | 391 | 74 | 385 | - |
| Total | 379 | 409 | 75 | 391 | - |
| Total impaired loans | $ 15,525 | $ 19,111 | $ 75 | $ 16,211 | $ 306 |

(1) Excludes PCI loans.

***Reserve for Unfunded Loan Commitments***

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 off-balance sheet loan commitments at the same time as it evaluates credit risk associated with the loan and lease portfolio. As a result of the acquisition of CB, the reserve for unfunded loan commitments increased by $2.9 million in 2018. There was no provision or recapture of provision for unfunded commitments for the year ended December 31, 2019, compared with a recapture of provision for unfunded loan commitments of $250,000 for the year ended December 31, 2018 and a recapture of provision for unfunded loan commitments of $400,000 for the year ended December 31, 2017. As of December 31, 2019 and 2018, the balance in this reserve was $9.0 million and was included in other liabilities.

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***Troubled Debt Restructurings***

Loans that are reported as TDRs are considered impaired and charge-off amounts are taken on an individual loan basis, as deemed appropriate. The majority of restructured loans are loans for which the terms of repayment have been renegotiated, resulting in a reduction in interest rate or deferral of principal. Refer to Note 3 — *Summary of Significant Accounting Policies, Troubled Debt Restructurings*, included herein.

As of December 31, 2019, there were $3.4 million of loans classified as a TDR, of which $244,000 were nonperforming and $3.1 million were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At December 31, 2019, performing TDRs were comprised of eight SFR mortgage loans of $2.1 million, one SBA loan of $536,000, one commercial real estate loan of $397,000, and two commercial and industrial loans of $78,000.

The majority of TDRs have no specific allowance allocated as any impairment amount is normally charged off at the time a probable loss is determined. We have allocated zero and $490,000 of specific allowance to TDRs as of December 31, 2019 and December 31, 2018, respectively.

The following table provides a summary of the activity related to TDRs for the periods presented.

| | Year Ended December 31, | |
|---|---|---|
| | **2019** | **2018 (1)** |
| | *(Dollars in thousands)* | |
| **Performing TDRs:** | | |
| Beginning balance | $ 3,594 | $ 4,809 |
| New modifications | - | 311 |
| Payoffs/payments, net and other | (482) | (1,526) |
| TDRs returned to accrual status | - | - |
| TDRs placed on nonaccrual status | - | - |
| Ending balance | $ 3,112 | $ 3,594 |
| **Nonperforming TDRs:** | | |
| Beginning balance | $ 3,509 | $ 4,200 |
| New modifications | - | 316 |
| Charge-offs | (78) | - |
| Transfer to OREO | (2,275) | - |
| Payoffs/payments, net and other | (912) | (1,007) |
| TDRs returned to accrual status | - | - |
| TDRs placed on nonaccrual status | - | - |
| Ending balance | $ 244 | $ 3,509 |
| Total TDRs | $ 3,356 | $ 7,103 |

(1) Excludes PCI loans.

There were no loans that were modified as TDRs for the year ended December 31, 2019.

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The following tables summarize loans modified as TDRs for the periods presented.

***Modifications (1)***

| | Year Ended December 31, 2018 (2) | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at December 31, 2018 | Financial Effect Resulting From Modifications (3) |
| | *(Dollars in thousands)* | | | | |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | - | $ - | $ - | $ - | $ - |
| Change in amortization period or maturity | 1 | 38 | 38 | 20 | - |
| **Real estate:** | | | | | |
| **Commercial real estate:** | | | | | |
| Owner occupied | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| Non-owner occupied | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| **SFR mortgage:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | 1 | 311 | 311 | 300 | - |
| **Dairy & livestock and agribusiness:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| **Consumer:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | 1 | 278 | 278 | 267 | - |
| Total loans | 3 | $ 627 | $ 627 | $ 587 | $ - |

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| | Year Ended December 31, 2017 (2) | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at December 31, 2017 | Financial Effect Resulting From Modifications (3) |
| | (Dollars in thousands) | | | | |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | - | $ - | $ - | $ - | $ - |
| Change in amortization period or maturity | - | - | - | - | - |
| **Real estate:** | | | | | |
| **Commercial real estate:** | | | | | |
| Owner occupied | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| Non-owner occupied | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | 1 | 3,143 | 3,143 | 3,143 | - |
| **SFR mortgage:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| **Dairy & livestock and agribusiness:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | 1 | 1,984 | 1,984 | 78 | - |
| **Consumer:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| Total loans | 2 | $ 5,127 | $ 5,127 | $ 3,221 | $ - |

(1) The tables above exclude modified loans that were paid off prior to the end of the period.
(2) Excludes PCI loans.
(3) Financial effects resulting from modifications represent charge-offs and specific allowance recorded at modification date.

As of December 31, 2019 and 2018, there were no loans that were modified as a TDR within the previous 12 months that subsequently defaulted. As of December 31, 2017, there was one commercial real estate loan with an outstanding balance of $3.1 million that was previously modified as a troubled debt restructuring within the previous 12 months that subsequently defaulted.

## 7. OTHER REAL ESTATE OWNED

The following table summarizes the activity related to total OREO for the periods presented.

| | Year Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (Dollars in thousands) | |
| Balance, beginning of period | $ 420 | $ 4,527 |
| Additions | 4,889 | 420 |
| Dispositions | (420) | (4,527) |
| Valuation adjustments | - | - |
| Balance, end of period | $ 4,889 | $ 420 |

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## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the changes in the carrying amount of goodwill for the periods presented.

| | Year Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (Dollars in thousands) | |
| Balance, beginning of period | $ 666,539 | $ 116,564 |
| Addition due to acqusition | - | 549,975 |
| Measurement period adjustments | (2,832) | - |
| Balance, end of period | $ 663,707 | $ 666,539 |

The following summarizes changes in CDI and the related accumulated amortization for the periods presented.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Gross CDI Amount | Accumulated Amortization | Net CDI Amount | Gross CDI Amount | Accumulated Amortization | Net CDI Amount |
| | (Dollars in thousands) | | | | | |
| Balance of intangible assets, beginning of period | $ 93,297 | $ (39,513) | $ 53,784 | $ 41,097 | $ (34,259) | $ 6,838 |
| Addition due to acquisitions | - | | | 52,200 | | |
| Balance of intangible assets, end of period | $ 93,297 | $ (50,311) | $ 42,986 | $ 93,297 | $ (39,513) | $ 53,784 |
| Aggregate amortization expense: | | | | | | |
| For year ended December 31, | $ 10,798 | | | $ 5,254 | | |
| Estimated Amortization Expense: | | | | | | |
| For the year ending December 31, 2020 | $ 9,352 | | | | | |
| For the year ending December 31, 2021 | 8,240 | | | | | |
| For the year ending December 31, 2022 | 7,126 | | | | | |
| For the year ending December 31, 2023 | 6,010 | | | | | |
| Thereafter | 12,258 | | | | | |

At December 31, 2019 the weighted average remaining life of intangible assets is approximately 2.89 years.

## 9. PREMISES AND EQUIPMENT

Premises and equipment were comprised of the following as of the dates presented.

| | Year Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (Dollars in thousands) | |
| Land | $ 19,188 | $ 19,929 |
| Bank premises | 68,387 | 73,188 |
| Furniture and equipment | 27,540 | 29,020 |
| Premises and equipment, gross | 115,115 | 122,137 |
| Accumulated depreciation and amortization | (61,137) | (63,944) |
| Premises and equipment, net | $ 53,978 | $ 58,193 |

For the first six months of 2019, a total of 10 banking centers were consolidated, including nine former CB centers. In 2019, the Bank recognized $4.8 million in net gain on the sale of our bank owned buildings.

