Table of Contents

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, 2020
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	**95-3629339**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
701 N. Haven Avenue, Suite 350 **Ontario, California**	**91764**
(Address of Principal Executive Offices)	(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	☐		

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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, 2020, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $2,400,051,983.

Number of shares of common stock of the registrant outstanding as of February 12, 2021: 135,873,607.

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, 2020	Part III of Form 10-K

CVB FINANCIAL CORP.

2020 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Cautionary Note Regarding Forward-Looking Statements

Certain matters set forth in this Annual Report on Form 10-K (including the exhibits hereto) constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including forward-looking statements relating to the Company's current business plans, financial performance, expectations and our future financial position and operating results. 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 are subject to risks and uncertainties that could cause actual results, performance and/or achievements to differ materially from those projected. These risks and uncertainties include, but are not limited to the following:

- *local, regional, national and international economic and market conditions, political events and public health developments 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 credit 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 or cost savings associated with any such mergers, acquisitions or dispositions;*
- *the effects of new laws, regulations and/or government programs, including those laws, regulations and programs enacted by federal, state or local governments in the geographic jurisdictions in which we do business in response to the current national emergency declared in connection with the COVID-19 pandemic;*
- *the impact of the federal CARES Act, the Consolidated Appropriations Act, and the significant additional lending activities undertaken by the Company in connection with the Small Business Administration's Paycheck Protection Program enacted and extended under those statutes, including risks to the Company with respect to the uncertain application by the Small Business Administration of new borrower and loan eligibility, forgiveness and audit criteria;*
- *the effects of the Company's participation in one or more of the lending programs established by the Federal Reserve in 2020, including the Main Street New Loan Facility, the Main Street Priority Loan Facility and the Nonprofit Organization New Loan Facility, and the impact of any related actions or decisions by the Federal Reserve Bank of Boston and its special purpose vehicle established pursuant to such lending programs;*
- *the effect of changes in other pertinent laws, regulations and applicable judicial decisions (including laws, regulations and judicial decisions concerning financial reforms, taxes, bank capital levels, allowance for credit 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 technology) with which we and our subsidiaries must comply or believe we should comply or which may otherwise impact us;*
- *changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant regulatory and accounting standards, including changes in the Basel Committee framework establishing capital standards for bank credit, operations and market risks;*
- *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 currently expected credit losses or delinquencies;*

- *the sensitivity of our assets and liabilities to changes in market interest rates, or our current allowance for credit losses;*
- *inflation, changes in market interest rates, securities market and monetary fluctuations;*
- *changes in government-established interest rates, reference rates or monetary policies, including the possible imposition of negative interest rates on bank reserves;*
- *the impact of the anticipated phase-out of the London Interbank Offered Rate (LIBOR) on interest rate indexes specified in certain of our customer loan agreements and our interest rate swap arrangements, including any economic and compliance effects related to the expected change from LIBOR to an alternative reference rate;*
- *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 public health, physical site access and/or communications facilities;*
- *cyber incidents, attacks, infiltrations, exfiltrations, or theft or loss of Company or 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, climate changes or extreme weather events, that may affect electrical, environmental, computer servers, and communications or other services, computer services or facilities we use, or that may affect our customers, employees or third parties with whom we conduct business;*
- *our timely development and implementation of new banking products and services and the perceived overall value of these products and services by customers and potential customers;*
- *the Company's relationships with and reliance upon outside vendors with respect to certain of the Company's key internal and external systems, 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 and financial services (including the adoption of mobile banking, funds transfer applications, electronic marketplaces for loans, block-chain technology and other banking products, systems or services);*
- *our ability to retain and increase market share, to retain and grow customers and to control expenses;*
- *changes in the competitive environment among banks and other financial services 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 capital, assets, liabilities, or 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 our regulatory agencies, 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 recruit, retain, expand or contract our workforce, management team, key executive positions and/or our board of directors;*
- *our ability to identify suitable and qualified replacements for any of our executive officers who may leave their employment with us, including our Chief Executive Officer, or to fill any key employment vacancies;*
- *the costs and effects of legal, compliance and regulatory actions, changes and developments, including the initiation and resolution of legal proceedings (including any securities, lender liability, bank operations, financial product or service, data privacy, health and safety, 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 Department of Financial Protection and Innovation (DFPI);*
- *our success at managing the risks involved in the foregoing items; and*

- *all other factors set forth in the Company's public reports, including our Annual Report on Form 10-K for the year ended December 31, 2020, and particularly the discussion of risk factors within this document.*

Among other risks, the ongoing COVID-19 pandemic may significantly affect the banking industry, the health and safety of the Company's employees, and the Company's business prospects. The ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the impact on the economy, our customers, our employees and our business partners, the safety, effectiveness, timely distribution and acceptance of vaccines developed to mitigate the pandemic, and actions taken by governmental authorities in response to the pandemic.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances 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, 2020, the Company had $14.42 billion in total consolidated assets, $8.26 billion in net loans, $11.74 billion in deposits, and $2.01 billion in shareholders' equity.

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, 2020, the Bank had $14.41 billion in assets, $8.26 billion in net loans, $11.79 billion in deposits, and $1.99 billion in total equity.

As of December 31, 2020, the Bank had 57 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 markets we serve.

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

We 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. We also offer borrowers the ability to enter into interest rate swaps. 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 treasury management systems for monitoring and managing cash flow, a merchant card processing program, armored pick-up and delivery, payroll services, remote deposit capture, electronic funds transfers, 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.

Human Capital

We employed 1,052 associates as of December 31, 2020. This was a 3% decrease from December 31, 2019. Our Code of Personal and Business Conduct and Ethics ("Code") addresses both business and social relationships that may present legal and ethical concerns and also sets forth a code of conduct to guide the members of the Board of Directors and associates. Our associates acknowledge annually they have read and understood their responsibility to conduct business in accordance with the highest ethical standards in order to merit and maintain the confidence and trust of our customers and the public in general.

The Company promotes Five Core Values that we believe provides a continuing commitment and direction to our business activities and our underlying culture. These core values are fundamental to the Company's performance and strategy.

Our Five Core Values are:

1) Financial Strength;
2) Superior People;
3) Customer Focus;
4) Cost-Effective Operation; and
5) Having Fun.

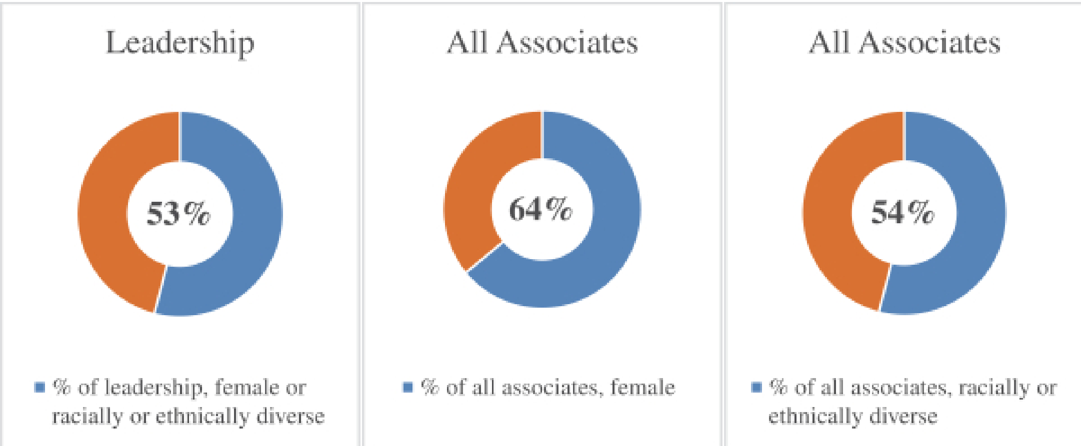
The Company's Citizens Experience Service Awards and Recognition Program resulted in 302 nominations of associates who were recognized for exemplifying our Five Core Values in 2020. In addition, the Company has a long held tradition of an annual awards program that recognizes outstanding job performance. In 2020, we held a virtual awards ceremony that recognized 33 associates, who stood out for their commitment to our high standards of performance.

Table of Contents

The Company is committed to supporting the physical and financial wellness of our associates and their families. We offer a comprehensive set of health insurance and retirement benefits, as well as wellness programs and resources. As of December 2020, 88% of our associates were enrolled in our medical insurance plans and 43% of our associates participated in at least one wellness activity during 2020. The Company makes an annual 401(k) retirement contribution to all eligible associates, which includes a profit sharing component. For 2020, the combined Company 401(k) contribution was 5% of associate's eligible salary. In addition, 93% of our associates made individual participant contributions to the 401(k) plan during 2020. During 2020, with oversight by the Company's Business Continuity Committee, we took numerous actions to promote the health and safety of our associates during the COVID-19 pandemic. These actions included certain individual protocols such as required facial coverings, social distancing, daily temperature taking and virus testing. We also enhanced the daily cleaning of our workspaces and provided greater opportunities for our associates to work remotely where possible.

Recruiting, training and development, and retention of key associates is vital to the Company's strategy and success. The Company promotes leadership and associate development through various programs, including succession planning, top talent program, and leadership essentials training. At December 31, 2020, we had approximately 140 positions within the Company designated as "leadership" positions. This represents approximately 13% of our total associates. The average tenure at the Company among our leadership group at the end of 2020 was 10 years. In 2020, turnover among our leadership group was less than 10% and during the year we promoted 6 associates and hired 5 new associates into our leadership group.

The Company's Diversity and Inclusion Program is designed to invest in the professional development of our associates and values an inclusive and diverse workplace. We strive to reward talent, with a commitment to equal opportunity. Oversight is provided by the Company's Diversity and Inclusion Committee, which is guided by our Diversity and Inclusion Policy. The Policy provides a framework which we use to create and strengthen our diversity policies and practices, including our organizational commitment to diversity, positive workforce and employment practices, sound procurement and business practices, and practices to promote transparency of organizational diversity and inclusion. The Diversity and Inclusion Committee is co-chaired by our Chief Operations Officer and Human Resources Director and includes our Chief Financial Officer, Chief Risk Officer, and General Counsel. We monitor progress in enhancing diversity throughout our organization, including the percentage of our total associates who are female and racially or ethnically diverse. Our Human Resources Director provides updates on our progress to the Board of Directors on a regular basis. The following represents the Company's diversity at December 31, 2020:



In addition, 40% of our Board of Directors are female or ethnically diverse.

The Board of Directors oversees executive compensation, as well as the Company's compensation and benefit plans, through the Board's Compensation Committee. The Management Compensation Compliance Committee, under the direction of the Compensation Committee, identifies, assesses, and manages exposure to and compliance with applicable compensation laws, regulations, and other related issues. In general, the Management Compensation Compliance Committee is responsible for ensuring that the Company has designed and implemented risk management processes that (1) evaluate the nature of inherent risks in compensation programs; (2) are consistent with the Company's strategic plan; and (3) foster a culture of risk-awareness and risk-adjusted decision making throughout the Company. All of our associates are eligible for incentive compensation awards. For 2020, 92% of our associates earned an incentive bonus. In addition, we paid all eligible associates a "Thank You" Award in July of 2020, which totaled approximately $1.1 million. This award was in recognition of our associates commitments and efforts as essential workers to support our customers and communities during the pandemic.

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, blockchain and cryptocurrency companies, money market funds, credit unions, and other nonbank financial service providers, including online banks and "peer-to-peer" or "marketplace" payment processors, FinTech companies, 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. 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 under 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 President Trump 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. The scope and breath of regulatory changes that will occur as a result of the election of President Biden have yet to be 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. Bank holding companies are also required to act as a source of financial strength to their subsidiary banks. Under this policy, the Company must commit resources to support the Bank even when the Company may not be in a financial position to provide it.

Regulatory Capital and Risk-weighted Assets

The Federal Reserve monitors our capital adequacy on a consolidated basis, and the FDIC and the California Department of Financial Protection and Innovation (“DFPI”) 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 DFPI 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 was 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 allowance for credit losses. 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. 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, 2020 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, 2020, see Note 18 — *Regulatory Matters* of the notes to the consolidated financial statements.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2023, with an aggregate output floor phasing in through January 1, 2028. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company and the Bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

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.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

In response to the COVID-19 pandemic, the CARES Act was signed into law on March 27, 2020 to provide national emergency economic relief measures. Many of the CARES Act's programs are dependent upon the direct involvement of U.S. financial institutions, such as the Company and the Bank, and have been implemented through rules and guidance adopted by federal departments and agencies, including the U.S. Department of Treasury, the Federal Reserve and other federal banking agencies, including those with direct supervisory jurisdiction over the Company and the Bank. Furthermore, as the on-going COVID-19 pandemic evolves, federal regulatory authorities continue to issue additional guidance with respect to the implementation, lifecycle, and eligibility requirements for the various CARES Act programs as well as industry-specific recovery procedures for COVID-19. On December 21, 2020, Congress passed, and on December 27, 2020 President Trump signed, a $900 billion aid package which provides additional funds for the PPP and extends the time of the PPP to March 31, 2021. This legislation also permits second PPP loans to certain entities which are subject to forgiveness subject to meeting certain required criteria. In addition, it is possible that Congress will enact supplementary COVID-19 response legislation, including amendments to the CARES Act or new bills comparable in scope to the CARES Act. The Company continues to assess the impact of the CARES Act and other statues, regulations and supervisory guidance related to the COVID-19 pandemic.

Paycheck Protection Program. The CARES Act amended the SBA's loan program, in which the Bank participates, to create a guaranteed, unsecured loan program, the PPP, to fund operational costs of eligible businesses, organizations and self-employed persons during COVID-19. In June 2020, the Paycheck Protection Program Flexibility Act was enacted, which among other things, gave borrowers additional time and flexibility to use PPP loan proceeds. Further, on January 13, 2021, the SBA reopened the PPP for Second Draw loans to small businesses and non-profit organizations that did receive a loan through the initial PPP phase. At least $25 billion has been set aside for Second Draw PPP loans to eligible borrowers with a maximum of 10 employees or for loans of $250,000 or less to eligible borrowers in low or moderate income neighborhoods. Generally speaking, businesses with more than 300 employees and/or less than a 25% reduction in gross receipts between comparable quarters in 2019 and 2020 are not eligible for Second Draw loans. Further, maximum loan amounts have been increased for accommodation and food service businesses.

Troubled Debt Restructuring and Loan Modifications for Affected Borrowers. The CARES Act permits banks to suspend requirements under GAAP for loan modifications to borrowers affected by COVID-19 that would otherwise be characterized as TDRs and suspend any determination related thereto if (i) the loan modification is made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 emergency declaration and (ii) the applicable loan was not more than 30 days past due as of December 31, 2019. The federal banking agencies also issued guidance to encourage banks to make loan modifications for borrowers affected by COVID-19 and to assure banks that they will not be criticized by examiners for doing so. The Company applied this guidance to qualifying loan modifications. See Note 6 — *Loans and Lease Finance Receivables and Allowance for Credit Losses* of the Notes to the consolidated financial statements included in this report, which is included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K for further information about the COVID-19-related loan modifications completed by the Company.

Federal Reserve Programs and Other Recent Initiatives Related to COVID-19

Main Street Lending Program. The CARES Act encouraged the Federal Reserve, in coordination with the Secretary of the Treasury, to establish or implement various programs to help midsize businesses, nonprofits, and municipalities. On April 9, 2020, the Federal Reserve proposed the creation of the Main Street Lending Program ("MSLP") to implement certain of these recommendations. On June 15, 2020, the Federal Reserve Bank of Boston opened the MSLP for lender registration. The MSLP supports lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic. The MSLP operates through five facilities: the Main Street New Loan Facility, the Main Street Priority Loan Facility, the Main Street Expanded Loan Facility, the Nonprofit Organization New Loan Facility, and the Nonprofit Organization Expanded Loan Facility. On July 28, 2020, the Federal Reserve announced it was extending the MSLP through December 31, 2020. The MSLP originally was scheduled to expire on or around September 30, 2020. The MSLP ceased issuing commitment letters under the condition-of-funding model as of December 23, 2020. No loans submitted under the condition-of-funding model can be purchased by the MSLP unless a commitment letter is issued on or before December 23, 2020.

Temporary Regulatory Capital Relief related to Impact of CECL. Concurrent with enactment of the CARES Act, federal banking agencies issued an interim final rule that delays the estimated impact on regulatory capital resulting from the adoption of CECL. The interim final rule provides banking organizations that implement CECL before the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of capital benefit provided during the initial two-year delay. The federal banking agencies have since issued a final rule that makes certain technical changes to the interim final rule. The changes in the final rule apply only to those banking organizations that elect the CECL transition relief provided under the rule. The Company did not elect this option.

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, 2020 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.

Brokered Deposits

The FDIC limits the ability to accept brokered deposits to those insured depository institutions that are well capitalized. Institutions that are less than well capitalized cannot accept, renew or roll over any brokered deposit unless they have applied for and been granted a waiver by the FDIC. The FDIC has defined the “national rate” for all interest-bearing deposits held by less-than-well-capitalized institutions as “a simple average of rates paid by all insured depository institutions and branches for which data are available” and has stated that its presumption is that this national rate is the prevailing rate in any market. As such, institutions that are less than well capitalized that are permitted to accept, renew or rollover brokered deposits via FDIC waiver generally may not pay an interest rate in excess of the national rate plus 75 basis points on such brokered deposits. As of December 31, 2020, the Bank categorized $32.2 million, or 0.27% of its deposit liabilities, as brokered deposits.

The FDIC has previously published industry guidance in the form of Frequently Asked Questions with respect to the categorization of deposit liabilities as brokered deposits. The FDIC published a proposed rule to modify the “national rate” definition that would apply to insured depository institutions that are less than well-capitalized in August 2019. In addition, in December 2019 and in connection with the Regulatory Relief Act, the FDIC published proposed revisions to its regulations relating to the brokered deposits restrictions. Specifically, the FDIC proposed to (i) revise the definition of the “facilitation” prong of the “deposit broker” definition; (ii) provide that a wholly-owned operating subsidiary be eligible for the insured depository institution exception to the deposit broker definition under certain circumstances; and (iii) amend the “primary purpose” exception. On December 15, 2020, the FDIC released a final rule, effective April 1, 2021 (with full compliance by January 1, 2022), which may encourage the update of certain bank services. The changes introduced by the final rule include, among other things, (i) adding definitions of “engaged in the business of placing deposits” and “engaged in the business of facilitating the placement of deposits,” (ii) establishing certain designated business exceptions that would automatically meet the “primary purpose” exception from the deposit broker definition (Designated Business Exceptions), and (iii) formalizing an application process for the “primary purpose” exception for parties that do not qualify for the Designated Business Exceptions. The Company does not believe the final rule will have a material effect on its brokered deposits.

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 certain percentage thresholds of the voting stock being a presumption of control.

Change in Bank Control

Federal law and regulation set forth the types of transactions that require prior notice under the Change in Bank Control Act ("CIBCA"). Pursuant to CIBCA and Regulation Y, any person (acting directly or indirectly) that seeks to acquire control of a bank or its holding company must provide prior notice to the Federal Reserve. A "person" includes an individual, bank, corporation, partnership, trust, association, joint venture, pool, syndicate, sole proprietorship, unincorporated organization, or any other form of entity. A person acquires "control" of a banking organization whenever the person acquires ownership, control, or the power to vote 25 percent or more of any class of voting securities of the institution. The applicable regulations also provide for certain other "rebuttable" presumptions of control.

In April 2020, the Federal Reserve adopted a final rule to revise its regulations related to determinations of whether a company has the ability to exercise a controlling influence over another company for purposes of the BHCA. The final rule expands and codifies the presumptions for use in such determinations. By codifying the presumptions, the final rule provides greater transparency on the types of relationships that the Federal Reserve generally views as supporting a facts-and-circumstances determination that one company controls another company. The Federal Reserve's final rule applies to questions of control under the BHCA, but does not extend to CIBCA or applicable provisions of California law.

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 DFPI. DFPI 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 DFPI 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 DFPI 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 DFPI 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 DFPI 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 DFPI.

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.

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 DFPI, 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 implemented or modified their data breach notification and data privacy requirements including California and New York. 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 Anti-Money Laundering Act of 2020 (“AMLA”), which amends the Bank Secrecy Act of 1970 (“BSA”), was enacted in January 2021. The AMLA is intended to be a comprehensive reform and modernization to U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for BSA compliance; expands enforcement and investigation-related authority, including increasing available sanctions for certain BSA violations and instituting BSA whistleblower incentives and protections.

The Bank received an overall “Satisfactory” rating in its most recent FDIC CRA performance evaluation, which measures how financial institutions support their communities in the areas of lending, investment and service tests. The Bank received a “High Satisfactory” rating for both the lending and the investment tests and an “Outstanding” rating for the service test.

In December 2019, the FDIC and the Office of the Comptroller of the Currency (“OCC”) jointly proposed rules that would significantly change existing CRA regulations. The proposed rules are intended to increase bank activity in low- and moderate-income communities where there is significant need for credit, more responsible lending, greater access to banking services, and improvements to critical infrastructure. The proposals change four key areas: (i) clarifying what activities qualify for CRA credit; (ii) updating where activities count for CRA credit; (iii) providing a more transparent and objective method for measuring CRA performance; and (iv) revising CRA-related data collection, record keeping, and reporting. However, the Federal Reserve Board did not join in that proposed rulemaking. While the OCC issued its final rule, the FDIC has not finalized the revisions to its CRA rule. In September 2020, the Federal Reserve Board issued an Advance Notice of Proposed Rulemaking (“ANPR”) that invites public comment on an approach to modernize the regulations that implement the CRA by strengthening, clarifying, and tailoring them to reflect the current banking landscape and better meet the core purpose of the CRA. The ANPR seeks feedback on ways to evaluate how banks meet the needs of low- and moderate-income communities and address inequities in credit access. As such, we will continue to evaluate the impact of any changes to the regulations implementing the CRA and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

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, such as the Bank. Accordingly, the Bank is subject to CFPB supervision including examination by the CFPB.

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.

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 (which excludes owner-occupied 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, 2020, the Bank's total CRE loan concentration based on total outstanding loans is 254% of risk-based capital; adding unfunded loan commitments, the CRE loan concentration increases to 275% of risk-based capital.

Office of Foreign Assets Control Regulation

The U.S. Treasury Department's Office of Foreign Assets Control ("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 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
David A. Brager	Chief Executive Officer of the Company and the Bank	53
E. Allen Nicholson	Chief Financial Officer of the Company and Executive Vice President and Chief Financial Officer of the Bank	53
David F. Farnsworth	Executive Vice President and Chief Credit Officer of the Bank	64
David C. Harvey	Executive Vice President and Chief Operations Officer of the Bank	53
Richard H. Wohl	Executive Vice President and General Counsel	62
Yamynn DeAngelis	Executive Vice President and Chief Risk Officer	64

Mr. Brager was appointed Chief Executive Officer of the Company and the Bank on March 16, 2020. Mr. Brager's appointment followed the previously announced retirement of Christopher D. Myers, the Company's President and Chief Executive Officer, effective as of March 15, 2020. In addition, Mr. Brager was appointed to the Board of Directors of CVB and the Bank as of March 16, 2020. 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.

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. 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.

Table of Contents

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.

Risks relating to the COVID-19 Pandemic

The COVID-19 pandemic has significantly impacted the banking industry and our business. The ultimate impact on our business and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic has negatively impacted the global, U.S., California and local economies, disrupted supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and sharply increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including in California and the principal counties and cities in which our banking centers are located. Our operations, like those of other financial institutions that operate in our markets, are significantly influenced by economic conditions in California, including the strength of the real estate market and business conditions in the industries to which we lend or from which we gather deposits. The COVID-19 pandemic has resulted in a substantial decline in the revenues of many business sectors as well as in commercial and residential property sales and construction activities. As a result, the demand for our products and services has been, and may continue to be, significantly impacted.

Furthermore, the pandemic could further influence the recognition of credit losses in our loan portfolios and further increase our allowance for credit losses, particularly as many businesses remain closed or partially open. Our customers could be expected to draw further on their lines of credit or to seek deferments of scheduled loan payments to help mitigate the effects of lost revenues. We implemented CECL, for determining our overall provision for credit losses, at the beginning of the first quarter of 2020. For the year ended December 31, 2020, our allowance for credit losses increased by $23.5 million in provision for credit losses, primarily due to the forecasted impact of COVID-19 on certain economic variables that may cause distress to our loan portfolios. In addition, through January 15, 2021 we have temporary payment deferments of interest or of principal and interest to customers for six loans, with a gross balance of $10 million, or 0.12% of our total loan portfolio at December 31, 2020. Depending on the scope and duration of the COVID-19 pandemic, we believe there is a possibility that increased provisions for credit losses could prove necessary in the future.

Similarly, because of changing economic and market conditions affecting bond issuers, we may be required to recognize credit losses in future periods on the securities we hold as well as reductions in other comprehensive income. Our business operations may also be disrupted if significant or critical portions of our workforce or managers are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. In response to the pandemic, and to comply with or follow various government recommendations or mandates, we have also suspended certain real property foreclosure actions and sales, and in certain instances, we are providing fee waivers, payment deferrals, and other expanded assistance for our business and mortgage customers. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

Our bank has elected to participate as a lender in the Small Business Administration's Paycheck Protection Program (PPP) and to register as an Eligible Lender under the Federal Reserve's Main Street Lending Program (MSLP), and has accordingly become subject to a number of significant risks applicable to lenders under the PPP and MSLP, respectively.

As one set of responses to the COVID-19 pandemic, our federal, state and local governments have promulgated a wide variety of laws, regulations, executive orders and programs designed to ameliorate the severe and widespread economic distress caused by the mandatory closings of many businesses throughout the State of California and counties in which we operate. One such program is the PPP enacted under the federal CARES Act. This program is designed, among other things, to provide employee payroll maintenance support for small and medium-sized businesses throughout the United States, including in the State of California, through loans made by authorized lenders and guaranteed by the federal Small Business Administration (SBA). Because the Company is an authorized SBA lender and our primary customer base consists of small and medium-sized businesses, the Company has actively participated in the PPP. Including the second round of funding, after legislation passed on April 24, 2020, we originated and funded approximately 4,100 PPP loans totaling approximately $1.10 billion, of which $883.0 million was outstanding at December 31, 2020. On January 13, 2021, the SBA reopened the PPP for Second Draw loans to small businesses and non-profit organizations that did receive a loan through the initial PPP phase. At least $25 billion has been set aside for Second Draw PPP loans to eligible borrowers with a maximum of 10 employees or for loans of $250,000 or less to eligible borrowers in low or moderate income neighborhoods. Generally speaking, businesses with more than 300 employees and/or less than a 25% reduction in gross receipts between comparable quarters in 2019 and 2020 are not eligible for Second Draw loans. Further, maximum loan amounts have been increased for accommodation and food service businesses. Recently, the Bank began accepting applications for the second round of PPP loans. As of January 25, 2021, we have received approximately 1,400 applications totaling $340 million.

Under interim final regulations promulgated by the SBA, PPP lenders are entitled to rely on borrower certifications with respect to issues such as program eligibility and eligible loan amounts, and PPP loans are designed to be subsequently forgivable, in whole or part, if certain additional criteria are met by the borrower with respect to employee payroll maintenance. However, in view of the fact that the PPP was by design intended to support economically distressed businesses, the SBA's guarantee of PPP loan amounts to participating lenders is a critical feature of the program. In this regard, because the PPP was quickly implemented into operation and the SBA's interim regulations have been repeatedly revised and are continuing to evolve, there are significant risks to the Company's participation in the PPP, including whether certain borrowers will ultimately be found to have been eligible for PPP loans, whether eligible PPP loan amounts for certain borrowers were correctly calculated, whether certain PPP loans will ultimately be determined to be forgivable, and if not, whether the SBA's guarantee will continue to apply to any unforgiven PPP loan amounts. As of January 15, 2021, approximately 1,100 loans, representing nearly $260 million, were submitted to the SBA and granted forgiveness. To date, our customers who have had their forgiveness requests reviewed by the SBA have received 100% loan forgiveness.

Another program enacted pursuant to the federal CARES Act and designed to help provide support to small and medium-sized businesses and their employees throughout the U.S., including California, is the Federal Reserve's MSLP. The Company has elected to participate as an Eligible Lender under at least three sub-facilities of the MSLP, including the Main Street New Loan Facility, the Main Street Priority Loan Facility and the Nonprofit Organization New Loan Facility. Each of these lending facilities offers different terms and conditions, including with respect to borrower eligibility criteria, maximum loan amounts, whether loan proceeds can be utilized to refinance borrower indebtedness to other lenders, contractual priority, non-subordination and collateralization requirements, etc. Eligible Lenders may extend new MSLP loans to eligible borrowers and sell a 95% participation in each MSLP loan to a special purpose vehicle established by the Federal Reserve Bank of Boston ("Main Street SPV"), subject to numerous borrower and lender certifications and covenants and the terms of a Loan Participation Agreement and a Servicing Agreement.

In contrast to the PPP, loans under the MSLP are not forgivable, carry an adjustable rate of interest at LIBOR (one or three month) plus 300 basis points, require the payment of specified fees, and must be repaid in full at the end of a five-year maturity period, with principal repayment commencing after a deferment period consisting of the first two years following loan origination. In addition, Eligible Lenders must retain five percent of each MSLP loan and continue to service such loan until it matures or the Main Street SPV sells all of its 95% participation interest. In this regard, because the MSLP is a newly constituted program without any established operating history, there are significant risks to the Company's participation in the MSLP, including whether certain borrowers will ultimately be found to have been eligible for MSLP loans, whether the numerous required lender and borrower certifications will be found to have been made in good faith, whether the borrower will remain in compliance with the terms and conditions of its MSLP loan throughout its applicable term, whether any given lender or MSLP loan will be found to have been in compliance with the terms of the Main Street SPV's Loan Participation Agreement and/or Servicing Agreement, and whether any individual MSLP loan will be repaid by the borrower on schedule, and, if not, whether the Main Street SPV will seek recourse against the originating lender. As of December 31, 2020, we originated three loans under this program.

Credit Risks

Our allowance for credit 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 credit 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 credit losses is appropriate to cover expected losses, we cannot assure you that we will not increase the allowance for credit losses further or that regulators will not require us to increase this allowance.

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, 2020, we recorded $23.5 million in loan loss provision. During 2020 we experienced charge-offs of $666,000 and recoveries of $358,000. 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, 2020, we had $5.50 billion in commercial real estate loans, $85.1 million in construction loans, and $270.5 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, 2020, approximately 4.4% of our total gross loan portfolio was comprised of dairy & livestock and agribusiness loans. As of December 31, 2020, we had $361.1 million in dairy & livestock and agribusiness loans, including $320.1 million in dairy & livestock loans and $41.0 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.

Our loan portfolio is predominantly secured by real estate in California 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 and Interest Rate Risks

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, 2020 was $2.98 billion, of which $2.40 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, 2020 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. Loan origination volumes may be affected by changes in market interest rates. In addition, 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 Company established a LIBOR Transition Task Force in 2020, which has inventoried our instruments that reflect exposure to LIBOR, created a framework to manage the transition and established a timeline for key decisions and actions to complete the transition from LIBOR in 2021. 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.

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 Community Bank. 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, including by our own employees, 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.

Table of Contents

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 Chief Executive Officer, and certain other employees.

Changes in stock market prices could reduce fee income from our brokerage, asset management and investment advisory businesses

We earn 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.

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 expected credit 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 expected credit losses are inadequate, the allowance for credit 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. 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 or the allowance for credit losses 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.

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 new U.S. administration could have a material effect on our business and results of operations.

New legislation, regulatory reform or policy changes under the new U.S. administration led by President Biden, including financial services regulatory reform, enforcement priorities, 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 acquisition of Community Bank in 2018, 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.

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, including the FDIC, FRB, DFPI and CFPB, 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 or consumer protection, 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.

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.

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%. 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 investigations, 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 investigations or 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 a government agency or private 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 government or 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. . 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.

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;
- fraud losses or data or privacy breaches; or
- domestic and international economic factors, whether related or unrelated to the Company's performance.

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 Statements". 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.

Our common stock is subordinate to our existing and future indebtedness and preferred stock.

