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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

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 North Haven Ave., Suite 350** **Ontario, California** | **91764** |
| (Address of principal executive offices) | (Zip Code) |

**(909) 980-4030**

(Registrant's telephone number, including area code)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, No Par Value | CVBF | The Nasdaq Stock Market, LLC |

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, accelerated filer, non-accelerated filer or smaller reporting company, or emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Number of shares of common stock of the registrant: 139,796,999 outstanding as of July 29, 2022.

**TABLE OF CONTENTS**

**PART I – FINANCIAL INFORMATION (UNAUDITED)**

**GENERAL**

***Cautionary Note Regarding Forward-Looking Statements***

*Certain statements set forth herein constitute forward-looking statements within the meaning of the Private Securities litigation Reform Act of 1995. 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 that could cause our actual results or performance to differ materially from those projected. These forward-looking statements are based on management's current expectations and beliefs concerning future developments and their potential effects on the Company, including, without limitation, plans, strategies and goals, and statements about the Company's outlook regarding revenue and asset growth, financial performance and profitability, loan and deposit growth, yields and returns, loan diversification and credit management, stockholder value creation, tax rates, and the impact of acquisitions we have made or may make. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company, and there can be no assurance that future developments affecting the Company will be the same as those anticipated by management. The Company cautions readers that a number of important factors in addition to those set forth below could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements.*

*Given the ongoing and dynamic nature of the COVID-19 pandemic, the ultimate extent of the impacts on our business, financial position, results of operations, liquidity, workforce, operating platform and prospects remain uncertain. In addition, changes to statutes, regulations, or government or regulatory policies or practices as a result of, or in response to the COVID-19 pandemic, could affect us in substantial and unpredictable ways, including the potential adverse impact of loan modifications and payment deferrals implemented consistent with recent regulatory guidance.*

*General risks and uncertainties include, but are not limited to, the following: the strength of the United States economy in general and the strength of the local economies in which we conduct business; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation/deflation, interest rate, market, and monetary fluctuations; the effect of acquisitions we have made or may-make, including, without limitation, the failure to obtain the necessary regulatory approvals, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations; the timely development of competitive new products and services and the acceptance of these products and services by new and existing customers; the impact of changes in financial services policies, laws, and regulations, including those concerning taxes, banking, securities, and insurance, and the application thereof by regulatory bodies; the effectiveness of our risk management framework and quantitative models; changes in the levels of our nonperforming assets and charge-offs; the transition away from USD LIBOR and uncertainties regarding potential alternative reference rates, including SOFR; the effect of changes in accounting policies and practices or accounting standards, as may be adopted from time-to-time by bank regulatory agencies, the U.S. Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters, including ASU 2016-13 (Topic 326), "Measurement of Credit Losses on Financial Instruments, commonly referenced as the CECL model, which has changed how we estimate credit losses and may further increase the required level of our allowance for credit losses in future periods; possible credit related impairments or declines in the fair value of securities held by us; possible impairment charges to goodwill; changes in consumer spending, borrowing, and savings habits; the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations; periodic fluctuations in commercial or residential real estate prices or values; our ability to attract deposits and other sources of liquidity; the possibility that we may reduce or discontinue the payments of dividends on our common stock; changes in the financial performance and/or condition of our borrowers; changes in the competitive environment among financial and bank holding companies and other financial service providers; technological changes in banking and financial services; geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism, and/or military conflicts, which could impact business and economic conditions in the United States and abroad; catastrophic events or natural disasters, including earthquakes, drought, climate change or extreme weather events that may affect our assets, communications or computer services, customers, employees or third party vendors; public health crises and pandemics, such as the COVID-19 pandemic, and their effects on the economic and business environments in which we operate, including on our credit quality and business operations, as well as the impact on general economic and financial market conditions; cybersecurity and fraud risks and threats to the Company, our vendors and our customers, and the costs of defending against them, including the costs of compliance with regulations and potential legislation to bolster cybersecurity at a state, national, or global level; our ability to recruit and retain key* *executives, board members and other employees, and changes in employment laws and regulations; unanticipated regulatory or legal proceedings; and our ability to manage the risks involved in the foregoing.*

*Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the Company's 2021 Annual Report on Form 10-K filed with the SEC and available at the SEC's Internet site (http://www.sec.gov).*