Total depreciation and amortization expense was approximately $6.8 million, $6.5 million and $4.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

## 10. OTHER ASSETS

Other assets were comprised of the following as of the dates presented.

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | (Dollars in thousands) | |
| Prepaid expenses | $ 6,571 | $ 6,393 |
| Interest rate swaps | 11,502 | 1,938 |
| ROU assets | 18,522 | - |
| Affordable housing investments | 12,452 | 15,995 |
| Other investments | 45,540 | 33,031 |
| Other assets | 15,550 | 10,450 |
| Total | $ 110,137 | $ 67,807 |

## 11. INCOME TAXES

New tax legislation, referred to as the Tax Reform Act, was enacted on December 22, 2017. ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment. Beginning in 2018, the Tax Reform Act reduces the federal tax rate for corporations from 35% to 21% and changes or limits certain tax deductions. During the fourth quarter of 2017, a $13.2 million one-time charge to income tax expense was recorded due to the tax rate reduction and re-measurement of our deferred taxes assets (“DTA”).

The current and deferred amounts of income tax expense consist of the following.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (Dollars in thousands) | | |
| Current provision: | | | |
| Federal | $ 51,564 | $ 31,055 | $ 44,153 |
| State | 29,487 | 20,546 | 17,151 |
| | 81,051 | 51,601 | 61,304 |
| Deferred provision: | | | |
| Federal | 486 | 5,158 | 20,926 |
| State | 1,710 | 2,353 | 2,154 |
| | 2,196 | 7,511 | 23,080 |
| Total | $ 83,247 | $ 59,112 | $ 84,384 |

Income tax asset consists of the following.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Current: | | |
| Federal | $ 5,890 | $ 12,303 |
| State | 3,456 | 6,800 |
| | 9,346 | 19,103 |
| Deferred: | | |
| Federal | 17,580 | 27,334 |
| State | 8,661 | 15,737 |
| | 26,241 | 43,071 |
| Total | $ 35,587 | $ 62,174 |

Temporary differences between the amounts reported in the financial statements and the tax bases of assets and liabilities resulted in deferred taxes. The components of the net deferred tax asset are as follows.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Deferred tax assets: | | |
| Bad debt and credit loss deduction | $ 24,282 | $ 22,402 |
| Net operating loss carryforward | 75 | 141 |
| Deferred compensation | 6,942 | 6,109 |
| PCI loans | 2,299 | 2,556 |
| California franchise tax | 4,281 | 837 |
| Accrued expense | 4,831 | 4,865 |
| Unrealized loss on investment securities, net | - | 7,508 |
| Acquired loan discounts | 15,180 | 25,555 |
| Lease liability | 6,175 | - |
| Other, net | 1,453 | 2,624 |
| Gross deferred tax asset | 65,518 | 72,597 |
| Deferred tax liabilities: | | |
| Depreciation | 3,895 | 4,440 |
| Intangibles - acquisitions | 16,941 | 19,843 |
| FHLB Stock | 2,525 | 2,527 |
| Deferred income | 3,055 | 2,716 |
| Right of use asset | 5,893 | - |
| Unrealized gain on investment securities, net | 6,968 | - |
| Gross deferred tax liability | 39,277 | 29,526 |
| Net deferred tax asset | $ 26,241 | $ 43,071 |

*Annual Effective Tax Rate*

The annual consolidated effective tax rate for the periods presented, is reconciled to the U.S. statutory income rate as follows.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | | | |
| Federal income tax at statutory rate | $ 61,126 | 21.0% | $ 44,334 | 21.0% | $ 66,078 | 35.0% |
| State franchise taxes, net of federal benefit | 24,430 | 8.4% | 17,905 | 8.5% | 12,903 | 6.9% |
| Tax-exempt income | (3,081) | (1.1%) | (2,991) | (1.4%) | (4,450) | (2.4%) |
| Tax credits | (2,153) | (0.7%) | (1,451) | (0.7%) | (1,096) | (0.6%) |
| Deferred tax asset revaluation adjustment | - | - | - | - | 13,208 | 7.0% |
| Other, net | 2,925 | 1.0% | 1,315 | 0.6% | (2,259) | (1.2%) |
| Provision for income taxes | $ 83,247 | 28.6% | $ 59,112 | 28.0% | $ 84,384 | 44.7% |

There were no unrecognized tax benefits at December 31, 2019 and 2018. The Company records interest and penalties related to uncertain tax positions as part of other operating expense. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Company is subject to federal income tax and franchise tax of the state of California. Our federal income tax returns for the years ended December 31, 2015 through 2019 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2013 through 2019 are open to audit by state authorities.

## 12. DEPOSITS

The composition of deposits is summarized for the periods presented in the table below.

| | December 31, | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | |
| Noninterest-bearing deposits | $ 5,245,517 | 60.26% | $ 5,204,787 | 58.96% |
| Interest-bearing deposits | | | | |
| Investment checking | 454,565 | 5.22% | 460,972 | 5.22% |
| Money market | 2,158,161 | 24.79% | 2,236,018 | 25.33% |
| Savings | 400,377 | 4.60% | 393,769 | 4.46% |
| Time deposits | 446,308 | 5.13% | 531,944 | 6.03% |
| Total deposits | $ 8,704,928 | 100.00% | $ 8,827,490 | 100.00% |

Time deposits with balances of $250,000 or more amounted to approximately $107.9 million and $125.4 million at December 31, 2019 and 2018, respectively. Interest expense on such deposits amounted to approximately $926,000, $1.1 million and $545,000, for the years ended December 31, 2019, 2018 and 2017, respectively.

At December 31, 2019, the scheduled maturities of time certificates of deposit are as follows.

| | December 31, 2019 |
|---|---|
| Year of maturity: | (Dollars in thousands) |
| 2020 | $ 367,102 |
| 2021 | 58,488 |
| 2022 | 9,487 |
| 2023 | 1,616 |
| 2024 and thereafter | 9,615 |
| Total | $ 446,308 |

## 13. BORROWINGS

***Customer Repurchase Agreements***

The Bank offers a repurchase agreement product to its customers. This product, known as Citizens Sweep Manager, sells our investment securities overnight to our customers under an agreement to repurchase them the next day at a price which reflects the market value of the use of funds by the Bank for the period concerned. These repurchase agreements are signed with customers who want to invest their excess deposits, above a pre-determined balance in a demand deposit account, in order to earn interest. As of December 31, 2019, total funds borrowed under these agreements were $428.7 million with a weighted average interest rate of 0.44%, compared to $442.3 million with a weighted average rate of 0.39% at December 31, 2018.

***Federal Home Loan Bank Advances***

At December 31, 2019 and 2018, there were no outstanding FHLB advances.

At December 31, 2019, $6.03 billion of loans and $1.64 billion of investment securities, at carrying value, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

***Other Borrowings***

At December 31, 2019, the Bank had no short-term borrowings, compared to $280.0 million short-term borrowings with the FHLB at a cost of 2.53% at December 31, 2018.

***Junior Subordinated Debentures***

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 debentures of the Company. The junior subordinated debentures were issued concurrent with the issuance of the Trust Preferred Securities. The interest on junior subordinated debentures, paid by the Company to CVB Statutory Trust III, represents the sole revenues of CVB Statutory Trust III and the sole source of dividend distributions 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 became 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, 2019, these securities continue to be outstanding.