Shares of our common stock are equity interests and do not constitute indebtedness. As such, our common stock ranks junior to all our customer deposits and indebtedness, whether now existing or hereafter incurred, and other non-equity claims on us, with respect to assets available to satisfy claims. Additionally, holders of common stock are subject to the prior liquidation rights of the holders of any debt we may issue in the future and may be subject to the prior dividend and liquidation rights of any series of preferred stock we may issue in the future.

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 DFPI 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.

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, 2020, the Bank occupied a total of 60 premises consisting of (i) 57 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 15 of these locations and the remaining properties are leased under various agreements with expiration dates ranging from 2020 through 2028. 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 claims, regulatory compliance claims, data privacy claims, 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 additional information concerning legal proceedings, see Note 14 *Commitments and Contingencies* of the Notes to the consolidated financial statements included in this report.

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 and regulations 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 135,873,607 shares of common stock outstanding with 1,573 registered shareholders of record as of February 12, 2021.

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

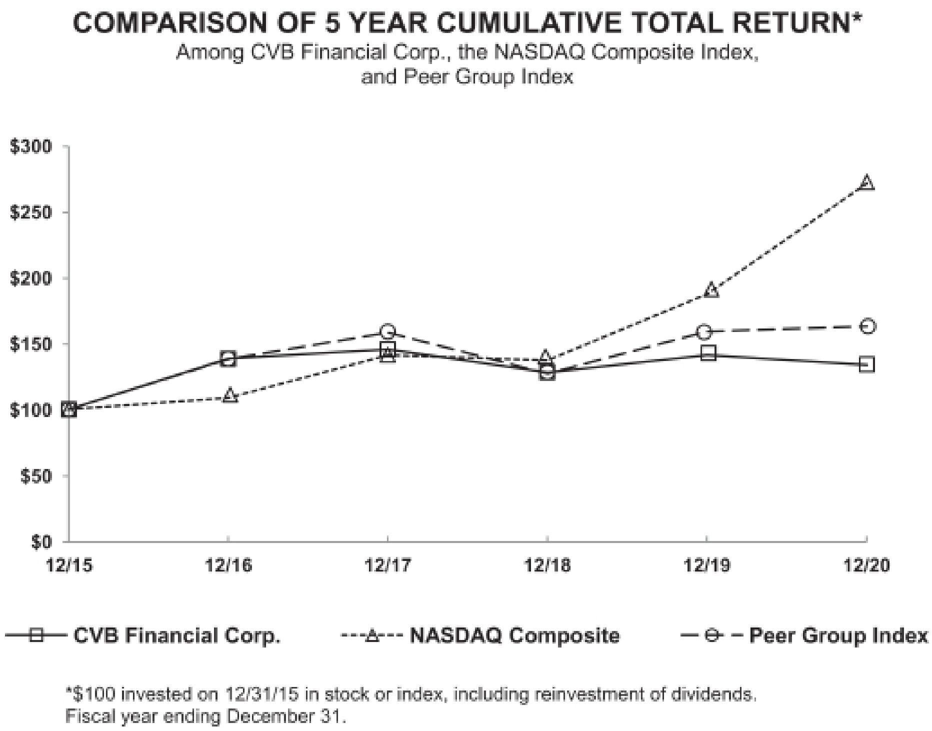
On August 11, 2016, our Board of Directors approved a program to repurchase up to 10,000,000 shares of CVB common stock in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal considerations. There is no expiration date for this repurchase program. For the year ended December 31, 2020, the Company repurchased 4,944,290 shares of CVB common stock outstanding under this program. During the fourth quarter ended December 31, 2020, the Company did not repurchase any shares of common stock under this program. As of December 31, 2020, we have 4,585,145 shares of CVB common stock remaining that are eligible for repurchase under the common stock repurchase program.

Table of Contents

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, 2015, and reinvestment of dividends through December 31, 2020. 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, 2015
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DECEMBER 31, 2020

Company/Market/Peer Group	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
CVB Financial Corp.	100.00	138.47	145.52	128.08	141.16	133.78
NASDAQ Composite	100.00	108.87	141.13	137.12	187.44	271.64
Peer Group Index	100.00	138.17	158.23	127.37	159.28	163.05

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

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.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands, except per share amounts)				
Interest income	$ 430,337	$ 457,850	$ 361,860	$ 287,226	$ 265,050
Interest expense	14,284	22,078	12,815	8,296	7,976
Net interest income before provision for (recapture of) credit losses	416,053	435,772	349,045	278,930	257,074
Provision for (recapture of) credit losses	23,500	5,000	1,500	(8,500)	(6,400)
Net interest income after provision for (recapture of) credit losses	392,553	430,772	347,545	287,430	263,474
Noninterest income	49,870	59,042	43,481	42,118	35,552
Noninterest expense	192,903	198,740	179,911	140,753	136,740
Earnings before income taxes	249,520	291,074	211,115	188,795	162,286
Income taxes	72,361	83,247	59,112	84,384	60,857
Net Earnings	$ 177,159	$ 207,827	$ 152,003	$ 104,411	$ 101,429
Basic earnings per common share	$ 1.30	$ 1.48	$ 1.25	$ 0.95	$ 0.94
Diluted earnings per common share	$ 1.30	$ 1.48	$ 1.24	$ 0.95	$ 0.94
Cash dividends declared per common share	$ 0.72	$ 0.72	$ 0.56	$ 0.54	$ 0.48
Dividend pay-out ratio (1)	55.13%	48.57%	46.19%	56.97%	51.12%
Weighted average common shares:					
Basic	136,030,613	139,757,355	121,670,113	109,409,301	107,282,332
Diluted	136,206,210	139,934,211	121,957,364	109,806,710	107,686,955
Common Stock Data:					
Common shares outstanding at year end	135,600,501	140,102,480	140,000,017	110,184,922	108,251,981
Book value per share	$ 14.81	$ 14.23	$ 13.22	$ 9.70	$ 9.15
Financial Position:					
Assets	$ 14,419,314	$ 11,282,450	$ 11,529,153	$ 8,270,586	$ 8,073,707
Investment securities	2,977,549	2,414,709	2,478,525	2,910,875	3,182,142
Net loans (2)	8,255,116	7,495,917	7,700,998	4,771,046	4,333,524
Deposits	11,736,501	8,704,928	8,827,490	6,546,853	6,309,680
Borrowings	444,406	428,659	722,255	553,773	656,028
Junior subordinated debentures	25,774	25,774	25,774	25,774	25,774
Stockholders' equity	2,007,990	1,994,098	1,851,190	1,069,266	990,862
Equity-to-assets ratio (3)	13.93%	17.67%	16.06%	12.93%	12.27%
Financial Performance:					
Return on average equity (ROAE)	8.90%	10.71%	11.00%	9.84%	10.26%
Return on average assets (ROAA)	1.37%	1.84%	1.60%	1.26%	1.26%
Net interest margin, tax-equivalent (TE) (4)	3.59%	4.36%	4.03%	3.63%	3.46%
Efficiency ratio (5)	41.40%	40.16%	45.83%	43.84%	46.73%
Noninterest expense to average assets	1.49%	1.76%	1.89%	1.70%	1.70%
Credit Quality:					
Allowance for credit losses	$ 93,692	$ 68,660	$ 63,613	$ 59,585	$ 61,540
Allowance/total loans	1.12%	0.91%	0.82%	1.23%	1.40%
Total nonaccrual loans	$ 14,347	$ 5,277	$ 19,951	$ 10,716	$ 7,152
Nonaccrual loans/total loans, net of deferred loan fees	0.17%	0.07%	0.26%	0.22%	0.16%
Allowance/nonaccrual loans	653.04%	1301.12%	318.85%	556.04%	860.46%
Net (charge-offs) recoveries/average loans	-0.004%	0.001%	0.04%	0.14%	0.21%
Regulatory Capital Ratios:					
Company:					
Tier 1 leverage ratio	9.90%	12.33%	10.98%	11.88%	11.49%
Common equity Tier 1 risk-based capital ratio	14.77%	14.83%	13.04%	16.43%	16.48%
Tier 1 risk-based capital ratio	15.06%	15.11%	13.32%	16.87%	16.94%
Total risk-based capital ratio	16.24%	16.01%	14.13%	18.01%	18.19%
Bank:					
Tier 1 leverage ratio	9.58%	12.19%	10.90%	11.77%	11.36%
Common equity Tier 1 risk-based capital ratio	14.57%	14.94%	13.22%	16.71%	16.76%
Tier 1 risk-based capital ratio	14.57%	14.94%	13.22%	16.71%	16.76%
Total risk-based capital ratio	15.75%	15.83%	14.03%	17.86%	18.01%

(1) Dividends declared on common stock divided by net earnings.
(2) 2016-2018 includes purchased credit-impaired ("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 credit 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.

IMPACT OF COVID-19

The spread of COVID-19 has created a global public health crisis that has resulted in unprecedented volatility and disruption in financial markets and deterioration in economic activity and market conditions in the markets we serve. The pandemic has already affected our customers and the communities we serve and depending on the duration of the crisis, the adverse impact on our financial position and results of operations could be significant. In response to the anticipated effects of the pandemic on the U.S. economy, the Board of Governors of the Federal Reserve System ("FRB") has taken significant actions, including a reduction in the target range of the federal funds rate to 0.0% to 0.25% and an indeterminate amount of purchases of Treasury and mortgage-backed securities.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. It contains substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act includes the Paycheck Protection Program ("PPP"), a $349 billion program designed to aid small- and medium-sized businesses through 100% SBA guaranteed loans distributed through banks. These loans were intended to guarantee 24 weeks of payroll and other costs to help those businesses remain viable and keep their workers employed. The SBA exhausted the initial funding for this program on April 15, 2020, but legislation passed on April 24, 2020 to provide additional PPP funds of $310 billion. During 2020, we originated and funded about 4,100 loans, totaling approximately $1.10 billion. In response to the COVID-19 pandemic, we also implemented a short-term loan modification program to provide temporary payment relief to certain of our borrowers who meet the program's qualifications. This program allows for a deferral of payments for 90 days. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date of the existing loan. As of January 15, 2021, we had remaining temporary payment deferments of principal or of principal and interest in response to the CARES Act for six loans totaling $10 million. These deferments were primarily for 90 days, with 85% of these loans being rated special mention or classified. Further, on January 13, 2021, the SBA reopened the PPP for Second Draw loans to small businesses and non-profit organizations that did receive a loan through the initial PPP phase. At least $25 billion has been set aside for Second Draw PPP loans to eligible borrowers with a maximum of 10 employees or for loans of $250,000 or less to eligible borrowers in low or moderate income neighborhoods. Generally speaking, businesses with more than 300 employees and/or less than a 25% reduction in gross receipts between comparable quarters in 2019 and 2020 are not eligible for Second Draw loans. Further, maximum loan amounts have been increased for accommodation and food service businesses. Recently, the Bank began accepting applications for the second round of PPP loans. As of January 25, 2021, we have received approximately 1,400 applications totaling $340 million.

The fourth and third quarters of 2020 did not include a provision for credit losses, as the economic outlook was generally consistent with the forecast from the end of the second quarter. In comparison, the Company recorded a provision for credit losses of $23.5 million in the first half of 2020. We continue to monitor the impact of COVID-19 closely, as well as any effects that may result from the CARES Act. The extent to which the COVID-19 pandemic will impact our operations and financial results during 2021 is highly uncertain, but we may experience increased provision for credit losses if this pandemic results in economic stress greater than forecasted on our borrowers and loan portfolios and lower interest income if the current low interest rate environment continues.

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.

Adoption of New Accounting Standard

Allowance for Credit Losses ("ACL") — On January 1, 2020, the Company adopted 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. We adopted this ASU using a modified retrospective approach, as required, and have not adjusted prior period comparative information and will continue to disclose prior period financial information in accordance with the previous accounting guidance. The adoption of ASU 2016-13, resulted in a reduction to our opening retained earnings of approximately $1.3 million, net of tax.

This ASU replaces the current "incurred loss" approach with an "expected loss" model. The new model, referred to as the Current Expected Credit Loss ("CECL") model, applies 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, held-to-maturity ("HTM") securities, loan commitments, and financial guarantees. For loans and HTM debt securities, this ASU requires a CECL measurement to estimate the allowance for credit losses ("ACL") for the remaining contractual term, adjusted for prepayments, of the financial asset (including off-balance sheet credit exposures) using historical experience, current conditions, and reasonable and supportable forecasts. This ASU also eliminated the existing guidance for purchased credit-impaired ("PCI") loans, but requires an allowance for purchased financial assets with more than an insignificant deterioration of credit since origination. Purchase Credit Deteriorated ("PCD") assets are recorded at their purchase price plus an ACL estimated at the time of acquisition. Under this ASU, there is no provision for credit losses recognized at acquisition; instead, there is a gross-up of the purchase price of the financial asset for the estimate of expected credit losses and a corresponding ACL recorded. Changes in estimates of expected credit losses after acquisition are recognized as provision for credit losses (or reversal of provision for credit losses) in subsequent periods. In addition, this ASU modifies the OTTI model for available-for-sale ("AFS") debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. As a policy election, we excluded the accrued interest receivable balance from the amortized cost basis of financing receivables and HTM securities, as well as AFS securities, and disclose total accrued interest receivable separately on the condensed consolidated balance sheet.

For a full discussion of our methodology of assessing the adequacy of the allowance for credit 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 Credit 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 $14.42 billion in total assets as of December 31, 2020. 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, 2020, 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, 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.

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, 2020

Standard	Description	Adoption Timing	Impact on Financial Statements
ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting *Issued March 2020*	The FASB issued ASU 2020-04, Reference Rate Reform: Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this update provide temporary, optional guidance to ease the potential burden in accounting for transitioning away from reference rates such as LIBOR. The amendments provide optional expedients and exceptions for applying GAAP to transactions affected by reference rate reform if certain criteria are met. The amendments primarily include relief related to contract modifications and hedging relationships, as well as providing a one-time election for the sale or transfer of debt securities classified as held-to-maturity. This guidance is effective immediately and the amendments may be applied prospectively through December 31, 2022.	1st Quarter 2020 through the 4th Quarter 2022	The Company established a LIBOR Transition Task Force in 2020, which has inventoried our instruments that reflect exposure to LIBOR, created a framework to manage the transition and established a timeline for key decisions and actions to complete the transition from LIBOR in 2021. Although the Company is assessing the impacts of this transition and exploring alternatives to use in place of LIBOR for various financial instruments, primarily related to our variable-rate loans, our subordinated debentures, and interest rate swap derivatives that are indexed to LIBOR, we do not expect this ASU to have a material impact on the Company's consolidated financial statements.
ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" *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.

Standard	Description	Adoption Timing	Impact on Financial Statements
ASU 2020-01, Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) *Issued January 2020*	The FASB issued ASU 2020-01, Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815). This ASU clarifies the interactions between ASC 321, ASC 323 and ASC 815 and addresses accounting for the transition into and out of the equity method and also provides guidance on whether equity method accounting would be applied to certain purchased options and forward contracts upon settlement.	1st Quarter 2021	The adoption of this ASU will not have an impact on our consolidated financial statements.
ASU 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity *Issued August 2020*	The FASB issued ASU 2020-06, Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This ASU reduces the number of accounting models for convertible instruments and allows more contracts to qualify for equity classification.	1st Quarter 2022	The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.
ASU 2020-08 Codification Improvements to Subtopic 310-20, Receivables — Nonrefundable Fees and Other Costs *Issued October 2020*	The FASB issued this amendment to clarify that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the amendments is not permitted.	1st Quarter 2021	The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

OVERVIEW

For the year ended December 31, 2020, we reported net earnings of $177.2 million, compared with $207.8 million for 2019. This represented a $30.7 million, or 14.76%, decrease from the prior year. Diluted earnings per share were $1.30 for 2020, compared to $1.48 for 2019.

The Company adopted ASU 2016-13, commonly referred to as CECL which replaced the “incurred loss” approach with an “expected loss” model over the life of the loan, effective on January 1, 2020. A $23.5 million provision for credit losses was recorded in the first half of 2020, due to the economic disruption and forecasted impact resulting from COVID-19. No provision for credit losses was recorded in either the third or fourth quarter of 2020. The Company’s economic forecast of macro-economic variables was generally consistent, with modest changes, from the end of the second quarter of 2020 to December 31, 2020. In comparison to the prior year, a $5.0 million loan loss provision was incurred for 2019. For the year ended December 31, 2020, we experienced minimal credit charge-offs of $666,000 and total recoveries of $358,000, resulting in net charge-offs of $308,000. During 2020, the Company originated, under the SBA Paycheck Protection Program, approximately 4,100 loans, of which $883.0 million was outstanding at December 31, 2020. Interest and fee income from PPP loans was approximately $28.5 million for 2020.

At December 31, 2020, total assets of $14.4 billion increased $3.14 billion, or 27.80%, from total assets of $11.28 billion at December 31, 2019. Interest-earning assets of $13.22 billion at December 31, 2020 increased $3.20 billion, or 31.88%, when compared with $10.03 billion at December 31, 2019. The increase in interest-earning assets includes a $1.81 billion increase in interest-earning balances due from the Federal Reserve, a $784.2 million increase in total loans, and a $562.8 million increase in investment securities. The increase in total loans was due to the origination of approximately $1.1 billion in PPP loans with a remaining outstanding balance totaling $883.0 million at December 31, 2020. Excluding PPP loans, total loans declined by $98.8 million from December 31, 2019. Our tax equivalent yield on interest-earning assets was 3.71% for 2020, compared to 4.58% for 2019.

Total investment securities were $2.98 billion at December 31, 2020, an increase of $562.8 million, or 23.31%, from $2.41 billion at December 31, 2019. At December 31, 2020, investment securities HTM totaled $578.6 million. At December 31, 2020, investment securities AFS totaled $2.40 billion, inclusive of a pre-tax unrealized gain of $54.7 million, an increase of $32.8 from December 31, 2019. HTM securities declined by $95.8 million, or 14.21%, and AFS securities increased by $658.7 million, or 37.85%, from December 31, 2019. Our tax equivalent yield on investments was 2.10% for 2020, compared to 2.50% for 2019.

Total loans and leases, net of deferred fees and discount, of $8.35 billion at December 31, 2020, increased by $784.2 million, or 10.37%, from $7.56 billion at December 31, 2019. The increase in total loans included $883.0 million in PPP loans. Excluding PPP loans, total loans declined by $98.8 million, or 1.31%. The $98.8 million decrease in loans included decreases of $123.1 million in commercial and industrial loans, $31.8 million in construction loans, $30.3 million in consumer loans, $22.6 million in dairy & livestock and agribusiness loans, $13.0 million in SFR mortgage loans, and $4.9 million in other loans. Partially offsetting these declines was an increase in commercial real estate loans of $126.9 million. Our yield on loans was 4.68% for the year ended December 31, 2020, compared to 5.26% for 2019. This decline was primarily due to the impact of the Federal Reserve’s rate decreases and the decline in discount accretion income for acquired loans. Interest income for yield adjustments related to discount accretion on acquired loans was $17.4 million for 2020, compared to $28.8 million for 2019.

Noninterest-bearing deposits were $7.46 billion at December 31, 2020, an increase of $2.21 billion, or 42.13%, compared to $5.25 billion at December 31, 2019. The significant deposit growth in 2020 was primarily due to our customers maintaining greater liquidity. At December 31, 2020, noninterest-bearing deposits were 63.52% of total deposits, compared to 60.26% at December 31, 2019. Our average cost of total deposits for 2020 was 0.12%, compared to 0.20% for 2019.

Customer repurchase agreements totaled $439.4 million at December 31, 2020, compared to $428.7 million at December 31, 2019. Our average cost of total deposits including customer repurchase agreements was 0.13% for 2020, compared to 0.21% for 2019.

At December 31, 2020, we had $5.0 million in short short-term borrowing with 0% cost, compared to no borrowings at December 31, 2019. At December 31, 2020, we had $25.8 million of junior subordinated debentures, unchanged from December 31, 2019. These debentures bear interest at three-month LIBOR plus 1.38% and mature in 2036. Our average cost of funds was 0.13% for 2020, compared to 0.24% for 2019.

The allowance for credit losses totaled $93.7 million at December 31, 2020, compared to $68.7 million at December 31, 2019. Due to the adoption of CECL, effective on January 1, 2020, a transition adjustment of $1.8 million was added to the beginning balance of the allowance and was increased by $23.5 million in provision for credit losses in 2020 due to the severe economic disruption forecasted to result from the COVID-19 pandemic. At December 31, 2020, ACL as a percentage of total loans and leases outstanding was 1.12%, or 1.25% when PPP loans are excluded. This compares to 0.91% at December 31, 2019. As of December 31, 2020, total discounts remaining on acquired loans were $30.9 million.

The Company's total equity was $2.01 billion at December 31, 2020. This represented an increase of $13.9 million, or 0.70%, from total equity of $1.99 billion at December 31, 2019. This increase was primarily due to net earnings of $177.2 million and a $22.7 million increase in other comprehensive income resulting from the tax effected impact of the increase in market value of our available-for-sale investment securities portfolio, partially offset by repurchases of common stock of $91.7 million under our 10b5-1 stock repurchase program, and $97.7 million in cash dividends. Our tangible common equity ratio was 9.6% at December 31, 2020.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory requirements. As of December 31, 2020, the Company's Tier 1 leverage capital ratio totaled 9.90%, our common equity Tier 1 ratio totaled 14.77%, our Tier 1 risk-based capital ratio totaled 15.06%, and our total risk-based capital ratio totaled 16.24%. We did not elect to phase in the impact of CECL on regulatory capital, as allowed under the interim final rule of the FDIC and other U.S. banking agencies. Refer to our *Analysis of Financial Condition — Capital Resources.*

ANALYSIS OF THE RESULTS OF OPERATIONS

Financial Performance

	Year Ended December 31,			Variance			
				2020		2019	
	2020	2019	2018	$	%	$	%
	(Dollars in thousands, except per share amounts)						
Net interest income	$ 416,053	$ 435,772	$ 349,045	$ (19,719)	-4.53%	$ 86,727	24.85%
Provision for credit losses	(23,500)	(5,000)	(1,500)	(18,500)	-370.00%	(3,500)	-233.33%
Noninterest income	49,870	59,042	43,481	(9,172)	-15.53%	15,561	35.79%
Noninterest expense	(192,903)	(198,740)	(179,911)	5,837	2.94%	(18,829)	-10.47%
Income taxes	(72,361)	(83,247)	(59,112)	10,886	13.08%	(24,135)	-40.83%
Net earnings	$ 177,159	$ 207,827	$ 152,003	$ (30,668)	-14.76%	$ 55,824	36.73%
Earnings per common share:							
Basic	$ 1.30	$ 1.48	$ 1.25	$ (0.18)		$ 0.23	
Diluted	$ 1.30	$ 1.48	$ 1.24	$ (0.18)		$ 0.24	
Return on average assets	1.37%	1.84%	1.60%	-0.47%		0.24%	
Return on average shareholders' equity	8.90%	10.71%	11.00%	-1.81%		-0.29%	
Efficiency ratio	41.40%	40.16%	45.83%	1.24%		-5.67%	
Noninterest expense to average assets	1.49%	1.76%	1.89%	-0.27%		-0.13%	

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.

	Year Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Net Income	$ 177,159	$ 207,827	$ 152,003
Add: Amortization of intangible assets	9,352	10,798	5,254
Less: Tax effect of amortization of intangible assets (1)	(2,765)	(3,192)	(1,553)
Tangible net income	$ 183,746	$ 215,433	$ 155,704
Average stockholders' equity	$ 1,991,664	$ 1,939,961	$ 1,382,392
Less: Average goodwill	(663,707)	(665,026)	(330,613)
Less: Average intangible assets	(38,203)	(48,296)	(26,055)
Average tangible common equity	$ 1,289,754	$ 1,226,639	$ 1,025,724
Return on average equity, annualized	8.90%	10.71%	11.00%
Return on average tangible common equity	14.25%	17.56%	15.18%

(1) Tax effected at respective statutory rates.

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% in effect for the years ended December 31, 2020, 2019 and 2018. 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

	Year Ended December 31,								
	2020			2019			2018		
	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	$ 1,854,964	$ 35,129	1.94%	$ 1,580,850	$ 38,189	2.42%	$ 1,869,842	$ 44,423	2.38%
Tax-advantaged	37,110	923	3.50%	41,991	1,141	3.76%	52,550	1,565	3.98%
Held-to-maturity securities:									
Taxable	438,190	9,542	2.18%	504,814	11,498	2.28%	534,642	11,848	2.22%
Tax-advantaged	173,756	4,681	3.26%	211,899	5,890	3.36%	243,955	7,053	3.50%
Investment in FHLB stock	17,688	978	5.53%	17,688	1,235	6.98%	19,441	2,045(4)	10.52%
Interest-earning deposits with other institutions	1,098,814	1,682	0.15%	120,247	2,269	1.89%	97,266	1,642	1.69%
Loans (2)	8,066,483	377,402	4.68%	7,552,505	397,628	5.26%	5,905,674	293,284	4.97%
Total interest-earning assets	11,687,005	430,337	3.71%	10,029,994	457,850	4.58%	8,723,370	361,860	4.17%
Total noninterest-earning assets	1,242,808			1,272,907			789,299		
Total assets	$ 12,929,813			$ 11,302,901			$ 9,512,669		
INTEREST-BEARING LIABILITIES									
Savings deposits (3)	$ 3,530,606	8,803	0.25%	$ 3,048,785	12,698	0.42%	$ 2,656,660	7,250	0.27%
Time deposits	445,962	3,799	0.85%	487,221	4,422	0.91%	453,031	2,575	0.57%
Total interest-bearing deposits	3,976,568	12,602	0.32%	3,536,006	17,120	0.48%	3,109,691	9,825	0.32%
FHLB advances, other borrowings, and customer repurchase agreements	511,404	1,682	0.33%	537,964	4,958	0.91%	499,526	2,990	0.60%
Interest-bearing liabilities	4,487,972	14,284	0.32%	4,073,970	22,078	0.54%	3,609,217	12,815	0.35%
Noninterest-bearing deposits	6,281,989			5,177,035			4,449,110		
Other liabilities	168,188			111,935			71,950		
Stockholders' equity	1,991,664			1,939,961			1,382,392		
Total liabilities and stockholders' equity	$ 12,929,813			$ 11,302,901			$ 9,512,669		
Net interest income		$ 416,053			$ 435,772			$ 349,045	
Net interest spread - tax equivalent			3.39%			4.04%			3.82%
Net interest margin			3.57%			4.35%			4.00%
Net interest margin - tax equivalent			3.59%			4.36%			4.03%

(1) Includes tax equivalent (TE) adjustments utilizing a federal statutory rate of 21% in effect for the years ended December 31, 2020, 2019 and 2018. Non-tax equivalent (TE) rate was 2.04%, 2.43% and 2.41% for the years ended December 31, 2020, 2019 and 2018, respectively.

(2) Includes loan fees of $23.9 million, $3.1 million and $3.4 million for the years ended December 31, 2020, 2019 and 2018, respectively. Prepayment penalty fees of $8.2 million, $5.4 million and $3.0 million are included in interest income for the years ended December 31, 2020, 2019 and 2018, 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,							
	2020 Compared to 2019 Increase (Decrease) Due to				2019 Compared to 2018 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	$ 5,679	$ (7,608)	$ (1,131)	$ (3,060)	$ (6,919)	$ 811	$ (126)	$ (6,234)
Tax-advantaged investment securities	(132)	(97)	11	(218)	(315)	(137)	28	(424)
Held-to-maturity securities:								
Taxable investment securities	(1,499)	(525)	68	(1,956)	(706)	377	(21)	(350)
Tax-advantaged investment securities	(1,061)	(181)	33	(1,209)	(927)	(272)	36	(1,163)
Investment in FHLB stock	-	(257)	-	(257)	(184)	(688)	62	(810)
Interest-earning deposits with other institutions	18,465	(2,085)	(16,967)	(587)	388	193	46	627
Loans	27,060	(44,273)	(3,013)	(20,226)	81,775	17,648	4,921	104,344
Total interest income	48,512	(55,026)	(20,999)	(27,513)	73,112	17,932	4,946	95,990
Interest expense:								
Savings deposits	2,007	(5,097)	(805)	(3,895)	1,070	3,815	563	5,448
Time deposits	(374)	(272)	23	(623)	194	1,537	116	1,847
FHLB advances, other borrowings, and customer repurchase agreements	(245)	(3,188)	157	(3,276)	234	1,610	124	1,968
Total interest expense	1,388	(8,557)	(625)	(7,794)	1,498	6,962	803	9,263
Net interest income	$ 47,124	$ (46,469)	$ (20,374)	$ (19,719)	$ 71,614	$ 10,970	$ 4,143	$ 86,727

2020 Compared to 2019

Net interest income, before provision for credit losses, of $416.1 million for 2020 decreased $19.7 million, or 4.53%, compared to $435.8 million for 2019. Interest-earning assets increased on average by $1.66 billion, or 16.52%, from $10.03 billion for 2019 to $11.69 billion for 2020. Our net interest margin (TE) was 3.59% for 2020, compared to 4.36% for 2019.

Interest income for 2020 was $430.3 million, which represented a $27.5 million, or 6.01%, decrease when compared to 2019. Average interest-earning assets increased to $11.69 billion and the average earning asset yield was 3.71% for 2020, compared to 4.58% for 2019. The 87 basis point decrease in the interest-earning asset yield over 2019 was primarily due to a combination of a 58 basis point decrease in loan yields, a 39 basis point decline in the non-tax equivalent investment yields, and a change in mix of earning assets, with average balances at the Federal Reserve growing to 9.11% of earning assets for 2020, compared to 1.14% for 2019. The increase in balances at the Federal Reserve was impacted by $1.54 billion in average deposit growth for 2020. The net interest margin for 2020 would have been about 30 basis points higher without the $950.7 million year-over-year increase in average deposits at the Federal Reserve, earning just 10 basis points.

Interest income and fees on loans for 2020 of $377.4 million decreased $20.2 million, or 5.09% when compared to 2019 Average loans increased $514.0 million for 2020 when compared to 2019, primarily due to

$702.1 million in average PPP loans originated in the second quarter of 2020. The PPP loans we originated resulted in approximately $21.4 million in fee income and $7.1 million in loan interest during 2020. Discount accretion on acquired loans and nonrecurring nonaccrual interest paid decreased by $12.6 million compared to 2019. Loan yields decreased by 58 basis points from 2019. The significant decline in interest rates since the start of the pandemic has had a negative impact on loan yields, which after excluding the impact from PPP loans, discount accretion and nonaccrual interest income, causing loan yields to decline by 36 basis points from 2019.

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, 2020 and 2019. As of December 31, 2020 and 2019, we had $14.3 million and $5.3 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 $843,000 and $526,000 greater for 2020 and 2019, respectively.

Interest income from investment securities was $50.3 million for 2020, a $6.4 million, or 11.36%, decrease from $56.7 million for 2019. The decrease was primarily the result of a 39 basis point decline in the non-tax equivalent yield on investments as the decline in interest rates over the past four quarters decreased yields on investment securities due to higher levels of premium amortization, as well as lower yields on investments purchased during 2020. Partially offsetting the decline from lower rates was a $164.5 million increase in the average investment securities for 2020 compared to 2019.

Interest expense of $14.3 million for 2020 decreased $7.8 million, or 35.30%, compared to $22.1 million for 2019. The average rate paid on interest-bearing liabilities decreased by 22 basis points, to 0.32% for 2020, from 0.54% for 2019. The rate on interest-bearing deposits for 2020 decreased by 16 basis points from 2019. Average interest-bearing liabilities were $414.0 million higher for 2020 when compared to 2019. On average, noninterest-bearing deposits were 61.24% of our total deposits for 2020, compared to 59.42% for 2019. In comparison to 2020, our overall cost of funds decreased 11 basis points, as our average noninterest-bearing deposits grew by $1.10 billion. Average interest-bearing deposits increased by $440.6 million for 2020, while the cost of interest-bearing deposits decreased by 16 basis points.

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 Community Bank ("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.

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.