*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.*

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 173,266 | $ 90,012 |
| Interest-earning balances due from Federal Reserve | 523,443 | 1,642,536 |
| Total cash and cash equivalents | 696,709 | 1,732,548 |
| Interest-earning balances due from depository institutions | 7,382 | 25,999 |
| Investment securities available-for-sale, at fair value (with amortized cost of $3,972,437 at June 30, 2022, and $3,185,249 at December 31, 2021) | 3,626,157 | 3,183,923 |
| Investment securities held-to-maturity (with fair value of $2,134,183 at June 30, 2022, and $1,921,693 at December 31, 2021) | 2,412,308 | 1,925,970 |
| Total investment securities | 6,038,465 | 5,109,893 |
| Investment in stock of Federal Home Loan Bank (FHLB) | 18,012 | 17,688 |
| Loans and lease finance receivables | 8,692,229 | 7,887,713 |
| Allowance for credit losses | (80,222) | (65,019) |
| Net loans and lease finance receivables | 8,612,007 | 7,822,694 |
| Premises and equipment, net | 47,100 | 49,096 |
| Bank owned life insurance (BOLI) | 259,958 | 251,570 |
| Accrued interest receivable | 40,954 | 34,204 |
| Intangibles | 25,312 | 25,394 |
| Goodwill | 765,822 | 663,707 |
| Other real estate owned (OREO) | - | - |
| Income taxes | 136,273 | 32,603 |
| Other assets | 111,999 | 118,301 |
| **Total assets** | $ 16,759,993 | $ 15,883,697 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $ 8,881,223 | $ 8,104,056 |
| Interest-bearing | 5,190,996 | 4,872,386 |
| **Total deposits** | 14,072,219 | 12,976,442 |
| Customer repurchase agreements | 502,829 | 642,388 |
| Other borrowings | - | 2,281 |
| Deferred compensation | 23,917 | 20,879 |
| Junior subordinated debentures | - | - |
| Payable for securities purchased | 80,230 | 50,340 |
| Other liabilities | 98,587 | 109,864 |
| **Total liabilities** | 14,777,782 | 13,802,194 |
| | | |
| **Commitments and Contingencies** | | |
| **Stockholders' Equity** | | |
| Common stock, authorized, 225,000,000 shares without par; issued and outstanding 140,025,579 at June 30, 2022, and 135,526,025 at December 31, 2021 | 1,301,050 | 1,209,903 |
| Retained earnings | 928,000 | 875,568 |
| Accumulated other comprehensive (loss), net of tax | (246,839) | (3,968) |
| **Total stockholders' equity** | 1,982,211 | 2,081,503 |
| **Total liabilities and stockholders' equity** | $ 16,759,993 | $ 15,883,697 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Interest income: | | | | |
| **Loans and leases, including fees** | $ 92,770 | $ 91,726 | $ 182,231 | $ 183,521 |
| Investment securities: | | | | |
| Investment securities available-for-sale | 17,042 | 9,410 | 29,874 | 18,569 |
| Investment securities held-to-maturity | 11,714 | 5,130 | 22,377 | 9,070 |
| **Total investment income** | 28,756 | 14,540 | 52,251 | 27,639 |
| Dividends from FHLB stock | 273 | 283 | 644 | 500 |
| Interest-earning deposits with other institutions | 1,463 | 479 | 2,236 | 892 |
| **Total interest income** | 123,262 | 107,028 | 237,362 | 212,552 |
| Interest expense: | | | | |
| Deposits | 1,201 | 1,425 | 2,328 | 3,237 |
| Borrowings and customer repurchase agreements | 121 | 132 | 254 | 273 |
| Junior subordinated debentures | - | 83 | - | 186 |
| **Total interest expense** | 1,322 | 1,640 | 2,582 | 3,696 |
| Net interest income before provision for (recapture of) credit losses | 121,940 | 105,388 | 234,780 | 208,856 |
| Provision for (recapture of) credit losses | 3,600 | (2,000) | 6,100 | (21,500) |
| **Net interest income after provision for (recapture of) credit losses** | 118,340 | 107,388 | 228,680 | 230,356 |
| Noninterest income: | | | | |
| Service charges on deposit accounts | 5,333 | 4,169 | 10,392 | 8,154 |
| Trust and investment services | 2,962 | 3,167 | 5,784 | 5,778 |
| Bankcard services | 310 | 533 | 726 | 883 |
| BOLI income | 603 | 1,240 | 1,952 | 5,864 |
| Gain on OREO, net | - | 48 | - | 477 |
| Gain on sale of building, net | 2,717 | - | 2,717 | - |
| Other | 2,745 | 1,679 | 4,363 | 3,361 |
| **Total noninterest income** | 14,670 | 10,836 | 25,934 | 24,517 |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 31,553 | 28,836 | 64,209 | 58,542 |
| Occupancy and equipment | 5,567 | 4,949 | 11,138 | 9,812 |
| Professional services | 2,305 | 2,248 | 4,350 | 4,416 |
| Computer software expense | 3,103 | 2,657 | 6,898 | 5,501 |
| Marketing and promotion | 1,638 | 1,799 | 3,096 | 2,524 |
| Amortization of intangible assets | 1,998 | 2,167 | 3,996 | 4,334 |
| (Recapture of) provision for unfunded loan commitments | - | (1,000) | - | (1,000) |
| Acquisition related expenses | 375 | - | 6,013 | - |
| Other | 4,332 | 4,889 | 9,409 | 9,579 |
| **Total noninterest expense** | 50,871 | 46,545 | 109,109 | 93,708 |
| Earnings before income taxes | 82,139 | 71,679 | 145,505 | 161,165 |
| Income taxes | 23,081 | 20,500 | 40,887 | 46,093 |
| **Net earnings** | $ 59,058 | $ 51,179 | $ 104,618 | $ 115,072 |
| | | | | |
| Other comprehensive (loss) income: | | | | |
| Unrealized (loss) gain on securities arising during the period, before tax | $ (142,790) | $ 8,937 | $ (344,809) | $ (31,373) |
| Less: Income tax benefit (expense) related to items of other comprehensive (loss) income | 42,213 | (2,642) | 101,938 | 9,275 |
| Other comprehensive (loss) income, net of tax | (100,577) | 6,295 | (242,871) | (22,098) |
| Comprehensive (loss) income | $ (41,519) | $ 57,474 | $ (138,253) | $ 92,974 |
| | | | | |
| Basic earnings per common share | $ 0.42 | $ 0.38 | $ 0.74 | $ 0.85 |
| Diluted earnings per common share | $ 0.42 | $ 0.38 | $ 0.74 | $ 0.85 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

## Three Months Ended June 30, 2022 and 2021

| | Common Shares Outstanding | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| **Balance, April 1, 2022** | 141,626 | $ 1,325,644 | $ 895,661 | $ (146,262 ) | $ 2,075,043 |
| Issuance of common stock for acquisition of Suncrest Bank | - | - | - | - | - |
| Repurchase of common stock | (1,148 ) | (26,821 ) | - | - | (26,821 ) |
| Repurchase of common stock, ASR Plan | (450 ) | - | - | - | - |
| Exercise of stock options | 14 | 245 | - | - | 245 |
| Shares issued pursuant to stock-based compensation plan | (16 ) | 1,982 | - | - | 1,982 |
| Cash dividends declared on common stock ($0.19 per share) | - | - | (26,719 ) | - | (26,719 ) |
| Net earnings | - | - | 59,058 | - | 59,058 |
| Other comprehensive loss | - | - | - | (100,577 ) | (100,577 ) |
| **Balance, June 30, 2022** | 140,026 | $ 1,301,050 | $ 928,000 | $ (246,839 ) | $ 1,982,211 |
| | | | | | |
| **Balance, April 1, 2021** | 135,920 | $ 1,213,451 | $ 800,259 | $ 6,956 | $ 2,020,666 |
| Repurchase of common stock | (2 ) | (32 ) | - | - | (32 ) |
| Exercise of stock options | 5 | 73 | - | - | 73 |
| Shares issued pursuant to stock-based compensation plan | 4 | 1,390 | - | - | 1,390 |
| Cash dividends declared on common stock ($0.18 per share) | - | - | (24,497 ) | - | (24,497 ) |
| Net earnings | - | - | 51,179 | - | 51,179 |
| Other comprehensive loss | - | - | - | 6,295 | 6,295 |
| **Balance, June 30, 2021** | 135,927 | $ 1,214,882 | $ 826,941 | $ 13,251 | $ 2,055,074 |