## 14. COMMITMENTS AND CONTINGENCIES

***Commitments***

At December 31, 2019 and 2018, the Bank had commitments to extend credit of approximately $1.54 billion and $1.69 billion, respectively, and obligations under letters of credit of $53.1 million and $54.3 million, respectively. 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 Bank had a reserve for unfunded loan commitments of $9.0 million as of December 31, 2019 and 2018 included in other liabilities.

Standby letters of credit 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 or purchase 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.

At December 31, 2019, the Bank has available lines of credit totaling $4.18 billion from correspondent banks, FHLB and Federal Reserve Bank of which $3.79 billion were secured.

***Other Contingencies***

The Company and its subsidiaries are parties to various lawsuits and threatened lawsuits in the ordinary and non-ordinary course of business. From time to time, such lawsuits and threatened lawsuits may include, but are not limited to, actions involving securities litigation, employment matters, wage-hour and labor law claims, consumer, lender liability claims and negligence claims, some of which may be styled as "class action" or representative cases. Some of these lawsuits may be similar in nature to other lawsuits pending against the Company's competitors.

For lawsuits where the Company has determined that a loss is both probable and reasonably estimable, a liability representing the best estimate of the Company's financial exposure based on known facts has been recorded in accordance with FASB guidance over loss contingencies (ASC 450). However, as a result of inherent uncertainties in judicial interpretation and application of a myriad of laws applicable to the Company's business, and the unique, complex factual issues presented in any given lawsuit, the Company often cannot determine the probability of loss or estimate the amount of damages which a plaintiff might successfully prove if the Company were found to be liable. For lawsuits or threatened lawsuits where a claim has been asserted or the Company has determined that it is probable that a claim will be asserted, and there is a reasonable possibility that the outcome will be unfavorable, the Company will disclose the existence of the loss contingency, even if the Company is not able to make an estimate of the possible loss or range of possible loss with respect to the action or potential action in question, unless the Company believes that the nature, potential magnitude or potential timing (if known) of the loss contingency is not reasonably likely to be material to the Company's liquidity, consolidated financial position, and/or results of operations.

Our accruals and disclosures for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose a loss contingency and/or the amount accrued if we believe it is reasonably likely to be material or if we believe such disclosure is necessary for our financial statements to not be misleading. If we determine that an exposure to loss exists in excess of an amount previously accrued or disclosed, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred, and we adjust our accruals and disclosures accordingly.

We do not presently believe that the ultimate resolution of any lawsuits currently pending against the Company will have a material adverse effect on the Company's results of operations, financial condition, or cash flows. The outcome of litigation and other legal and regulatory matters is inherently uncertain, however, and it is possible that one or more of the legal matters currently pending or threatened against the Company could have a material adverse effect on our results of operations, financial condition or cash flows.

## 15. EMPLOYEE BENEFIT PLANS

### *Deferred Compensation Plans*

As of December 31, 2019, the Company has various deferred compensation plans, and severance arrangements it assumed through the acquisition of other banks in prior years. These plans require the Company to make periodic payments to former employees upon retirement, upon a change in control, and in certain instances, to beneficiaries of former employees upon death. Payments made by the Company under these plans and agreements totaled approximately $1.0 million, $1.4 million, and $1.6 million for each of the years ended December 31, 2019, 2018 and 2017, respectively. The total expense recorded by the Company for these deferred compensation agreements was approximately $1.6 million, $1.1 million, and $1.2 million for each of the years ended December 31, 2019, 2018 and 2017, respectively.

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. No discretionary payments were made by the Company during the years ended December 31, 2019, 2018 and 2017.

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. The Bank, however, does fund the cost of these plans through the purchase of life insurance policies, which are recorded in other assets of the consolidated balance sheets. At December 31, 2019 and 2018, the amount of deferred compensation liability was $2.9 million and $2.4 million, respectively.

### *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 $4.1 million for 2019, $3.5 million for 2018, and $3.2 million for 2017.

## 16. EARNINGS PER SHARE RECONCILIATION

Basic earnings per common share are computed by dividing income allocated to common stockholders by the weighted-average number of common shares outstanding during each period. The computation of diluted earnings per common share considers the number of shares issuable upon the assumed exercise of outstanding common stock options. Antidilutive common shares are not included in the calculation of diluted earnings per common share. For the years ended December 31, 2019, 2018 and 2017, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 183,000, 160,000 and 9,000, respectively.

The table below shows earnings per common share and diluted earnings per common share, and reconciles the numerator and denominator of both earnings per common share calculations.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | (In thousands, except per share amounts) | | |
| **Earnings per common share:** | | | |
| Net earnings | $ 207,827 | $ 152,003 | $ 104,411 |
| Less: Net earnings allocated to restricted stock | 488 | 429 | 382 |
| Net earnings allocated to common shareholders | $ 207,339 | $ 151,574 | $ 104,029 |
| Weighted average shares outstanding | 139,757 | 121,670 | 109,409 |
| Basic earnings per common share | $ 1.48 | $ 1.25 | $ 0.95 |
| **Diluted earnings per common share:** | | | |
| Net income allocated to common shareholders | $ 207,339 | $ 151,574 | $ 104,029 |
| Weighted average shares outstanding | 139,757 | 121,670 | 109,409 |
| Incremental shares from assumed exercise of outstanding options | 177 | 287 | 398 |
| Diluted weighted average shares outstanding | 139,934 | 121,957 | 109,807 |
| Diluted earnings per common share | $ 1.48 | $ 1.24 | $ 0.95 |

## 17. STOCK-BASED COMPENSATION PLANS

In May 2018, the shareholders approved the 2018 Equity Plan which authorizes the issuance of up to 9,000,000 shares of CVB's common stock for eligible participants, which include all of the Company's employees, officers, and directors, and expires in 2028. The plan authorizes the issuance of a variety of types of equity awards, which include incentive stock options, non-qualified stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs"), and other stock-based awards. The 2018 Equity Plan replaced the 2008 Equity Incentive Plan. No further grants will be made under the 2008 Equity Incentive Plan, but shares may continue to be issued under such plan pursuant to grants previously made. As of December 31, 2019, we have 312,500 outstanding options, unvested RSAs under our 2008 Equity Incentive Plan.

***Stock Options***

The Company expensed $352,000, $400,000, and $399,000, for the years ended December 31, 2019, 2018 and 2017, respectively.

The estimated fair value of the options granted during 2019 and prior years was calculated using the Black-Scholes options pricing model. There were 1,500, 140,500 and 11,500 options granted during 2019, 2018 and 2017, respectively. The options will vest, in equal installments, over a five-year period. The fair value of each stock option granted in 2019, 2018 and 2017, was estimated on the date of grant using the following weighted-average assumptions.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Dividend yield | 2.4% | 2.4% | 2.2% |
| Volatility | 23.3% | 25.4% | 29.6% |
| Risk-free interest rate | 2.5% | 2.9% | 1.8% |
| Expected life | 5.4 years | 5.4 years | 5.6 years |
| Weighted average grant date fair value | $ 4.35 | $ 5.08 | $ 5.17 |

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. In connection with the adoption of ASU 2016-09 in 2017, the Company elected to account for forfeitures as they occur, rather than to estimate forfeitures over the vesting period.