Provision for Credit Losses

The provision for credit losses is a charge to earnings to maintain the allowance for credit losses at a level consistent with management's assessment of expected lifetime losses in the loan portfolio at the balance sheet date. On January 1, 2020, we adopted ASU 2016-13, commonly referred to as CECL, which replaces the "incurred loss" approach with an "expected loss" model over the life of the loan.

The allowance for credit losses totaled $93.7 million at December 31, 2020, compared to $68.7 million at December 31, 2019. Upon adoption of CECL, a transition adjustment of $1.8 million was added to the beginning balance of the allowance, with no impact on the consolidated statement of earnings, and was increased by $23.5 million in provision for credit losses in the first half of 2020, due to the severe economic disruption forecasted as a result of the COVID-19 pandemic. No provision for credit losses was recorded in the third or fourth quarter of 2020. For 2020, we experienced minimal credit charge-offs of $666,000 and total recoveries of $358,000, resulting in net charge-offs of $308,000. This compares to a $5.0 million loan loss provision and net recoveries of $47,000 for 2019 and a $1.5 million loan loss provision and net recoveries of $2.5 million for 2018. The ratio of the allowance for credit losses to total loans and leases outstanding, net of deferred fees and discount, as of December 31, 2020, was 1.12%, or 1.25% when PPP loans are excluded. This compares to 0.91% and 0.82%, as of December 31, 2019 and 2018, respectively. As of December 31, 2020, remaining discounts on acquired loans were $30.9 million.

No assurance can be given that economic conditions which adversely affect the Company's service areas or other circumstances will or will not be reflected in increased provisions for credit losses in the future, as the nature of this process requires considerable judgment. We may experience increases in the provision for credit losses, in future periods, due to further deterioration in economic conditions from the COVID-19 pandemic. See "Allowance for Credit Losses" under *Analysis of Financial Condition* herein.

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.

Table of Contents

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

	Year Ended December 31,			Variance			
				2020		2019	
	2020	2019	2018	$	%	$	%
				(Dollars in thousands)			
Noninterest income:							
Service charges on deposit accounts	$ 16,561	$ 20,010	$ 17,070	$ (3,449)	-17.24%	$ 2,940	17.22%
Trust and investment services	9,978	9,525	8,774	453	4.76%	751	8.56%
Bankcard services	1,886	3,163	3,485	(1,277)	-40.37%	(322)	-9.24%
BOLI income	8,100	5,798	4,018	2,302	39.70%	1,780	44.30%
Swap fee income	5,025	1,806	340	3,219	178.24%	1,466	431.18%
Gain on OREO, net	388	129	3,546	259	200.78%	(3,417)	-96.36%
Gain on sale of building, net	1,680	4,776	-	(3,096)	-64.82%	4,776	-
Gain on eminent domain condemnation, net	-	5,685	-	(5,685)	-100.00%	5,685	-
Other	6,252	8,150	6,248	(1,898)	-23.29%	1,902	30.44%
Total noninterest income	$ 49,870	$ 59,042	$ 43,481	$ (9,172)	-15.53%	$ 15,561	35.79%

2020 Compared to 2019

Noninterest income for 2019 included a $5.7 million net gain from the legal settlement of an eminent domain condemnation of one of our banking center buildings in Bakersfield and $4.8 million in net gains on the sale of bank owned buildings, compared with a $1.7 million net gain on the sale of one of our owned buildings in 2020. Service charges on deposit accounts decreased by $3.4 million from 2019. This decrease was primarily due to the higher earnings credits generated by the significant increase in our customer’s noninterest-bearing deposits held at the Bank. In addition, bankcard services decreased by approximately $1.3 million when compared to 2019, primarily due to the Durbin Amendment’s cap on debit card interchange fees. The $1.9 million decrease in other income in 2020 included decreases in dividend income from various equity investments, other banking fee income and SBA servicing income when compared to 2019.

The Bank enters into interest rate swap agreements with our customers to manage our interest rate risk and enters into identical offsetting swaps with a counterparty. The changes in the fair value of the swaps primarily offset each other resulting in swap fee income (refer to Note 20 — *Derivative Financial Instruments* of the notes to the unaudited condensed consolidated financial statements of this report for additional information). Swap fee income increased $3.2 million compared to 2019, due to higher volume of swap transactions. We executed on swap agreements related to new loan originations with a notional amount totaling $280.4 million for 2020, compared to $96.4 million for 2019.

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, 2020, CitizensTrust had approximately $3.04 billion in assets under management and administration, including $2.18 billion in assets under management. CitizensTrust generated fees of $10.0 million for 2020, an increase of $453,000 compared to $9.5 million for 2019, 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. Income from our BOLI policies for 2020 included $2.8 million of death benefits that exceeded cash surrender values, compared to $502,000 of death benefits for 2019.

[Table of Contents](#)

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.

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 $1.8 million increase in BOLI income included a $1.2 million increase in income from $70.9 million of BOLI policies acquired from CB in the third quarter of 2018. Death benefits of $502,000 were included in our BOLI policies for 2019.

Noninterest Expense

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

	Year Ended December 31,			Variance 2020		Variance 2019	
	2020	2019	2018	$	%	$	%
	(Dollars in thousands)						
Noninterest expense:							
Salaries and employee benefits	$ 119,759	$ 119,475	$ 100,601	$ 284	0.24%	$ 18,874	18.76%
Occupancy	16,677	16,565	16,386	112	0.68%	179	1.09%
Equipment	3,945	3,892	3,767	53	1.36%	125	3.32%
Professional services	9,460	7,752	6,477	1,708	22.03%	1,275	19.69%
Computer software expense	11,302	10,658	9,343	644	6.04%	1,315	14.07%
Marketing and promotion	4,488	5,890	5,302	(1,402)	-23.80%	588	11.09%
Amortization of intangible assets	9,352	10,798	5,254	(1,446)	-13.39%	5,544	105.52%
Telecommunications expense	2,566	2,785	2,564	(219)	-7.86%	221	8.62%
Regulatory assessments	2,375	1,958	3,218	417	21.30%	(1,260)	-39.15%
Insurance	1,636	1,475	1,735	161	10.92%	(260)	-14.99%
Loan expense	1,159	1,439	1,103	(280)	-19.46%	336	30.46%
OREO expense	1,247	64	7	1,183	1848.44%	57	814.29%
Recapture of provision for unfunded loan commitments	-	-	(250)	-	-	250	100.00%
Directors' expenses	1,420	1,230	1,073	190	15.45%	157	14.63%
Stationery and supplies	1,172	1,179	1,207	(7)	-0.59%	(28)	-2.32%
Acquisition related expenses	-	6,447	16,404	(6,447)	-100.00%	(9,957)	-60.70%
Other	6,345	7,133	5,720	(788)	-11.05%	1,413	24.70%
Total noninterest expense	$ 192,903	$ 198,740	$ 179,911	$ (5,837)	-2.94%	$ 18,829	10.47%
Noninterest expense to average assets	1.49%	1.76%	1.89%				
Efficiency ratio (1)	41.40%	40.16%	45.83%				

(1) Noninterest expense divided by net interest income before provision for credit 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 1.49% for 2020, compared to 1.76% and 1.89% for 2019 and 2018, respectively. The decrease in this ratio for 2020 was significantly impacted by the $950 million increase in average balances at the Federal Reserve.

Our ability to control noninterest expenses in relation to the level of total revenue (net interest income before provision for credit 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 41.40% for 2020, compared to 40.16% for 2019 and 45.83% for 2018.

2020 Compared to 2019

Noninterest expense of $192.9 million for the year ended December 31, 2020 was $5.8 million, or 2.9% lower than 2019. There were no merger related expenses related to the Community Bank acquisition for 2020, compared to $6.4 million for 2019 and the year-over-year decrease also included a $1.4 million decrease in CDI amortization. A decrease in marketing and promotion expense in 2020 of $1.4 million was primarily due to COVID-19 restrictions on travel and entertainment. These decreases were partially offset by a $1.7 million increase in professional services expense, related to legal, audit, and other professional services. OREO expense also increased in 2020 by $1.2 million primarily due to a $700,000 write-down of one OREO property.

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.

Income Taxes

The Company’s effective tax rate for the year ended December 31, 2020 was 29.00%, compared with 28.60% and 28.00% for the year ended December 31, 2019 and 2018, respectively. 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.

ANALYSIS OF FINANCIAL CONDITION

Total assets of $14.42 billion at December 31, 2020 increased $3.14 billion, or 27.80%, from total assets of $11.28 billion at December 31, 2019. Interest-earning assets totaled $13.22 billion at December 31, 2020, an increase of $3.20 billion, or 31.88%, when compared with $10.03 billion at December 31, 2019. The increase in interest-earning assets includes a $1.81 billion increase in interest-earning balances due from the Federal Reserve, a $784.2 million increase in total loans, and a $562.8 million increase in investment securities. The increase in total loans was due to the origination of approximately $1.10 billion in PPP loans with a remaining outstanding balance totaling $883.0 million as of December 31, 2020. Excluding PPP loans, total loans declined by $98.8 million from December 31, 2019.

Total liabilities were $12.41 billion at December 31, 2020, an increase of $3.12 billion, or 33.62%, from total liabilities of $9.29 billion at December 31, 2019. Total deposits grew by $3.03 billion, or 34.83%. This significant deposit growth in 2020 was primarily due to our customers maintaining greater liquidity in their deposit accounts. Total equity increased $13.9 million, or 0.70%, to $2.01 billion at December 31, 2020, compared to total equity of $1.99 billion at December 31, 2019. The $13.9 million increase in equity was primarily due to net earnings of $177.2 million and a $22.7 million increase in other comprehensive income from the tax effected impact of the increase in market value of available-for-sale investment securities, partially offset by $97.7 million in cash dividends and the repurchase of 4.9 million shares of common stock for $91.7 million under our 10b5-1 stock repurchase program. Our equity also decreased by $1.3 million as a result of a cumulative effect adjustment to beginning retained earnings, net of tax, due to the adoption of CECL on January 1, 2020.

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, 2020, total investment securities were $2.98 billion. This represented an increase of $562.8 million, or 23.31%, from total investment securities of $2.41 billion at December 31, 2019. The increase in investment securities was primarily due to new securities purchased exceeding cash outflow from the portfolio in 2020. At December 31, 2020, investment securities HTM totaled $578.6 million. At December 31, 2020, our AFS investment securities totaled $2.40 billion, inclusive of a pre-tax net unrealized gain of $54.7 million. The after-tax unrealized gain reported in AOCI on AFS investment securities was $38.6 million. The changes in the net unrealized holding gain resulted primarily from fluctuations in market interest rates. For the years ended December 31, 2020 and 2019, repayments/maturities of investment securities totaled $798.7 million and $485.8 million, respectively. The Company purchased additional investment securities totaling $1.28 billion and $540.6 million for the years ended December 31, 2020 and 2019, respectively. There were no investment securities sold during the year ended December 31, 2020. During 2019, we sold 14 investment securities at book value of approximately $152.6 million.

The tables below set forth our investment securities AFS and HTM portfolio by type for the dates presented.

	December 31,			
	2020		2019	
	Fair Value	Percent	Fair Value	Percent
	(Dollars in thousands)			
Investment securities available-for-sale				
Mortgage-backed securities	$ 1,904,935	79.41%	$ 1,206,313	69.32%
CMO/REMIC	462,814	19.29%	493,710	28.37%
Municipal bonds	30,285	1.26%	39,354	2.26%
Other securities	889	0.04%	880	0.05%
Total available-for-sale securities	$ 2,398,923	100.00%	$ 1,740,257	100.00%

	December 31,			
	2020		2019	
	Amortized Cost	Percent	Amortized Cost	Percent
	(Dollars in thousands)			
Investment securities held-to-maturity				
Government agency/GSE	$ 98,663	17.05%	$ 117,366	17.40%
Mortgage-backed securities	146,382	25.30%	168,479	24.98%
CMO/REMIC	145,309	25.11%	192,548	28.55%
Municipal bonds	188,272	32.54%	196,059	29.07%
Total held-to-maturity securities	$ 578,626	100.00%	$ 674,452	100.00%
Fair Value	$ 604,223		$ 678,948	

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

	December 31, 2020					
	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	$ 807	$ 1,903,307	$ 821	$ -	$ 1,904,935	79.41%
CMO/REMIC	8,803	350,905	81,052	22,054	462,814	19.29%
Municipal bonds (1)	-	1,088	12,922	16,275	30,285	1.26%
Other securities	889	-	-	-	889	0.04%
Total	$ 10,499	$ 2,255,300	$ 94,795	$ 38,329	$ 2,398,923	100.00%
Weighted average yield:						
Mortgage-backed securities	4.80%	1.83%	3.37%	-	1.84%	
CMO/REMIC	0.48%	1.50%	2.26%	2.52%	1.66%	
Municipal bonds (1)	-	4.03%	2.48%	2.55%	2.58%	
Other securities	2.74%	-	-	-	2.74%	
Total	1.00%	1.78%	2.30%	2.53%	1.81%	

(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, 2020 was 3.26%.

	December 31, 2020					
	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	$ -	$ -	$ -	$ 98,663	$ 98,663	17.05%
Mortgage-backed securities	262	134,978	9,031	2,111	146,382	25.30%
CMO/REMIC	-	145,309	-	-	145,309	25.11%
Municipal bonds (1)	2,462	24,961	66,530	94,319	188,272	32.54%
Total	$ 2,724	$ 305,248	$ 75,561	$ 195,093	$ 578,626	100.00%
Weighted average yield:						
Government agency/GSE	-	-	-	1.92%	1.92%	
Mortgage-backed securities	3.16%	2.21%	2.43%	3.43%	2.25%	
CMO/REMIC	-	2.26%	-	-	2.26%	
Municipal bonds (1)	3.11%	2.80%	2.64%	2.10%	2.40%	
Total	3.12%	2.29%	2.61%	2.02%	2.24%	

(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, 2020 was 3.03%.

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, 2020 was 1.92% with a weighted-average life of 2.9 years. This compares to a weighted-average yield of 2.54% at December 31, 2019 with a weighted-average life of 3.6 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 93% of the securities in the total investment portfolio, at December 31, 2020, 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, 2020, approximately $64.4 million in U.S. government agency bonds are callable. The Agency CMO/REMIC are backed by agency-pooled collateral. Municipal bonds, which represented approximately 7% of the total investment portfolio, are predominately AA or higher rated securities.

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

	December 31,			
	2020		2019	
	Book Value	Market Value	Book Value	Market Value
	(Dollars in thousands)			
Major issuer:				
Federal National Mortgage Association	$ 1,133,321	$ 1,166,735	$ 963,002	$ 976,431
Federal Home Loan Mortgage Corporation	1,058,957	1,084,494	805,841	815,311
Government National Mortgage Association	413,991	421,025	271,154	268,879

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, 2020			
	Amortized Cost	Percent of Total	Fair Value	Percent of Total
	(Dollars in thousands)			
Municipal Securities available-for-sale:				
Minnesota	$ 11,055	38.5%	$ 11,588	38.3%
Connecticut	5,653	19.7%	5,910	19.5%
Massachusetts	4,147	14.4%	4,394	14.5%
Iowa	2,345	8.2%	2,430	8.0%
Ohio	2,115	7.4%	2,194	7.2%
Maine	1,506	5.2%	1,598	5.3%
All other states (2 states)	1,886	6.6%	2,171	7.2%
Total	$ 28,707	100.0%	$ 30,285	100.0%
Municipal Securities held-to-maturity:				
Minnesota	$ 44,820	23.8%	$ 46,243	23.7%
Massachusetts	22,361	11.9%	23,573	12.1%
Ohio	17,781	9.4%	18,502	9.5%
Texas	17,135	9.1%	17,706	9.1%
Wisconsin	12,236	6.5%	12,755	6.5%
Connecticut	8,759	4.7%	9,001	4.6%
All other states (20 states)	65,180	34.6%	67,398	34.5%
Total	$ 188,272	100.0%	$ 195,178	100.0%

	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%

We adopted ASU 2016-13 on January 1, 2020, on a prospective basis. Under the new guidance, once it is determined that a credit loss has occurred, an allowance for credit losses is established on our available-for-sale and held-to-maturity securities. Prior to adoption of this standard, when a decline in fair value of a debt security was determined to be other than temporary, an impairment charge for the credit component was recorded, and a new cost basis in the investment was established. As of December 31, 2020, management determined that credit losses did not exist for securities in an unrealized loss position.

The following table presents the Company's available-for-sale investment securities, by investment category, in an unrealized loss position for which an allowance for credit losses has not been recorded as of December 31, 2020.

	December 31, 2020					
	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	$ 72,219	$ (101)	$ -	$ -	$ 72,219	$ (101)
CMO/REMIC	96,974	(249)	-	-	96,974	(249)
Municipal bonds	-	-	-	-	-	-
Total available-for-sale securities	$ 169,193	$ (350)	$ -	$ -	$ 169,193	$ (350)

The table below presents 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, prior to adoption of ASU 2016-13. Management previously 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 other-than-temporarily-impaired.

	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)

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

Loans

Total loans and leases, net of deferred fees and discounts, of $8.35 billion at December 31, 2020, increased by $784.2 million, or 10.37%, from $7.56 billion at December 31, 2019. The increase in total loans included $883.0 million in PPP loans. Excluding PPP loans, total loans declined by $98.8 million, or 1.31%. The $98.8 million decrease in loans included decreases of $123.1 million in commercial and industrial loans, $31.8 million in construction loans, $26.5 million in consumer and other loans, $22.6 million in dairy & livestock and agribusiness loans, $13.0 million in SFR mortgage loans, $7.6 million in municipal lease financings, and $1.1 million in other SBA loans. Partially offsetting these declines was an increase in commercial real estate loans of $126.9 million.

Total loans, net of deferred loan fees, comprise 63.14% of our total earning assets as of December 31, 2020. The following table presents our loan portfolio by type for the periods presented.

Distribution of Loan Portfolio by Type

	December 31,				
	2020	**2019 (1)**	**2018**	**2017**	**2016**
			(Dollars in thousands)		
Commercial real estate	$ 5,501,509	$ 5,374,617	$ 5,394,229	$ 3,376,713	$ 2,930,141
Construction	85,145	116,925	122,782	77,982	85,879
SBA	303,896	305,008	350,043	122,055	97,184
SBA - PPP	882,986	-	-	-	-
Commercial and industrial	812,062	935,127	1,002,209	513,325	485,078
Dairy & livestock and agribusiness	361,146	383,709	393,843	347,289	338,631
Municipal lease finance receivables	45,547	53,146	64,186	70,243	64,639
SFR mortgage	270,511	283,468	296,504	236,202	250,605
Consumer and other loans	86,006	116,319	128,429	64,229	78,274
Gross loans (Non-PCI)	8,348,808	7,568,319	7,752,225	4,808,038	4,330,431
Less: Deferred loan fees, net (2)	-	(3,742)	(4,828)	(6,289)	(6,952)
Gross loans, net of deferred loan fees (Non-PCI)	8,348,808	7,564,577	7,747,397	4,801,749	4,323,479
Less: Allowance for credit losses	(93,692)	(68,660)	(63,409)	(59,218)	(60,321)
Net loans (Non-PCI)	$ 8,255,116	$ 7,495,917	7,683,988	4,742,531	4,263,158
PCI Loans			17,214	30,908	73,093
Discount on PCI loans			-	(2,026)	(1,508)
Less: Allowance for credit losses			(204)	(367)	(1,219)
PCI loans, net			17,010	28,515	70,366
Total loans and lease finance receivables			$ 7,700,998	$ 4,771,046	$ 4,333,524

(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.

(2) Beginning with March 31, 2020, gross loans are presented net of deferred loan fees by respective class of financing receivables.

As of December 31, 2020, $314.4 million, or 5.72% of the total commercial real estate loans included loans secured by farmland, compared to $241.8 million, or 4.50%, at December 31, 2019. The loans secured by farmland included $132.9 million for loans secured by dairy & livestock land and $181.5 million for loans secured by agricultural land at December 31, 2020, compared to $125.9 million for loans secured by dairy & livestock land and $115.9 million for loans secured by agricultural land at December 31, 2019. As of December 31, 2020, dairy & livestock and agribusiness loans of $361.1 million were comprised of $320.1 million for dairy & livestock loans and $41.0 million for agribusiness loans, compared to $323.5 million for dairy & livestock loans and $60.2 million for agribusiness loans at December 31, 2019.

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, 2020, the Company had $190.2 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, 2020, the Company had $113.7 million of total SBA 7(a) loans that include a guarantee of payment from 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 an active participant in the SBA's Paycheck Protection Program, we have originated approximately 4,100 PPP loans totaling $1.10 billion, with a remaining outstanding balance of $883.0 million as of December 31, 2020.

As of December 31, 2020, the Company had $85.1 million in construction loans. This represents 1.02% 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, 2020.

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, 2020.

	December 31, 2020			
	Total Loans		Commercial Real Estate Loans	
	(Dollars in thousands)			
Los Angeles County	$ 3,543,375	42.4%	$ 2,234,357	40.6%
Central Valley	1,401,683	16.8%	997,819	18.1%
Inland Empire	1,150,925	13.8%	833,012	15.2%
Orange County	1,072,852	12.8%	658,303	12.0%
Central Coast	497,024	6.0%	367,787	6.7%
San Diego	227,664	2.7%	160,572	2.9%
Other California	131,998	1.6%	77,418	1.4%
Out of State	323,287	3.9%	172,241	3.1%
	$ 8,348,808	100.0%	$ 5,501,509	100.0%

The table below breaks down our real estate portfolio.

	December 31, 2020			
	Loan Balance	Percent	Percent Owner-Occupied (1)	Average Loan Balance
Commercial real estate:	*(Dollars in thousands)*			
Industrial	$ 1,863,337	33.9%	53.0%	$ 1,399
Office	998,673	18.1%	24.5%	1,608
Retail	784,402	14.3%	13.2%	1,702
Multi-family	618,333	11.2%	2.0%	1,627
Secured by farmland (2)	314,429	5.7%	98.0%	2,139
Medical	289,622	5.3%	44.8%	1,745
Other (3)	632,713	11.5%	56.5%	1,403
Total commercial real estate	$ 5,501,509	100.0%	39.0%	$ 1,546

(1) Represents percentage of reported owner-occupied at origination in each real estate loan category.
(2) The loans secured by farmland included $132.9 million for loans secured by dairy & livestock land and $181.5 million for loans secured by agricultural land at December 31, 2020.
(3) Other loans consist of a variety of loan types, none of which exceeds 2.0% of total commercial real estate loans.

The pandemic has had a greater impact on certain industries, such a retail, hospitality, and entertainment.

At December 31, 2020, commercial real estate loans on retail properties comprised $784.4 million and approximately 14.3% of total loans; none of these loans are on deferment and $5 million of these loans are classified. At origination, these loans on retail properties were underwritten with loan-to-values averaging approximately 49%. Approximately 51% of these loans were originated prior to 2017.

At December 31, 2020, commercial and industrial and SBA loans to customers in the hotel, restaurant, entertainment, retail trade, or recreation industries represented approximately $97 million in loans, or approximately 1% of total loans; $2.6 million of these loans are classified and $2.7 million are on deferment.

The table below provides the maturity distribution for held-for-investment total gross loans as of December 31, 2020. 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

	Within One Year	After One But Within Five Years	After Five Years	Total
		(Dollars in thousands)		
Types of Loans:				
Commercial real estate	$ 250,873	$ 1,654,783	$ 3,595,853	$ 5,501,509
Construction	76,453	8,692	-	85,145
SBA	11,522	23,002	269,372	303,896
SBA - PPP	-	882,986	-	882,986
Commercial and industrial	288,070	346,151	177,841	812,062
Dairy & livestock and agribusiness	260,241	99,065	1,840	361,146
Municipal lease finance receivables	96	6,223	39,228	45,547
SFR mortgage	123	295	270,093	270,511
Consumer and other loans	9,903	16,757	59,346	86,006
Total gross loans	$ 897,281	$ 3,037,954	$ 4,413,573	$ 8,348,808
Amount of Loans based upon:				
Fixed Rates	$ 174,052	$ 2,408,735	$ 2,308,500	$ 4,891,287
Floating or adjustable rates	723,229	629,219	2,105,073	3,457,521
Total gross loans	$ 897,281	$ 3,037,954	$ 4,413,573	$ 8,348,808

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.

Nonperforming Assets

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

	December 31,				
	2020	2019	2018 (1)	2017 (1)	2016 (1)
	(Dollars in thousands)				
Nonaccrual loans	$14,347	$ 5,033	$16,442	$ 6,516	$ 5,526
Loans past due 90 days or more and still accruing interest					
Nonperforming troubled debt restructured loans (TDRs	-	244	3,509	4,200	1,626
Total nonperforming loans	14,347	5,277	19,951	10,716	7,152
OREO, net	3,392	4,889	420	4,527	4,527
Total nonperforming assets	$17,739	$10,166	$20,371	$15,243	$11,679
Performing TDRs	$ 2,159	$ 3,112	$ 3,594	$ 4,809	$19,233
Total nonperforming loans and performing TDRs	$16,506	$ 8,389	$23,545	$15,525	$26,385
Percentage of nonperforming loans and performing TDRs to total loans, net of deferred fees	0.20%	0.11%	0.30%	0.32%	0.60%
Percentage of nonperforming assets to total loans outstanding, net of deferred fees, and OREO	0.21%	0.13%	0.26%	0.32%	0.27%
Percentage of nonperforming assets to total assets	0.12%	0.09%	0.18%	0.18%	0.14%

(1) Excludes PCI loans.

Troubled Debt Restructurings

Total TDRs were $2.2 million at December 31, 2020, compared to $3.4 million at December 31, 2019. At December 31, 2020, all of our TDRs were performing and accruing interest as restructured loans. Our performing TDRs were generally provided a modification of loan repayment terms in response to borrower financial difficulties. The performing restructured loans represent the only 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.

In accordance with regulatory guidance, if borrowers are less than 30 days past due on their loans and enter into loan modifications offered as a result of COVID-19, their loans generally continue to be considered performing loans and continue to accrue interest during the period of the loan modification. For borrowers who are 30 days or more past due when entering into loan modifications offered as a result of COVID-19, we evaluate the loan modifications under our existing troubled debt restructuring framework, and where such a loan modification would result in a concession to a borrower experiencing financial difficulty, the loan will be accounted for as a TDR and will generally not accrue interest. For all borrowers who enroll in these loan modification programs offered as a result of COVID-19, the delinquency status of the borrowers is frozen, resulting in a static delinquency metric during the deferral period. Upon exiting the deferral program, the measurement of loan delinquency will resume where it had left off upon entry into the program. As of January 15, 2021, we had temporary payment deferments of principal, or of principal and interest on six loans in the amount of $10.0 million. These deferments were primarily for 90 days, with 85% of these loans being rated special mention or classified.

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

	December 31,			
	2020		2019	
	Balance	Number of Loans	Balance	Number of Loans
	(Dollars in thousands)			
Performing TDRs:				
Commercial real estate	$ 320	1	$ 397	1
Construction	-	-	-	-
SBA	-	-	536	1
Commercial and industrial	43	1	78	2
Dairy & livestock and agribusiness	-	-	-	-
SFR mortgage	1,796	7	2,101	8
Consumer and other	-	-	-	-
Total performing TDRs	$ 2,159	9	$ 3,112	12
Nonperforming TDRs:				
Commercial real estate	$ -	-	$ -	-
Construction	-	-	-	-
SBA	-	-	-	-
Commercial and industrial	-	-	-	-
Dairy & livestock and agribusiness	-	-	-	-
SFR mortgage	-	-	-	-
Consumer and other	-	-	244	1
Total nonperforming TDRs	$ -	-	$ 244	1
Total TDRs	$ 2,159	9	$ 3,356	13

At December 31, 2020 and 2019, there was no ACL specifically allocated to TDRs. Impairment amounts identified are typically charged off against the allowance at the time a probable loss is determined. There were no charge-offs on TDRs for 2020, compared to $78,000 for the same period of 2019.

Nonperforming Assets and Delinquencies

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

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
			(Dollars in thousands)		
Nonperforming loans (1):					
Commercial real estate	$ 7,563	$ 6,481	$ 2,628	$ 947	$ 724
Construction	-	-	-	-	-
SBA	2,273	1,724	1,598	2,748	2,032
Commercial and industrial	3,129	1,822	1,222	1,703	1,266
Dairy & livestock and agribusiness	785	849	-	-	-
SFR mortgage	430	675	1,080	864	878
Consumer and other loans	167	224	289	166	377
Total	**$ 14,347**	**$ 11,775**	**$ 6,817**	**$ 6,428**	**$ 5,277**
% of Total loans	**0.17%**	**0.14%**	**0.08%**	**0.09%**	**0.07%**
Past due 30-89 days:					
Commercial real estate	$ -	$ -	$ 4	$ 210	$ -
Construction	-	-	-	-	-
SBA	1,965	66	214	3,086	1,402
Commercial and industrial	1,101	3,627	630	665	2
Dairy & livestock and agribusiness	-	-	882	166	-
SFR mortgage	-	-	446	233	249
Consumer and other loans	-	67	413	-	-
Total	**$ 3,066**	**$ 3,760**	**$ 2,589**	**$ 4,360**	**$ 1,653**
% of Total loans	**0.04%**	**0.04%**	**0.03%**	**0.06%**	**0.02%**
OREO:					
Commercial real estate	$ 1,575	$ 1,575	$ 2,275	$ 2,275	$ 2,275
SBA	-	797	797	797	797
SFR mortgage	1,817	1,817	1,817	1,817	1,817
Total	**$ 3,392**	**$ 4,189**	**$ 4,889**	**$ 4,889**	**$ 4,889**
Total nonperforming, past due, and OREO	**$ 20,805**	**$ 19,724**	**$ 14,295**	**$ 15,677**	**$ 11,819**
% of Total loans	**0.25%**	**0.23%**	**0.17%**	**0.21%**	**0.16%**

(1) As of June 30, 2020, nonperforming loans included $25,000 of commercial and industrial loans past due 90 days or more and still accruing interest.

Nonperforming loans, defined as nonaccrual loans, nonperforming TDR loans and loans past due 90 days or more and still accruing interest, were $14.3 million at December 31, 2020, or 0.17% of total loans. Total nonperforming loans at December 31, 2020 included $11.0 million of nonperforming loans acquired from CB in the third quarter of 2018. This compares to nonperforming loans of $5.3 million, or 0.07% of total loans, at December 31, 2019. The $9.1 million increase in nonperforming loans was primarily due to increases of $6.8 million in nonperforming commercial real estate loans, $1.9 million in nonperforming commercial and industrial loans, $785,000 in nonperforming dairy & livestock and agribusiness loans, and $241,000 in nonperforming SBA loans. This was partially offset by a $448,000 decrease in nonperforming SFR mortgage loans and a $210,000 decrease in nonperforming consumer and other loans.

At December 31, 2020, we had two OREO properties with a carrying value of $3.4 million, compared to four properties with a carrying value of $4.9 million at December 31, 2019. We reflected a $700,000 write-down of one OREO property in the third quarter of 2020. During 2020, we sold two OREO properties, realizing a net gain on sale of $365,000. There were no additions to OREO for the year ended December 31, 2020.

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 Credit Losses

We adopted CECL on January 1, 2020, which replaces the "incurred loss" approach with an "expected loss" model over the life of the loan, as further described in Note 3 – *Summary of Significant Accounting Policies* of the notes to the unaudited condensed consolidated financial statements. The allowance for credit losses totaled $93.7 million as of December 31, 2020, compared to $68.7 million as of December 31, 2019. Our allowance for credit losses at December 31, 2020 was 1.12%, or 1.25% of total loans when excluding the $883.0 million in PPP loans. Upon implementation of CECL, a transition adjustment of $1.8 million was added to the beginning balance of the allowance and was increased by a $23.5 million credit loss provision for 2020 due to the severe economic disruption resulting from the COVID-19 pandemic. Net charge-offs were $308,000 for 2020. This compares to a $5.0 million loan loss provision and $47,000 in net recoveries for the same period of 2019.