## Six Months Ended June 30, 2022 and 2021

| | Common Shares Outstanding | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| **Balance, January 1, 2022** | 135,526 | $ 1,209,903 | $ 875,568 | $ (3,968 ) | $ 2,081,503 |
| Issuance of common stock for acquisition of Suncrest Bank | 8,617 | 197,069 | - | - | 197,069 |
| Repurchase of common stock | (1,732 ) | (40,464 ) | - | - | (40,464 ) |
| Repurchase of common stock, ASR Plan | (2,994 ) | (70,000 ) | - | - | (70,000 ) |
| Exercise of stock options | 64 | 965 | - | - | 965 |
| Shares issued pursuant to stock-based compensation plan | 545 | 3,577 | - | - | 3,577 |
| Cash dividends declared on common stock ($0.37 per share) | - | - | (52,186 ) | - | (52,186 ) |
| Net earnings | - | - | 104,618 | - | 104,618 |
| Other comprehensive loss | - | - | - | (242,871 ) | (242,871 ) |
| **Balance, June 30, 2022** | 140,026 | $ 1,301,050 | $ 928,000 | $ (246,839 ) | $ 1,982,211 |
| | | | | | |
| **Balance, January 1, 2021** | 135,601 | $ 1,211,780 | $ 760,861 | $ 35,349 | $ 2,007,990 |
| Repurchase of common stock | (24 ) | (534 ) | - | - | (534 ) |
| Exercise of stock options | 45 | 964 | - | - | 964 |
| Shares issued pursuant to stock-based compensation plan | 305 | 2,672 | - | - | 2,672 |
| Cash dividends declared on common stock ($0.36 per share) | - | - | (48,992 ) | - | (48,992 ) |
| Net earnings | - | - | 115,072 | - | 115,072 |
| Other comprehensive loss | - | - | - | (22,098 ) | (22,098 ) |
| **Balance, June 30, 2021** | 135,927 | $ 1,214,882 | $ 826,941 | $ 13,251 | $ 2,055,074 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2022** | **2021** |
| **Cash Flows from Operating Activities** | | |
| Interest and dividends received | $ 236,887 | $ 200,495 |
| Service charges and other fees received | 22,642 | 18,083 |
| Interest paid | (2,373) | (3,572) |
| Net cash paid to vendors, employees and others | (95,770) | (97,222) |
| Income taxes | (32,998) | (47,085) |
| Net cash provided by operating activities | 128,388 | 70,699 |
| **Cash Flows from Investing Activities** | | |
| Proceeds from redemption of FHLB stock | 4,712 | - |
| Net change in interest-earning balances from depository institutions | 28,617 | 17,305 |
| Proceeds from repayment of investment securities available-for-sale | 282,175 | 424,999 |
| Proceeds from maturity of investment securities available-for-sale | 1,226 | - |
| Purchases of investment securities available-for-sale | (1,092,577) | (949,645) |
| Proceeds from repayment and maturity of investment securities held-to-maturity | 213,907 | 82,937 |
| Purchases of investment securities held-to-maturity | (532,474) | (545,681) |
| Net decrease (increase) in equity investments | 511 | (5,692) |
| Net (increase) decrease in loan and lease finance receivables | (20,423) | 297,796 |
| Proceeds from sale of building, net of selling costs | 8,315 | 1,157 |
| Purchase of premises and equipment | (2,307) | (2,299) |
| Purchase of BOLI | - | (25,000) |
| Proceeds from BOLI death benefit | 3,096 | 11,121 |
| Proceeds from sales of other real estate owned | - | 3,869 |
| Cash acquired from acquisition, net of cash paid | 329,001 | - |
| Net cash used in investing activities | (776,221) | (689,133) |
| **Cash Flows from Financing Activities** | | |
| Net (decrease) increase in other deposits | (38,815) | 968,729 |
| Net decrease in time deposits | (47,979) | (36,173) |
| Net decrease in other borrowings | (2,281) | (5,000) |
| Net (decrease) increase in customer repurchase agreements | (139,559) | 138,801 |
| Repayment of junior subordinated debentures | - | (25,774) |
| Cash dividends on common stock | (49,873) | (48,874) |
| Repurchase of common stock | (40,464) | (534) |
| Repurchase of common stock, ASR Plan | (70,000) | - |
| Proceeds from exercise of stock options | 965 | 964 |
| Net cash (used in) provided by financing activities | (388,006) | 992,139 |
| **Net (decrease) increase in cash and cash equivalents** | (1,035,839) | 373,705 |
| **Cash and cash equivalents, beginning of period** | 1,732,548 | 1,958,160 |
| **Cash and cash equivalents, end of period** | $ 696,709 | $ 2,331,865 |

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| **Reconciliation of Net Earnings to Net Cash Provided by Operating Activities** | | |
| Net earnings | $ 104,618 | $ 115,072 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Gain on sale of building, net | (2,717) | (189) |
| Gain on sale of other real estate owned | - | (477) |
| Increase in BOLI | (1,952) | (5,864) |
| Net amortization of premiums and discounts on investment securities | 15,353 | 14,908 |
| Accretion of discount for acquired loans, net | (3,693) | (7,511) |
| Provision for (recapture of) credit losses | 6,100 | (21,500) |
| (Recapture of) provision for unfunded loan commitments | - | (1,000) |
| Stock-based compensation | 3,577 | 2,672 |
| Depreciation and amortization, net | 5,749 | (4,838) |
| Change in other assets and liabilities | 1,353 | (20,574) |
| Total adjustments | 23,770 | (44,373) |
| Net cash provided by operating activities | $ 128,388 | $ 70,699 |
| | | |
| **Supplemental Disclosure of Non-cash Investing Activities** | | |
| Securities purchased and not settled | $ 80,230 | $ 110,430 |
| Issuance of common stock for acquisition | $ 197,069 | $ - |

See accompanying notes to the unaudited condensed consolidated financial statements.