The following table presents option activity under the Company's stock option plans as of and for the year ended December 31, 2019.

| | Number of Stock Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | *(In thousands)* | | *(In years)* | *(In thousands)* |
| Outstanding at January 1, 2019 | 532 | $ 16.73 | | |
| Granted | 2 | 23.12 | | |
| Exercised | (161) | 13.78 | | |
| Forfeited or expired | (14) | 19.00 | | |
| Outstanding at December 31, 2019 | 359 | $ 17.99 | 6.05 | $ 1,587 |
| Vested or expected to vest at December 31, 2019 | 359 | $ 17.99 | 6.05 | $ 1,587 |
| Exercisable at December 31, 2019 | 212 | $ 15.58 | 4.76 | $ 1,364 |

The total intrinsic value of options exercised during the years ended December 31, 2019, 2018 and 2017 was $1.3 million, $2.2 million and $3.8 million, respectively.

As of December 31, 2019, there was a total of $564,000 in 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 2.2 years. The total fair value of options vested was $520,000, $364,000 and $505,000 during 2019, 2018 and 2017, respectively. Cash received from stock option exercises was $2.2 million, $1.7 million and $2.7 million, in 2019, 2018 and 2017, respectively.

At December 31, 2019, options for the purchase of 358,600 shares of CVB's common stock were outstanding under the above plans, of which options to purchase 212,133 shares were exercisable at prices ranging from $7.68 to $24.83.

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

***Restricted Stock Awards and Restricted Stock Units***

The Company granted 217,000, 424,000 and 73,000 restricted stock awards during 2019, 2018 and 2017 respectively. The weighted average grant date fair value of RSAs and RSUs granted in 2019, 2018 and 2017 was $20.76 per share, $23.84 per share and $21.59 per share, respectively. These awards will vest, in equal installments, over a period of approximately one to five years.

Compensation cost is recognized over the requisite service period, which is approximately one to five years, and amounted to $5.2 million, $3.1 million and $2.6 million during the years ended December 31, 2019, 2018 and 2017, respectively. Total unrecognized compensation cost related to RSAs and RSUs was $6.3 million at December 31, 2019.

The table below summarizes activity related to the Company's non-vested RSAs and RSUs for the year ended December 31, 2019.

| | Shares | Weighted Average Fair Value |
|---|---|---|
| | *(In thousands)* | |
| Nonvested at January 1, 2019 | 624 | $ 21.56 |
| Granted | 217 | 20.76 |
| Vested | (220) | 19.59 |
| Forfeited | (180) | 23.75 |
| Nonvested at December 31, 2019 | 441 | $ 21.25 |

Under the 2018 Equity Incentive Plan, 8,060,466 shares of common stock were available for the granting of future stock-based awards as of December 31, 2019.

## 18. 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.

Effective January 1, 2015, the Company and the Bank became subject to a new regulatory capital measure called Common Equity Tier 1 ("CET1") to risk-weighted assets which was implemented as a result of the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act.

Basel III also introduces a new "capital conservation buffer," composed entirely of CET1, on top of minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum requirement but below the capital conservation buffer will face constraints on dividends, equity repurchases and payment of discretionary bonuses based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at 0.625% was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Bank is now required to maintain this additional capital conservation buffer of 2.5% of CET1.

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 capital, Tier 1 capital and CET1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that, as of December 31, 2019 and 2018, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2019 and 2018, 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 1 risk-based, CET1 risk-based, and Tier 1 leverage (tangible Tier 1 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.

As of December 31, 2019 and 2018, the Company had $25.0 million of trust-preferred securities, which were included in Tier 1 capital for regulatory purposes, respectively. The following table summarizes regulatory capital amounts and ratios for the Company and the Bank as of December 31, 2019 and 2018.

| | Actual | | For Capital Adequacy Purposes | | | To Be Well Capitalized under Prompt Corrective Action Provisions | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | | Ratio | Amount | | Ratio |
| | | | (Dollars in thousands) | | | | | |
| **As of December 31, 2019:** | | | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | | | |
| Company | $ 1,391,771 | 16.01% | $ 695,651 | ≥ | 8.00% | | | N/A |
| Bank | $ 1,376,364 | 15.83% | $ 695,471 | ≥ | 8.00% | $ 869,339 | ≥ | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | | | | | | | | |
| Company | $ 1,314,152 | 15.11% | $ 521,738 | ≥ | 6.00% | | | N/A |
| Bank | $ 1,298,745 | 14.94% | $ 521,604 | ≥ | 6.00% | $ 695,471 | ≥ | 8.00% |
| Common equity Tier 1 capital ratio | | | | | | | | |
| Company | $ 1,289,152 | 14.83% | $ 391,304 | ≥ | 4.50% | | | N/A |
| Bank | $ 1,298,745 | 14.94% | $ 391,203 | ≥ | 4.50% | $ 565,070 | ≥ | 6.50% |
| Tier 1 Capital (to Average-Assets) | | | | | | | | |
| Company | $ 1,314,152 | 12.33% | $ 426,497 | ≥ | 4.00% | | | N/A |
| Bank | $ 1,298,745 | 12.19% | $ 426,328 | ≥ | 4.00% | $ 532,909 | ≥ | 5.00% |
| **As of December 31, 2018:** | | | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | | | |
| Company | $ 1,263,800 | 14.13% | $ 715,283 | ≥ | 8.00% | | | N/A |
| Bank | $ 1,253,219 | 14.03% | $ 714,601 | ≥ | 8.00% | $ 893,251 | ≥ | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | | | | | | | | |
| Company | $ 1,191,228 | 13.32% | $ 536,462 | ≥ | 6.00% | | | N/A |
| Bank | $ 1,180,647 | 13.22% | $ 535,951 | ≥ | 6.00% | $ 714,601 | ≥ | 8.00% |
| Common equity Tier 1 capital ratio | | | | | | | | |
| Company | $ 1,166,228 | 13.04% | $ 402,347 | ≥ | 4.50% | | | N/A |
| Bank | $ 1,180,647 | 13.22% | $ 401,963 | ≥ | 4.50% | $ 580,613 | ≥ | 6.50% |
| Tier 1 Capital (to Average-Assets) | | | | | | | | |
| Company | $ 1,191,228 | 10.98% | $ 433,834 | ≥ | 4.00% | | | N/A |
| Bank | $ 1,180,647 | 10.90% | $ 433,403 | ≥ | 4.00% | $ 541,754 | ≥ | 5.00% |

In addition, the California Financial Code 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, 2019, declare and pay additional dividends of approximately $236.0 million.

## 19. FAIR VALUE INFORMATION

### *Fair Value Hierarchy*

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The following disclosure provides the fair value information for financial assets and liabilities as of December 31, 2019. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2 and Level 3).

- *Level 1* — Quoted prices in active markets for identical assets or liabilities in active markets that are accessible at the measurement date.

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- *Level 2* — Observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs or model derived valuations that can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument.
- *Level 3* — Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These valuation methodologies generally include pricing models, discounted cash flow models, or a determination of fair value that requires significant management judgment or estimation.

There were no transfers in and out of Level 1 and Level 2 during the years ended December 31, 2019 and 2018.