The allowance for credit losses as of December 31, 2020 is based upon lifetime loss rate models developed from an estimation framework that uses historical lifetime loss experiences to derive loss rates at a collective pool level. We measure the expected credit losses on a collective (pooled) basis for those loans that share similar risk characteristics. We have three collective loan pools: Commercial Real Estate, Commercial and Industrial, and Consumer. Our ACL amounts are largely driven by portfolio characteristics, including loss history and various risk attributes, and the economic outlook for certain macroeconomic variables. Risk attributes for commercial real estate loans include OLTV, origination year, loan seasoning, and macroeconomic variables that include GDP growth, commercial real estate price index and unemployment rate. Risk attributes for commercial and industrial loans include internal risk ratings, borrower industry sector, loan credit spreads and macroeconomic variables that include unemployment rate and BBB spread. The macroeconomic variables for Consumer include unemployment rate and GDP. The Commercial Real Estate methodology is applied over commercial real estate loans, a portion of construction loans, and a portion of SBA loans (excluding Payment Protection Program loans). The Commercial and Industrial methodology is applied over a substantial portion of the Company's commercial and industrial loans, all dairy & livestock and agribusiness loans, municipal lease receivables, as well as the remaining portion of Small Business Administration (SBA) loans (excluding Payment Protection Program loans). The Consumer methodology is applied to SFR mortgage loans, consumer loans, as well as the remaining construction loans. In addition to determining the quantitative life of loan loss rate to be applied against the portfolio segments, management reviews current conditions and forecasts to determine whether adjustments are needed to ensure that the life of loan loss rates reflect both the current state of the portfolio, and expectations for macroeconomic changes.

For the year ended December 31, 2020, the ACL increased by $25.0 million, including a $1.8 million increase from the adoption of CECL on January 1, 2020. The increase in the ACL was primarily due to $23.5 million in provision for credit losses recorded in the first half of 2020 resulting from the forecasted changes in macroeconomic variables related to the COVID-19 pandemic. Our economic forecast continues to be a blend of multiple forecasts produced by Moody's, including Moody's baseline forecast, as well as upside and downside forecasts. The baseline forecast continues to represent the largest weighting in our multi-weighted forecast scenario, while due to economic uncertainty a greater weighting was placed on the downside economic forecast, relative to the upside forecast. Our forecast assumes GDP will increase by 2.5% in 2021 and then grow by 3.6% in 2022 and 2023. The unemployment rate is forecasted to be 7.7% in 2021, before declining to 7.2% percent in 2022 and 5.7% in 2023. Management believes that the ACL was appropriate at December 31, 2020 and 2019. As there is a high degree of uncertainty around the epidemiological assumptions and impact of government responses to the pandemic that impact our economic forecast, no assurance can be given that economic conditions that adversely affect the Company's service areas or other circumstances will not be reflected in an increased allowance for credit losses in future periods.

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 credit losses for the periods presented.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in thousands)				
Allowance for credit losses at beginning of period	$ 68,660	$ 63,613	$ 59,585	$ 61,540	$ 59,156
Impact of adopting ASU 2016-13	1,840	-	-	-	-
Charge-offs:					
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
SBA	(362)	(321)	(257)	-	-
Commercial and industrial	(195)	(48)	(10)	(138)	(120)
Dairy & livestock and agribusiness	-	(78)	-	-	-
SFR mortgage	-	-	(13)	-	(102)
Consumer and other loans	(109)	(7)	(11)	(13)	(16)
Total charge-offs	(666)	(454)	(291)	(151)	(238)
Recoveries:					
Commercial real estate	-	-	-	154	792
Construction	11	12	2,506	6,036	7,174
SBA	72	9	20	78	40
Commercial and industrial	10	255	82	118	630
Dairy & livestock and agribusiness	-	19	19	19	216
SFR mortgage	206	196	51	212	-
Consumer and other loans	59	10	141	79	170
Total recoveries	358	501	2,819	6,696	9,022
Net recoveries	(308)	47	2,528	6,545	8,784
Provision for (recapture of) credit losses	23,500	5,000	1,500	(8,500)	(6,400)
Allowance for credit losses at end of period	$ 93,692	$ 68,660	$ 63,613	$ 59,585	$ 61,540
Summary of reserve for unfunded loan commitments:					
Reserve for unfunded loan commitments at beginning of period	$ 8,959	$ 8,959	$ 6,306	$ 6,706	$ 7,156
Impact of adopting ASU 2016-13	41				
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)
Reserve for unfunded loan commitments at end of period	$ 9,000	$ 8,959	$ 8,959	$ 6,306	$ 6,706
Reserve for unfunded loan commitments to total unfunded loan commitments	0.54%	0.56%	0.51%	0.66%	0.76%
Amount of total loans at end of period (1)	$ 8,348,808	$ 7,564,577	$ 7,764,611	$ 4,830,631	$ 4,395,064
Average total loans outstanding (1)	$ 8,066,483	$ 7,552,505	$ 5,905,674	$ 4,623,244	$ 4,195,129
Net (charge-offs) recoveries to average total loans	-0.004%	0.00%	0.04%	0.14%	0.21%
Net (charge-offs) recoveries to total loans at end of period	-0.004%	0.00%	0.03%	0.14%	0.20%
Allowance for credit losses to average total loans	1.16%	0.91%	1.08%	1.29%	1.47%
Allowance for credit losses to total loans at end of period	1.12%	0.91%	0.82%	1.23%	1.40%
Net (charge-offs) recoveries to allowance for credit losses	-0.33%	0.07%	3.97%	10.98%	14.27%
Net (charge-offs) recoveries to provision for (recapture of) credit losses	-1.31%	0.94%	168.53%	-77.00%	-137.25%

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

Table of Contents

The ACL/Total Loan Coverage Ratio as of December 31, 2020 increased to 1.12%, compared to 0.93% as of January 1, 2020 due to the forecasted impact on the economy from the COVID-19 crisis.

At implementation of CECL on January 1, 2020, the reserve for unfunded loan commitments included a transition adjustment of $41,000 for our off-balance sheet credit exposures. The Bank's ACL methodology also produced an allowance of $9.0 million for our off-balance sheet credit exposures, which was unchanged from the allowance at January 1, 2020.

While we believe that the allowance at December 31, 2020 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 credit losses in the future.

The following table provides a summary of the allocation of the allowance for credit 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 credit losses will occur in these amounts or proportions, or that the portion of the allowance allocated to each loan category, represents the total amount available for future losses that may occur within these categories.

Allowance for Credit Losses by Loan Type

	December 31,									
	2020		2019		2018		2017		2016	
	Allowance Amount	Loans as % of Total Loans	Allowance Amount	Loans as % of Total Loans	Allowance Amount	Loans as % of Total Loans	Allowance Amount	Loans as % of Total Loans	Allowance Amount	Loans as % of Total Loans
	(Dollars in thousands)									
Commercial real estate	$ 75,439	65.9%	$ 48,629	71.0%	$ 44,934	69.4%	$ 41,722	69.8%	$ 37,443	66.6%
Construction	1,934	1.0%	858	1.5%	981	1.6%	984	1.6%	1,096	1.9%
SBA	2,992	3.6%	1,453	4.0%	1,062	4.5%	869	2.5%	871	2.2%
SBA - PPP	-	10.6%	-	-	-	-	-	-	-	-
Commercial and industrial	7,142	9.7%	8,880	12.4%	7,520	12.9%	7,280	10.6%	8,154	11.0%
Dairy & livestock and agribusiness	3,949	4.4%	5,255	5.1%	5,215	5.1%	4,647	7.2%	8,541	7.7%
Municipal lease finance receivables	74	0.5%	623	0.7%	775	0.8%	851	1.5%	941	1.5%
SFR mortgage	367	3.2%	2,339	3.8%	2,196	3.8%	2,112	4.9%	2,287	5.7%
Consumer and other loans	1,795	1.1%	623	1.5%	726	1.7%	753	1.3%	988	1.8%
PCI loans	-	-	-	-	204	0.2%	367	0.6%	1,219	1.6%
Total	$ 93,692	100.0%	$ 68,660	100.0%	$ 63,613	100.0%	$ 59,585	100.0%	$ 61,540	100.0%

Deposits

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

Total deposits were $11.74 billion at December 31, 2020. This represented an increase of $3.03 billion, or 34.83%, over total deposits of $8.70 billion at December 31, 2019.

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.

	Year Ended December 31,					
	2020		2019		2018	
	Average					
	Balance	Rate	Balance	Rate	Balance	Rate
	(Dollars in thousands)					
Noninterest-bearing deposits	$ 6,281,989	-	$ 5,177,035	-	$ 4,449,110	-
Interest-bearing deposits						
Investment checking	478,458	0.08%	452,437	0.11%	438,112	0.08%
Money market	2,599,553	0.31%	2,197,194	0.54%	1,834,540	0.36%
Savings	452,595	0.09%	399,154	0.10%	384,008	0.10%
Time deposits	445,962	0.85%	487,221	0.91%	453,031	0.57%
Total deposits	$ 10,258,557		$ 8,713,041		$ 7,558,801	

The amount of noninterest-bearing deposits in relation to total deposits is an integral element in our strategy of seeking to achieve a low cost of funds. Average noninterest-bearing deposits totaled $6.28 billion for 2020, representing an increase of $1.10 billion, or 21.34%, from average demand deposits of $5.18 billion for 2019. Average noninterest-bearing deposits represented 61.24% of total average deposits for 2020, compared to 59.42% of total average deposits for 2019.

Average savings deposits, which include savings, interest-bearing demand, and money market accounts, were $3.53 billion for 2020, representing an increase of $481.8 million, or 15.80%, from average savings deposits of $3.05 billion for 2019.

Average time deposits totaled $446.0 million for 2020, representing a decrease of $41.3 million, or 8.47%, from total average time deposits of $487.2 million for 2019.

The following table provides the remaining maturities of large denomination ($250,000 or more) time deposits, including public funds, at December 31, 2020.

Maturity Distribution of Large Denomination Time Deposits

	December 31, 2020
	(Dollars in thousands)
3 months or less	$ 35,384
Over 3 months through 6 months	15,277
Over 6 months through 12 months	27,685
Over 12 months	21,954
Total	$ 100,300

Time deposits totaled $401.7 million at December 31, 2020, representing a decrease of $44.6 million, or 10.00%, from total time deposits of $446.3 million for December 31, 2019.

Borrowings

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, 2020				
Amount outstanding	$ 439,406	$ -	$ 5,000	$ 444,406
Weighted-average interest rate	0.10%	-	-	0.10%
Year ended December 31, 2020				
Highest amount at month-end	$ 501,881	$ -	$ 10,000	$ 511,881
Daily-average amount outstanding	$ 479,956	$ -	$ 5,674	$ 485,630
Weighted-average interest rate	0.24%	-	0.04%	0.23%
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, 2020, our borrowings included $439.4 million of repurchase agreements and $5.0 million in other short-term borrowing at an interest rate of 0%. At December 31, 2019, our borrowings included $428.7 million in repurchase agreements.

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, 2020, total funds borrowed under these agreements were $439.4 million with a weighted average interest rate of 0.10%, compared to $428.7 million with a weighted average rate of 0.44% as of December 31, 2019.

At December 31, 2020, we had $5.0 million in short-term borrowings that were interest free advances from the FHLB, compared to no borrowings at December 31. 2019.

At December 31, 2020, our junior subordinated debentures of $25.8 million 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. Refer to Note 13 — *Borrowings* of the notes to the consolidated financial statements for a more detailed discussion.

At December 31, 2020, $6.07 billion of loans and $1.81 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, 2020.

		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)	$ 11,736,501	$ 11,697,276	$ 29,251	$ 9,362	$ 612
Customer repurchase agreements (1)	439,406	439,406	-	-	-
Junior subordinated debentures (1)	25,774	-	-	-	25,774
Deferred compensation	22,142	689	1,098	619	19,736
Operating leases	22,382	6,800	9,389	4,472	1,721
Affordable housing investment	1,950	1,026	864	47	13
Total	$ 12,248,155	$ 12,145,197	$ 40,602	$ 14,500	$ 47,856

(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.

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, 2020.

		Maturity by Period			
	Total	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 real estate	$ 309,966	$ 50,755	$ 91,502	$ 136,108	$ 31,601
Construction	89,987	62,964	27,023	—	—
SBA	257	41	—	—	216
SBA - PPP	—	—	—	—	—
Commercial and industrial	928,767	623,258	193,791	5,793	105,925
Dairy & livestock and agribusiness (1)	140,926	109,823	31,049	—	54
SFR Mortgage	3,786	—	500	—	3,286
Consumer and other loans	131,604	9,227	13,389	3,186	105,802
Total commitment to extend credit	1,605,293	856,068	357,254	145,087	246,884
Obligations under letters of credit	53,164	51,856	1,308	—	—
Total	$ 1,658,457	$ 907,924	$ 358,562	$ 145,087	$ 246,884

(1) Total commitments to extend credit to agribusiness were $19.5 million at December 31, 2020.

As of December 31, 2020, we had commitments to extend credit of approximately $1.61 billion, and obligations under letters of credit of $53.2 million. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any material 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. Due to the adoption of CECL on January 1, 2020, a transition adjustment of $41,000 was added to the beginning balance of the reserve for unfunded loan commitments. The Company recorded no provision or recapture of provision for unfunded loan commitments for the year December 31, 2020 and 2019. The Company had a reserve for unfunded loan commitments of $9.0 million as of December 31, 2020 and 2019 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 our capital.

Total equity increased $13.9 million, or 0.70%, to $2.01 billion at December 31, 2020, compared to total equity of $1.99 billion at December 31, 2019. The $13.9 million increase in equity was primarily due to $177.2 million in net earnings, a $22.7 million increase in other comprehensive income resulting from the tax effected impact of the increase in market value of our investment securities portfolio, and $4.7 million for various stock based compensation items. This was offset by $91.7 million in stock repurchases under our 10b5-1 stock repurchase program, $97.7 million in cash dividends declared and a cumulative effect adjustment to beginning retained earnings of $1.3 million, net of tax, due to the adoption of CECL on January 1, 2020. Our tangible common equity ratio was 9.55% at December 31, 2020.

During 2020, 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. For the year ended December 31, 2020, the Company repurchased 4,944,290 shares of CVB common stock outstanding under this program. As of December 31, 2020, we have 4,585,145 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, 2020, 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, 2020, 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. We did not elect to phase in the impact of CECL on regulatory capital, as allowed under the interim final rule of the FDIC and other U.S. banking agencies.

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

				December 31, 2020		December 31, 2019	
Capital Ratios	**Adequately Capitalized Ratios**	**Minimum Required Plus Capital Conservation Buffer**	**Well Capitalized Ratios**	**CVB Financial Corp. Consolidated**	**Citizens Business Bank**	**CVB Financial Corp. Consolidated**	**Citizens Business Bank**
Tier 1 leverage capital ratio	4.00%	4.00%	5.00%	9.90%	9.58%	12.33%	12.19%
Common equity Tier 1 capital ratio	4.50%	7.00%	6.50%	14.77%	14.57%	14.83%	14.94%
Tier 1 risk-based capital ratio	6.00%	8.50%	8.00%	15.06%	14.57%	15.11%	14.94%
Total risk-based capital ratio	8.00%	10.50%	10.00%	16.24%	15.75%	16.01%	15.83%

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, effects of pandemics, 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.

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 75% to 90% 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 credit losses by charging a provision for credit losses to earnings. Loans determined to be losses are charged against the allowance for credit losses. In this regard, it is important to note that the Bank's practice with regard to these loans, including modified loans or troubled debt restructurings that are classified as impaired, is to generally charge off any loss amount against the ACL upon evaluating the loan at the time a probable loss becomes recognized. As such, the Bank's specific allowance for loans, including troubled debt restructurings, is relatively low since any known loss amount will generally have been charged off.

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, 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.

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

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 Management

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, vendors or business partners 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. Strategic planning sessions, with members of the Board of Directors and Executive Leadership, are held annually. The strategic review consists of results of strategic initiatives, an assessment of the economic outlook, competitive analysis, and an industry outlook, including a legislative and regulatory review.

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.

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 quarterly 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 $11.74 billion at December 31, 2020 increased $3.03 billion, or 34.83%, over total deposits of $8.70 billion at December 31, 2019. This significant deposit growth was primarily due to our customers maintaining greater liquidity.

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.

At December 31, 2020, we had $25.8 million in subordinated debt and $5.0 million in FHLB short-term borrowings at 0% cost. The Bank has available lines of credit exceeding $4 billion, most of which is secured by pledged loans. Our balance sheet has significant liquidity and our assets are funded almost entirely with core deposits. Furthermore, we have significant off-balance sheet sources of liquidity.

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.

Below is a summary of our average cash position and statement of cash flows for the years ended December 31, 2020 and 2019. 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, 2020	2019
	(Dollars in thousands)	
Average cash and cash equivalents	$ 1,226,262	$ 288,425
Percentage of total average assets	9.48%	2.55%
Net cash provided by operating activities	$ 185,096	$ 208,182
Net cash (used in) provided by investing activities	(1,268,758)	325,323
Net cash provided by (used in) financing activities	2,856,304	(511,935)
Net increase in cash and cash equivalents	$ 1,772,642	$ 21,570

Average cash and cash equivalents increased by $937.8 million, or 325.16%, to $1.23 billion for the year ended December 31, 2020, compared to $288.4 million for 2019.

At December 31, 2020, cash and cash equivalents totaled $1.96 billion. This represented an increase of $1.78 billion, or 955.51%, from $185.5 million at December 31, 2019.

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, 2020 of interest-earning assets and interest-bearing liabilities, including the average rate earned or incurred for 2020, 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, 2020	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)	$ 2,398,923	1.97%	$ 12,694	$ 149,991	$ 613,608	$ 686,367	$ 936,263	$ 2,398,923
Investment securities held-to-maturity (1)	578,626	2.48%	34,306	42,548	84,513	149,053	268,206	604,223
Investment in FHLB stock	17,688	5.53%	-	-	-	-	17,688	17,688
Interest-earning deposits due from Federal	1,879,418	0.15%	1,878,678	-	740	-	-	1,879,455
Reserve and with other institutions								
Loans and lease finance receivables (2)	8,348,808	4.68%	897,281	1,413,759	555,899	483,212	4,998,657	8,349,870
Total interest-earning assets	$ 13,223,463		$ 2,822,959	$ 1,606,298	$ 1,254,760	$1,318,632	$ 6,220,814	$ 13,250,159
Interest-bearing liabilities:								
Interest-bearing deposits	$ 4,281,114	0.32%	$ 4,241,889	$ 24,154	$ 5,096	$ 1,312	$ 8,663	$ 4,281,952
Borrowings	444,406	0.23%	444,406	-	-	-	-	444,349
Junior subordinated debentures	25,774	2.10%	-	-	-	-	25,774	19,431
Total interest-bearing liabilities	$ 4,751,294		$ 4,686,295	$ 24,154	$ 5,096	$ 1,312	$ 34,437	$ 4,745,732

(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 repricing 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, when rates are ramped up 200bps or ramped down 100bps over a 12-month time horizon.

	Estimated Net Interest Income Sensitivity (1)				
	December 31, 2020			December 31, 2019	
Interest Rate Scenario	**12-month Period**	**24-month Period (Cumulative)**	**Interest Rate Scenario**	**12-month Period**	**24-month Period (Cumulative)**
+ 200 basis points	11.10%	19.60%	+ 200 basis points	5.20%	10.00%
- 100 basis points	-1.20%	-2.40%	- 100 basis points	-2.10%	-4.60%

(1) Percentage change from base scenario, but the current low interest rate environment limits the absolute decline in rates as the model does not assume rates go below zero.

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. Our exposure in the rates down scenario is impacted by the current low interest rate environment and the model does not assume that rates go below 0.01%.

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, 2020 and December 31, 2019, 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, 2020	December 31, 2019
100 bp decrease in interest rates	-21.0%	-17.5%
100 bp increase in interest rates	16.1%	14.2%
200 bp increase in interest rates	28.4%	25.5%
300 bp increase in interest rates	34.4%	30.0%
400 bp increase in interest rates	41.6%	36.2%

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 B+ 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, 2020, we had $389.0 million in Fed Funds lines of credit with other major U.S. banks. These lines of credit are available for overnight borrowings; and
- At December 31, 2020, we had $5.0 million in FHLB short-term borrowing at 0% cost. Our secured borrowing capacity with the FHLB was $4.29 billion, of which $4.29 billion was available as of December 31, 2020.

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.

Table of Contents

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

CVB Financial Corp.
Index to Consolidated Financial Statements
and Financial Statement Schedules

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, 2020, 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, 2020 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, 2020.

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, 2020, 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, 2020, 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, 2020 and 2019, 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, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated March 1, 2021 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 1, 2021

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, 2020, 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 it 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, 2020 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	428,320	$ 17.57	7,322,206
Equity compensation plans not approved by security holders	-	-	-
Total	428,320	$ 17.57	7,322,206

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.

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 89 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 89 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 95 of this Annual Report on Form 10-K.

(b) Exhibits
See Index to Exhibits on Page 95 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

Table of Contents

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 (5)
10.1	CVB Financial Corp. 401(k) & Profit Sharing Plan, as amended†(6)
10.2	Form of Indemnification Agreement (7)
10.3(a)	CVB Financial Corp. 2008 Equity Incentive Plan†(8)
10.3(b)	CVB Financial Corp. Amendment No. 1 to the 2008 Equity Incentive Plan†(9)
10.3(c)	CVB Financial Corp. Amendment No. 2 to the 2008 Equity Incentive Plan†(10)
10.3(d)	CVB Financial Corp. Amendment No. 3 to the 2008 Equity Incentive Plan†(11)
10.3(e)	CVB Financial Corp. Amendment No. 4 to the 2008 Equity Incentive Plan†(12)
10.3(f)	CVB Financial Corp. Amendment No. 5 to the 2008 Equity Incentive Plan†(13)
10.3(g)	Form of Notice of Non-Qualified Stock Option Grant and Agreement pursuant to the 2008 Equity Incentive Plan†(14)
10.3(h)	Form of Notice of Grant and Restricted Stock Agreement pursuant to the 2008 Equity Incentive Plan†(15)
10.4(a)	CVB Financial Corp. 2018 Equity Incentive Plan†(16)
10.4(b)	Form of Stock Option Agreement under 2018 Equity Incentive Plan†(17)
10.4(c)	Form of Restricted Stock Agreement under 2018 Equity Incentive Plan†(18)
10.4(d)	Form of Restricted Stock Unit Agreement under 2018 Equity Incentive Plan†(19)
10.5(a)	The Executive Non Qualified Excess Plan(SM) Plan Document effective February 21, 2007†(20)
10.5(b)	CVB Financial Corp. Deferred Compensation Plan effective December 1, 2020†*
10.6	CVB Financial Corp. 2015 Executive Incentive Plan†(21)
10.7(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 †(22)
10.7(b)	Deferred Compensation Plan for Christopher D. Myers, effective January 1, 2007†(23)
10.7(c)	Retirement and Consulting Agreement for Christopher D. Myers, dated July 17, 2019†(24)
10.7(d)	Amendment to Employment Agreement for Christopher D. Myers, Dated July 17, 2019†(25)
10.8	Employment Agreement by and among CVB Financial Corp. and Citizens Business Bank, on the one hand, and David A. Brager, on the other hand, dated as of February 14, 2020. †(26)
10.9(a)	Offer letter for David C. Harvey, dated December 7, 2009†(27)
10.9(b)	Severance Compensation Agreement by and between David C. Harvey and Citizens Business Bank, effective January 28, 2021†(28)
10.10(a)	Offer Letter for E. Allen Nicholson executed April 30, 2016†(29)
10.10(b)	Severance Compensation Agreement by and between E. Allen Nicholson and Citizens Business Bank, effective January 28, 2021†(28)
10.11(a)	Offer Letter for David Farnsworth dated July 1, 2016†(30)
10.11(b)	Severance Compensation Agreement by and between David Farnsworth and Citizens Business Bank, effective January 28, 2021†(28)
10.12	Severance Compensation Agreement by and between Yamynn De Angelis and Citizens Business Bank, effective January 28, 2021†(28)
10.13	Severance Compensation Agreement by and between Richard H. Wohl and Citizens Business Bank, effective January 28, 2021†(28)
21	Subsidiaries of the Company*
23	Consent of KPMG LLP*
31.1	Certification of David A. Brager pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

Exhibit No.	
31.2	Certification of E. Allen Nicholson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of David A. Brager 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, 2020, 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.
D 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 4.2 to our Annual Report on Form 10-K filed with the SEC on March 2, 2020.
Incorporated herein by reference to Exhibit 10.2 to the Annual Report on Form 10-K filed with the SEC on February 29, 2016.
(6) Incorporated herein by reference to Exhibit 10.2 to the Annual Report on Form 10-K filed with the SEC on February 29, 2016.
(7) Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed June 29, 2016.
(8) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 16, 2008.
(9) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on September 22, 2009
(10) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on November 24, 2009.
(11) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on February 6, 2014.
(12) Incorporated herein by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed with the SEC on May 10, 2017.
(13) Incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on May 10, 2017.

(14) Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.
(15) Incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on May 23, 2008.
(16) Incorporated herein by reference to Annex A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 4, 2018.
(17) Incorporated herein by reference to Exhibit 10.2 to our Form 8-K filed with the SEC on May 24, 2018.
(18) Incorporated herein by reference to Exhibit 10.3 to our Form 8-K filed with the SEC on May 24, 2018.
(19) Incorporated hereby by reference to Exhibit 10.4 to our Form 8-K filed with the SEC on May 24, 2018.
(20) Incorporated herein by reference to Exhibit 10.26 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.
(21) Incorporated herein by reference to Exhibit A to our Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 3, 2015
(22) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on September 13, 2018.
(23) Incorporated herein by reference to Exhibit 10.23 to our Annual Report on Form 10-K filed with the SEC on March 1, 2007.
(24) Incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed with the SEC on July 19, 2019.
(25) Incorporated herein by reference to Exhibit 10.2 to our Form 8-K filed with the SEC on July 19, 2019.
(26) Incorporated herein by reference to Exhibit 10.1 to our Form 8-K filed with the SEC on February 20, 2020
(27) 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.
(28) Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 28, 2021.
(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 10.3 to the Quarterly Report on Form 10-Q filed November 9, 2016.

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 1st day of March 2021.

CVB FINANCIAL CORP.

By: /s/ DAVID A. BRAGER
David A. Brager
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 Raymond V. O'Brien III	Chairman of the Board	March 1, 2021
/s/ GEORGE A. BORBA, JR. George A. Borba, Jr.	Vice Chairman	March 1, 2021
/s/ STEPHEN A. DEL GUERCIO Stephen A. Del Guercio	Director	March 1, 2021
/s/ RODRIGO GUERRA, JR. Rodrigo Guerra, Jr.	Director	March 1, 2021
/s/ ANNA KAN Anna Kan	Director	March 1, 2021
/s/ MARSHALL V. LAITSCH Marshall V. Laitsch	Director	March 1, 2021
/s/ KRISTINA M. LESLIE Kristina M. Leslie	Director	March 1, 2021
/s/ JANE OLVERA Jane Olvera	Director	March 1, 2021
/s/ HAL W. OSWALT Hal W. Oswalt	Director	March 1, 2021
/s/ DAVID A. BRAGER David A. Brager	Director and Chief Executive Officer (Principal Executive Officer)	March 1, 2021
/s/ E. ALLEN NICHOLSON E. Allen Nicholson	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 2021

Table of Contents

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

	December 31, 2020	December 31, 2019
Assets		
Cash and due from banks	$ 122,305	$ 158,310
Interest-earning balances due from Federal Reserve	1,835,855	27,208
Total cash and cash equivalents	1,958,160	185,518
Interest-earning balances due from depository institutions	43,563	2,931
Investment securities available-for-sale, at fair value (with amortized cost of $2,344,174 at December 31, 2020, and $1,718,357 at December 31, 2019)	2,398,923	1,740,257
Investment securities held-to-maturity (with fair value of $604,223 at December 31, 2020, and $678,948 at December 31, 2019)	578,626	674,452
Total investment securities	2,977,549	2,414,709
Investment in stock of Federal Home Loan Bank (FHLB)	17,688	17,688
Loans and lease finance receivables	8,348,808	7,564,577
Allowance for credit losses	(93,692)	(68,660)
Net loans and lease finance receivables	8,255,116	7,495,917
Premises and equipment, net	51,144	53,978
Bank owned life insurance (BOLI)	226,818	226,281
Accrued interest receivable	31,306	28,122
Intangibles	33,634	42,986
Goodwill	663,707	663,707
Other real estate owned (OREO)	3,392	4,889
Income taxes	29,540	35,587
Other assets	127,697	110,137
Total assets	$ 14,419,314	$ 11,282,450
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 7,455,387	$ 5,245,517
Interest-bearing	4,281,114	3,459,411
Total deposits	11,736,501	8,704,928
Customer repurchase agreements	439,406	428,659
Other borrowings	5,000	-
Deferred compensation	21,611	22,666
Junior subordinated debentures	25,774	25,774
Payable for securities purchased	60,113	-
Other liabilities	122,919	106,325
Total liabilities	12,411,324	9,288,352
Commitments and Contingencies		
Stockholders' Equity		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 135,600,501 at December 31, 2020, and 140,102,480 at December 31, 2019	1,211,780	1,298,792
Retained earnings	760,861	682,692
Accumulated other comprehensive income, net of tax	35,349	12,614
Total stockholders' equity	2,007,990	1,994,098
Total liabilities and stockholders' equity	$ 14,419,314	$ 11,282,450

See accompanying notes to the consolidated financial statements.

Table of Contents

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

	Year Ended December 31, 2020	2019	2018
Interest income:			
Loans and leases, including fees	$ 377,402	$ 397,628	$ 293,284
Investment securities:			
Investment securities available-for-sale	36,052	39,330	45,988
Investment securities held-to-maturity	14,223	17,388	18,901
Total investment income	50,275	56,718	64,889
Dividends from FHLB stock	978	1,235	2,045
Interest-earning deposits with other institutions	1,682	2,269	1,642
Total interest income	430,337	457,850	361,860
Interest expense:			
Deposits	12,602	17,120	9,825
Borrowings and customer repurchase agreements	1,131	3,959	2,067
Junior subordinated debentures	551	999	923
Total interest expense	14,284	22,078	12,815
Net interest income before provision for credit losses	416,053	435,772	349,045
Provision for credit losses	23,500	5,000	1,500
Net interest income after provision for credit losses	392,553	430,772	347,545
Noninterest income:			
Service charges on deposit accounts	16,561	20,010	17,070
Trust and investment services	9,978	9,525	8,774
Bankcard services	1,886	3,163	3,485
BOLI income	8,100	5,798	4,018
Gain on OREO, net	388	129	3,546
Gain on sale of building, net	1,680	4,776	-
Gain on eminent domain condemnation, net	-	5,685	-
Other	11,277	9,956	6,588
Total noninterest income	49,870	59,042	43,481
Noninterest expense:			
Salaries and employee benefits	119,759	119,475	100,601
Occupancy and equipment	20,622	20,457	20,153
Professional services	9,460	7,752	6,477
Computer software expense	11,302	10,658	9,343
Marketing and promotion	4,488	5,890	5,302
Recapture of provision for unfunded loan commitments	-	-	(250)
Amortization of intangible assets	9,352	10,798	5,254
Acquisition related expenses	-	6,447	16,404
Other	17,920	17,263	16,627
Total noninterest expense	192,903	198,740	179,911
Earnings before income taxes	249,520	291,074	211,115
Income taxes	72,361	83,247	59,112
Net earnings	$ 177,159	$ 207,827	$ 152,003
Other comprehensive income (loss):			
Unrealized gain (loss) on securities arising during the period, before tax	$ 32,277	$ 43,872	$ (28,526)
Less: Reclassification adjustment for net gain on securities included in net income	-	(5)	-
Other comprehensive income (loss), before tax	32,277	43,867	(28,526)
Less: Income tax (expense) benefit related to items of other comprehensive income	(9,542)	(12,969)	8,434
Other comprehensive income (loss), net of tax	22,735	30,898	(20,092)
Comprehensive income	$ 199,894	$ 238,725	$ 131,911
Basic earnings per common share	$ 1.30	$ 1.48	$ 1.25
Diluted earnings per common share	$ 1.30	$ 1.48	$ 1.24

See accompanying notes to the consolidated financial statements.