## 1. BUSINESS

The condensed 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'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 California. As of June 30,2022, the Bank operates 63 banking centers and four trust office locations. The Company is headquartered in the city of Ontario, California.

On January 7, 2022, we completed the acquisition of Suncrest Bank ("Suncrest") with approximately $1.4 billion in total assets, acquired at fair value, and seven banking centers. Total assets at June 30, 2022 included $765.9 million of acquired net loans at fair value, $131.1 million of investment securities, and $9 million in Bank-Owned Life Insurance ("BOLI"). The acquisition resulted in $102.1 million of goodwill and $3.9 million in core deposit premium. Net cash proceeds were used to fund the $39.6 million in cash paid to the former shareholders of Suncrest as part of the merger consideration. Refer to Note 4 – Business Combinations of the notes to the unaudited condensed consolidated financial statements of this report for additional information.

## 2. BASIS OF PRESENTATION

The accompanying unaudited condensed 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-Q and conform to practices within the banking industry and include all of the information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments), which are necessary for a fair presentation of financial results for the interim periods presented. The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results for the full year. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements, accounting policies and financial notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC. A summary of the significant accounting policies consistently applied in the preparation of the accompanying unaudited condensed consolidated financial statements follows.

***Reclassification*** — Certain amounts in the prior periods' unaudited condensed consolidated 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

Except as discussed below, our accounting policies are described in Note 3 – *Summary of Significant Accounting Policies*, of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021 as filed with the SEC ("Form 10-K").

***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, loans, as well as valuation of deferred tax assets.

## 4. BUSINESS COMBINATIONS

On January 7, 2022, the Company completed the acquisition of Suncrest, headquartered in Visalia, California. The Company acquired all of the assets and assumed all of the liabilities of Suncrest in a stock and cash transaction for $39.6 million in cash and $197.1 million in stock. As a result, Suncrest merged with and into the Bank, the principal subsidiary of CVB. The Company believes this transaction serves to further extend and strengthen its geographic presence in California's Central Valley and the Sacramento metro area. At close, Suncrest had seven branch locations and two loan production offices, which re-opened as CBB locations on January 10, 2022. As a result of the consolidation of branches during the second quarter of 2022, five branch locations remain from this acquisition.

The total fair value of assets acquired approximated $1.38 billion in total assets, including $329.0 million of cash and cash equivalents, net of cash paid, $131.1 million of investment securities, $765.9 million in net loans, $6.1 million in premises and equipment, $9.0 million in BOLI, and $33.7 million in other assets. The purchased credit deteriorated ("PCD") loans were recorded at a fair value of $224.7 million, which was net of a discount of $13.1 million including a credit discount of $8.6 million. The assets acquired also include a core deposit intangible of $3.9 million and non-tax deductible goodwill of $102.1 million. Goodwill from the acquisition represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The total fair value of liabilities assumed was $1.19 billion, which included $512.8 million of noninterest-bearing deposits and $669.8 million of interest-bearing deposits, and $6.2 million in other liabilities. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of January 7, 2022. The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. 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. For the assets acquired and liabilities assumed, the Company considers the fair value of the net loans and the related deferred tax asset to be provisional, specifically the PCD loans, while the Company obtains additional information relevant to the fair value.

We have included the financial results of the business combination in the condensed consolidated statement of earnings and comprehensive income beginning on the acquisition date. Supplementary pro forma financial information related to the acquisition is not included because the impact to the Company's consolidated statements of income is not material.

For the six months ended June 30, 2022, the Company incurred non-recurring merger related expenses associated with the Suncrest acquisition of $6.0 million.

## 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.

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 3,386,552 | $ 423 | $ (278,060) | $ 3,108,915 | 85.74 % |
| CMO/REMIC | 557,723 | 8 | (67,601) | 490,130 | 13.52 % |
| Municipal bonds | 27,139 | 100 | (1,150) | 26,089 | 0.72 % |
| Other securities | 1,023 | - | - | 1,023 | 0.02 % |
| Total available-for-sale securities | $ 3,972,437 | $ 531 | $ (346,811) | $ 3,626,157 | 100.00 % |
| Investment securities held-to-maturity: | | | | | |
| Government agency/GSE | $ 562,287 | $ 359 | $ (82,668) | $ 479,978 | 23.31 % |
| Mortgage-backed securities | 688,320 | 159 | (74,344) | 614,135 | 28.53 % |
| CMO/REMIC | 799,591 | - | (83,786) | 715,805 | 33.15 % |
| Municipal bonds | 362,110 | 245 | (38,090) | 324,265 | 15.01 % |
| Total held-to-maturity securities | $ 2,412,308 | $ 763 | $ (278,888) | $ 2,134,183 | 100.00 % |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 2,553,246 | $ 25,873 | $ (15,905) | $ 2,563,214 | 80.50 % |
| CMO/REMIC | 602,555 | 1,586 | (13,983) | 590,158 | 18.53 % |
| Municipal bonds | 28,365 | 1,103 | - | 29,468 | 0.93 % |
| Other securities | 1,083 | - | - | 1,083 | 0.04 % |
| Total available-for-sale securities | $ 3,185,249 | $ 28,562 | $ (29,888) | $ 3,183,923 | 100.00 % |
| Investment securities held-to-maturity: | | | | | |
| Government agency/GSE | $ 576,899 | $ 5,907 | $ (7,312) | $ 575,494 | 29.95 % |
| Mortgage-backed securities | 647,390 | 4,109 | (6,106) | 645,393 | 33.61 % |
| CMO/REMIC | 490,670 | 596 | (5,030) | 486,236 | 25.48 % |
| Municipal bonds | 211,011 | 4,714 | (1,155) | 214,570 | 10.96 % |
| Total held-to-maturity securities | $ 1,925,970 | $ 15,326 | $ (19,603) | $ 1,921,693 | 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.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(Dollars in thousands)* | | | |
| Investment securities available-for-sale: | | | | |
| Taxable | $ 16,863 | $ 9,226 | $ 29,512 | $ 18,194 |
| Tax-advantaged | 179 | 184 | 362 | 375 |
| Total interest income from available-for-sale securities | 17,042 | 9,410 | 29,874 | 18,569 |
| Investment securities held-to-maturity: | | | | |
| Taxable | 9,978 | 4,007 | 19,082 | 6,818 |
| Tax-advantaged | 1,736 | 1,123 | 3,295 | 2,252 |
| Total interest income from held-to-maturity securities | 11,714 | 5,130 | 22,377 | 9,070 |
| Total interest income from investment securities | $ 28,756 | $ 14,540 | $ 52,251 | $ 27,639 |

Approximately 94% of the total investment securities portfolio at June 30, 2022 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 CECL model was zero at June 30, 2022 and December 31, 2021.