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

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis for the dates presented.

| | Carrying Value at December 31, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | | *(Dollars in thousands)* | | |
| **Description of assets** | | | | |
| Investment securities - AFS: | | | | |
| Mortgage-backed securities | $ 1,206,313 | $ - | $ 1,206,313 | $ - |
| CMO/REMIC | 493,710 | - | 493,710 | - |
| Municipal bonds | 39,354 | - | 39,354 | - |
| Other securities | 880 | - | 880 | - |
| Total investment securities - AFS | 1,740,257 | - | 1,740,257 | - |
| Interest rate swaps | 11,502 | - | 11,502 | - |
| Total assets | $ 1,751,759 | $ - | $ 1,751,759 | $ - |
| **Description of liability** | | | | |
| Interest rate swaps | $ 11,502 | $ - | $ 11,502 | $ - |
| Total liabilities | $ 11,502 | $ - | $ 11,502 | $ - |

| | Carrying Value at December 31, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| | | *(Dollars in thousands)* | | |
| **Description of assets** | | | | |
| Investment securities - AFS: | | | | |
| Mortgage-backed securities | $ 1,474,508 | $ - | $ 1,474,508 | $ - |
| CMO/REMIC | 214,051 | - | 214,051 | - |
| Municipal bonds | 44,810 | - | 44,810 | - |
| Other securities | 716 | - | 716 | - |
| Total investment securities - AFS | 1,734,085 | - | 1,734,085 | - |
| Interest rate swaps | 1,938 | - | 1,938 | - |
| Total assets | $ 1,736,023 | $ - | $ 1,736,023 | $ - |
| **Description of liability** | | | | |
| Interest rate swaps | $ 1,938 | $ - | $ 1,938 | $ - |
| Total liabilities | $ 1,938 | $ - | $ 1,938 | $ - |

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

We may be required to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting or write-downs of individual assets.

For assets measured at fair value on a non-recurring basis that were held on the balance sheet at December 31, 2019 and 2018, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets that had losses during the period.

| | Carrying Value at December 31, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses For the Year Ended December 31, 2019 |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| **Description of assets** | | | | | |
| Impaired loans: | | | | | |
| Commercial and industrial | $ 253 | $ - | $ - | $ 253 | $ 251 |
| SBA | 359 | - | - | 359 | 513 |
| Real estate: | | | | | |
| Commercial real estate | - | - | - | - | - |
| Construction | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| Dairy & livestock and agribusiness | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | - |
| Other real estate owned | 444 | - | - | 444 | 64 |
| Asset held-for-sale | - | - | - | - | - |
| Total assets | $ 1,056 | $ - | $ - | $ 1,056 | $ 828 |

| | Carrying Value at December 31, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses For the Year Ended December 31, 2018 |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| **Description of assets** | | | | | |
| Impaired loans, excluding PCI loans: | | | | | |
| Commercial and industrial | $ 189 | $ - | $ - | $ 189 | $ 3 |
| SBA | - | - | - | - | - |
| Real estate: | | | | | |
| Commercial real estate | 3,143 | - | - | 3,143 | 478 |
| Construction | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| Dairy & livestock and agribusiness | 78 | - | - | 78 | 12 |
| Consumer and other loans | 68 | - | - | 68 | 68 |
| Other real estate owned | - | - | - | - | - |
| Asset held-for-sale | - | - | - | - | - |
| Total assets | $ 3,478 | $ - | $ - | $ 3,478 | $ 561 |

***Fair Value of Financial Instruments***

The following disclosure presents estimated fair value of our 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 may realize in a current market exchange as of December 31, 2019 and 2018, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | | Estimated Fair Value | | | |
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| | (Dollars in thousands) | | | | |
| **Assets** | | | | | |
| Total cash and cash equivalents | $ 185,518 | $ 185,518 | $ - | $ - | $ 185,518 |
| Interest-earning balances due from depository institutions | 2,931 | - | 2,938 | - | 2,938 |
| Investment securities available-for-sale | 1,740,257 | - | 1,740,257 | - | 1,740,257 |
| Investment securities held-to-maturity | 674,452 | - | 678,948 | - | 678,948 |
| Total loans, net of allowance for loan losses | 7,495,917 | - | - | 7,343,167 | 7,343,167 |
| Swaps | 11,502 | - | 11,502 | - | 11,502 |
| **Liabilities** | | | | | |
| Deposits: | | | | | |
| Interest-bearing | $ 3,459,411 | $ - | $ 3,457,922 | $ - | $ 3,457,922 |
| Borrowings | 428,659 | - | 428,330 | - | 428,330 |
| Junior subordinated debentures | 25,774 | - | - | 20,669 | 20,669 |
| Swaps | 11,502 | - | 11,502 | - | 11,502 |

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | | Estimated Fair Value | | | |
| | Carrying Amount | Level 1 | Level 2 | Level 3 | Total |
| | (Dollars in thousands) | | | | |
| **Assets** | | | | | |
| Total cash and cash equivalents | $ 163,948 | $ 163,948 | $ - | $ - | $ 163,948 |
| Interest-earning balances due from depository institutions | 7,670 | - | 7,339 | - | 7,339 |
| Investment securities available-for-sale | 1,734,085 | - | 1,734,085 | - | 1,734,085 |
| Investment securities held-to-maturity | 744,440 | - | 721,537 | - | 721,537 |
| Total loans, net of allowance for loan losses | 7,700,998 | - | - | 7,514,964 | 7,514,964 |
| Swaps | 1,938 | - | 1,938 | - | 1,938 |
| **Liabilities** | | | | | |
| Deposits: | | | | | |
| Interest-bearing | $ 3,622,703 | $ - | $ 3,614,682 | $ - | $ 3,614,682 |
| Borrowings | 722,255 | - | 721,601 | - | 721,601 |
| Junior subordinated debentures | 25,774 | - | - | 21,176 | 21,176 |
| Swaps | 1,938 | - | 1,938 | - | 1,938 |

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2019 and 2018. 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.

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank is exposed to certain risks relating to its ongoing business operations and utilizes interest rate swap agreements (“swaps”) as part of its asset/liability management strategy to help manage its interest rate risk position. As of December 31, 2019, the Bank has entered into 90 interest-rate swap agreements with customers. The Bank then entered into identical offsetting swaps with a counterparty. The swap agreements are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and to provide the customer the financial effects of a fixed-rate loan without creating significant volatility in the Bank’s earnings.

The structure of the swaps is as follows. The Bank enters into an interest rate swap with its customers in which the Bank pays the customer a variable rate and the customer pays the Bank a fixed rate, therefore allowing customers to convert variable rate loans to fixed rate loans. At the same time, the Bank enters into a swap with the counterparty bank in which the Bank pays the counterparty a fixed rate and the counterparty in return pays the Bank a variable rate. The net effect of the transaction allows the Bank to receive interest on the loan from the customer at a variable rate based on LIBOR plus a spread. The changes in the fair value of the swaps primarily offset each other and therefore should not have a significant impact on the Company’s results of operations, although the Company does incur credit and counterparty risk with respect to performance on the swap agreements by the Bank’s customer and counterparty, respectively. As a result of the Bank exceeding $10 billion in assets, federal regulations require the Bank, beginning in January 2019, to clear most interest rate swaps through a clearing house (“centrally cleared”). These instruments contain language outlining collateral pledging requirements for each counterparty, in which collateral must be posted if market value exceeds certain agreed upon threshold limits. Cash or securities are pledged as collateral. Our interest rate swap derivatives are subject to a master netting arrangement with our counterparties. None of our derivative assets and liabilities are offset in the Company’s consolidated balance sheet.

We believe our risk of loss associated with our counterparty borrowers related to interest rate swaps is mitigated as the loans with swaps are underwritten to take into account potential additional exposure, although there can be no assurances in this regard since the performance of our swaps is subject to market and counterparty risk.

***Balance Sheet Classification of Derivative Financial Instruments***

As of December 31, 2019 and 2018, the total notional amount of the Company's swaps was $260.0 million and $195.4 million, respectively. The location of the asset and liability, and their respective fair values are summarized in the tables below.