Table of Contents

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, 2018	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	29,842	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
Cumulative adjustment upon adoption of ASU 2016-13	-	-	(1,325)	-	(1,325)
Repurchase of common stock	(5,008)	(92,772)	-	-	(92,772)
Exercise of stock options	20	231	-	-	231
Shares issued pursuant to stock-based compensation plan	487	5,529	-	-	5,529
Cash dividends declared on common stock ($0.72 per share)	-	-	(97,665)	-	(97,665)
Net earnings	-	-	177,159	-	177,159
Other comprehensive income	-	-	-	22,735	22,735
Balance, December 31, 2020	135,601	$1,211,780	$ 760,861	$ 35,349	$2,007,990

See accompanying notes to the consolidated financial statements.

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

	Year Ended December 31,		
	2020	2019	2018
Cash Flows from Operating Activities			
Interest and dividends received	$ 400,867	$ 438,795	$ 363,217
Service charges and other fees received	39,525	42,489	35,915
Interest paid	(13,627)	(21,193)	(13,241)
Net cash paid to vendors, employees and others	(168,036)	(182,568)	(171,998)
Income taxes	(73,633)	(69,341)	(48,876)
Payments to FDIC, loss share agreement	-	-	(64)
Net cash provided by operating activities	185,096	208,182	164,953
Cash Flows from Investing Activities			
Proceeds from redemption of FHLB stock	-	-	17,250
Net change in interest-earning balances from depository institutions	(40,632)	4,739	13,076
Proceeds from sale of investment securities held-for-sale	-	152,644	716,996
Proceeds from repayment of investment securities available-for-sale	642,576	364,126	383,155
Proceeds from maturity of investment securities available-for-sale	9,807	7,109	24,651
Purchases of investment securities available-for-sale	(1,231,163)	(492,995)	(98,709)
Proceeds from repayment and maturity of investment securities held-to-maturity	146,309	114,569	81,816
Purchases of investment securities held-to-maturity	(52,855)	(47,587)	-
Net increase in equity investments	(3,608)	(16,488)	(24,863)
Net (increase) decrease in loan and lease finance receivables	(743,290)	231,105	(179,054)
Proceeds on eminent domain condemnation, net	-	5,685	3,425
Proceeds from sale of building, net of selling costs	2,131	5,755	-
Purchase of premises and equipment	(4,672)	(5,522)	(4,194)
Proceeds from BOLI death benefit	5,477	1,660	2,383
Proceeds from sales of other real estate owned	1,162	523	8,067
Cash acquired from acquisition, net of cash paid	-	-	(132,918)
Net cash (used in) provided by investing activities	(1,268,758)	325,323	811,081
Cash Flows from Financing Activities			
Net increase (decrease) in other deposits	3,076,187	(36,926)	(444,316)
Net decrease in time deposits	(44,614)	(85,636)	(145,033)
Repayment of FHLB advances	-	-	(297,571)
Net increase (decrease) in other borrowings	5,000	(280,000)	114,000
Net increase (decrease) in customer repurchase agreements	10,747	(13,596)	(111,518)
Cash dividends on common stock	(98,475)	(95,352)	(65,966)
Repurchase of common stock	(92,772)	(2,640)	(7,760)
Proceeds from exercise of stock options	231	2,215	1,701
Net cash provided by (used in) financing activities	2,856,304	(511,935)	(956,463)
Net increase in cash and cash equivalents	1,772,642	21,570	19,571
Cash and cash equivalents, beginning of period	185,518	163,948	144,377
Cash and cash equivalents, end of period	$ 1,958,160	$ 185,518	$ 163,948

See accompanying notes to the consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2020	2019	2018
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities			
Net earnings	$ 177,159	$ 207,827	$ 152,003
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Gain on sale of investment securities, net	-	(5)	-
Gain on eminent domain condemnation, net	-	(5,685)	-
Gain on sale of building, net	(1,680)	(4,776)	-
Gain on sale of other real estate owned	(365)	(105)	(3,540)
Increase in BOLI	(5,303)	(5,670)	(5,751)
Net amortization of premiums and discounts on investment securities	15,045	10,298	13,531
Accretion of discount for acquired loans, net	(17,412)	(28,831)	(15,400)
Provision for credit losses	23,500	5,000	1,500
Recapture of provision for unfunded loan commitments	-	-	(250)
Valuation allowance on other real estate owned	700	-	-
Payments to FDIC, loss share agreement	-	-	(64)
Stock-based compensation	5,529	5,548	3,508
Depreciation and amortization, net	(1,157)	22,036	8,349
Change in other assets and liabilities	(10,920)	2,545	11,067
Total adjustments	7,937	355	12,950
Net cash provided by operating activities	$ 185,096	$ 208,182	$ 164,953
Supplemental Disclosure of Non-cash Investing Activities			
Securities purchased and not settled	$ 60,113	$ -	$ -
Transfer of loans to other real estate owned	$ -	$ 4,889	$ 420
Issuance of common stock for acquisition	$ -	$ -	$ 722,767

See accompanying notes to the consolidated financial statements.

CVB FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE YEARS ENDED DECEMBER 31, 2020

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 57 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 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

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 credit losses. Other significant estimates which may be subject to change include fair value determinations and disclosures, impairment of investments, goodwill, and loans, as well as valuation of deferred tax assets.

Adoption of New Accounting Standard — On January 1, 2020, the Company adopted 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. This ASU replaces the current “incurred loss” approach with an “expected loss” model. The new model, referred to as the Current Expected Credit Loss (“CECL”) model, applies 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, held-to-maturity (“HTM”) securities, loan commitments, and financial guarantees. For loans and HTM debt securities, this ASU requires a CECL measurement to estimate the allowance for credit losses (“ACL”) for the remaining contractual term, adjusted for prepayments, of the financial asset (including off-balance sheet credit exposures) using historical experience, current conditions, and reasonable and supportable forecasts. This ASU also eliminated the existing guidance for purchased credit-impaired (“PCI”) loans, but requires an allowance for purchased financial assets with more than an insignificant deterioration of credit since origination. Purchase Credit Deteriorated (“PCD”) assets are recorded at their purchase price plus an ACL estimated at the time of acquisition. Under this ASU, there is no provision for credit losses recognized at acquisition; instead, there is a gross-up of the purchase price of the financial asset for the estimate of expected credit losses and a corresponding ACL recorded. Changes in estimates of expected credit losses after acquisition are recognized as provision for credit losses (or reversal of provision for credit losses) in subsequent periods. In addition, this ASU modifies the OTTI model for available-for-sale (“AFS”) debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. As a policy election, we excluded the accrued interest receivable balance from the amortized cost basis of financing receivables and HTM securities, as well as AFS securities, and disclose total accrued interest receivable separately on the condensed consolidated balance sheet.

The Company adopted this ASU using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to beginning retained earnings of $1.3 million, net of tax as of January 1, 2020 for the cumulative adjustment upon adoption of ASC 326. The transition adjustment of $1.8 million was added to the beginning balance of the ACL for loans and $41,000 was added to the beginning balance of reserve for unfunded loan commitments. Upon adoption of CECL there was no impact on the accounting for AFS or HTM investment securities.

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.

As of December 31, 2020, 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 as of December 31, 2018 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 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 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.

Effective January 1, 2020, upon the adoption of ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", AFS debt securities are measured at fair value and are subject to impairment testing. A security is impaired if the fair value of the security is less than its amortized cost basis. When an available-for-sale debt security is considered impaired, the Company must determine if the decline in fair value has resulted from a credit-related loss or other factors and then, (1) recognize allowance for credit losses by a charge to earnings for the credit-related component (if any) of the decline in fair value, and (2) recognize in other comprehensive income (loss) non-credit related components of the fair value decline (if any). If the amount of the amortized cost basis expected to be recovered increases in a future period, the valuation allowance would be reduced, but not more than the amount of the current existing allowance for that security.

Prior to January 1, 2020, AFS debt securities were measured at fair value and declines in the fair value were reviewed to determine whether the impairment was other-than-temporary ("OTTI"). If the decline in fair value was considered temporary, the decline in fair value below the amortized cost basis of a security was recognized in other comprehensive income (loss). If the entire amortized cost basis of the security was not expected to be recovered, then an other-than-temporary impairment was considered to have occurred. The cost basis of the security was written down to its estimated fair value and the amount of the write-down was recognized through a charge to earnings. If the amount of the amortized cost basis expected to be recovered increased in a future period, the cost basis of the security would not be increased but rather recognized prospectively through interest 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, net of nonaccrual interest paid ("NAIP"), deferred loan origination fees and costs, and purchase price discounts and premiums (amortized cost basis). Refer to Note 6 — *Loans and Lease Finance Receivables and Allowance for Credit 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.

Nonaccrual, Past Due, Charge-Offs and Recoveries — 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. 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. Interest income is not recognized on loans and lease finance receivables when collection of interest is deemed by management to be doubtful. Charge-offs are recognized in the period an obligation becomes uncollectible. The charge-off of a credit does not necessarily mean that the loan has no potential recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be affected in the future. When determining the amount of the charge-off, management considers all components of the loan's amortized cost basis, excluding accrued interest receivable (as disclosed herein); however, the non-principal portion of charge-offs have been determined to be immaterial. This policy is consistently applied to all types of loans and lease finance receivables.

Charge-offs of unsecured consumer loans are recorded when the loan reaches 120 days past due or sooner as circumstances indicate.

Purchased Loans — All purchased loans 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 to determine if there is a more than insignificant deterioration of credit since origination. With the adoption of ASU 2016-13 on January 1, 2020, PCD assets are recorded at their purchase price plus an ACL estimated at the time of acquisition as described below.

Purchased Loans with Credit Deterioration

Effective January 1, 2020, ASU 2016-13 eliminated the existing guidance for PCI loans, but requires an allowance for purchased financial assets with more than an insignificant deterioration of credit since origination. The acquisition-date allowance for credit losses ("ACL") for PCD loans will be allocated to the individual PCD loans (assuming it was originally determined on a collective basis). The sum of the purchase price of the loan (the acquisition date fair value for a loan acquired in a business combination) and the ACL becomes the loan's new amortized cost basis. The difference between the new amortized cost basis and the unpaid principal balance of the loan represents the non-credit purchase premium or discount that will be amortized or accreted into interest income over the remaining life of the loan.

Subsequent to acquisition, the ACL for PCD loans will generally follow the same estimation, provision and charge-off process as non-PCD acquired and originated loans. Additionally, TDR identification for acquired loans (PCD and non-PCD) will be consistent with the TDR identification for originated loans.

Prior to January 1, 2020, purchased credit impaired loans were accounted for in accordance with ASC Subtopic 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." At the time of acquisition, these loans were recorded at estimated fair value based upon estimated future cash flows with no related allowance for credit losses.

Acquired non-impaired loans (prior to adoption of CECL) — 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, were referred to as Non-PCI loans. Purchase discounts or premiums on acquired non-impaired loans were recognized as an adjustment to interest income over the contractual life of such loans using the effective interest method or were taken into income when the related loans were paid off or sold.

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 (prior to adoption of CECL) — Following the adoption of CECL as of January 1, 2020, the definitions of impairment and related impaired loan disclosures were removed. Prior to January 1, 2020, a loan was generally considered impaired when based on current events and information it was probable that the Company would 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, was not considered an impaired loan. Generally, impaired loans include loans on nonaccrual status and TDRs.

The Company's policy was to record a specific valuation allowance, which was included in the allowance for loan losses, or to charge off that portion of an impaired loan that represented 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 was 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, was generally charged off and recorded against the allowance for loan losses at the time impairment was measurable and a probable loss was determined. The Company measured 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 have measured 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 was measured by determining the amount by which our recorded investment in the impaired loan exceeded the fair value of the collateral less estimated selling costs. The fair value was 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 were collateral dependent were 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 Credit Losses — On January 1, 2020, the Company adopted 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. This ASU replaces the current "incurred loss" approach with an "expected loss" model. The new model, referred to as the CECL model, applies 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, HTM securities, loan commitments, and financial guarantees. AFS debt securities are measured at fair value and are subject to impairment testing. This ASU modifies the OTTI model for AFS debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. When an AFS debt security is considered impaired, and the Company determines that the decline in fair value has resulted from a credit-related loss (as described previously under ***Investment Securities)***, then an allowance for credit losses will be recognized by a charge to earnings for the credit-related component of the decline in fair value. As a result, we will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as required prior to the adoption of CECL. As a policy election, we exclude the accrued interest receivable balance from the amortized cost basis of financing receivables and HTM securities, as well as AFS securities, and disclose total accrued interest receivable separately on the condensed consolidated balance sheet. If accrued interest is not received, it is reversed against interest income, which was zero for 2020.

The Company developed allowance models that calculate reserves over the average life of the loan, which includes the remaining time to maturity, adjusted for estimated prepayments applied as an adjustment to our commercial real estate and commercial and industrial loans. The allowance is based upon lifetime loss rate models developed from an estimation framework that uses historical lifetime loss experiences to derive loss rates at a collective pool level, for those loans that share similar risk characteristics. We have three collective loan pools: Commercial Real Estate, Commercial and Industrial, and Consumer. A substantial portion of the ACL relates to loans within the Commercial Real Estate and Commercial and Industrial methodologies, each evaluated on a collective basis. The Commercial Real Estate methodology is applied over commercial real estate loans, a portion of construction loans, and a portion of SBA loans (excluding Payment Protection Program loans). The Commercial and Industrial methodology is applied over a substantial portion of the Company's commercial and industrial loans, all dairy & livestock and agribusiness loans, municipal lease receivables, as well as the remaining portion of SBA loans (excluding Payment Protection Program loans). The collective ACL methodologies include an estimation framework that uses loss experiences of data sets of unique loans aggregated by each pool, respectively, to derive loss rates at the pool level during the average life of the underlying loans. Our ACL amounts are largely driven by portfolio characteristics, including loss history, Original Loan to Value Ratios ("OLTV"), internal risk grading, macroeconomic variables and the associated economic outlook, as well as other key methodology assumptions. The Company's ACL estimate incorporates a reasonable and supportable forecast of various macro-economic variables over the remaining average life of our loans. This forecast incorporates an assumption that each macro-economic variable will revert to a long-term expectation, starting in years 2-3, of the reasonable and supportable forecast period, with the reversion largely completed within the first five years of the forecast. The economic forecast is based on probability weighted scenarios to address macroeconomic uncertainty. In addition to determining the quantitative life of loan loss rate to be applied against the amortized cost basis of the portfolio segments, management reviews current conditions and forecasts to determine whether adjustments are needed to ensure that the life of loan loss rates reflect both the current state of the portfolio, and expectations for macroeconomic changes.

We monitor credit quality by evaluating various risk attributes and utilize such information in our evaluation of the appropriateness of the allowance for credit losses. An important element of our approach to credit risk management is our loan risk rating system (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. Refer to Note 6 — *Loans and Lease Finance Receivables and Allowance for Credit Losses, Credit Quality Indicators*

Provision and Allowance for Loan Losses ("ALLL") — Prior to adoption of CECL, the allowance for loan losses was management's estimate of probable losses inherent in the loan and lease receivables portfolio. The allowance was increased by the provision for loan losses and recoveries of prior loan losses, and it was decreased by recapture of provision for loan losses and by charge-offs taken when management believed the uncollectability of any loan was confirmed. Subsequent recoveries, if any, were added to the allowance. The determination of the balance in the allowance for loan losses was based on an analysis of the loan and lease finance receivables portfolio using a systematic methodology and reflected an amount that, in management's judgment, was 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 were different qualitative risks for the loans in each portfolio segment. The construction and real estate segments' predominant risk characteristic was 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 were 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 had risk characteristics that were similar to the real estate loan segment, while SBA 7(a) loans had risks that were similar to commercial and industrial loans. The dairy & livestock segment's predominant risk characteristics were milk and beef prices in the market as well as the cost of feed and cattle. The Agribusiness segment's predominant risk characteristics were 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 were 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 were 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. 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.

Prior to January 1, 2020, performing loans acquired through business combinations were evaluated separately by each acquired portfolio using the ALLL methodology. The results of the ALLL methodology were compared to the remaining fair value discounts by portfolio. If the remaining fair value discounts were determined to be insufficient, the allowance was increased to reflect the additional risk in the portfolio.

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 in the same manner as it evaluates credit risk associated with the loan and lease portfolio. Effective January 1, 2020, the reserve is calculated on the expected portion of the commitment to be funded over its life and the life of the commitment loss expectation, utilizing the same three collective pool methodologies described for the Allowance for Credit Losses. We include the reserve for unfunded loan commitments in other liabilities and the related provision in other noninterest expense.

Prior to adoption of CECL, we used the historical loan loss factors described under our allowance for loan losses to calculate the loan loss experience if unfunded loan commitments were funded. Separately, we used historical trends to calculate a probability of an unfunded loan commitment being funded. We applied 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 included certain qualitative allocations as deemed appropriate by management.

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 credit losses. Any subsequent operating expenses or income, reduction in estimated values, and gains or losses on disposition of such properties are charged to current operations. 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 are 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, 2020.

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, 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.

Operating Leases — 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. Operating leases with a term of more than one year are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the Company's consolidated balance sheets. The Company made a policy election to apply the short-term lease exemption to any operating leases with an original term of less than 12 months, therefore no ROU asset or lease liability is recorded for these operating leases. 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 Company determines if an arrangement is a lease at inception by assessing whether there is an identified asset and whether the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

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. Refer to Note 23 — *Leases* for more information.

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.

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, 2020, 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.

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, 2020, the Company did not incur any merger related expenses associated with the CB acquisition, compared to $6.4 million and $16.4 million for the years ended December 31, 2019 and 2018, respectively.

Table of Contents

For illustrative purposes only, the following table presents certain unaudited pro forma information for the year ended December 31, 2018. 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
	(Dollars in thousands, except per share amounts)
Total revenues (net interest income plus noninterest income)	$ 488,620
Net income	$ 181,433
Earnings per share - basic	$ 1.30
Earnings per share - diluted	$ 1.29

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, 2020				
	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	$ 1,857,030	$ 48,006	$ (101)	$ 1,904,935	79.41%
CMO/REMIC	457,548	5,515	(249)	462,814	19.29%
Municipal bonds	28,707	1,578	-	30,285	1.26%
Other securities	889	-	-	889	0.04%
Total available-for-sale securities	$ 2,344,174	$ 55,099	$ (350)	$ 2,398,923	100.00%
Investment securities held-to-maturity:					
Government agency/GSE	$ 98,663	$ 5,877	$ -	$ 104,540	17.05%
Mortgage-backed securities	146,382	7,644	(32)	153,994	25.30%
CMO/REMIC	145,309	5,202	-	150,511	25.11%
Municipal bonds	188,272	6,980	(74)	195,178	32.54%
Total held-to-maturity securities	$ 578,626	$ 25,703	$ (106)	$ 604,223	100.00%

	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%

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,		
	2020	2019	2018
	(Dollars in thousands)		
Investment securities available-for-sale:			
Taxable	$ 35,129	$ 38,189	$ 44,423
Tax-advantaged	923	1,141	1,565
Total interest income from available-for-sale securities	36,052	39,330	45,988
Investment securities held-to-maturity:			
Taxable	9,542	11,498	11,848
Tax-advantaged	4,681	5,890	7,053
Total interest income from held-to-maturity securities	14,223	17,388	18,901
Total interest income from investment securities	$ 50,275	$ 56,718	$ 64,889

The adoption of CECL did not have a material impact on the accounting for investment securities, as approximately 93% of the total investment securities portfolio at December 31, 2020 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 remaining securities are predominately AA- or better general-obligation municipal bonds. The allowance for credit losses for held-to-maturity investment securities under the new CECL model was zero at December 31, 2020.

We adopted ASU 2016-13 on January 1, 2020, on a prospective basis. Under this ASU, once it is determined that a credit loss has occurred, an allowance for credit losses is established on our AFS and HTM securities. Prior to adoption of this standard, when a decline in fair value of a debt security was determined to be other than temporary, an impairment charge for the credit component was recorded, and a new cost basis in the investment was established. Management determined that there were no credit losses for securities in an unrealized loss position for 2020.

The following table presents the Company's available-for-sale investment securities, by investment category, in an unrealized loss position for which an allowance for credit losses has not been recorded as of December 31, 2020.

	December 31, 2020					
	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	$ 72,219	$ (101)	$ -	$ -	$ 72,219	$ (101)
CMO/REMIC	96,974	(249)	-	-	96,974	(249)
Municipal bonds	-	-	-	-	-	-
Total available-for-sale securities	$ 169,193	$ (350)	$ -	$ -	$ 169,193	$ (350)

The table below presents 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, prior to adoption of ASU 2016-13. Management previously 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 other-than-temporarily-impaired.

	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)

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 2.6 years. Of the total MBS/CMO, 100% 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 impairments for the year ended December 31, 2020 and no OTTI recognized in earnings for the year ended December 31, 2019.

Municipal Bonds — The majority of the Company's municipal bonds, with maturities of approximately 10.2 years, represented approximately 7% 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 were not considered impaired at December 31, 2020 and there were no losses recognized in earnings for the year ended December 31, 2019.

At December 31, 2020 and 2019, investment securities having a carrying value of approximately $1.81 billion and $1.64 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, 2020, by contractual maturity, are shown in the table below. Although mortgage-backed and CMO/REMIC securities have weighted average remaining contractual maturities of approximately 18 years, 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, 2020			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$ 10,473	$ 10,499	$ 2,724	$ 2,751
Due after one year through five years	2,204,046	2,255,300	305,248	317,994
Due after five years through ten years	92,729	94,795	75,561	79,295
Due after ten years	36,926	38,329	195,093	204,183
Total investment securities	$ 2,344,174	$ 2,398,923	$ 578,626	$ 604,223

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, 2020.

6. LOANS AND LEASE FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

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

	December 31,	
	2020	2019
	(Dollars in thousands)	
Commercial real estate	$ 5,501,509	$ 5,374,617
Construction	85,145	116,925
SBA	303,896	305,008
SBA - Paycheck Protection Program (PPP)	882,986	-
Commercial and industrial	812,062	935,127
Dairy & livestock and agribusiness	361,146	383,709
Municipal lease finance receivables	45,547	53,146
SFR mortgage	270,511	283,468
Consumer and other loans	86,006	116,319
Total loans	8,348,808	7,568,319
Less: Deferred loan fees, net (1)	-	(3,742)
Total loans, net of deferred loan fees	8,348,808	7,564,577
Less: Allowance for credit losses	(93,692)	(68,660)
Total loans and lease finance receivables, net	$ 8,255,116	$ 7,495,917

(1) Beginning with March 31, 2020, gross loans are presented net of deferred loan fees by respective class of financing receivables.

As of December 31, 2020, 70.16% of the Company's total gross loan portfolio consisted of real estate loans, with commercial real estate loans representing 65.90% 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, 2020, $314.4 million, or 5.72% of the total commercial real estate loans included loans secured by farmland, compared to $241.8 million, or 4.50%, at December 31, 2019. The loans secured by farmland included $132.9 million for loans secured by dairy & livestock land and $181.5 million for loans secured by agricultural land at December 31, 2020, compared to $125.9 million for loans secured by dairy & livestock land and $115.9 million for loans secured by agricultural land at December 31, 2019. As of December 31, 2020, dairy & livestock and agribusiness loans of $361.1 million were comprised of $320.1 million for dairy & livestock loans and $41.0 million for agribusiness loans, compared to $323.5 million for dairy & livestock loans and $60.2 million for agribusiness loans at December 31, 2019.

At December 31, 2020 and 2019, loans totaling $6.07 billion and $6.03 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, 2020 and 2019.

Credit Quality Indicators

We monitor credit quality by evaluating various risk attributes and utilize such information in our evaluation of the appropriateness of the allowance for credit losses. Internal credit risk ratings, within our loan risk rating system, are the credit quality indicators that we most closely monitor.

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: 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.

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

December 31, 2020	Origination Year						Revolving loans amortized cost basis	Revolving loans converted to term loans	Total
	2020	2019	2018	2017	2016	Prior			
					(Dollars in thousands)				
Commercial real estate loans:									
Risk Rating:									
Pass	$ 979,499	$ 691,091	$ 607,753	$ 617,640	$ 550,105	$ 1,646,876	$ 192,583	$ 24,548	$ 5,310,095
Special Mention	9,332	7,162	30,049	43,870	17,398	49,840	5,720	994	164,365
Substandard	-	491	2,157	7,382	2,528	13,790	360	341	27,049
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Commercial real estate loans:	$ 988,831	$ 698,744	$ 639,959	$ 668,892	$ 570,031	$ 1,710,506	$ 198,663	$ 25,883	$ 5,501,509
Construction loans:									
Risk Rating:									
Pass	$ 14,511	$ 9,350	$ 14,945	$ 2,258	$ -	$ 4	$ 44,077	$ -	$ 85,145
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Construction loans:	$ 14,511	$ 9,350	$ 14,945	$ 2,258	$ -	$ 4	$ 44,077	$ -	$ 85,145
SBA loans:									
Risk Rating:									
Pass	$ 47,901	$ 12,821	$ 44,950	$ 58,839	$ 26,136	$ 86,085	$ -	$ 2,976	$ 279,708
Special Mention	-	-	-	5,446	1,336	5,648	-	-	12,430
Substandard	-	-	904	5,503	1,554	3,797	-	-	11,758
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total SBA loans:	$ 47,901	$ 12,821	$ 45,854	$ 69,788	$ 29,026	$ 95,530	$ -	$ 2,976	$ 303,896
SBA - PPP loans:									
Risk Rating:									
Pass	$ 882,986	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 882,986
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total SBA - PPP loans:	$ 882,986	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 882,986
Commercial and industrial loans:									
Risk Rating:									
Pass	$ 104,478	$ 168,050	$ 62,453	$ 56,043	$ 32,149	$ 76,019	$ 257,250	$ 6,058	$ 762,500
Special Mention	1,995	1,081	1,892	1,028	95	4,882	17,395	1,132	29,500
Substandard	4,346	860	3,996	2,282	285	94	6,677	1,522	20,062
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Commercial and industrial loans:	$ 110,819	$ 169,991	$ 68,341	$ 59,353	$ 32,529	$ 80,995	$ 281,322	$ 8,712	$ 812,062
Dairy & livestock and agribusiness loans:									
Risk Rating:									
Pass	$ 1,041	$ 1,765	$ 1,199	$ 5,680	$ 120	$ 320	$ 319,211	$ 363	$ 329,699
Special Mention	878	-	364	-	-	-	13,255	1,511	16,008
Substandard	-	-	784	693	2,285	-	-	11,677	15,439
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Dairy & livestock and agribusiness loans:	$ 1,919	$ 1,765	$ 2,347	$ 6,373	$ 2,405	$ 320	$ 332,466	$ 13,551	$ 361,146
Municipal lease finance receivables loans:									
Risk Rating:									
Pass	$ 8,478	$ -	$ 2,556	$ 10,249	$ 3,586	$ 20,266	$ -	$ -	$ 45,135
Special Mention	-	-	-	-	-	412	-	-	412
Substandard	-	-	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Municipal lease finance receivables loans:	$ 8,478	$ -	$ 2,556	$ 10,249	$ 3,586	$ 20,678	$ -	$ -	$ 45,547

Table of Contents

December 31, 2020	Origination Year 2020	2019	2018	2017	2016	Prior	Revolving loans amortized cost basis	Revolving loans converted to term loans	Total
						(Dollars in thousands)			
SFR mortgage loans:									
Risk Rating:									
Pass	$ 65,463	$ 59,596	$ 29,142	$ 22,452	$ 27,192	$ 62,593	$ 3	$ -	$ 266,441
Special Mention	-	-	-	-	-	452	-	-	452
Substandard	-	-	-	-	229	2,957	-	432	3,618
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total SFR mortgage loans:	$ 65,463	$ 59,596	$ 29,142	$ 22,452	$ 27,421	$ 66,002	$ 3	$ 432	$ 270,511
Consumer and other loans:									
Risk Rating:									
Pass	$ 8,557	$ 2,077	$ 871	$ 969	$ 1,586	$ 961	$ 67,774	$ 1,688	$ 84,483
Special Mention	-	-	-	-	-	91	517	22	630
Substandard	-	-	-	-	-	172	-	721	893
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Consumer and other loans:	$ 8,557	$ 2,077	$ 871	$ 969	$ 1,586	$ 1,224	$ 68,291	$ 2,431	$ 86,006
Gross loans:									
Risk Rating:									
Pass	$ 2,112,914	$ 944,750	$ 763,869	$ 774,130	$ 640,874	$ 1,893,124	$ 880,898	$ 35,633	$ 8,046,192
Special Mention	12,205	8,243	32,305	50,344	18,829	61,325	36,887	3,659	223,797
Substandard	4,346	1,351	7,841	15,860	6,881	20,810	7,037	14,693	78,819
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Gross loans:	$ 2,129,465	$ 954,344	$ 804,015	$ 840,334	$ 666,584	$ 1,975,259	$ 924,822	$ 53,985	$ 8,348,808

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

	December 31, 2019 Pass	Special Mention	Substandard	Doubtful & Loss	Total
			(Dollars in thousands)		
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
SBA	283,430	11,032	10,546	-	305,008
Commercial and industrial	895,234	35,473	4,420	-	935,127
Dairy & livestock and agribusiness	320,670	35,920	27,119	-	383,709
Municipal lease finance receivables	52,676	470	-	-	53,146
SFR mortgage	280,010	1,957	1,501	-	283,468
Consumer and other loans	114,870	421	1,028	-	116,319
Total gross loans	$7,321,402	$173,486	$ 73,431	$ -	$7,568,319

Allowance for Credit Losses

The allowance for credit losses for 2020 is based upon lifetime loss rate models developed from an estimation framework that uses historical lifetime loss experiences to derive loss rates at a collective pool level. We measure the expected credit losses on a collective (pooled) basis for those loans that share similar risk characteristics. We have three collective loan pools: Commercial Real Estate, Commercial and Industrial, and Consumer. Our ACL amounts are largely driven by portfolio characteristics, including loss history and various risk attributes, and the economic outlook for certain macroeconomic variables. Risk attributes for commercial real estate loans include OLTV, origination year, loan seasoning, and macroeconomic variables that include GDP growth, commercial real estate price index and unemployment rate. Risk attributes for commercial and industrial loans include internal risk ratings, borrower industry sector, loan credit spreads and macroeconomic variables that include unemployment rate and BBB spread. The macroeconomic variables for Consumer include unemployment rate and GDP. The Commercial Real Estate methodology is applied over commercial real estate loans, a portion of construction loans, and a portion of SBA loans (excluding Payment Protection Program loans). The Commercial and Industrial methodology is applied over a substantial portion of the Company's commercial and industrial loans, all dairy & livestock and agribusiness loans, municipal lease receivables, as well as the remaining portion of SBA loans (excluding Payment Protection Program loans). The Consumer methodology is applied to SFR mortgage loans, consumer loans, as well as the remaining construction loans. In addition to determining the quantitative life of loan loss rate to be applied against the amortized cost basis of the portfolio segments, management reviews current conditions and forecasts to determine whether adjustments are needed to ensure that the life of loan loss rates reflect both the current state of the portfolio, and expectations for macroeconomic changes. Our methodology for assessing the appropriateness of the allowance is reviewed on a regular basis and considers overall risks in the Bank's loan portfolio. Refer to Note 3 – *Summary of Significant Accounting Policies* contained herein for a more detailed discussion concerning the allowance for credit losses.

Our allowance for credit losses decreased in the fourth quarter by $177,000, as a result of net charge-offs of $177,000. There was no provision for credit losses in the fourth quarter of 2020. Our allowance for credit losses at December 31, 2020 was $93.7 million or 1.12% of total loans. For the year ended December 31, 2020, the ACL increased by $25.0 million, including a $1.8 million increase from the adoption of CECL on January 1, 2020. The increase in the ACL was primarily due to $23.5 million in provision for credit losses recorded in the first half of 2020 resulting from the forecasted changes in macroeconomic variables related to the COVID-19 pandemic. Our economic forecast continues to be a blend of multiple forecasts produced by Moody's, including Moody's baseline forecast, as well as upside and downside forecasts. The baseline forecast continues to represent the largest weighting in our multi-weighted forecast scenario, while due to economic uncertainty a greater weighting was placed on the downside economic forecast, relative to the upside forecast. Our forecast assumes GDP will increase by 2.5% in 2021 and then grow by 3.6 % in 2022 and 2023. The unemployment rate is forecasted to be 7.7% in 2021, before declining to 7.2% percent in 2022 and 5.7% in 2023.