We adopted ASU 2016-13 on January 1, 2020, on a modified retrospective basis. Under this ASU, once it is determined that a credit loss has occurred, an allowance for credit losses is established on our available-for-sale ("AFS") and held-to-maturity ("HTM") securities. Management determined that there were no credit losses for securities in an unrealized loss position as of June 30, 2022 and December 31, 2021.

The following table presents the Company's investment securities, by investment category, in an unrealized loss position for which an allowance for credit losses has not been recorded as of June 30, 2022 and December 31, 2021.

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 2,212,757 | $ (168,634) | $ 810,125 | $ (109,426) | $ 3,022,882 | $ (278,060) |
| CMO/REMIC | 109,306 | (8,662) | 378,651 | (58,939) | 487,957 | (67,601) |
| Municipal bonds | 22,793 | (1,150) | - | - | 22,793 | (1,150) |
| Total available-for-sale securities | $ 2,344,856 | $ (178,446) | $ 1,188,776 | $ (168,365) | $ 3,533,632 | $ (346,811) |
| Investment securities held-to-maturity: | | | | | | |
| Government agency/GSE | $ 233,979 | $ (36,324) | $ 226,224 | $ (46,344) | $ 460,203 | $ (82,668) |
| Mortgage-backed securities | 552,966 | (73,582) | 4,209 | (762) | 557,175 | (74,344) |
| CMO/REMIC | 715,805 | (83,786) | - | - | 715,805 | (83,786) |
| Municipal bonds | 221,355 | (26,968) | 54,397 | (11,122) | 275,752 | (38,090) |
| Total held-to-maturity securities | $ 1,724,105 | $ (220,660) | $ 284,830 | $ (58,228) | $ 2,008,935 | $ (278,888) |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 1,465,647 | $ (15,099) | $ 44,244 | $ (806) | $ 1,509,891 | $ (15,905) |
| CMO/REMIC | 450,393 | (11,515) | 53,745 | (2,468) | 504,138 | (13,983) |
| Municipal bonds | - | - | - | - | - | - |
| Total available-for-sale securities | $ 1,916,040 | $ (26,614) | $ 97,989 | $ (3,274) | $ 2,014,029 | $ (29,888) |

At June 30, 2022 and December 31, 2021, investment securities having a carrying value of approximately $2.20 billion and $2.18 billion, respectively, were pledged to secure public deposits, customer repurchase agreements, short and long-term borrowing capacity on various lines of credit, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at June 30, 2022, by contractual maturity, are shown in the table below. Although mortgage-backed and CMO/REMIC securities have weighted average remaining contractual maturities of approximately 23 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.

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | Available-for-sale | | Held-to-maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (Dollars in thousands) | | | |
| Due in one year or less | $ 26,014 | $ 25,660 | $ 4,875 | $ 4,882 |
| Due after one year through five years | 1,059,708 | 995,539 | 606,745 | 556,072 |
| Due after five years through ten years | 2,654,991 | 2,403,349 | 737,884 | 659,288 |
| Due after ten years | 231,724 | 201,609 | 1,062,804 | 913,941 |
| Total investment securities | $ 3,972,437 | $ 3,626,157 | $ 2,412,308 | $ 2,134,183 |

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 June 30, 2022.

## 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.

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | (Dollars in thousands) | |
| Commercial real estate | $ 6,643,628 | $ 5,789,730 |
| Construction | 60,584 | 62,264 |
| SBA | 297,109 | 288,600 |
| SBA - Paycheck Protection Program (PPP) | 66,955 | 186,585 |
| Commercial and industrial | 941,595 | 813,063 |
| Dairy & livestock and agribusiness | 273,594 | 386,219 |
| Municipal lease finance receivables | 64,437 | 45,933 |
| SFR mortgage | 260,218 | 240,654 |
| Consumer and other loans | 84,109 | 74,665 |
| Total loans, at amortized cost | 8,692,229 | 7,887,713 |
| Less: Allowance for credit losses | (80,222) | (65,019) |
| Total loans and lease finance receivables, net | $ 8,612,007 | $ 7,822,694 |

As of June 30, 2022, 80.12% of the Company's total loan portfolio consisted of real estate loans, with commercial real estate loans representing 76.43% of total loans. The Company's real estate loans and construction loans are secured by real properties primarily located in California. As of June 30, 2022, $499.6 million, or 7.52% of the total commercial real estate loans included loans secured by farmland, compared to $364.4 million, or 6.29%, at December 31, 2021. The loans secured by farmland included $132.1 million for loans secured by dairy & livestock land and $367.5 million for loans secured by agricultural land at June 30, 2022, compared to $134.9 million for loans secured by dairy & livestock land and $229.5 million for loans secured by agricultural land at December 31, 2021. As of June 30, 2022, dairy & livestock and agribusiness loans of $273.6 million included $52.4 million of agribusiness loans. This compares to $34.5 of agribusiness loans included in the $386.2 million dairy & livestock and agribusiness loans as of December 31, 2021.

At June 30, 2022 and December 31, 2021, loans totaling $4.27 billion and $3.96 billion, respectively, were pledged to secure available lines of credit from the FHLB and the Federal Reserve Bank.

There were no outstanding loans held-for-sale as of June 30, 2022 and December 31, 2021.