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | (Dollars in thousands) | | | |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swaps | Other assets | $ 11,502 | Other liabilities | $ 11,502 |
| Total derivatives | | $ 11,502 | | $ 11,502 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Asset Derivatives | | Liability Derivatives | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| | (Dollars in thousands) | | | |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swaps | Other assets | $ 1,938 | Other liabilities | $ 1,938 |
| Total derivatives | | $ 1,938 | | $ 1,938 |

***The Effect of Derivative Financial Instruments on the Consolidated Statements of Earnings***

The following table summarizes the effect of derivative financial instruments on the consolidated statements of earnings for the periods presented.

| Derivatives Not Designated as Hedging Instruments | Location of Gain Recognized in Income on Derivative Instruments | Amount of Gain Recognized in Income on Derivative Instruments | | |
|---|---|---|---|---|
| | | Year Ended December 31, | | |
| | | 2019 | 2018 | 2017 |
| | | (Dollars in thousands) | | |
| Interest rate swaps | Other income | $ 1,806 | $ 340 | $ 615 |
| Total | | $ 1,806 | $ 340 | $ 615 |

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## 21. OTHER COMPREHENSIVE INCOME (LOSS)

The tables below provide a summary of the components of OCI for the periods presented.

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | | 2017 | | |
| | Before-tax | Tax effect | After-tax | Before-tax | Tax effect | After-tax | Before-tax | Tax effect | After-tax |
| | (Dollars in thousands) | | | | | | | | |
| Investment securities: | | | | | | | | | |
| Net change in fair value recorded in accumulated OCI | $ 45,486 | $ (13,447) | $ 32,039 | $ (26,435) | $ 7,815 | $ (18,620) | $ (11,336) | $ 4,760 | $ (6,576) |
| Amortization of unrealized (gains) losses on securities transferred from available-for-sale to held-to-maturity | (1,614) | 477 | (1,137) | (2,091) | 619 | (1,472) | (3,293) | 1,383 | (1,910) |
| Net realized gain reclassified into earnings (1) | (5) | 1 | (4) | - | - | - | (402) | 169 | (233) |
| Net change | $ 43,867 | $ (12,969) | $ 30,898 | $ (28,526) | $ 8,434 | $ (20,092) | $ (15,031) | $ 6,312 | $ (8,719) |

(1) Included in other noninterest income.

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## 22. BALANCE SHEET OFFSETTING

Assets and liabilities relating to certain financial instruments, including, derivatives and securities sold under repurchase agreements ("repurchase agreements"), may be eligible for offset in the consolidated balance sheets as permitted under accounting guidance. As noted above, our interest rate swap derivatives are subject to master netting arrangements. Our interest rate swap derivatives require the Company to pledge investment securities as collateral based on certain risk thresholds. Investment securities that have been pledged by the Company to counterparties continue to be reported in the Company's consolidated balance sheets unless the Company defaults. We offer a repurchase agreement product to our customers, which include master netting agreements that allow for the netting of collateral positions. This product, known as Citizens Sweep Manager, sells certain of our securities overnight to our customers under an agreement to repurchase them the next day. The repurchase agreements are not offset in the Company's consolidated balances.

| | Gross Amounts Recognized in the Consolidated Balance Sheets | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts Presented in the Consolidated Balance Sheets | Gross Amounts Not Offset in the Consolidated Balance Sheets | | Net Amount |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Collateral Pledged | |
| | (Dollars in thousands) | | | | | |
| **December 31, 2019** | | | | | | |
| **Financial assets:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 11,502 | $ - | $ - | $ 11,502 | $ - | $ 11,502 |
| Total | $ 11,502 | $ - | $ - | $ 11,502 | $ - | $ 11,502 |
| **Financial liabilities:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 11,619 | $ (117) | $ 11,502 | $ 117 | $ (23,312) | $ (11,693) |
| Repurchase agreements | 428,659 | - | 428,659 | - | (510,138) | (81,479) |
| Total | $ 440,278 | $ (117) | $ 440,161 | $ 117 | $ (533,450) | $ (93,172) |
| **December 31, 2018** | | | | | | |
| **Financial assets:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 1,938 | $ - | $ - | $ 1,938 | $ - | $ 1,938 |
| Total | $ 1,938 | $ - | $ - | $ 1,938 | $ - | $ 1,938 |
| **Financial liabilities:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 4,203 | $ (2,265) | $ 1,938 | $ 2,265 | $ - | $ 4,203 |
| Repurchase agreements | 442,255 | - | 442,255 | - | (487,607) | (45,352) |
| Total | $ 446,458 | $ (2,265) | $ 444,193 | $ 2,265 | $ (487,607) | $ (41,149) |

## 23. LEASES

The Company's operating leases, where the Company is a lessee, include real estate, such as office space and banking centers. Lease expense for operating leases is recognized on a straight-line basis over the term of the lease and is reflected in the consolidated statement of earnings.

While the Company has, as a lessor, certain equipment finance leases, such leases are not material to the Company's consolidated financial statements.

The following presents the components of lease costs and supplemental information related to leases as of December 31, 2019.

| | December 31, 2019 |
|---|---|
| | *(Dollars in thousands)* |
| **Lease Assets and Liabilities** | |
| ROU assets | $ 18,522 |
| Total lease liabilities | 21,392 |

| | Year Ended December 31, 2019 |
|---|---|
| | *(Dollars in thousands)* |
| **Lease Cost** | |
| Operating lease expense (1) | $ 7,274 |
| Sublease income | - |
| Total lease expense | $ 7,274 |

(1) Includes short-term leases and variable lease costs, which are immaterial.

| | |
|---|---|
| **Other Information** | |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash outflows from operating leases, net | $ 8,497 |

| **Lease Term and Discount Rate** | |
|---|---|
| | **December 31, 2019** |
| Weighted average remaining lease term (years) | 4.18 |
| Weighted average discount rate | 3.34% |

The Company's lease arrangements that have not yet commenced as of December 31, 2019 and the Company's short-term lease costs and variable lease costs, for the year ended December 31, 2019 are not material to the consolidated financial statements. The future lease payments required for leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2019, excluding property taxes and insurance, are as follows:

| | December 31, 2019 |
|---|---|
| | *(Dollars in thousands)* |
| **Year:** | |
| 2020 | $ 7,248 |
| 2021 | 5,512 |
| 2022 | 4,325 |
| 2023 | 2,542 |
| 2024 | 1,495 |
| Thereafter | 1,781 |
| Total future lease payments | 22,903 |
| Less: Imputed interest | (1,511) |
| Present value of lease liabilities | $ 21,392 |

*Disclosures related to periods prior to adoption of ASC Topic 842*

At December 31, 2018, future minimum lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year as of December 31, 2018 were $9.3 million, $5.9 million, $4.1 million, $2.8 million, and $1.2 million for 2019 through 2023, respectively, and $1.7 million in the aggregate for all years thereafter. These amounts exclude variable lease payments and commitments under leases that have not yet commenced.

## 24. REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)" and all subsequent ASUs that modified Topic 606. As stated in Note 3 – *Summary of Significant Accounting Policies*, the implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

*Trust and Investment Services*

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the monthly market value of the assets under management and the applicable fee rate. Payment is generally received at month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Other services related to real estate and tax return preparation services are also provided to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Wealth Management contracts with customers have no clauses that would entitle customers to additional services. Fees are generally earned based on market value of assets under management (AUM) and miscellaneous fees are transaction driven and are charged based on an agreed upon fee schedule. Performance obligation is satisfied upon execution of the transaction and there is no need to allocate transaction price to the performance obligation(s) in the contract. Wealth Management customers can also terminate the contract at will.