Management believes that the ACL was appropriate at December 31, 2020 and 2019. As there is a high degree of uncertainty around the epidemiological assumptions and impact of government responses to the pandemic that impact our economic forecast, no assurance can be given that economic conditions that adversely affect the Company's service areas or other circumstances will not be reflected in increased provisions for credit losses in the future.

Table of Contents

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

	Year Ended December 31, 2020					
	Ending Balance, prior to adoption of ASU 2016-13 December 31, 2019	Impact of Adoption of ASU 2016-13	Charge-offs	Recoveries	Provision for (Recapture of) Credit Losses	Ending Balance December 31, 2020
	(Dollars in thousands)					
Commercial real estate	$ 48,629	$ 3,547	$ -	$ -	$ 23,263	$ 75,439
Construction	858	655	-	11	410	1,934
SBA	1,453	1,818	(362)	72	11	2,992
SBA - PPP	-	-	-	-	-	-
Commercial and industrial	8,880	(2,442)	(195)	10	889	7,142
Dairy & livestock and agribusiness	5,255	(186)	-	-	(1,120)	3,949
Municipal lease finance receivables	623	(416)	-	-	(133)	74
SFR mortgage	2,339	(2,043)	-	206	(135)	367
Consumer and other loans	623	907	(109)	59	315	1,795
Total allowance for credit losses	$ 68,660	$ 1,840	$ (666)	$ 358	$ 23,500	$ 93,692

	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 real estate	$ 45,097	$ -	$ -	$ 3,532	$ 48,629
Construction	981	-	12	(135)	858
SBA	1,078	(321)	9	687	1,453
Commercial and industrial	7,528	(48)	255	1,145	8,880
Dairy & livestock and agribusiness	5,225	(78)	19	89	5,255
Municipal lease finance receivables	775	-	-	(152)	623
SFR mortgage	2,197	-	196	(54)	2,339
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 real estate	$ 41,722	$ -	$ -	$ 3,212	$ 44,934
Construction	984	-	2,506	(2,509)	981
SBA	869	(257)	20	430	1,062
Commercial and industrial	7,280	(10)	82	168	7,520
Dairy & livestock and agribusiness	4,647	-	19	549	5,215
Municipal lease finance receivables	851	-	-	(76)	775
SFR mortgage	2,112	(13)	51	46	2,196
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

The following table presents the recorded investment in loans held-for-investment and the related ACL by loan type, based on the Company's methodology for determining the ACL for the periods presented.

	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 real estate	$ 1,121	$ 5,373,496	$ -	$ 48,629
Construction	-	116,925	-	858
SBA	2,568	302,440	257	1,196
Commercial and industrial	1,344	933,783	251	8,629
Dairy & livestock and agribusiness	-	383,709	-	5,255
Municipal lease finance receivables	-	53,146	-	623
SFR mortgage	2,979	280,489	-	2,339
Consumer and other loans	377	115,942	-	623
Total	$ 8,389	$ 7,559,930	$ 508	$ 68,152

Past Due and Nonperforming Loans

We seek to manage asset quality and control credit risk through diversification of the loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank's Credit Management Division is in charge of monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. Reviews of nonperforming, past due loans and larger credits, designed to identify potential charges to the allowance for credit losses, and to determine the adequacy of the ACL, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers and any guarantors, the value of the applicable collateral, loan loss experience, estimated credit losses, growth in the loan portfolio, prevailing economic conditions and other factors. Refer to Note 3 – *Summary of Significant Accounting Policies*, included herein, for additional discussion concerning the Bank's policy for past due and nonperforming loans.

The following table presents the recorded investment in, and the aging of, past due loans (including nonaccrual loans), by type of loans as of the date presented.

	December 31, 2020					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans and Financing Receivables
	(Dollars in thousands)					
Commercial real estate						
Owner occupied	$ -	$ -	$ 7,208	$ 7,208	$ 2,136,051	$ 2,143,259
Non-owner occupied	-	-	-	-	3,358,250	3,358,250
Construction						
Speculative (1)	-	-	-	-	72,126	72,126
Non-speculative	-	-	-	-	13,019	13,019
SBA	531	2,415	1,025	3,971	299,925	303,896
SBA - PPP	-	-	-	-	882,986	882,986
Commercial and industrial	608	811	2,338	3,757	808,305	812,062
Dairy & livestock and agribusiness	-	-	784	784	360,362	361,146
Municipal lease finance receivables	-	-	-	-	45,547	45,547
SFR mortgage	-	-	229	229	270,282	270,511
Consumer and other loans	-	-	-	-	86,006	86,006
Total gross loans	$ 1,139	$ 3,226	$ 11,584	$ 15,949	$ 8,332,859	$ 8,348,808

(1) Speculative construction loans are generally for properties where there is no identified buyer or renter.

Following the adoption of CECL on January 1, 2020, the definitions of impairment and related impaired loan disclosures were removed. Under CECL, amortized cost of our finance receivables and loans that are on nonaccrual status, including loans with no allowance, are presented as of December 31, 2020 by type of loan.

	December 31, 2020		
	Nonaccrual with No Allowance for Credit Losses	Total Nonaccrual (1) (3)	Loans Past Due Over 89 Days Still Accruing
	(Dollars in thousands)		
Commercial real estate			
Owner occupied	$ 7,563	$ 7,563	$ -
Non-owner occupied	-	-	-
Construction			
Speculative (2)	-	-	-
Non-speculative	-	-	-
SBA	2,035	2,273	-
SBA - PPP	-	-	-
Commercial and industrial	1,576	3,129	-
Dairy & livestock and agribusiness	785	785	-
Municipal lease finance receivables	430	-	-
SFR mortgage	-	430	-
Consumer and other loans	167	167	-
Total gross loans	$ 12,556	$ 14,347	$ -

(1) As of December 31, 2020, $1.4 million of nonaccruing loans were current, $2,000 were 30-59 days past due, $1.3 million were 60-89 days past due, and $11.6 million were 90+ days past due.
(2) Speculative construction loans are generally for properties where there is no identified buyer or renter.
(3) Excludes $184,000 of guaranteed portion of nonaccrual SBA loans that are in process of collection.

The following table presents the recorded investment in, and the aging of, past due and nonaccrual loans, by type of loans as of the date presented.

	December 31, 2019					
	30-59 Days Past Due	60-89 Days Past Due	Total Past Due and Accruing	Nonaccrual (1) (3)	Current	Total Loans and Financing Receivables
	(Dollars in thousands)					
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
SBA	870	532	1,402	2,032	301,574	305,008
Commercial and industrial	2	-	2	1,266	933,859	935,127
Dairy & livestock and agribusiness	-	-	-	-	383,709	383,709
Municipal lease finance receivables	-	-	-	-	53,146	53,146
SFR mortgage	6	243	249	878	282,341	283,468
Consumer and other loans	-	-	-	377	115,942	116,319
Total gross 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) Excludes $2.0 million of guaranteed portion of nonaccrual SBA loans that are in process of collection.

Impaired Loans (prior to adoption of CECL)

Following the adoption of CECL as of January 1, 2020, the definitions of impairment and related impaired loan disclosures were removed. As a result of the change, the following tables present information about our impaired loans and lease finance receivables, individually evaluated for Impairment by type of loans, as of December 31, 2019 and 2018, prior to the date of adoption of the amendments to the credit loss standard.

	As of and For the 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 real estate					
Owner occupied	$ 479	$ 613	$ -	$ 505	$ -
Non-owner occupied	642	643	-	681	26
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SBA	2,243	2,734	-	2,389	41
Commercial and industrial	1,091	1,261	-	1,369	4
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
SFR mortgage	2,979	3,310	-	3,043	86
Consumer and other loans	377	514	-	396	-
Total	7,811	9,075	-	8,383	157
With a related allowance recorded:					
Commercial real estate					
Owner occupied	-	-	-	-	-
Non-owner occupied	-	-	-	-	-
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SBA	325	324	257	327	-
Commercial and industrial	253	347	251	699	-
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
SFR mortgage	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	578	671	508	1,026	-
Total impaired loans	$ 8,389	$ 9,746	$ 508	$ 9,409	$ 157

	As of and For the 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 real estate					
Owner occupied	$ 589	$ 705	$ -	$ 624	$ -
Non-owner occupied	2,808	4,324	-	4,585	32
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SBA	3,467	5,746	-	3,919	44
Commercial and industrial	7,436	11,457	-	7,718	7
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
SFR mortgage	5,349	6,270	-	5,484	80
Consumer and other loans	418	526	-	459	-
Total	20,067	29,028	-	22,789	163
With a related allowance recorded:					
Commercial real estate					
Owner occupied	-	-	-	-	-
Non-owner occupied	3,143	3,144	478	3,144	-
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SBA	-	-	-	-	-
Commercial and industrial	189	191	3	203	-
Dairy & livestock and agribusiness	78	78	12	78	-
Municipal lease finance receivables	-	-	-	-	-
SFR mortgage	-	-	-	-	-
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

(1) Excludes PCI loans.

Collateral Dependent Loans

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following table presents the recorded investment in collateral-dependent loans by type of loans as of the date presented.

	December 31, 2020			Number of Loans Dependent on Collateral
	Real Estate	Business Assets	Other	
	(Dollars in thousands)			
Commercial real estate	$ 7,883	$ -	$ -	8
Construction	-	-	-	-
SBA	1,761	326	185	10
SBA - PPP	-	-	-	-
Commercial and industrial	470	5,542	95	18
Dairy & livestock and agribusiness	-	785	-	1
Municipal lease finance receivables	-	-	-	-
SFR mortgage	430	-	-	2
Consumer and other loans	168	-	-	2
Total collateral-dependent loans	$ 10,712	$ 6,653	$ 280	41

Table of Contents

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 in the same manner as it evaluates credit risk associated with the loan and lease portfolio. As a result of the adoption of ASU 2016-13, the reserve for unfunded loan commitments included a transition adjustment of $41,000 as of January 1, 2020. There was no provision or recapture of provision for unfunded commitments for the years ended December 31, 2020 and 2019, compared with a recapture of provision for unfunded loan commitments of $250,000 for the year ended December 31, 2018. As of December 31, 2020 and 2019, the balance in this reserve was $9.0 million and was included in other liabilities.

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, 2020, there were $2.2 million of loans classified as a TDR, all of which 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, 2020, performing TDRs were comprised of seven SFR mortgage loans of $1.8 million, one commercial real estate loan of $320,000, and one commercial and industrial loan of $43,000.

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 no allocated allowance to TDRs as of December 31, 2020 and December 31, 2019.

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

	Year Ended December 31,	
	2020	2019
	(Dollars in thousands)	
Performing TDRs:		
Beginning balance	$ 3,112	$ 3,594
New modifications	-	-
Payoffs/payments, net and other	(953)	(482)
TDRs returned to accrual status	-	-
TDRs placed on nonaccrual status	-	-
Ending balance	$ 2,159	$ 3,112
Nonperforming TDRs:		
Beginning balance	$ 244	$ 3,509
New modifications	-	-
Charge-offs	-	(78)
Transfer to OREO	-	(2,275)
Payoffs/payments, net and other	(244)	(912)
TDRs returned to accrual status	-	-
TDRs placed on nonaccrual status	-	-
Ending balance	$ -	$ 244
Total TDRs	$ 2,159	$ 3,356

The following tables summarize loans modified as TDRs for the periods presented. There were no loans that were modified as TDRs for the years ended December 31, 2020 and 2019.

Modifications (1)

	For the 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 real estate:					
Interest rate reduction	-	$ -	$ -	$ -	$ -
Change in amortization period or maturity	-	-	-	-	-
Commercial and industrial:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	38	38	20	-
Dairy & livestock and agribusiness:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	-	-	-	-	-
SFR mortgage:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	311	311	300	-
Consumer:					
Interest rate reduction	-	-	-	-	-
Change in amortization period or maturity	1	278	278	267	-
Total loans	3	$ 627	$ 627	$ 587	$ -

(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, 2020 and 2019, there were no loans that were modified as a TDR within the previous 12 months that subsequently defaulted.

In accordance with regulatory guidance, if borrowers are less than 30 days past due on their loans, upon implementation of the modification program, or as allowed under the CARES Act if borrowers are less than 30 days past due on their loans as of December 31, 2019, and enter into short-term loan modifications offered as a result of COVID-19, their loans generally continue to be considered performing loans and continue to accrue interest during the period of the loan modification. For borrowers who are 30 days or more past due when entering into loan modifications offered as a result of COVID-19, we evaluate the loan modifications under our existing troubled debt restructuring framework, and where such a loan modification would result in a concession to a borrower experiencing financial difficulty, the loan will be accounted for as a TDR and will generally not accrue interest. For all borrowers who enroll in these loan modification programs offered as a result of COVID-19, the delinquency status of the borrowers is frozen, resulting in a static delinquency metric during the deferral period. Upon exiting the deferral program, the measurement of loan delinquency will resume where it had left off upon entry into the program.

Table of Contents

7. OTHER REAL ESTATE OWNED

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
	(Dollars in thousands)	
Balance, beginning of period	$ 4,889	$ 420
Additions	-	4,889
Dispositions	(797)	(420)
Valuation adjustments	(700)	-
Balance, end of period	$ 3,392	$ 4,889

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, 2020	Year Ended December 31, 2019
	(Dollars in thousands)	
Balance, beginning of period	$ 663,707	$ 666,539
Purchase accounting adjustments	-	(2,832)
Balance, end of period	$ 663,707	$ 663,707

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

	Year Ended December 31,					
	2020			2019		
	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	$ (50,311)	$ 42,986	$ 93,297	$ (39,513)	$ 53,784
Amortization		(9,352)	(9,352)		(10,798)	(10,798)
Balance of intangible assets, end of period	$ 93,297	$ (59,663)	$ 33,634	$ 93,297	$ (50,311)	$ 42,986

The following table reflects the estimated amortization expense for the periods presented, as of December 31, 2020.

Year:	December 31, 2020 (Dollars in thousands)
2021	$ 8,240
2022	7,126
2023	6,010
2024	4,892
2025	3,773
Thereafter	3,593
Total	$ 33,634

At December 31, 2020 the weighted average remaining life of intangible assets is approximately 2.54 years.

9. PREMISES AND EQUIPMENT

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

	December 31,	
	2020	2019
	(Dollars in thousands)	
Land	$ 18,798	$ 19,188
Bank premises	70,130	68,387
Furniture and equipment	29,058	27,540
Premises and equipment, gross	117,986	115,115
Accumulated depreciation and amortization	(66,842)	(61,137)
Premises and equipment, net	$ 51,144	$ 53,978

For the first six months of 2019, a total of 10 banking centers were consolidated, including nine former CB centers. In 2020, the Bank recognized $1.7 million in net gain on the sale of our bank owned buildings, compared to $4.8 million in 2019.

Total depreciation and amortization expense was approximately $6.9 million, $6.8 million and $6.5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

10. OTHER ASSETS

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

	December 31,	
	2020	2019
	(Dollars in thousands)	
Prepaid expenses	$ 6,929	$ 6,571
Interest rate swaps	30,181	11,502
ROU assets	19,112	18,522
Affordable housing investments	10,617	12,452
Other investments	48,017	45,540
Other assets	12,841	15,550
Total	$ 127,697	$ 110,137

11. INCOME TAXES

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

	Year Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Current provision:			
Federal	$ 48,328	$ 51,564	$ 31,055
State	28,469	29,487	20,546
	76,797	81,051	51,601
Deferred provision:			
Federal	(2,997)	486	5,158
State	(1,439)	1,710	2,353
	(4,436)	2,196	7,511
Total	$72,361	$ 83,247	$ 59,112

Income tax asset consists of the following.

	December 31,	
	2020	2019
	(Dollars in thousands)	
Current:		
Federal	$ 5,408	$ 5,890
State	2,610	3,456
	8,018	9,346
Deferred:		
Federal	14,779	17,580
State	6,743	8,661
	21,522	26,241
Total	$ 29,540	$ 35,587

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, 2020	December 31, 2019
	(Dollars in thousands)	
Deferred tax assets:		
Bad debt and credit loss deduction	$ 32,671	$ 24,282
Net operating loss carryforward	10	75
Deferred compensation	6,607	6,942
PCI loans	663	2,299
California franchise tax	4,584	4,281
Accrued expense	4,662	4,831
Acquired loan discounts	9,709	15,180
Lease liability	6,369	6,175
Other, net	3,865	1,453
Gross deferred tax asset	69,140	65,518
Deferred tax liabilities:		
Depreciation	2,675	3,895
Intangibles - acquisitions	15,376	16,941
FHLB Stock	2,525	2,525
Deferred income	3,544	3,055
Right of use asset	6,080	5,893
Unrealized gain on investment securities, net	17,418	6,968
Gross deferred tax liability	47,618	39,277
Net deferred tax asset	$ 21,522	$ 26,241

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, 2020 Amount	2020 Percent	2019 Amount	2019 Percent	2018 Amount	2018 Percent
	(Dollars in thousands)					
Federal income tax at statutory rate	$ 52,399	21.0%	$ 61,126	21.0%	$ 44,334	21.0%
State franchise taxes, net of federal benefit	20,950	8.4%	24,430	8.4%	17,905	8.5%
Tax-exempt income	(3,191)	(1.3%)	(3,081)	(1.1%)	(2,991)	(1.4%)
Tax credits	(1,946)	(0.8%)	(2,153)	(0.7%)	(1,451)	(0.7%)
Other, net	4,149	1.7%	2,925	1.0%	1,315	0.6%
Provision for income taxes	$ 72,361	29.0%	$ 83,247	28.6%	$ 59,112	28.0%

There were no significant unrecognized tax benefits at December 31, 2020 and 2019. 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 2020 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2015 through 2020 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,			
	2020		2019	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 7,455,387	63.52%	$ 5,245,517	60.26%
Interest-bearing deposits				
Investment checking	517,976	4.42%	454,565	5.22%
Money market	2,869,348	24.45%	2,158,161	24.79%
Savings	492,096	4.19%	400,377	4.60%
Time deposits	401,694	3.42%	446,308	5.13%
Total deposits	$ 11,736,501	100.00%	$ 8,704,928	100.00%

Time deposits with balances of $250,000 or more amounted to approximately $100.3 million and $107.9 million at December 31, 2020 and 2019, respectively.

At December 31, 2020, the scheduled maturities of time certificates of deposit are as follows.

	December 31, 2020
Year of maturity:	(Dollars in thousands)
2021	$ 362,469
2022	24,155
2023	5,096
2024	1,311
2025 and thereafter	8,663
Total	$ 401,694

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, 2020, total funds borrowed under these agreements were $439.4 million with a weighted average interest rate of 0.10%, compared to $428.7 million with a weighted average rate of 0.44% at December 31, 2019.

Federal Home Loan Bank Advances

At December 31, 2020 and 2019, there were no outstanding FHLB advances.

At December 31, 2020, $6.07 billion of loans and $1.81 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.

Table of Contents

Other Borrowings

At December 31, 2020, the Bank had $5.0 million in short-term borrowings that were interest-free advances from the FHLB. We had no short-term borrowings at December 31, 2019.

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, 2020, these securities continue to be outstanding.

14. COMMITMENTS AND CONTINGENCIES

Commitments

At December 31, 2020 and 2019, the Bank had commitments to extend credit of approximately $1.61 billion and $1.54 billion, respectively, and obligations under letters of credit of $53.2 million and $53.1 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, 2020 and 2019 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, 2020, the Bank has available lines of credit totaling $4.29 billion from correspondent banks, FHLB and Federal Reserve Bank of which $3.90 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 claims, regulatory compliance claims, data privacy claims, 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 and regulations 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, 2020 the Company had various deferred compensation plans, which included a deferred compensation plan for its former President and Chief Executive Officer, Christopher D. Myers, and severance arrangements it assumed through the acquisition of other banks in prior years. We also offer a non-qualified deferred compensation plan for our executives and key members of management in order to assist us in attracting and retaining these individuals. Participants in the plan may elect to defer a portion of their annual salary and/or short-term incentive payouts into deferral accounts 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 allows us to make discretionary contributions on behalf of a participant. No discretionary payments were made by the Company during the years ended December 31, 2020, 2019 and 2018. The Bank, however, does fund the cost of these plans through the purchase of bank owned life insurance policies, which are reflected as assets on the Company's consolidated balance sheets. At December 31, 2020 and 2019, the total deferred compensation liability was $21.6 million and $22.7 million, respectively. Total expense for these deferred compensation agreements was approximately $1.4 million, $1.4 million, and $953,000 for each of the years ended December 31, 2020, 2019 and 2018, 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, which was 2% for 2020, 2019 and 2018. The Bank's total contributions are determined by the Board of Directors and amounted to approximately $4.3 million for 2020, $4.1 million for 2019, and $3.5 million for 2018.

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, 2020, 2019 and 2018, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share were 291,000, 183,000 and 160,000, 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,		
	2020	2019	2018
	(In thousands, except per share amounts)		
Earnings per common share:			
Net earnings	$ 177,159	$ 207,827	$ 152,003
Less: Net earnings allocated to restricted stock	572	488	429
Net earnings allocated to common shareholders	$ 176,587	$ 207,339	$ 151,574
Weighted average shares outstanding	136,031	139,757	121,670
Basic earnings per common share	$ 1.30	$ 1.48	$ 1.25
Diluted earnings per common share:			
Net income allocated to common shareholders	$ 176,587	$ 207,339	$ 151,574
Weighted average shares outstanding	136,031	139,757	121,670
Incremental shares from assumed exercise of outstanding options	175	177	287
Diluted weighted average shares outstanding	136,206	139,934	121,957
Diluted earnings per common share	$ 1.30	$ 1.48	$ 1.24

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, 2020, we have 221,500 outstanding options, unvested RSAs under our 2008 Equity Incentive Plan.

Stock Options

The Company expensed $183,000, $352,000, and $400,000, for the years ended December 31, 2020, 2019 and 2018, respectively.

The estimated fair value of the options granted during 2020 and prior years was calculated using the Black-Scholes options pricing model. There were 217,500, 1,500 and 140,500 options granted during 2020, 2019 and 2018, respectively. The options will vest, in equal installments, over a five-year period. The fair value of each stock option granted in 2020, 2019 and 2018, was estimated on the date of grant using the following weighted-average assumptions.

	Year Ended December 31,		
	2020	2019	2018
Dividend yield	4.0%	2.4%	2.4%
Volatility	27.1%	23.3%	25.4%
Risk-free interest rate	0.4%	2.5%	2.9%
Expected life	5.3 years	5.4 years	5.4 years
Weighted average grant date fair value	$ 2.56	$ 4.35	$ 5.08

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, 2020.

	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, 2020	359	$ 17.99		
Granted	217	18.12		
Exercised	(20)	11.64		
Forfeited or expired	(128)	20.59		
Outstanding at December 31, 2020	428	$ 17.57	4.65	$ 1,021
Vested or expected to vest at December 31, 2020	428	$ 17.57	4.65	$ 1,021
Exercisable at December 31, 2020	175	$ 16.10	4.03	$ 685

The total intrinsic value of options exercised during the years ended December 31, 2020, 2019 and 2018 was $144,000, $1.3 million and $2.2 million, respectively.

As of December 31, 2020, there was a total of $601,000 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 2.8 years. The total fair value of options vested was $183,000, $520,000 and $364,000 during 2020, 2019 and 2018, respectively. Cash received from stock option exercises was $232,000, $2.2 million and $1.7 million, in 2020, 2019 and 2018, respectively.

At December 31, 2020, options for the purchase of 428,320 shares of CVB's common stock were outstanding under the above plans, of which options to purchase 174,710 shares were exercisable at prices ranging from $11.03 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 358,464, 217,000 and 424,000 restricted stock awards during 2020, 2019 and 2018 respectively. The weighted average grant date fair value of RSAs and RSUs granted in 2020, 2019 and 2018 was $18.20 per share, $20.76 per share and $23.84 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 $5.3 million, $5.2 million and $3.1 million during the years ended December 31, 2020, 2019 and 2018, respectively. Total unrecognized compensation cost related to RSAs and RSUs was $7.3 million at December 31, 2020.

The table below summarizes activity related to the Company's non-vested RSAs and RSUs for the year ended December 31, 2020.

	Shares	Weighted Average Fair Value
	(In thousands)	
Nonvested at January 1, 2020	441	$ 21.25
Granted	358	18.20
Vested	(302)	20.70
Forfeited	(6)	21.34
Nonvested at December 31, 2020	491	$ 19.36

Under the 2018 Equity Incentive Plan, 7,322,206 shares of common stock were available for the granting of future stock-based awards as of December 31, 2020.

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.

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%.

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, 2020 and 2019, the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2020 and 2019, 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, 2020 and 2019, the Company had $25.7 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, 2020 and 2019.

	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, 2020:						
Total Capital (to Risk-Weighted Assets)						
Company	$ 1,415,008	16.24%	$ 697,258	≥ 8.00%		N/A
Bank	$ 1,372,184	15.75%	$ 696,849	≥ 8.00%	$ 871,061	≥ 10.00%
Tier 1 Capital (to Risk-Weighted Assets)						
Company	$ 1,312,316	15.06%	$ 522,944	≥ 6.00%		N/A
Bank	$ 1,269,492	14.57%	$ 522,636	≥ 6.00%	$ 696,849	≥ 8.00%
Common equity Tier 1 capital ratio						
Company	$ 1,287,316	14.77%	$ 392,208	≥ 4.50%		N/A
Bank	$ 1,269,492	14.57%	$ 391,977	≥ 4.50%	$ 566,189	≥ 6.50%
Tier 1 Capital (to Average-Assets)						
Company	$ 1,312,316	9.90%	$ 530,424	≥ 4.00%		N/A
Bank	$ 1,269,492	9.58%	$ 530,164	≥ 4.00%	$ 662,705	≥ 5.00%
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%

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, 2020, declare and pay additional dividends of approximately $150.9 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, 2020. 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.
- *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.

Table of Contents

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, 2020	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	$ 1,904,935	$ -	$ 1,904,935	$ -
CMO/REMIC	462,814	-	462,814	-
Municipal bonds	30,285	-	30,285	-
Other securities	889	-	889	-
Total investment securities - AFS	2,398,923	-	2,398,923	-
Interest rate swaps	30,181	-	30,181	-
Total assets	$ 2,429,104	$ -	$ 2,429,104	$ -
Description of liability				
Interest rate swaps	$ 30,181	$ -	$ 30,181	$ -
Total liabilities	$ 30,181	$ -	$ 30,181	$ -

	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	$ -

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, 2020 and 2019, 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, 2020	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, 2020
			(Dollars in thousands)		
Description of assets					
Loans:					
Commercial real estate	$ -	$ -	$ -	$ -	$ -
Construction	-	-	-	-	-
SBA	76	-	-	76	24
Commercial and industrial	4,266	-	-	4,266	2,316
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
SFR mortgage	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Other real estate owned	2,275	-	-	2,275	700
Asset held-for-sale	-	-	-	-	-
Total assets	$ 6,617	$ -	$ -	$ 6,617	$ 3,040

	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 real estate	$ -	$ -	$ -	$ -	$ -
Construction	-	-	-	-	-
SBA	359	-	-	359	513
Commercial and industrial	253	-	-	253	251
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
SFR mortgage	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Other real estate owned	444	-	-	444	64
Asset held-for-sale	-	-	-	-	-
Total assets	$ 1,056	$ -	$ -	$ 1,056	$ 828

Table of Contents

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 December 31, 2020 and 2019, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	December 31, 2020				
		Estimated Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)				
Assets					
Total cash and cash equivalents	$ 1,958,160	$ 1,958,160	$ -	$ -	$1,958,160
Interest-earning balances due from depository institutions	43,563	-	43,600	-	43,600
Investment securities available-for-sale	2,398,923	-	2,398,923	-	2,398,923
Investment securities held-to-maturity	578,626	-	604,223	-	604,223
Total loans, net of allowance for credit losses	8,255,116	-	-	8,256,178	8,256,178
Swaps	30,181	-	30,181	-	30,181
Liabilities					
Deposits:					
Interest-bearing	$ 4,281,114	$ -	$ 4,281,952	$ -	$4,281,952
Borrowings	444,406	-	444,349	-	444,349
Junior subordinated debentures	25,774	-	-	19,431	19,431
Swaps	30,181	-	30,181	-	30,181

	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

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2020 and 2019. 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, 2020, the Bank has entered into 147 interest-rate swap agreements with customers with a notional amount totaling $503.8 million. 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 required 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 condensed 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, 2020 and 2019, the total notional amount of the Company's swaps was $503.8 million and $260.0 million, respectively. The location of the asset and liability, and their respective fair values are summarized in the tables below.

	December 31, 2020			
	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	$ 30,181	Other liabilities	$ 30,181
Total derivatives		$ 30,181		$ 30,181

	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

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,		
		2020	2019	2018
		(Dollars in thousands)		
Interest rate swaps	Other income	$ 5,025	$ 1,806	$ 340
Total		$ 5,025	$ 1,806	$ 340

21. OTHER COMPREHENSIVE INCOME (LOSS)

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

	Year Ended December 31,								
	2020			2019			2018		
	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	$ 32,849	$ (9,711)	$ 23,138	$ 45,486	$ (13,447)	$ 32,039	$ (26,435)	$ 7,815	$ (18,620)
Amortization of unrealized (losses) gains on securities transferred from available-for-sale to held-to-maturity	(572)	169	(403)	(1,614)	477	(1,137)	(2,091)	619	(1,472)
Net realized gain reclassified into earnings (1)	-	-	-	(5)	1	(4)	-	-	-
Net change	$ 32,277	$ (9,542)	$ 22,735	$ 43,867	$ (12,969)	$ 30,898	$ (28,526)	$ 8,434	$ (20,092)

(1) Included in other noninterest income.

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		
				Financial Instruments	Collateral Pledged	Net Amount
			(Dollars in thousands)			
December 31, 2020						
Financial assets:						
Derivatives not designated as hedging instruments	$ 30,181	$ -	$ -	$ 30,181	$ -	$ 30,181
Total	$ 30,181	$ -	$ -	$ 30,181	$ -	$ 30,181
Financial liabilities:						
Derivatives not designated as hedging instruments	$ 30,434	$ (253)	$ 30,181	$ 253	$ (63,730)	$ (33,296)
Repurchase agreements	439,406	-	439,406	-	(483,603)	(44,197)
Total	$ 469,840	$ (253)	$ 469,587	$ 253	$ (547,333)	$ (77,493)
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)

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. Right-of-use (“ROU”) assets and lease liabilities are included in other assets and other liabilities, respectively, on the Company’s condensed consolidated balance sheet.

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

The tables below present the components of lease costs and supplemental information related to leases as of and for the periods presented.

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Lease Assets and Liabilities		
ROU assets	$ 19,112	$ 18,522
Total lease liabilities	21,164	21,392

	Year Ended December 31, 2020	Year Ended December 31, 2019
	(Dollars in thousands)	
Lease Cost		
Operating lease expense (1)	$ 6,558	$ 7,274
Sublease income	—	—
Total lease expense	$ 6,558	$ 7,274

(1) Includes short-term leases and variable lease costs, which are immaterial.

	2020	2019
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases, net	$ 7,387	$ 8,497

	December 31, 2020	December 31, 2019
Lease Term and Discount Rate		
Weighted average remaining lease term (years)	4.16	4.18
Weighted average discount rate	2.80%	3.34%

The Company's lease arrangements that have not yet commenced as of December 31, 2020 and the Company's short-term lease costs and variable lease costs, for the year ended December 31, 2020 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, 2020, excluding property taxes and insurance, are as follows:

	December 31, 2020
	(Dollars in thousands)
Year:	
2021	$ 6,800
2022	5,622
2023	3,767
2024	2,584
2025	1,888
Thereafter	1,721
Total future lease payments	22,382
Less: Imputed interest	(1,218)
Present value of lease liabilities	$ 21,164

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.