***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 and origination year, including acquired Suncrest loans in the year of origination, according to our internal risk ratings as of the dates presented.

| | Origination Year | | | | | | Revolving loans amortized | Revolving loans converted to | |
|---|---|---|---|---|---|---|---|---|---|
| **June 30, 2022** | **2022** | **2021** | **2020** | **2019** | **2018** | **Prior** | **cost basis** | **term loans** | **Total** |
| | | | | | *(Dollars in thousands)* | | | | |
| **Commercial real estate loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 764,972 | $ 1,240,209 | $ 995,702 | $ 621,334 | $ 551,546 | $ 2,073,267 | $ 184,480 | $ 33,667 | $ 6,465,177 |
| Special Mention | 507 | 6,319 | 10,283 | 17,585 | 14,802 | 77,666 | 2,033 | 5,500 | 134,695 |
| Substandard | - | 3,521 | 16,244 | 574 | 6,962 | 16,455 | - | - | 43,756 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Commercial real estate loans:** | $ 765,479 | $ 1,250,049 | $ 1,022,229 | $ 639,493 | $ 573,310 | $ 2,167,388 | $ 186,513 | $ 39,167 | $ 6,643,628 |
| **Construction loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 6,679 | $ 15,793 | $ 14,730 | $ - | $ 1,391 | $ - | $ 17,710 | $ - | $ 56,303 |
| Special Mention | - | - | - | - | 4,281 | - | - | - | 4,281 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Construction loans:** | $ 6,679 | $ 15,793 | $ 14,730 | $ - | $ 5,672 | $ - | $ 17,710 | $ - | $ 60,584 |
| **SBA loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 35,072 | $ 57,279 | $ 35,800 | $ 11,696 | $ 30,565 | $ 108,573 | $ 193 | $ - | $ 279,178 |
| Special Mention | - | - | 100 | 1,335 | 1,391 | 5,137 | - | - | 7,963 |
| Substandard | - | - | - | - | 581 | 9,387 | - | - | 9,968 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total SBA loans:** | $ 35,072 | $ 57,279 | $ 35,900 | $ 13,031 | $ 32,537 | $ 123,097 | $ 193 | $ - | $ 297,109 |
| **SBA - PPP loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ - | $ 61,488 | $ 5,332 | $ - | $ - | $ - | $ - | $ - | $ 66,820 |
| Special Mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | 135 | - | - | - | - | - | - | 135 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total SBA - PPP loans:** | $ - | $ 61,623 | $ 5,332 | $ - | $ - | $ - | $ - | $ - | $ 66,955 |
| **Commercial and industrial loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 77,558 | $ 157,979 | $ 87,899 | $ 111,278 | $ 49,685 | $ 103,779 | $ 313,334 | $ 7,516 | $ 909,028 |
| Special Mention | - | 1,192 | 1,709 | 3,583 | 1,689 | 186 | 16,190 | 382 | 24,931 |
| Substandard | - | 246 | - | 184 | 4,196 | 686 | 1,681 | 643 | 7,636 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Commercial and industrial loans:** | $ 77,558 | $ 159,417 | $ 89,608 | $ 115,045 | $ 55,570 | $ 104,651 | $ 331,205 | $ 8,541 | $ 941,595 |

| June 30, 2022 | Origination Year 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving loans amortized cost basis | Revolving loans converted to term loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(Dollars in thousands)* | | | | |
| **Dairy & livestock and agribusiness loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 1,161 | $ 5,607 | $ 1,769 | $ 1,038 | $ 856 | $ 1,291 | $ 245,027 | $ - | $ 256,749 |
| Special Mention | - | - | 209 | - | - | - | 3,949 | 639 | 4,797 |
| Substandard | - | - | - | - | 1,794 | 900 | 3,502 | 5,852 | 12,048 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Dairy & livestock and agribusiness loans:** | $ 1,161 | $ 5,607 | $ 1,978 | $ 1,038 | $ 2,650 | $ 2,191 | $ 252,478 | $ 6,491 | $ 273,594 |
| **Municipal lease finance receivables loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 170 | $ 12,965 | $ 7,281 | $ 4,419 | $ 5,136 | $ 33,976 | $ - | $ - | $ 63,947 |
| Special Mention | - | - | - | - | - | 301 | - | - | 301 |
| Substandard | - | - | - | - | - | 189 | - | - | 189 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Municipal lease finance receivables loans:** | $ 170 | $ 12,965 | $ 7,281 | $ 4,419 | $ 5,136 | $ 34,466 | $ - | $ - | $ 64,437 |
| **SFR mortgage loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 46,924 | $ 47,567 | $ 46,828 | $ 35,966 | $ 17,169 | $ 62,879 | $ 500 | $ - | $ 257,833 |
| Special Mention | - | - | 955 | - | - | - | - | - | 955 |
| Substandard | - | - | - | - | - | 1,031 | - | 399 | 1,430 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total SFR mortgage loans:** | $ 46,924 | $ 47,567 | $ 47,783 | $ 35,966 | $ 17,169 | $ 63,910 | $ 500 | $ 399 | $ 260,218 |
| **Consumer and other loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 9,012 | $ 4,162 | $ 1,580 | $ 1,172 | $ 300 | $ 1,403 | $ 61,490 | $ 2,690 | $ 81,809 |
| Special Mention | - | 701 | - | - | - | - | 591 | - | 1,292 |
| Substandard | - | - | - | - | - | 15 | 97 | 896 | 1,008 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Consumer and other loans:** | $ 9,012 | $ 4,863 | $ 1,580 | $ 1,172 | $ 300 | $ 1,418 | $ 62,178 | $ 3,586 | $ 84,109 |
| **Total Loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 941,548 | $ 1,603,049 | $ 1,196,921 | $ 786,903 | $ 656,648 | $ 2,385,168 | $ 822,734 | $ 43,873 | $ 8,436,844 |
| Special Mention | 507 | 8,212 | 13,256 | 22,503 | 22,163 | 83,290 | 22,763 | 6,521 | 179,215 |
| Substandard | - | 3,902 | 16,244 | 758 | 13,533 | 28,663 | 5,280 | 7,790 | 76,170 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Loans:** | $ 942,055 | $ 1,615,163 | $ 1,226,421 | $ 810,164 | $ 692,344 | $ 2,497,121 | $ 850,777 | $ 58,184 | $ 8,692,229 |