For Investment Services, the fees are earned based on services performed for customers as provided through an affiliated broker-dealer. Fees are earned from gross dealer commission based on trade date. Performance obligation is satisfied upon execution of the transaction and there is no need to allocate transaction price to the performance obligation(s) in the contract.

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*Deposit-related Fees*

Service charges on deposit accounts consist of account analysis fees earned on analyzed business checking accounts, monthly service fees, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

*Bankcard Services*

The Bank generates revenues from merchant servicing to its clients. A fee schedule is part of the contract and is calculated based on sales of merchants on a monthly basis. There is no future promise or claim to deliver services as merchant fees are based on monthly merchant transactions. The Company's performance obligations are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Therefore, the new revenue standard has no impact on revenues generated from bankcard services.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the periods presented.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| | | *(Dollars in thousands)* | |
| **Noninterest income:** | | | |
| *In-scope of Topic 606:* | | | |
| Service charges on deposit accounts | $ 20,010 | $ 17,070 | $ 15,809 |
| Trust and investment services | 9,525 | 8,774 | 9,845 |
| Bankcard services | 3,163 | 3,485 | 3,406 |
| Gain on OREO, net | 129 | 3,546 | 6 |
| Other | 9,951 | 6,588 | 4,888 |
| Noninterest Income (in-scope of Topic 606) | 42,778 | 39,463 | 33,954 |
| Noninterest Income (out-of-scope of Topic 606) | 16,264 | 4,018 | 8,164 |
| **Total noninterest income** | $ 59,042 | $ 43,481 | $ 42,118 |

*Contract Acquisition Costs*

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient, which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less.

## 25. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

The following tables provide the parent company only condensed balance sheets, condensed statements of earnings and condensed statements of cash flows for the periods presented.

**CVB FINANCIAL CORP.**
**CONDENSED BALANCE SHEETS**

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | *(Dollars in thousands)* | |
| Assets | | |
| Investment in subsidiaries | $ 2,003,692 | $ 1,865,609 |
| Other assets, net | 42,070 | 31,628 |
| Total assets | $ 2,045,762 | $ 1,897,237 |
| Liabilities | $ 51,664 | $ 46,047 |
| Stockholders’ equity | 1,994,098 | 1,851,190 |
| Total liabilities and stockholders’ equity | $ 2,045,762 | $ 1,897,237 |

**CVB FINANCIAL CORP.**
**CONDENSED STATEMENTS OF EARNINGS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | *(Dollars in thousands)* | |
| Excess in net earnings of subsidiaries | $ 107,185 | $ 78,601 | $ 50,253 |
| Dividends from the Bank | 106,000 | 77,800 | 57,000 |
| Other expense, net | (5,358) | (4,398) | (2,842) |
| Net earnings | $ 207,827 | $ 152,003 | $ 104,411 |

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**CVB FINANCIAL CORP.**
**CONDENSED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| | | (Dollars in thousands) | |
| **Cash Flows from Operating Activities** | | | |
| Net earnings | $ 207,827 | $ 152,003 | $ 104,411 |
| Adjustments to reconcile net earnings to cash used in operating activities: | | | |
| Earnings of subsidiaries | (213,185) | (156,401) | (107,253) |
| Tax settlement received from the Bank | 1,008 | - | 1,577 |
| Stock-based compensation | 5,548 | 3,508 | 2,953 |
| Other operating activities, net | (2,417) | (2,052) | (1,725) |
| Total adjustments | (209,046) | (154,945) | (104,448) |
| Net cash used in operating activities | (1,219) | (2,942) | (37) |
| **Cash Flows from Investing Activities** | | | |
| Dividends received from the Bank | 106,000 | 77,800 | 57,000 |
| Net cash provided by investing activities | 106,000 | 77,800 | 57,000 |
| **Cash Flows from Financing Activities** | | | |
| Cash dividends on common stock | (95,352) | (65,966) | (57,047) |
| Proceeds from exercise of stock options | 2,215 | 1,701 | 2,683 |
| Repurchase of common stock | (2,640) | (7,760) | (1,128) |
| Net cash used in financing activities | (95,777) | (72,025) | (55,492) |
| **Net increase in cash and cash equivalents** | 9,004 | 2,833 | 1,471 |
| **Cash and cash equivalents, beginning of period** | 22,050 | 19,217 | 17,746 |
| **Cash and cash equivalents, end of period** | $ 31,054 | $ 22,050 | $ 19,217 |

## 26. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth our unaudited, quarterly results for the periods indicated.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, | September 30, | June 30, | March 31, |
| | | (Dollars in thousands, except per share amounts) | | |
| **2019** | | | | |
| Net interest income | $ 107,020 | $ 108,159 | $ 111,057 | $ 109,536 |
| Provision for loan losses | - | 1,500 | 2,000 | 1,500 |
| Net earnings | 51,281 | 50,423 | 54,481 | 51,642 |
| Basic earnings per common share | 0.37 | 0.36 | 0.39 | 0.37 |
| Diluted earnings per common share | 0.37 | 0.36 | 0.39 | 0.37 |
| **2018** | | | | |
| Net interest income | $ 113,016 | $ 92,820 | $ 72,688 | $ 70,521 |
| Provision for (recapture of) loan losses | 3,000 | 500 | (1,000) | (1,000) |
| Net earnings | 43,159 | 38,558 | 35,373 | 34,913 |
| Basic earnings per common share | 0.31 | 0.30 | 0.32 | 0.32 |
| Diluted earnings per common share | 0.31 | 0.30 | 0.32 | 0.32 |

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
CVB Financial Corp.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of CVB Financial Corp. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of earnings and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 2, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Basis for Opinion*

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 audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Assessment of the allowance for loan losses for loans collectively evaluated for impairment*

As discussed in Note 3 and Note 6 to the consolidated financial statements, the Company records an allowance for loan losses related to loans collectively evaluated for impairment (general allowance). At December 31, 2019, the Company's general allowance was $68.2 million of a total allowance for loan

losses of $68.7 million. The Company's general allowance methodology is based on historical loss factors which includes determining the average historical loss experience over an established look back period at a loan segment level. Historical loss factors are applied based on loan risk ratings and are adjusted for applicable loss emergence periods. Historical loss factors are also adjusted for qualitative factors. The qualitative factors consider all known relevant internal and external factors that may affect the collectability of a loan.

We identified the assessment of the development and estimation of the general allowance as a critical audit matter because complex auditor judgment and industry knowledge and experience were required to evaluate (1) the estimation of historical loss factors and the determination of key assumptions, which included the loss emergence periods, the through-the-cycle look back period, and loan segments; (2) the determination of loan risk ratings; and (3) the estimation of qualitative factors.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the development and approval of the general allowance methodology, including its key assumptions and the framework for estimating qualitative factors. We evaluated the Company's process for estimating the general allowance, including the determination of key assumptions and qualitative factors. We involved professionals with specialized industry knowledge and experience in credit risk who assisted in:

- assessing the general allowance methodology for compliance with U.S. generally accepted accounting principles,
- evaluating the key assumptions related to loss emergence period, through-the-cycle look back period and loan segmentation,
- evaluating loan risk ratings for a selection of loans, and
- evaluating the framework used to develop the qualitative factors.

/s/ KPMG LLP

We have served as the Company's auditor since 2007.