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,		
	2020	2019	2018
		(Dollars in thousands)	
Noninterest income:			
In-scope of Topic 606:			
Service charges on deposit accounts	$ 16,561	$ 20,010	$ 17,070
Trust and investment services	9,978	9,525	8,774
Bankcard services	1,886	3,163	3,485
Gain on OREO, net	388	129	3,546
Other	11,277	9,951	6,588
Noninterest Income (in-scope of Topic 606)	40,090	42,778	39,463
Noninterest Income (out-of-scope of Topic 606)	9,780	16,264	4,018
Total noninterest income	$ 49,870	$ 59,042	$ 43,481

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,	
	2020	2019
	(Dollars in thousands)	
Assets		
Investment in subsidiaries	$ 1,990,166	$ 2,003,692
Other assets, net	68,679	42,070
Total assets	$ 2,058,845	$ 2,045,762
Liabilities	$ 50,855	$ 51,664
Stockholders' equity	2,007,990	1,994,098
Total liabilities and stockholders' equity	$ 2,058,845	$ 2,045,762

CVB FINANCIAL CORP.
CONDENSED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2020	2019	2018
		(Dollars in thousands)	
Equity in net earnings of subsidiaries	$ (34,936)	$ 107,185	$ 78,601
Dividends from the Bank	217,000	106,000	77,800
Other expense, net	(4,905)	(5,358)	(4,398)
Net earnings	$ 177,159	$ 207,827	$ 152,003

CVB FINANCIAL CORP.
CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
	(Dollars in thousands)		
Cash Flows from Operating Activities			
Net earnings	$ 177,159	$ 207,827	$ 152,003
Adjustments to reconcile net earnings to cash used in operating activities:			
Earnings of subsidiaries	(182,064)	(213,185)	(156,401)
Tax settlement received from the Bank	-	1,008	-
Stock-based compensation	5,529	5,548	3,508
Other operating activities, net	(2,018)	(2,417)	(2,052)
Total adjustments	(178,553)	(209,046)	(154,945)
Net cash used in operating activities	(1,394)	(1,219)	(2,942)
Cash Flows from Investing Activities			
Dividends received from the Bank	217,000	106,000	77,800
Net cash provided by investing activities	217,000	106,000	77,800
Cash Flows from Financing Activities			
Cash dividends on common stock	(98,475)	(95,352)	(65,966)
Proceeds from exercise of stock options	231	2,215	1,701
Repurchase of common stock	(92,772)	(2,640)	(7,760)
Net cash used in financing activities	(191,016)	(95,777)	(72,025)
Net increase in cash and cash equivalents	24,590	9,004	2,833
Cash and cash equivalents, beginning of period	31,054	22,050	19,217
Cash and cash equivalents, end of period	$ 55,644	$ 31,054	$ 22,050

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)			
2020				
Net interest income	$ 105,853	$ 103,325	$ 104,569	$ 102,306
Provision for credit losses	-	-	11,500	12,000
Net earnings	50,056	47,492	41,631	37,980
Basic earnings per common share	0.37	0.35	0.31	0.27
Diluted earnings per common share	0.37	0.35	0.31	0.27
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

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, 2020 and 2019, 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, 2020 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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, 2020, 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 1, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*".

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) relate 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 credit losses for loans evaluated on a collective basis using the Commercial and Industrial and Commercial Real Estate methodologies

As discussed in Note 3 and Note 6 to the consolidated financial statements, the Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (ASC Topic 326), as of January 1, 2020. The total allowance for credit losses as of January 1, 2020 and December 31, 2020 was $70.5 million and $93.7 million, respectively, a substantial portion of both which relates to the allowance for credit losses on loans evaluated on a collective basis using both the commercial and industrial and commercial real estate methodologies (the January 1, 2020 commercial collective ACL and the December 31, 2020 commercial collective ACL, respectively, together the commercial collective ACL). The commercial collective ACL includes the measure of expected credit losses on a collective basis by pooling those loans that share similar risk characteristics into segments. The commercial collective ACL methodologies include an estimation framework that uses loss experiences of data sets of unique loans to derive lifetime loss rates at the pool level during the average life, inclusive of prepayments. The methodologies to estimate the commercial collective ACL is largely driven by portfolio characteristics, including loss history, original loan-to-value ratios, risk grading, and macroeconomic variables and the associated economic outlook. The commercial collective ACL incorporates a reasonable and supportable forecast of various macro-economic variables over the remaining average life of the loan. The forecast incorporates an assumption that each macro-economic variable will revert to a long-term expectation, starting in years 2-3, of the reasonable and supportable forecast period, with the reversion largely completed within the first five years of the forecast. The commercial collective ACL methodologies incorporate unique macroeconomic variables based on risk drivers to the underlying portfolios. The Company reviews current conditions and forecasts to determine whether adjustments are needed to ensure that the life of loan loss rates reflect both the current state of the portfolio, and expectations for macroeconomic changes.

We identified the assessment of the January 1, 2020 commercial collective ACL and the December 31, 2020 commercial collective ACL as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment due to significant measurement uncertainty. Specifically, the assessment encompassed the evaluation of the commercial collective ACL methodologies, including the methods used to estimate lifetime loss rates and their key assumptions: portfolio segmentation, prepayments, the economic forecast scenarios and their weightings and macroeconomic variables, the length of the reasonable and supportable forecast periods, and risk grading (for the commercial and industrial methodology). The assessment also included the evaluation of the adjustments performed to align the life of loan loss rates with the current state of the portfolio. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the commercial collective ACL estimates, including controls over the:

- development of the commercial collective ACL methodologies
- development of the lifetime loss rate methodologies
- ongoing monitoring of the lifetime loss rate methodologies
- identification and determination of the key assumptions used in the lifetime loss rate methodologies

- development of the adjustments performed to align the life of loan loss rates with the current state of the portfolio
- analysis of the commercial collective ACL results, trends, and ratios.

We evaluated the Company’s process to develop the commercial collective ACL estimates by testing certain sources of data, factors, and assumptions used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the commercial collective ACL methodologies for compliance with U.S. generally accepted accounting principles
- evaluating judgments made relative to the development and performance monitoring of the lifetime loss rate methodologies, including prepayments, by comparing them to Company-specific metrics and trends and the applicable industry and regulatory guidance
- assessing the conceptual soundness and performance of the lifetime loss rate methodologies, including their key assumptions, to determine whether the methodologies were suitable for their intended use
- evaluating the weighted economic forecast scenarios and underlying assumptions driving the macroeconomic variable changes, including the determination of the reasonable and supportable forecast period and weightings used by comparing it to the Company’s business environment and relevant industry practice
- determining whether the loan portfolio is segmented by similar risk characteristics by comparing to specific portfolio risk characteristics and trends
- testing individual credit risk ratings for a selection of loans by evaluating the financial performance of the borrower, sources of repayment, and any relevant guarantees or underlying collateral
- evaluating the methodology used to develop the adjustments and the effect of those adjustments on the commercial collective ACL compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying pool level metrics.

We also assessed the sufficiency of audit evidence obtained related to the January 1, 2020 commercial collective ACL and the December 31, 2020 commercial collective ACL by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company’s accounting practices
- potential bias in the accounting estimates

/s/ KPMG LLP

We have served as the Company’s auditor since 2007.

Los Angeles, California
March 1, 2021

Exhibit 10.5(b)

CVB Financial Corp.
Deferred Compensation Plan

Effective Date
December 1, 2020

CVB Financial Corp. Deferred Compensation Plan

CVB Financial Corp. Deferred Compensation Plan

ARTICLE I

Establishment and Purpose

CVB Financial Corp. (the "Company") has adopted this CVB Financial Corp. Deferred Compensation Plan, applicable to Compensation deferred under Compensation Deferral Agreements submitted on and after the Effective Date and Company Contributions credited on or after the Effective Date.

The purpose of the Plan is to attract and retain key employees and non-employee members of the Board of Directors of the Company by providing them with an opportunity to defer receipt of a portion of their salary, bonus, and other specified compensation. The Plan is not intended to meet the qualification requirements of Code Section 401(a), but is intended to meet the requirements of Code Section 409A, and shall be operated and interpreted consistent with that intent.

The Plan constitutes an unsecured promise by a Participating Employer to pay benefits in the future. Participants in the Plan shall have the status of general unsecured creditors of the Company or the Participating Employer, as applicable. Each Participating Employer shall be solely responsible for payment of the benefits attributable to services performed for it. The Plan is unfunded for Federal tax purposes and is intended to be an unfunded arrangement for eligible employees who are part of a select group of management or highly compensated employees of the Employer within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA and independent contractors. Any amounts set aside to defray the liabilities assumed by the Company or a Participating Employer will remain the general assets of the Company or the Participating Employer and shall remain subject to the claims of the Company's or the Participating Employer's creditors until such amounts are distributed to the Participants.

ARTICLE II

Definitions

2.1 Account. Account means a bookkeeping account maintained by the Committee to record the payment obligation of a Participating Employer to a Participant as determined under the terms of the Plan. The Committee may maintain an Account to record the total obligation to a Participant and component Accounts to reflect amounts payable at different times and in different forms. Reference to an Account means any such Account established by the Committee, as the context requires. Accounts are intended to constitute unfunded obligations within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

2.2 Account Balance. Account Balance means, with respect to any Account, the total payment obligation owed to a Participant from such Account as of the most recent Valuation Date.

2.3 Affiliate. Affiliate means a corporation, trade or business that, together with the Company, is treated as a single employer under Code Section 414(b) or (c).

2.4 Beneficiary. Beneficiary means a natural person, estate, or trust designated by a Participant in accordance with Section 6.5 hereof to receive payments to which a Beneficiary is entitled in accordance with provisions of the Plan.

2.5 Board of Directors. Board of Directors means, for a Participating Employer organized as a corporation, its board of directors and for a Participating Employer organized as a limited liability company, its board of managers.

2.6 Business Day. Business Day means each day on which the New York Stock Exchange is open for business.

2.7 Change in Control. Change in Control means, with respect to a Participating Employer that is organized as a corporation, any of the following events: (i) a change in the ownership of the Participating Employer, (ii) a change in the effective control of the Participating Employer, or (iii) a change in the ownership of a substantial portion of the assets of the Participating Employer.

Change in Ownership. For purposes of this Section, a change in the ownership of the Participating Employer occurs on the date on which any one person, or more than one person acting as a group, acquires ownership of stock of the Participating Employer that, together with stock held by such person or group constitutes more than 50% of the total fair market value or total voting power of the stock of the Participating Employer. The acquisition by a person or group owning more than 50% of the total fair market value or total voting power of the stock of such Participating Employer of additional shares of such Participating Employer shall not constitute a "change of the ownership" of such Participating Employer.

Change in Effective Control. A change in the effective control of the Participating Employer occurs on the date on which either: (i) a person, or more than one person acting as a group, acquires ownership of stock of the Participating Employer possessing 30% or more of the total voting power of the stock of the Participating Employer, taking into account all such stock acquired during the 12-month period ending on the date of the most recent acquisition, provided that the acquisition by a person or group owning more than 30% of the total fair market value or total voting power of the stock of such Participating Employer of additional shares of such Participating Employer shall not constitute a "change of effective control" of such Participating Employer, or (ii) a majority of the members of the Participating Employer's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of such Board of Directors prior to the date of the appointment or election, but only if no other corporation is a majority shareholder of the Participating Employer.

Change in Ownership of Substantial Portion of Assets. A change in the ownership of a substantial portion of assets occurs on the date on which any one person, or more than one person acting as a group, other than a person or group of persons that is related to the Participating Employer, acquires assets from the Participating Employer that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Participating Employer immediately prior to such acquisition or acquisitions, taking into account all such assets acquired during the 12-month period ending on the date of the most recent acquisition. A transfer of assets shall not be treated as a "change in the ownership of a substantial portion of the assets" when such transfer is made to an entity that is controlled by the shareholders of the transferor corporation as determined under Treas. Reg. section 1.409A-3(i)(5)(vii)(B).

An event constitutes a Change in Control with respect to a Participant only if the Participant performs services for the Participating Employer that has experienced the Change in Control, or the Participant's relationship to the affected Participating Employer otherwise satisfies the requirements of Treasury Regulation Section 1.409A-3(i)(5)(ii).

Notwithstanding anything to the contrary herein, with respect to a Participating Employer that is a partnership or limited liability company, Change in Control means only a change in the ownership of such entity or a change in the ownership of a substantial portion of the assets of such entity, and the provisions set forth above respecting such changes relative to a corporation shall be applied by analogy. Any reference to a "majority shareholder" shall be treated as referring to a partner or member that (a) owns more than 50% of the capital and profits interest of such entity, and (b) alone or together with others is vested with the continuing exclusive authority to make management decisions necessary to conduct the business for which the partnership or limited liability company was formed.

2.8 Claimant. Claimant means a Participant or Beneficiary filing a claim under Article XI of this Plan.

2.9 Code. Code means the Internal Revenue Code of 1986, as amended from time to time.

2.10 Code Section 409A. Code Section 409A means section 409A of the Code, and regulations and other guidance issued by the Treasury Department and Internal Revenue Service thereunder.

2.11 Committee. Committee means the Company or a committee appointed by the Company to administer the Plan.

2.12 Company. Company means CVB Financial Corp.

2.13 Company Contribution. Company Contribution means a credit by a Participating Employer to a Participant's Account(s) in accordance with the provisions of Article V of the Plan. Unless the context clearly indicates otherwise, a reference to Company Contribution shall include Earnings attributable to such contribution.

2.14 Compensation. Compensation means a Participant's salary, bonus, commission, retainer, fees and such other cash compensation approved by the Committee as Compensation that may be deferred under Section 4.2 of this Plan, excluding any compensation that has been previously deferred under this Plan or any other arrangement subject to Code Section 409A and excluding any compensation that is not U.S. source income.

2.15 Compensation Deferral Agreement. Compensation Deferral Agreement means an agreement between a Participant and a Participating Employer that specifies: (i) the amount of each component of Compensation that the Participant has elected to defer to the Plan in accordance with the provisions of Article IV, and (ii) the Payment Schedule applicable to one or more Accounts.

2.16 Deferral. Deferral means a credit to a Participant's Account(s) that records that portion of the Participant's Compensation that the Participant has elected to defer to the Plan in accordance with the provisions of Article IV. Unless the context of the Plan clearly indicates otherwise, a reference to Deferrals includes Earnings attributable to such Deferrals.

2.17 Director. Director means a non-employee member of the Board of Directors of the Company.

2.18 Earnings. Earnings means an adjustment to the value of an Account in accordance with Article VII.

2.19 Effective Date. Effective Date means December 1, 2020.

2.20 Eligible Employee. Eligible Employee means an Employee who is a member of a select group of management or highly compensated employees or an independent contractor who has been notified during an applicable enrollment of his or her status as an Eligible Employee. The Committee has the discretion to determine which Employees and independent contractors are Eligible Employees for each enrollment.

2.21 Employee. Employee means a common-law employee of an Employer.

2.22 Employer. Employer means the Company and each Affiliate.

2.23 ERISA. ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

2.24 Flex Account. Flex Account means a Separation Account or Specified Date Account established under the terms of a Participant's Compensation Deferral Agreement. Unless the Committee specifies otherwise, a Participant may maintain no more than six (6) Flex Accounts at any one time.

2.25 Participant. Participant means an individual described in Article III.

2.26 Participating Employer. Participating Employer means the Company and each Affiliate who has adopted the Plan with the consent of the Company. Each Participating Employer shall be identified on Schedule A attached hereto.

2.27 Payment Schedule. Payment Schedule means the date as of which payment of an Account will commence and the form in which payment of such Account will be made under the terms of a payment election in effect for such Account under the terms of this Plan.

2.28 Performance-Based Compensation. Performance-Based Compensation means Compensation where the amount of, or entitlement to, the Compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months. Organizational or individual performance criteria are considered pre-established if established in writing by not later than 90 days after the commencement of the period of service to which the criteria relate, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-Based Compensation shall not include any Compensation payable upon the Participant's death or disability (as defined in Treas. Section 1.409A-1(e)) without regard to the satisfaction of the performance criteria.

2.29 Plan. Plan means "CVB Financial Corp. Deferred Compensation" as documented herein and as may be amended from time to time hereafter. However, to the extent permitted or required under Code Section 409A, the term Plan may in the appropriate context also means a portion of the Plan that is treated as a single plan under Treas. Reg. Section 1.409A-1(c), or the Plan or portion of the Plan and any other nonqualified deferred compensation plan or portion thereof that is treated as a single plan under such section.

2.30 Plan Year. Plan Year means January 1 through December 31.

2.31 Retirement. Retirement means when an Employee attains age 60 or age 55 with ten years of service based on each 12 month period of service with an Employer commencing on the Employee's hire date and each anniversary thereof.

2.32 Separation Account. Separation Account means an Account established by the Committee in accordance with a Participant's Compensation Deferral Agreement to record Deferrals allocated to such Account by the Participant and which are payable upon the Participant's Separation from Service as set forth in Section 6.3. The Committee may limit the number of Separation Accounts that may be maintained at any one time by a Participant, as set forth in the Plan's enrollment materials.

2.33 Separation from Service. Separation from Service means an Employee's termination of employment with the Employer and all Affiliates.

Except in the case of an Employee on a bona fide leave of absence as provided below, an Employee is deemed to have incurred a Separation from Service if the Employer and the Employee reasonably anticipated that the level of services to be performed by the Employee after a date certain would be reduced to 20% or less of the average services rendered by the Employee during the immediately preceding 36-month period (or the total period of employment, if less than 36 months), disregarding periods during which the Employee was on a bona fide leave of absence.

An Employee who is absent from work due to military leave, sick leave, or other bona fide leave of absence shall incur a Separation from Service on the first date immediately following the later of: (i) the six month anniversary of the commencement of the leave, or (ii) the expiration of the Employee's right, if any, to reemployment under statute or contract.

If a Participant ceases to provide services as an Employee and begins providing services as an independent contractor for the Employer, a Separation from Service shall occur only if the parties anticipate that the level of services to be provided as an independent contractor are such that a Separation from Service would have occurred if the Employee had continued to provide services at that level as an Employee. If, in accordance with the preceding sentence, no Separation from Service occurs as of the date the individual's employment status changes, a Separation from Service shall occur thereafter only upon the 12-month anniversary of the date all contracts with the Employer have expired, provided the Participant does not perform services for the Employer during that time.

For purposes of determining whether a Separation from Service has occurred, the Employer means the Employer as defined in Section 2.22 of the Plan, except that in applying Code sections 1563(a)(1), (2) and (3) for purposes of determining whether another organization is an Affiliate of the Company under Code Section 414(b), and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining whether another organization is an Affiliate of the Company under Code Section 414(c), "at least 50 percent" shall be used instead of "at least 80 percent" each place it appears in those sections.

The Committee specifically reserves the right to determine whether a sale or other disposition of substantial assets to an unrelated party constitutes a Separation from Service with respect to a Participant providing services to the seller immediately prior to the transaction and providing services to the buyer after the transaction.

2.34 <u>Specified Date Account.</u> Specified Date Account means an Account established by the Committee to record the amounts payable in a future year as specified in the Participant's Compensation Deferral Agreement. The Committee may limit the number of Specified Date Accounts that may be maintained at any one time by a Participant, as set forth in the Plan's enrollment materials.

2.35 <u>Substantial Risk of Forfeiture.</u> Substantial Risk of Forfeiture has the meaning specified in Treas. Reg. Section 1.409A-1(d).

2.36 <u>Termination Account</u>. Termination Account means an Account established by the Committee to record Company Contributions and Deferrals allocated to the Termination Account pursuant to a Participant's Compensation Deferral Agreement, payable to a Participant upon Separation from Service in accordance with Section 6.3.

2.37 Unforeseeable Emergency. Unforeseeable Emergency means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's dependent (as defined in Code section 152, without regard to section 152(b)(1), (b)(2), and (d)(1)(B)), or a Beneficiary; loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, as a result of a natural disaster); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The types of events which may qualify as an Unforeseeable Emergency may be limited by the Committee.

2.38 Valuation Date. Valuation Date means each Business Day.

ARTICLE III

Eligibility and Participation

3.1 Eligibility and Participation. All Eligible Employees and Directors may enroll in the Plan. Eligible Employees and Directors become Participants on the first to occur of (i) the date on which the first Compensation Deferral Agreement becomes irrevocable under Article IV, or (ii) for Eligible Employees, the date Company Contributions are credited to an Account on behalf of such Eligible Employee.

3.2 Duration. Only Eligible Employees and Directors may submit Compensation Deferral Agreements during an enrollment and receive Company Contributions during the Plan Year. A Participant who is no longer an Eligible Employee but has not incurred a Separation from Service will not be allowed to submit Compensation Deferral Agreements but may otherwise exercise all of the rights of a Participant under the Plan with respect to his or her Account(s). On and after a Separation from Service, a Participant shall remain a Participant as long as his or her Account Balance is greater than zero (0). All Participants, regardless of employment status, will continue to be credited with Earnings and during such time may continue to make allocation elections as provided in Section 7.4. An individual shall cease being a Participant in the Plan when his Account has been reduced to zero (0).

3.3 Rehires. An Eligible Employee who Separates from Service and who subsequently resumes performing services for an Employer in the same calendar year (regardless of eligibility) will have his or her Compensation Deferral Agreement for such year, if any, reinstated, but his or her eligibility to participate in the Plan in years subsequent to the year of rehire shall be governed by the provisions of Section 3.1.

ARTICLE IV

Deferrals

4.1 Deferral Elections, Generally.

(a) An Eligible Employee or Director may make an initial election to defer Compensation by submitting a Compensation Deferral Agreement during the enrollment periods established by the Committee and in the manner specified by the Committee, but in any event, in accordance with Section 4.2. Unless an earlier date is specified in the Compensation Deferral Agreement, deferral elections with respect to a Compensation source (such as salary, bonus, or other Compensation) become irrevocable on the latest date applicable to such Compensation source under Section 4.2.

(b) A Compensation Deferral Agreement that is not timely filed with respect to a service period or component of Compensation, or that is submitted by a Participant who Separates from Service prior to the latest date such agreement would become irrevocable under Section 409A, shall be considered null and void and shall not take effect with respect to such item of Compensation. The Committee may modify or revoke any Compensation Deferral Agreement prior to the date the election becomes irrevocable under the rules of Section 4.2.

(c) The Committee may permit different deferral amounts for each component of Compensation and may establish a minimum or maximum deferral amount for each such component. Unless otherwise specified by the Committee in the Compensation Deferral Agreement, Participants may defer up to (75%) of their base compensation and up to (100%) of bonus, commissions, or other Compensation earned during a Plan Year.

(d) Deferrals of cash Compensation shall be calculated with respect to the gross cash Compensation payable to the Participant prior to any deductions or withholdings, but shall be reduced by the Committee as necessary so as not to exceed 100% of the cash Compensation of the Participant remaining after deduction of all required income and employment taxes, required employee benefit deductions, deferrals to 401(k) plans and other deductions required by law. Changes to payroll withholdings that affect the amount of Compensation being deferred to the Plan shall be allowed only to the extent permissible under Code Section 409A.

(e) The Eligible Employee or Director shall specify on his or her Compensation Deferral Agreement the amount of Deferrals and whether to allocate Deferrals to the Termination Account or to one or more Flex Accounts. If no designation is made, Deferrals shall be allocated to the Termination Account.

4.2 Timing Requirements for Compensation Deferral Agreements.

(a) *Initial Eligibility.* The Committee may permit an Eligible Employee or Director to defer Compensation earned in the first year of eligibility. The Compensation Deferral Agreement must be filed within 30 days after attaining Eligible Employee status (or, for Directors, within 30 days of being seated as a member of the Board of Directors) and becomes irrevocable not later than the 30th day.

A Compensation Deferral Agreement filed under this paragraph applies to Compensation earned after the date that the Compensation Deferral Agreement becomes irrevocable.

(b) *Prior Year Election.* Except as otherwise provided in this Section 4.2, the Committee may permit an Eligible Employee or Director to defer Compensation by filing a Compensation Deferral Agreement no later than December 31 of the year prior to the year in which the Compensation to be deferred is earned. A Compensation Deferral Agreement filed under this paragraph shall become irrevocable with respect to such Compensation not later than the December 31 filing deadline.

(c) *Performance-Based Compensation.* The Committee may permit an Eligible Employee or Director to defer Compensation which qualifies as Performance-Based Compensation by filing a Compensation Deferral Agreement no later than the date that is six months before the end of the applicable performance period, provided that:

(i) the Participant performs services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Compensation Deferral Agreement is submitted; and

(ii) the Compensation is not readily ascertainable as of the date the Compensation Deferral Agreement is filed.

Any election to defer Performance-Based Compensation that is made in accordance with this paragraph and that becomes payable as a result of the Participant's death or disability (as defined in Treas. Reg. Section 1.409A-1(e)) or upon a change in control (as defined in Treas. Reg. Section 1.409A-3(i)(5)) prior to the satisfaction of the performance criteria, will be void unless it would be considered timely under another rule described in this Section.

(d) *Short-Term Deferrals.* The Committee may permit Compensation that meets the definition of a "short-term deferral" described in Treas. Reg. Section 1.409A-1(b)(4) to be deferred in accordance with the rules of Section 6.10, applied as if the date the Substantial Risk of Forfeiture lapses is the date payments were originally scheduled to commence, provided, however, that the provisions of Section 6.10 shall not apply to payments attributable to a change in control (as defined in Treas. Reg. Section 1.409A-3(i)(5)). A Compensation Deferral Agreement submitted in accordance with this paragraph becomes irrevocable on the latest date it could be submitted under Section 6.10.

(e) *Certain Forfeitable Rights.* With respect to a legally binding right to a payment in a subsequent year that is subject to a forfeiture condition requiring the Participant's continued services for a period of at least 12 months from the date the Participant obtains the legally binding right, the Committee may permit an Eligible Employee or Director to defer such Compensation by filing a

Compensation Deferral Agreement on or before the 30th day after the legally binding right to the Compensation accrues, provided that the Compensation Deferral Agreement is submitted at least 12 months in advance of the earliest date on which the forfeiture condition could lapse. The Compensation Deferral Agreement described in this paragraph becomes irrevocable not later than such 30th day. If the forfeiture condition applicable to the payment lapses before the end of such 12-month period as a result of the Participant's death or disability (as defined in Treas. Reg. Section 1.409A-3(i)(4)) or upon a change in control (as defined in Treas. Reg. Section 1.409A-3(i)(5)), the Compensation Deferral Agreement will be void unless it would be considered timely under another rule described in this Section.

(f) *"Evergreen" Deferral Elections.* The Committee, in its discretion, may provide that Compensation Deferral Agreements will continue in effect for subsequent years or performance periods by communicating that intention to Participants in writing prior to the date Compensation Deferral Agreements become irrevocable under this Section 4.2. An evergreen Compensation Deferral Agreement may be revoked or modified in writing prospectively by the Participant or the Committee with respect to Compensation for which such election remains revocable under this Section 4.2.

A Compensation Deferral Agreement is deemed to be revoked for subsequent years if the Participant is not an Eligible Employee or Director as of the last permissible date for making elections under this Section 4.2 or if the Compensation Deferral Agreement is cancelled in accordance with Section 4.6.

4.3 Allocation of Deferrals. A Compensation Deferral Agreement may allocate Deferrals to the Termination Account or to one or more Flex Accounts. The Committee may, in its discretion, establish in a written communication during enrollment a minimum deferral period for the establishment of a Specified Date Account (for example, the second Plan Year following the year Compensation is first allocated to such Accounts). In the event a Participant's Compensation Deferral Agreement allocates a component of Compensation to a Specified Date Account that commences payment in the year such Compensation is earned, the Compensation Deferral Agreement shall be deemed to allocate the Deferral to the Participant's Specified Date Account having the next earliest payment year. If the Participant has no other Specified Date Accounts, the Committee will allocate the Deferral to the Termination Account.

4.4 Deductions from Pay. The Committee has the authority to determine the payroll practices under which any component of Compensation subject to a Compensation Deferral Agreement will be deducted from a Participant's Compensation.

4.5 Vesting. Participant Deferrals of cash Compensation shall be 100% vested at all times. Deferrals of vesting awards of Compensation shall become vested in accordance with the provisions of the underlying award.

4.6 Cancellation of Deferrals. The Committee may cancel a Participant's Deferrals: (i) for the balance of the Plan Year in which an Unforeseeable Emergency occurs, and (ii) during periods in which the Participant is unable to perform the duties of his or her position or any substantially similar position due to a mental or physical impairment that can be expected to result in death or last for a continuous period of at least six months, provided cancellation occurs by the later of the end of the taxable year of the Participant or the 15th day of the third month following the date the Participant incurs the disability (as defined in this paragraph (ii)).

ARTICLE V

Company Contributions

5.1 Discretionary Company Contributions. A Participating Employer may, from time to time in its sole and absolute discretion, credit discretionary Company Contributions in the form of matching, profit sharing or other contributions to any Participant in any amount determined by the Participating Employer. Company Contributions are credited to the Participant's Termination Account.

Make-Up Matching Contribution. Company Contributions may take the form of "make-up" matching contributions, at the same matching contribution rate provided under the Company 401(k) plan with respect to Deferrals that reduce 401(k) plan compensation below the limitation set forth in Code Section 401(a)(17).

Supplemental Matching Contribution. Company Contributions may take the form of "supplemental" matching contributions, at the same contribution rate provided under the Company 401(k) plan with respect to compensation deferred above the compensation limit set forth in Code Section 401(a)(17).

Discretionary Company Contribution. Discretionary Company Contributions are credited at the sole discretion of the Participating Employer and the fact that a discretionary Company Contribution is credited in one year shall not obligate the Participating Employer to continue to make such Company Contributions in subsequent years.

5.2 Vesting. Company Contributions vest according the schedule specified by the Committee on or before the time the contributions are made. Make-up and supplemental matching contributions vest at the same rate as matching contributions under the Company 401(k) plan.

All Company Contributions become 100% vested, if while employed by an Employer, a Participant dies, becomes disabled, his or her Employer experiences a change in control as determined by the Company or the Participant attains age 60 or age 55 with ten years of service based on each 12 month period of service with an Employer commencing on the Employee's hire date and each anniversary thereof.

ARTICLE VI

Payments from Accounts

6.1 General Rules. A Participant's Accounts become payable upon the first to occur of the payment events applicable to such Account under Sections 6.2 through 6.7.

Payment events and Payment Schedules elected by the Participant shall be set forth in a valid Compensation Deferral Agreement that establishes the Account to which such elections apply in accordance with Article IV or in a valid modification election applicable to such Account as described in Section 6.10.

Payment amounts are based on Account Balances as of the last Valuation Date of the month next preceding the month actual payment is made.

6.2 Specified Date Accounts.

Except as provided in Section 6.3, Specified Date Accounts will be paid as follows:

Commencement. Payment is made or begins in the year designated by the Participant.

Form of Payment. Payment will be made in a lump sum, unless the Participant elected to receive annual installments up to ten years.

6.3 Separation from Service. Upon a Participant's Separation from Service other than death, the Participant is entitled to receive:

- His or her vested Termination Account;
- Separation Accounts; and
- Specified Date Accounts having a payment commencement year after the Participant's Separation from Service.

Commencement. Payments commence in the calendar year next following the calendar year in which Separation from Service occurs, unless the Participant elected a later year. Any later year election for the Termination Account will also apply to the Specified Date Accounts payable under this Section 6.3. A later year election will apply only if the Participant has met the definition of Retirement as of the date of his or her Separation from Service.

Notwithstanding any other provision of this Plan, payment to a Participant who is a "specified employee" as defined in Code Section 409A(a)(2)(B) will commence no earlier than six months following his or her Separation from Service.

Form of Payment. The Termination Account and Separation Accounts will be paid in a single lump sum unless the Participant elected with respect to an Account to receive annual installments up to ten years. Specified Date Accounts payable under this Section 6.3 that have not commenced payment as of the Participant's Separation from Service will be paid in the same form elected for the Termination Account. A Participant's election will apply only if the Participant has met the definition of Retirement as of the date of his or her Separation from Service. If a Participant's Separation from Service occurs prior to his or her Retirement, all of his or her Accounts payable under this Section 6.3 shall be paid in a single lump sum.