| December 31, 2021 | Origination Year 2021 | 2020 | 2019 | 2018 | 2017 | Prior | Revolving loans amortized cost basis | Revolving loans converted to term loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *(Dollars in thousands)* | | | |
| **Commercial real estate loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 1,137,714 | $ 963,697 | $ 591,202 | $ 534,468 | $ 484,721 | $ 1,704,267 | $ 156,841 | $ 33,564 | $ 5,606,474 |
| Special Mention | 3,133 | 20,640 | 14,477 | 16,097 | 43,262 | 44,045 | 6,970 | 6,800 | 155,424 |
| Substandard | - | - | 2,859 | 6,933 | 4,646 | 7,329 | 5,951 | 114 | 27,832 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Commercial real estate loans:** | $ 1,140,847 | $ 984,337 | $ 608,538 | $ 557,498 | $ 532,629 | $ 1,755,641 | $ 169,762 | $ 40,478 | $ 5,789,730 |
| **Construction loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 10,511 | $ 15,896 | $ 7,236 | $ - | $ - | $ - | $ 25,262 | $ - | $ 58,905 |
| Special Mention | - | - | - | 3,359 | - | - | - | - | 3,359 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Construction loans:** | $ 10,511 | $ 15,896 | $ 7,236 | $ 3,359 | $ - | $ - | $ 25,262 | $ - | $ 62,264 |
| **SBA loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 70,929 | $ 36,468 | $ 11,129 | $ 36,068 | $ 38,504 | $ 78,527 | $ - | $ - | $ 271,625 |
| Special Mention | - | - | - | - | 4,056 | 2,700 | - | - | 6,756 |
| Substandard | - | - | - | 785 | 4,092 | 5,342 | - | - | 10,219 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total SBA loans:** | $ 70,929 | $ 36,468 | $ 11,129 | $ 36,853 | $ 46,652 | $ 86,569 | $ - | $ - | $ 288,600 |
| **SBA - PPP loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 183,614 | $ 2,969 | $ - | $ - | $ - | $ - | $ - | $ - | $ 186,583 |
| Special Mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | 2 | - | - | - | - | - | - | 2 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total SBA - PPP loans:** | $ 183,614 | $ 2,971 | $ - | $ - | $ - | $ - | $ - | $ - | $ 186,585 |
| **Commercial and industrial loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 145,494 | $ 81,944 | $ 126,647 | $ 54,690 | $ 32,455 | $ 73,600 | $ 267,659 | $ 6,992 | $ 789,481 |
| Special Mention | 1,556 | 1,929 | 127 | 1,396 | 394 | 26 | 9,369 | 177 | 14,974 |
| Substandard | 244 | 6 | 602 | 1,712 | 505 | 475 | 1,991 | 3,073 | 8,608 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Commercial and industrial loans:** | $ 147,294 | $ 83,879 | $ 127,376 | $ 57,798 | $ 33,354 | $ 74,101 | $ 279,019 | $ 10,242 | $ 813,063 |

| December 31, 2021 | 2021 | 2020 | 2019 | 2018 | 2017 | Prior | Revolving loans amortized cost basis | Revolving loans converted to term loans | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Origination Year | | | | | | | | |
| | (Dollars in thousands) | | | | | | | | |
| **Dairy & livestock and agribusiness loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 1,756 | $ 942 | $ 1,285 | $ 1,035 | $ 95 | $ 295 | $ 364,312 | $ 454 | $ 370,174 |
| Special Mention | 1,052 | - | - | - | - | - | 6,979 | 1,301 | 9,332 |
| Substandard | - | - | - | 37 | - | - | - | 6,676 | 6,713 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Dairy & livestock and agribusiness loans:** | $ 2,808 | $ 942 | $ 1,285 | $ 1,072 | $ 95 | $ 295 | $ 371,291 | $ 8,431 | $ 386,219 |
| **Municipal lease finance receivables loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 9,310 | $ 7,666 | $ - | $ 279 | $ 9,528 | $ 18,811 | $ - | $ - | $ 45,594 |
| Special Mention | - | - | - | - | - | 339 | - | - | 339 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Municipal lease finance receivables loans:** | $ 9,310 | $ 7,666 | $ - | $ 279 | $ 9,528 | $ 19,150 | $ - | $ - | $ 45,933 |
| **SFR mortgage loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 48,813 | $ 49,261 | $ 41,776 | $ 19,877 | $ 16,046 | $ 61,965 | $ 451 | $ - | $ 238,189 |
| Special Mention | 8 | - | - | - | - | - | - | - | 8 |
| Substandard | - | - | - | - | - | 2,052 | - | 405 | 2,457 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total SFR mortgage loans:** | $ 48,821 | $ 49,261 | $ 41,776 | $ 19,877 | $ 16,046 | $ 64,017 | $ 451 | $ 405 | $ 240,654 |
| **Consumer and other loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 5,145 | $ 1,947 | $ 1,415 | $ 469 | $ 386 | $ 1,611 | $ 58,060 | $ 3,378 | $ 72,411 |
| Special Mention | 839 | - | - | - | - | 150 | 591 | 403 | 1,983 |
| Substandard | - | - | - | - | - | 15 | 5 | 251 | 271 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Consumer and other loans:** | $ 5,984 | $ 1,947 | $ 1,415 | $ 469 | $ 386 | $ 1,776 | $ 58,656 | $ 4,032 | $ 74,665 |
| **Total Loans:** | | | | | | | | | |
| Risk Rating: | | | | | | | | | |
| Pass | $ 1,613,286 | $ 1,160,790 | $ 780,690 | $ 646,886 | $ 581,735 | $ 1,939,076 | $ 872,585 | $ 44,388 | $ 7,639,436 |
| Special Mention | 6,588 | 22,569 | 14,604 | 20,852 | 47,712 | 47,260 | 23,909 | 8,681 | 192,175 |
| Substandard | 244 | 8 | 3,461 | 9,467 | 9,243 | 15,213 | 7,947 | 10,519 | 56,102 |
| Doubtful & Loss | - | - | - | - | - | - | - | - | - |
| **Total Loans:** | $ 1,620,118 | $ 1,183,367 | $ 798,755 | $ 677,205 | $ 638,690 | $ 2,001,549 | $ 904,441 | $ 63,588 | $ 7,887,713 |

### *Allowance for Credit Losses ("ACL")*

Our allowance for credit losses 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* included in our Annual Report on Form 10-K for the year ended December 31, 2021 for a more detailed discussion concerning the allowance for credit losses.