Los Angeles, California
March 2, 2020

## Description of CVB Financial Corp.'s Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934

The following is a summary description of CVB Financial Corp.'s Common Stock. This description is not complete and is qualified in its entirety by reference to the provisions of our Articles of Incorporation, as amended ("articles of incorporation"), and Amended and Restated Bylaws ("bylaws"), each of which is incorporated herein by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.2 is a part, and the applicable provisions of the California General Corporation Law.

### Common Stock

#### *General*

Our articles of incorporation provide the authority to issue 225,000,000 shares of common stock, no par value per share. At December 31, 2019, there were 140,102,480 shares of common stock issued and outstanding,

Each share of our common stock has the same relative rights and is identical in all respects to each other share of our common stock. The common stock has no preemptive, conversion or redemption rights or sinking fund provisions. Each outstanding share of CVB common stock is fully paid and nonassessable.

#### *Voting Rights*

On any matter submitted to a vote of the shareholders, holders of common stock are entitled to one vote, in person or by proxy, for each share of common stock held of record in the shareholder's name on our books as of the record date. In connection with the election of directors, which are elected by a plurality of votes, the shares may be voted cumulatively. Cumulative voting allows each shareholder to give one nominee as many votes as is equal to the number of directors to be elected, multiplied by the number of shares owned, or to distribute the shareholder's votes in the same fashion between two or more nominees.

#### *Liquidation Rights*

The holders of our common stock and the holders of any class or series of stock entitled to participate with the holders of our common stock as to the distribution of assets in the event of any liquidation, dissolution or winding up of us, whether voluntary or involuntary, will become entitled to participate equally in the distribution of any of our assets remaining after we have paid, or provided for the payment of, all of our debts and liabilities and after we have paid, or set aside for payment, to the holders of any class of stock having preference over the common stock in the event of liquidation, dissolution or winding up, the full preferential amounts, if any, to which they are entitled.

#### *Dividends*

Holders of our common stock are entitled to receive dividends if, as and when declared by our board of directors out of any funds legally available for dividends. As a holding company, our ability to pay distributions is affected by the ability of our bank subsidiary to pay dividends. The ability of our bank subsidiary, and our ability, to pay dividends in the future is, and could in the future be further, influenced by bank regulatory requirements and capital guidelines.

It is the Federal Reserve Board's policy that bank holding companies should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. In addition, a bank holding company may be unable to pay dividends on its common stock if it fails to maintain an adequate capital conservation buffer under the applicable capital rules.

The bank is a legal entity that is separate and distinct from its holding company. CVB relies on dividends received from the bank for use in its operation and the ability of it to pay dividends to shareholders. Future cash dividends by the bank will also depend upon management's assessment of future capital requirements, contractual restrictions and other factors.

The ability of the bank to declare a cash dividend to CVB is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank's retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the Commissioner of the California Department of Business Oversight (the "DBO"), in an amount not exceeding the greatest of (1) retained earnings of the bank; (2) the net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year.

**Preferred Stock** We are authorized to issue 20,000,000 shares of preferred stock, no par value per share, none of which are issued and outstanding as of December 31, 2019. Our articles of incorporation, subject to limitations prescribed in such articles and subject to limitations prescribed by California law, authorize the board of directors, from time to time by resolution and without further shareholder action, to provide for the issuance of shares of preferred stock, in one or more series, and to fix the designation, powers, preferences and other rights of the shares and to fix the qualifications, limitations and restrictions thereof.

**Anti-Takeover Effects of Certain Provisions of Our Charter Documents and Law**

The following is a summary of certain provisions of law, our articles of incorporation and bylaws that may have the effect of discouraging, delaying or preventing a change of control, change in management or an unsolicited acquisition proposal that a shareholder might consider favorable, including proposals that might result in the payment of a premium over the market price for the shares held by our shareholders. This summary does not purport to be complete and is qualified in its entirety by reference to the laws and documents referenced.

With respect to our charter documents a while such provisions might be deemed to have some “anti-takeover” effect, the principal effect of these provisions is to protect our shareholders generally and to provide our board of directors and shareholders a reasonable opportunity to evaluate and respond to such unsolicited acquisition proposals.

***Charter Documents***

Our authorized shares of common stock or preferred stock may be used by the board of directors consistent with its fiduciary duty to deter future attempts to gain control of us. The board of directors also has sole authority to determine the terms of any one or more series of preferred stock, including voting rights, conversion rates and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, the board of directors has the power, to the extent consistent with its fiduciary duty, to issue a series of preferred stock to persons friendly to management in order to attempt to block a post-tender offer merger or other transaction by which a third party seeks control, and thereby assist management to retain its position. In addition, our bylaws impose certain advance notice and information requirements in connection with the nomination by shareholders of candidates for election to the board of directors or the proposal by shareholders of business to be acted upon at any annual or special meeting of shareholders

***California and Federal Banking Law***

The following discussion is a summary of certain provisions of California and federal law and regulations which may be deemed to have “anti-takeover” effects. The description of these provisions is necessarily general and reference should be made to the actual law and regulations.

Federal law prohibits a person or group of persons “acting in concert” from acquiring “control” of a bank holding company unless the Federal Reserve Board has been given prior written notice of such proposed acquisition and within that time period the Federal Reserve has not issued a notice disapproving the proposed acquisition or extending for up to another statutory period during which such a disapproval may be issued. An acquisition may be made prior to the expiration of the disapproval period if the Federal Reserve issues written notice of its intent not to disapprove the action. Whether or not a party is presumed to have controlling influence over a bank holding company depends on, among other things, its percentage of voting ownership, the number of director representatives such party has and overall business relationships with the bank holding company.

Under the California Financial Code, no person shall, directly or indirectly, acquire control of a California state bank or its holding company unless the Commissioner of the DBO has approved such acquisition of control. A person would be deemed to have acquired control of our bank if such person, directly or indirectly, has the power (1) to vote 25% or more of the voting power of the bank, or (2) to direct or cause the direction of the management and policies of the bank. For purposes of this law, a person who directly or indirectly owns or controls 10% or more of our outstanding common stock would be presumed under California law, to control the bank.

Exhibit 21

***Subsidiaries of the Registrant***

| **Name** | **Jurisdiction of Incorporation** |
| --- | --- |
| Citizens Business Bank | California |
| Chino Valley Bancorp (Inactive) | California |
| CVB Statutory Trust III | Connecticut |

**Exhibit 23**

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors
CVB Financial Corp.:

We consent to the incorporation by reference in the registration statements (No. 333-151755, 333-150017, 333-150016, and 333-225173) on Form S-8 of CVB Financial Corp. of our reports dated March 2, 2020, with respect to the consolidated balance sheets of CVB Financial Corp. as of December 31, 2019 and 2018, the related consolidated statements of earnings and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of CVB Financial Corp.

/s/ KPMG LLP

Los Angeles, California
March 2, 2020

Exhibit 31.1

**CERTIFICATION**

I, Christopher D. Myers, certify that:

1. I have reviewed this Annual Report on Form 10-K of CVB Financial Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

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

Exhibit 31.2

**CERTIFICATION**

I, E. Allen Nicholson, certify that:

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

Date: March 2, 2020

By: /s/ E. Allen Nicholson
E. Allen Nicholson
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION**

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

In connection with the Annual Report of CVB Financial Corp. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher D. Myers, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

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

Date: March 2, 2020

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

Exhibit 32.2

**CERTIFICATION**

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

In connection with the Annual Report of CVB Financial Corp. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, E. Allen Nicholson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

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

Date: March 2, 2020

By: /s/ E. Allen Nicholson
E. Allen Nicholson
Chief Financial Officer