6.4 Change in Control. Upon his or her initial enrollment in the Plan after the Effective Date, the Participant may elect to receive his or her Accounts following Separation from Service that occurs within 24 months following a Change in Control. A Change in Control payment election will apply if the Participant has met the definition of Retirement as of the date of his or her Separation from Service and supersedes all other Separation from Service Payment Schedules with respect to his or her Accounts. Payment will be made in a single lump sum commencing in the calendar year next following the year in which Separation from Service occurs, unless the Participant elects during his or her initial enrollment to receive a designated number of annual installments up to five years. If an installment election is made, the election will apply to the Termination Account, any Separation Accounts and any Specified Date Accounts that have not commenced payment as of the Participant's Separation from Service. If a lump sum is elected, the election will apply to the unpaid balances of all of the Participant's Accounts subject to this Section 6.4. An election to receive a lump sum may not be modified under Section 6.10.

6.5 Death. Notwithstanding anything to the contrary in this Article VI, upon the death of the Participant (regardless of whether such Participant is an Employee or Director at the time of death), all remaining vested Account Balances shall be paid to his or her Beneficiary in a single lump sum no later than December 31 of the calendar year of the Participant's death.

(a) *Designation of Beneficiary in General*. The Participant shall designate a Beneficiary in the manner and on such terms and conditions as the Committee may prescribe. No such designation shall become effective unless filed with the Committee during the Participant's lifetime. Any designation shall remain in effect until a new designation is filed with the Committee; provided, however, that in the event a Participant designates his or her spouse as a Beneficiary, such designation shall be automatically revoked upon the dissolution of the marriage unless, following such dissolution, the Participant submits a new designation naming the former spouse as a Beneficiary. A Participant may from time to time change his or her designated Beneficiary without the consent of a previously-designated Beneficiary by filing a new designation with the Committee.

(b) *No Beneficiary*. If a designated Beneficiary does not survive the Participant, or if there is no valid Beneficiary designation, amounts payable under the Plan upon the death of the Participant shall be paid to the Participant's spouse, or if there is no surviving spouse, then to the duly appointed and currently acting personal representative of the Participant's estate.

6.6 Unforeseeable Emergency. A Participant who experiences an Unforeseeable Emergency may submit a written request to the Committee to receive payment of all or any portion of his or her vested Accounts. If the emergency need cannot be relieved by cessation of Deferrals to the Plan, the Committee may approve an emergency payment therefrom not to exceed the amount reasonably necessary to satisfy the need, taking into account the additional compensation that is available to the Participant as the result of cancellation of deferrals to the Plan, including amounts necessary to pay any taxes or penalties that the Participant reasonably anticipates will result from the payment. The amount of the emergency payment shall be subtracted from the Separation Accounts and then from the Specified Date Accounts, starting with the Account having the latest commencement date until fully distributed, then continuing in this manner with the next latest Account until the full amount of the distribution is made. Emergency payments shall be paid in a single lump sum within the 90-day period following the date the payment is approved by the Committee. The Committee may specify that Deferrals will be distributed before any Company Contributions.

6.7 Administrative Cash-Out of Small Balances. Notwithstanding anything to the contrary in this Article VI, the Committee may at any time and without regard to whether a payment event has occurred, direct in writing an immediate lump sum payment of the Participant's Accounts if the balance of such Accounts, combined with any other amounts required to be treated as deferred under a single plan pursuant to Code Section 409A, does not exceed the applicable dollar amount under Code Section 402(g)(1)(B), provided any other such aggregated amounts are also distributed in a lump sum at the same time.

6.8 Acceleration of or Delay in Payments. Notwithstanding anything to the contrary in this Article VI, the Committee, in its sole and absolute discretion, may elect to accelerate the time or form of payment of an Account, provided such acceleration is permitted under Treas. Reg. Section 1.409A-3(j)(4). The Committee may also, in its sole and absolute discretion, delay the time for payment of an Account, to the extent permitted under Treas. Reg. Section 1.409A-2(b)(7).

6.9 Rules Applicable to Installment Payments. If a Payment Schedule specifies installment payments, payments will be made beginning as of the payment commencement date for such installments and shall continue to be made in each subsequent payment period until the number of installment payments specified in the Payment Schedule has been paid. The amount of each installment payment shall be determined by dividing (a) by (b), where (a) equals the Account Balance as of the last Valuation Date in the month preceding the month of payment and (b) equals the remaining number of installment payments. For purposes of Section 6.10, installment payments will be treated as a single payment. If an Account is payable in installments, the Account will continue to be credited with Earnings in accordance with Article VII hereof until the Account is completely distributed.

6.10 Modifications to Payment Schedules. A Participant may modify the Payment Schedule elected by him or her with respect to an Account, consistent with the permissible Payment Schedules available under the Plan for the applicable payment event, provided such modification complies with the requirements of this Section 6.10.

(a) *Time of Election*. The modification election must be submitted to the Committee not less than 12 months prior to the date payments would have commenced under the Payment Schedule in effect prior to modification (the "Prior Election").

(b) *Date of Payment under Modified Payment Schedule*. The date payments are to commence under the modified Payment Schedule must be no earlier than five years after the date payment would have commenced under the Prior Election. Under no circumstances may a modification election result in an acceleration of payments in violation of Code Section 409A. If the Participant modifies only the form, and not the commencement date for payment, payments shall commence on the fifth anniversary of the date payment would have commenced under the Prior Election.

(c) *Irrevocability; Effective Date*. A modification election is irrevocable when filed and becomes effective 12 months after the filing date.

(d) *Effect on Accounts*. An election to modify a Payment Schedule is specific to the Account or payment event to which it applies and shall not be construed to affect the Payment Schedules or payment events of any other Accounts.

ARTICLE VII

Valuation of Account Balances; Investments

7.1 Valuation. Deferrals shall be credited to appropriate Accounts on the date such Compensation would have been paid to the Participant absent the Compensation Deferral Agreement. Valuation of Accounts shall be performed under procedures approved by the Committee.

7.2 Earnings Credit. Each Account will be credited with Earnings on each Business Day, based upon the Participant's investment allocation among a menu of investment options selected in advance by the Committee, in accordance with the provisions of this Article VII ("investment allocation").

7.3 Investment Options. Investment options will be determined by the Committee. The Committee, in its sole discretion, shall be permitted to add or remove investment options from the Plan menu from time to time, provided that any such additions or removals of investment options shall not be effective with respect to any period prior to the effective date of such change.

7.4 Investment Allocations. A Participant's investment allocation constitutes a deemed, not actual, investment among the investment options comprising the investment menu. At no time shall a Participant have any real or beneficial ownership in any investment option included in the investment menu, nor shall the Participating Employer or any trustee acting on its behalf have any obligation to purchase actual securities as a result of a Participant's investment allocation. A Participant's investment allocation shall be used solely for purposes of adjusting the value of a Participant's Account Balances.

A Participant shall specify an investment allocation for each of his Accounts in accordance with procedures established by the Committee. Allocation among the investment options must be designated in increments of 1%. The Participant's investment allocation will become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Committee, the next Business Day.

A Participant may change an investment allocation on any Business Day, both with respect to future credits to the Plan and with respect to existing Account Balances, in accordance with procedures adopted by the Committee. Changes shall become effective on the same Business Day or, in the case of investment allocations received after a time specified by the Committee, the next Business Day, and shall be applied prospectively.

7.5 Unallocated Deferrals and Accounts. If the Participant fails to make an investment allocation with respect to an Account, such Account shall be invested in an investment option, the primary objective of which is the preservation of capital, as determined by the Committee.

7.6 Valuations Final After 180 Days. The Participant shall have 180 days following the Valuation Date on which the Participant failed to receive the full amount of Earnings and to file a claim under Article XI for the correction of such error.

ARTICLE VIII

Administration

8.1 Plan Administration. This Plan shall be administered by the Committee which shall have discretionary authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and to utilize its discretion to decide or resolve any and all questions, including but not limited to eligibility for benefits and interpretations of this Plan and its terms, as may arise in connection with the Plan. Claims for benefits shall be filed with the Committee and resolved in accordance with the claims procedures in Article XI.

8.2 Administration Upon Change in Control. Upon a change in control affecting the Company, the Committee, as constituted immediately prior to such change in control, shall continue to act as the Committee. The Committee, by a vote of a majority of its members, shall have the authority (but shall not be obligated) to appoint an independent third party to act as the Committee. For purposes of this Section 8.2, a "change in control" means a change in control within the meaning of the rabbi trust agreement associated with the Plan or if no such definition is provided, the term shall have the meaning under Code Section 409A.

Upon such change in control, the Company may not remove the Committee or its members, unless a majority of Participants and Beneficiaries with Account Balances consent to the removal and replacement of the Committee. Notwithstanding the foregoing, the Committee shall not have authority to direct investment of trust assets under any rabbi trust described in Section 10.2.

The Participating Employers shall, with respect to the Committee identified under this Section: (i) pay all reasonable expenses and fees of the Committee, (ii) indemnify the Committee (including individuals serving as Committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Committee's duties hereunder, except with respect to matters resulting from the Committee's gross negligence or willful misconduct, and (iii) supply full and timely information to the Committee on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Committee may reasonably require.

8.3 Withholding. The Participating Employer shall have the right to withhold from any payment due under the Plan (or with respect to any amounts credited to the Plan) any taxes required by law to be withheld in respect of such payment (or credit). Withholdings with respect to amounts credited to the Plan shall be deducted from Compensation that has not been deferred to the Plan.

8.4 Indemnification. The Participating Employers shall indemnify and hold harmless each employee, officer, director, agent or organization, to whom or to which are delegated duties, responsibilities, and authority under the Plan or otherwise with respect to administration of the Plan, including, without limitation, the Committee, its delegees and its agents, against all claims, liabilities, fines and penalties, and all expenses reasonably incurred by or imposed upon him or it (including but not limited to reasonable attorney fees) which arise as a result of his or its actions or failure to act in connection with the operation and administration of the Plan to the extent lawfully allowable and to the extent that such claim, liability, fine, penalty, or expense is not paid for by liability insurance purchased or paid for by the Participating Employer. Notwithstanding the foregoing, the Participating Employer shall not indemnify any person or organization if his or its actions or failure to act are due to gross negligence or willful misconduct or for any such amount incurred through any settlement or compromise of any action unless the Participating Employer consents in writing to such settlement or compromise.

8.5 Delegation of Authority. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with legal counsel who shall be legal counsel to the Company.

8.6 Binding Decisions or Actions. The decision or action of the Committee in respect of any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations thereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

ARTICLE IX

Amendment and Termination

9.1 Amendment and Termination. The Company may at any time and from time to time amend the Plan or may terminate the Plan as provided in this Article IX. Each Participating Employer may also terminate its participation in the Plan.

9.2 Amendments. The Company, by action taken by its Board of Directors, may amend the Plan at any time and for any reason, provided that any such amendment shall not reduce the vested Account Balances of any Participant accrued as of the date of any such amendment or restatement (as if the Participant had incurred a voluntary Separation from Service on such date). The Board of Directors of the Company may delegate to the Committee the authority to amend the Plan without the consent of the Board of Directors for the purpose of: (i) conforming the Plan to the requirements of law; (ii) facilitating the administration of the Plan; (iii) clarifying provisions based on the Committee's interpretation of the Plan documents; and (iv) making such other amendments as the Board of Directors may authorize. No amendment is needed to revise the list of Participating Employers set forth on Schedule A attached hereto.

9.3 Termination. The Company, by action taken by its Board of Directors, may terminate the Plan and pay Participants and Beneficiaries their Account Balances in a single lump sum at any time, to the extent and in accordance with Treas. Reg. Section 1.409A-3(j)(4)(ix).

9.4 Accounts Taxable Under Code Section 409A. The Plan is intended to constitute a plan of deferred compensation that meets the requirements for deferral of income taxation under Code Section 409A. The Committee, pursuant to its authority to interpret the Plan, may sever from the Plan or any Compensation Deferral Agreement any provision or exercise of a right that otherwise would result in a violation of Code Section 409A.

ARTICLE X

Informal Funding

10.1 General Assets. Obligations established under the terms of the Plan may be satisfied from the general funds of the Participating Employers, or a trust described in this Article X. No Participant, spouse or Beneficiary shall have any right, title, or interest whatever in assets of the Participating Employers. Nothing contained in this Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Participating Employers and any Employee, Director, spouse, or Beneficiary. To the extent that any person acquires a right to receive payments hereunder, such rights are no greater than the right of an unsecured general creditor of the Participating Employer.

10.2 Rabbi Trust. A Participating Employer may, in its sole discretion, establish a grantor trust, commonly known as a rabbi trust, as a vehicle for accumulating assets to pay benefits under the Plan. Payments under the Plan may be paid from the general assets of the Participating Employer or from the assets of any such rabbi trust. Payment from any such source shall reduce the obligation owed to the Participant or Beneficiary under the Plan.

If a rabbi trust is in existence upon the occurrence of a “change in control”, as defined in such trust, the Participating Employer shall, upon such change in control, and on each anniversary of the change in control, contribute in cash or liquid securities such amounts as are necessary so that the value of assets after making the contributions exceed 125% of the total value of all Account Balances.

ARTICLE XI

Claims

11.1 Filing a Claim. Any controversy or claim arising out of or relating to the Plan shall be filed in writing with the Committee which shall make all determinations concerning such claim. Any claim filed with the Committee and any decision by the Committee denying such claim shall be in writing and shall be delivered to the Participant or Beneficiary filing the claim (the “Claimant”). Notice of a claim for payments shall be delivered to the Committee within 90 days of the latest date upon which the payment could have been timely made in accordance with the terms of the Plan and Code Section 409A, and if not paid, the Participant or Beneficiary must file a claim under this Article XI not later than 180 days after such latest date. If the Participant or Beneficiary fails to file a timely claim, the Participant forfeits any amounts to which he or she may have been entitled to receive under the claim.

(a) *In General.* Notice of a denial of benefits (other than claims based on disability) will be provided within 90 days of the Committee’s receipt of the Claimant’s claim for benefits. If the Committee determines that it needs additional time to review the claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial 90-day period. The extension will not be more than 90 days from the end of the initial 90-day period and the notice of extension will explain the special circumstances that require the extension and the date by which the Committee expects to make a decision.

(b) *Disability Benefits.* Notice of denial of claims based on disability will be provided within forty-five (45) days of the Committee’s receipt of the Claimant’s claim for disability benefits. If the Committee determines that it needs additional time to review the disability claim, the Committee will provide the Claimant with a notice of the extension before the end of the initial 45-day period. If the Committee determines that a decision cannot be made within the first extension period due to matters beyond the control of the Committee, the time period for making a determination may be further extended for an additional 30 days. If such an additional extension is necessary, the Committee shall notify the Claimant prior to the expiration of the initial 30-day extension. Any notice of extension shall indicate the circumstances necessitating the extension of time, the date by which the Committee expects to furnish a notice of decision, the specific standards on which such entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim and any additional information needed to resolve those issues. A Claimant will be provided a minimum of 45 days to submit any necessary additional information to the Committee. In the event that a 30-day extension is necessary due to a Claimant's failure to submit information necessary to decide a claim, the period for furnishing a notice of decision shall be tolled from the date on which the notice of the extension is sent to the Claimant until the earlier of the date the Claimant responds to the request for additional information or the response deadline.

(c) *Contents of Notice.* If a claim for benefits is completely or partially denied, notice of such denial shall be in writing. Any electronic notification shall comply with the standards imposed by Department of Labor Regulation 29 CFR 2520.104b-1(c)(1)(i), (iii), and (iv). The notice of denial shall set forth the specific reasons for denial in plain language. The notice shall: (i) cite the pertinent provisions of the Plan document, and (ii) explain, where appropriate, how the Claimant can perfect the claim, including a description of any additional material or information necessary to complete the claim and why such material or information is necessary. The claim denial also shall include an explanation of the claims review procedures and the time limits applicable to such procedures, including the right to appeal the decision, the deadline by which such appeal must be filed and a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse decision on appeal and the specific date by which such a civil action must commence under Section 11.4.

In the case of a complete or partial denial of a disability benefit claim, the notice shall provide such information and shall be communicated in the manner required under applicable Department of Labor regulations.

11.2 <u>Appeal of Denied Claims.</u> A Claimant whose claim has been completely or partially denied shall be entitled to appeal the claim denial by filing a written appeal with a committee designated to hear such appeals (the "Appeals Committee"). A Claimant who timely requests a review of the denied claim (or his or her authorized representative) may review, upon request and free of charge, copies of all documents, records, and other information relevant to the denial and may submit written comments, documents, records, and other information relating to the claim to the Appeals Committee. All written comments, documents, records, and other information shall be considered "relevant" if the information: (i) was relied upon in making a benefits determination, (ii) was submitted, considered, or generated in the course of making a benefits decision regardless of whether it was relied upon to make the decision, or (iii) demonstrates compliance with administrative processes and safeguards established for making benefit decisions. The review shall take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Appeals Committee may, in its sole discretion and if it deems appropriate or necessary, decide to hold a hearing with respect to the claim appeal.

(a) *In General.* Appeal of a denied benefits claim (other than a disability benefits claim) must be filed in writing with the Appeals Committee no later than 60 days after receipt of the written notification of such claim denial. The Appeals Committee shall make its decision regarding the merits of the denied claim within 60 days following receipt of the appeal (or within 120 days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. The review will take into account comments, documents, records, and other information submitted by the Claimant relating to the claim without regard to whether such information was submitted or considered in the initial benefit determination.

(b) *Disability Benefits.* Appeal of a denied disability benefits claim must be filed in writing with the Appeals Committee no later than 180 days after receipt of the written notification of such claim denial. The review shall be conducted in accordance with applicable Department of Labor regulations.

The Appeals Committee shall make its decision regarding the merits of the denied claim within 45 days following receipt of the appeal (or within 90 days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). If an extension of time for reviewing the appeal is required because of special circumstances, written notice of the extension shall be furnished to the Claimant prior to the commencement of the extension. The notice will indicate the special circumstances requiring the extension of time and the date by which the Appeals Committee expects to render the determination on review. Following its review of any additional information submitted by the Claimant, the Appeals Committee shall render a decision on its review of the denied claim.

(c) *Contents of Notice.* If a benefits claim is completely or partially denied on review, notice of such denial shall be in writing. Any electronic notification shall comply with the standards imposed by Department of Labor Regulation 29 CFR 2520.104b-1(c)(1)(i), (iii), and (iv). Such notice shall set forth the reasons for denial in plain language.

The decision on review shall set forth: (i) the specific reason or reasons for the denial, (ii) specific references to the pertinent Plan provisions on which the denial is based, (iii) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records, or other information relevant (as defined above) to the Claimant's claim, and (iv) a statement of the Claimant's right to bring an action under Section 502(a) of ERISA, following an adverse decision on review and the specific date by which such a civil action must commence under Section 11.4.

For the denial of a disability benefit, the notice will also include such additional information and be communicated in the manner required under applicable Department of Labor regulations.

11.3 Claims Appeals Upon Change in Control. Upon a change in control, the Appeals Committee, as constituted immediately prior to such change in control, shall continue to act as the Appeals Committee. The Company may not remove any member of the Appeals Committee, but may replace resigning members if 2/3rds of the members of the Board of Directors of the Company and a majority of Participants and Beneficiaries with Account Balances consent to the replacement. For purposes of this Section 11.3, a "change in control" means a change in control within the meaning of the rabbi trust agreement associated with the Plan or if no such definition is provided, the term shall have the meaning under Code Section 409A.

The Appeals Committee shall have the exclusive authority at the appeals stage to interpret the terms of the Plan and resolve appeals under the Claims Procedure.

Each Participating Employer shall, with respect to the Committee identified under this Section: (i) pay its proportionate share of all reasonable expenses and fees of the Appeals Committee, (ii) indemnify the Appeals Committee (including individual committee members) against any costs, expenses and liabilities including, without limitation, attorneys' fees and expenses arising in connection with the performance of the Appeals Committee hereunder, except with respect to matters resulting from the Appeals Committee's gross negligence or willful misconduct, and (iii) supply full and timely information to the Appeals Committee on all matters related to the Plan, any rabbi trust, Participants, Beneficiaries and Accounts as the Appeals Committee may reasonably require.

11.4 Legal Action. A Claimant may not bring any legal action, including commencement of any arbitration, relating to a claim for benefits under the Plan unless and until the Claimant has followed the claims procedures under the Plan and exhausted his or administrative remedies under Sections 11.1 and 11.2. No such legal action may be brought more than twelve (12) months following the notice of denial of benefits under Section 11.2, or if no appeal is filed by the applicable appeals deadline, twelve (12) months following the appeals deadline.

If a Participant or Beneficiary prevails in a legal proceeding brought under the Plan to enforce the rights of such Participant or any other similarly situated Participant or Beneficiary, in whole or in part, the Participating Employer shall reimburse such Participant or Beneficiary for all legal costs, expenses, attorneys' fees and such other liabilities incurred as a result of such proceedings. If the legal proceeding is brought in connection with a change in control as defined in Section 11.3, the Participant or Beneficiary may file a claim directly with the trustee of any rabbi trust established under the Plan for reimbursement of such costs, expenses, and fees. For purposes of the preceding sentence, the amount of the claim shall be treated as if it were an addition to the Participant's or Beneficiary's Account Balance and will be included in determining the Participating Employer's trust funding obligation under Section 10.2.

11.5 Discretion of Appeals Committee. All interpretations, determinations, and decisions of the Appeals Committee with respect to any claim shall be made in its sole discretion and shall be final and conclusive.

11.6 Arbitration.

(a) *Prior to Change in Control.* If, prior to a change in control as defined in Section 11.3, any claim or controversy between a Participating Employer and a Participant or Beneficiary is not resolved through the claims procedure set forth in Article XI, such claim shall be submitted to and resolved exclusively by expedited binding arbitration by a single arbitrator. Arbitration shall be conducted in accordance with the following procedures:

The complaining party shall promptly send written notice to the other party identifying the matter in dispute and the proposed remedy. Following the giving of such notice, the parties shall meet and attempt in good faith to resolve the matter. In the event the parties are unable to resolve the matter within 21 days, the parties shall meet and attempt in good faith to select a single arbitrator acceptable to both parties. If a single arbitrator is not selected by mutual consent within ten Business Days following the giving of the written notice of dispute, an arbitrator shall be selected from a list of nine persons each of whom shall be an attorney who is either engaged in the active practice of law or recognized arbitrator and who, in either event, is experienced in serving as an arbitrator in disputes between employers and employees, which list shall be provided by the main office of either JAMS, the American Arbitration Association ("AAA") or the Federal Mediation and Conciliation Service. If, within three Business Days of the parties' receipt of such list, the parties are unable to agree on an arbitrator from the list, then the parties shall each strike names alternatively from the list, with the first to strike being determined by the flip of a coin. After each party has had four strikes, the remaining name on the list shall be the arbitrator. If such person is unable to serve for any reason, the parties shall repeat this process until an arbitrator is selected.

Unless the parties agree otherwise, within 60 days of the selection of the arbitrator, a hearing shall be conducted before such arbitrator at a time and a place agreed upon by the parties. In the event the parties are unable to agree upon the time or place of the arbitration, the time and place shall be designated by the arbitrator after consultation with the parties. Within 30 days of the conclusion of the arbitration hearing, the arbitrator shall issue an award, accompanied by a written decision explaining the basis for the arbitrator's award.

In any arbitration hereunder, the Participating Employer shall pay all administrative fees of the arbitration and all fees of the arbitrator, except that the Participant or Beneficiary may, if he/she/it wishes, pay up to one-half of those amounts. Each party shall pay its own attorneys' fees, costs, and expenses, unless the arbitrator orders otherwise. The prevailing party in such arbitration, as determined by the arbitrator, and in any enforcement or other court proceedings, shall be entitled, to the extent permitted by law, to reimbursement from the other party for all of the prevailing party's costs (including but not limited to the arbitrator's compensation), expenses, and attorneys' fees. The arbitrator shall have no authority to add to or to modify this Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrator shall have no authority to add to or to modify this Plan, shall apply all applicable law, and shall have no lesser and no greater remedial authority than would a court of law resolving the same claim or controversy. The arbitrator shall, upon an appropriate motion, dismiss any claim without an evidentiary hearing if the party bringing the motion establishes that it would be entitled to summary judgment if the matter had been pursued in court litigation.

The parties shall be entitled to discovery as follows: Each party may take no more than three depositions. The Participating Employer may depose the Participant or Beneficiary plus two other witnesses, and the Participant or Beneficiary may depose the Participating Employer, pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure, plus two other witnesses. Each party may make such reasonable document discovery requests as are allowed in the discretion of the arbitrator.

The decision of the arbitrator shall be final, binding, and non-appealable, and may be enforced as a final judgment in any court of competent jurisdiction.

This arbitration provision of the Plan shall extend to claims against any parent, subsidiary, or affiliate of each party, and, when acting within such capacity, any officer, director, shareholder, Participant, Beneficiary, or agent of any party, or of any of the above, and shall apply as well to claims arising out of state and federal statutes and local ordinances as well as to claims arising under the common law or under this Plan.

Notwithstanding the foregoing, and unless otherwise agreed between the parties, either party may apply to a court for provisional relief, including a temporary restraining order or preliminary injunction, on the ground that the arbitration award to which the applicant may be entitled may be rendered ineffectual without provisional relief.

Any arbitration hereunder shall be conducted in accordance with the Federal Arbitration Act: provided, however, that, in the event of any inconsistency between the rules and procedures of the Act and the terms of this Plan, the terms of this Plan shall prevail.

If any of the provisions of this Section 11.6(a) are determined to be unlawful or otherwise unenforceable, in the whole part, such determination shall not affect the validity of the remainder of this section and this section shall be reformed to the extent necessary to carry out its provisions to the greatest extent possible and to insure that the resolution of all conflicts between the parties, including those arising out of statutory claims, shall be resolved by neutral, binding arbitration. If a court should find that the provisions of this Section 11.6(a) are not absolutely binding, then the parties intend any arbitration decision and award to be fully admissible in evidence in any subsequent action, given great weight by any finder of fact and treated as determinative to the maximum extent permitted by law.

The parties do not agree to arbitrate any putative class action or any other representative action. The parties agree to arbitrate only the claims(s) of a single Participant or Beneficiary.

(b) *Upon Change in Control.* Upon a change in control as defined in Section 11.3, Section 11.6(a) shall not apply and any legal action initiated by a Participant or Beneficiary to enforce his or her rights under the Plan may be brought in any court of competent jurisdiction. Notwithstanding the Appeals Committee's discretion under Sections 11.3 and 11.5, the court shall apply a de novo standard of review to any prior claims decision under Sections 11.1 through 11.3 or any other determination made by the Company, its Board of Directors, a Participating Employer, the Committee, or the Appeals Committee.

ARTICLE XII

General Provisions

12.1 Assignment. No interest of any Participant, spouse or Beneficiary under this Plan and no benefit payable hereunder shall be assigned as security for a loan, and any such purported assignment shall be null, void and of no effect, nor shall any such interest or any such benefit be subject in any manner, either voluntarily or involuntarily, to anticipation, sale, transfer, assignment, or encumbrance by or through any Participant, spouse, or Beneficiary. Notwithstanding anything to the contrary herein, however, the Committee has the discretion to make payments to an alternate payee in accordance with the terms of a domestic relations order (as defined in Code Section 414(p)(1)(B)).

The Company may assign any or all of its liabilities under this Plan in connection with any restructuring, recapitalization, sale of assets or other similar transactions affecting a Participating Employer without the consent of the Participant.

12.2 No Legal or Equitable Rights or Interest. No Participant or other person shall have any legal or equitable rights or interest in this Plan that are not expressly granted in this Plan. Participation in this Plan does not give any person any right to be retained in the service of the Participating Employer. The right and power of a Participating Employer to dismiss or discharge an Employee or Director is expressly reserved. The Participating Employers make no representations or warranties as to the tax consequences to a Participant or a Participant's beneficiaries resulting from a deferral of income pursuant to the Plan.

12.3 No Employment Contract. Nothing contained herein shall be construed to constitute a contract of employment between an Employee or Director and a Participating Employer.

12.4 Notice. Any notice or filing required or permitted to be delivered to the Committee under this Plan shall be delivered in writing, in person, or through such electronic means as is established by the Committee. Notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Written transmission shall be sent by certified mail to:

CVB FINANCIAL CORP.
701 NORTH HAVEN AVENUE
ONTARIO, CA 91764
ATTN: HUMAN RESOURCES

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing or hand-delivered, or sent by mail to the last known address of the Participant.

12.5 Headings. The headings of Sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

12.6 Invalid or Unenforceable Provisions. If any provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof and the Committee may elect in its sole discretion to construe such invalid or unenforceable provisions in a manner that conforms to applicable law or as if such provisions, to the extent invalid or unenforceable, had not been included.

12.7 Lost Participants or Beneficiaries. Any Participant or Beneficiary who is entitled to a benefit from the Plan has the duty to keep the Committee advised of his or her current mailing address. If benefit payments are returned to the Plan or are not presented for payment after a reasonable amount of time, the Committee shall presume that the payee is missing. The Committee, after making such efforts as in its discretion it deems reasonable and appropriate to locate the payee, shall stop payment on any uncashed checks and may discontinue making future payments until contact with the payee is restored. If the Committee is unable to locate the Participant or Beneficiary after five years of the date payment is scheduled to be made, provided that a Participant’s Account shall not be credited with Earnings following the first anniversary of such date on which payment is to be made and further provided, however, that such benefit shall be reinstated, without further adjustment for interest, if a valid claim is made by or on behalf of the Participant or Beneficiary for all or part of the forfeited benefit.

12.8 Facility of Payment to a Minor. If a distribution is to be made to a minor, or to a person who is otherwise incompetent, then the Committee may, in its discretion, make such distribution: (i) to the legal guardian, or if none, to a parent of a minor payee with whom the payee maintains his or her residence, or (ii) to the conservator or committee or, if none, to the person having custody of an incompetent payee. Any such distribution shall fully discharge the Committee, the Company, and the Plan from further liability on account thereof.

12.9 Governing Law. To the extent not preempted by ERISA, the laws of the State of California shall govern the construction and administration of the Plan.

12.10 Compliance With Code Section 409A; No Guarantee. This Plan is intended to be administered in compliance with Code Section 409A and each provision of the Plan shall be interpreted consistent with Code Section 409A. Although intended to comply with Code Section 409A, this Plan shall not constitute a guarantee to any Participant or Beneficiary that the Plan in form or in operation will result in the deferral of federal or state income tax liabilities or that the Participant or Beneficiary will not be subject to the additional taxes imposed under Section 409A. No Employer shall have any legal obligation to a Participant with respect to taxes imposed under Code Section 409A.

IN WITNESS WHEREOF, the undersigned executed this Plan as of the 1st day of December, 2020, to be effective as of the Effective Date.

CVB FINANCIAL CORP.

/s/ E. Allen Nicholson (Signature)

By: E. Allen Nicholson (Print Name)

Its: Chief Financial Officer (Title)

Schedule A

Participating Employers

CVB Financial Corp.

Citizens Business 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

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CVB Financial Corp.:

We consent to the incorporation by reference in the registration statement (No. 333-151755, 333-150017, 333-150016, and 333-225173) on Form S-8 of CVB Financial Corp. (the Company) of our reports dated March 1, 2021, with respect to the consolidated balance sheets of CVB Financial Corp. as of December 31, 2020 and 2019, 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, 2020, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2020, which reports appears in the December 31, 2020 annual report on Form 10-K of CVB Financial Corp.

As discussed in Note 3 to the financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*".

/s/ KPMG LLP

Los Angeles, California
March 1, 2021

Exhibit 31.1

CERTIFICATION

I, David A. Brager, 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 1, 2021

By: /s/ David A. Brager
David A. Brager
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 1, 2021

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, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Brager, 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 1, 2021

By: /s/ David A. Brager
David A. Brager
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, 2020, 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 1, 2021

By: /s/ E. Allen Nicholson
E. Allen Nicholson
Chief Financial Officer