The ACL totaled $80.2 million at June 30, 2022, compared to $65.0 million at December 31, 2021. As a result of the acquisition of Suncrest, we recorded a provision for credit loss of $4.9 million on January 7, 2022 to establish the ACL for the acquired loans that were not considered PCD. The ACL at January 7, 2022, also included $8.6 million for the acquired Suncrest PCD loans. The $15.2 million increase in the ACL from December 31, 2021 to June 30, 2022 is comprised of approximately $500,000 in net recoveries, the $8.6 million for the Suncrest PCD loans and a $6.1 million provision for credit losses, including the $4.9 million provision recorded to establish the ACL for the non-PCD loans acquired from Suncrest. At June 30, 2022, the ACL as a percentage of total loans and leases, at amortized cost, was 0.92%, or 0.93% of total loans when excluding the $67.0 million in PPP loans. This compares to 0.82% and 0.84% at December 31, 2021, respectively. Net recoveries were $498,000 for the six months ended June 30, 2022, which compares to $2.9 million in net charge-offs for the same period of 2021. Our economic forecast continues to be a blend of multiple forecasts produced by Moody's. These U.S. economic forecasts include a baseline forecast, as well as multiple downside forecasts. The baseline forecast continues to represent the largest weighting in our multi-weighted forecast scenario. Our weighted forecast assumes GDP will increase by 0.5% in the second half of 2022, 0.8% for 2023 and then grow by 2.5% in 2024. The unemployment rate is forecasted to be 4.6% in the second half of 2022, 5.4% in 2023 and then decline to 5% in 2024.

Management believes that the ACL was appropriate at June 30, 2022 and December 31, 2021. Due to inflationary pressures from global supply chain issues and geopolitical events, as well as the uncertainty around the epidemiological assumptions and ongoing impact of government responses to the pandemic that may 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.

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.

| | Three Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | **Ending Balance March 31, 2022** | **Charge-offs** | **Recoveries** | **Provision for (Recapture of) Credit Losses** | **Ending Balance June 30, 2022** |
| | | | *(Dollars in thousands)* | | |
| Commercial real estate | $ 57,835 | $ - | $ - | $ 3,678 | $ 61,513 |
| Construction | 988 | - | 3 | 71 | 1,062 |
| SBA | 2,824 | - | 53 | (264) | 2,613 |
| Commercial and industrial | 6,831 | (6) | 453 | (84) | 7,194 |
| Dairy & livestock and agribusiness | 6,703 | - | 2 | 127 | 6,832 |
| Municipal lease finance receivables | 152 | - | - | 31 | 183 |
| SFR mortgage | 227 | - | - | 27 | 254 |
| Consumer and other loans | 559 | (2) | - | 14 | 571 |
| Total allowance for credit losses | $ 76,119 | $ (8) | $ 511 | $ 3,600 | $ 80,222 |

| | Three Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| | **Ending Balance March 31, 2021** | **Charge-offs** | **Recoveries** | **(Recapture of) Provision for Credit Losses** | **Ending Balance June 30, 2021** |
| | | | *(Dollars in thousands)* | | |
| Commercial real estate | $ 56,572 | $ - | $ - | $ (1,372) | $ 55,200 |
| Construction | 1,878 | - | 41 | (94) | 1,825 |
| SBA | 2,512 | - | 4 | 30 | 2,546 |
| Commercial and industrial | 6,439 | (500) | 2 | (274) | 5,667 |
| Dairy & livestock and agribusiness | 2,722 | - | - | 53 | 2,775 |
| Municipal lease finance receivables | 35 | - | - | 32 | 67 |
| SFR mortgage | 298 | - | - | (14) | 284 |
| Consumer and other loans | 1,349 | (10) | - | (361) | 978 |
| Total allowance for credit losses | $ 71,805 | $ (510) | $ 47 | $ (2,000) | $ 69,342 |

| | Six Months Ended June 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ending Balance December 31, 2021 | Charge-offs | Recoveries | Initial ACL for PCD Loans at Acquisition | Provision Recorded at Acquisition | Provision for (Recapture of) Credit Losses | Ending Balance June 30, 2022 |
| | | | | (Dollars in thousands) | | | |
| Commercial real estate | $ 50,950 | $ - | $ - | $ 5,086 | $ 4,127 | $ 1,350 | $ 61,513 |
| Construction | 765 | - | 6 | 122 | 58 | 111 | 1,062 |
| SBA | 2,668 | - | 58 | 62 | 64 | (239) | 2,613 |
| Commercial and industrial | 6,669 | (21) | 456 | 500 | 508 | (918) | 7,194 |
| Dairy & livestock and agribusiness | 3,066 | - | 2 | 2,832 | 149 | 783 | 6,832 |
| Municipal lease finance receivables | 100 | - | - | 3 | 26 | 54 | 183 |
| SFR mortgage | 188 | - | - | - | - | 66 | 254 |
| Consumer and other loans | 613 | (3) | - | - | - | (39) | 571 |
| Total allowance for credit losses | $ 65,019 | $ (24) | $ 522 | $ 8,605 | $ 4,932 | $ 1,168 | $ 80,222 |

| | Six Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Ending Balance December 31, 2020 | Charge-offs | Recoveries | (Recapture of) Provision for Credit Losses | Ending Balance June 30, 2021 |
| | | | (Dollars in thousands) | | |
| Commercial real estate | $ 75,439 | $ - | $ - | $ (20,239) | $ 55,200 |
| Construction | 1,934 | - | 44 | (153) | 1,825 |
| SBA | 2,992 | - | 8 | (454) | 2,546 |
| Commercial and industrial | 7,142 | (2,975) | 4 | 1,496 | 5,667 |
| Dairy & livestock and agribusiness | 3,949 | - | - | (1,174) | 2,775 |
| Municipal lease finance receivables | 74 | - | - | (7) | 67 |
| SFR mortgage | 367 | - | 79 | (162) | 284 |
| Consumer and other loans | 1,795 | (10) | - | (807) | 978 |
| Total allowance for credit losses | $ 93,692 | $ (2,985) | $ 135 | $ (21,500) | $ 69,342 |

***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, 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, prevailing economic conditions, and other factors. Refer to Note 3 – *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2021, 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 dates presented.

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ - | $ - | $ 6,297 | $ 6,297 | $ 2,464,612 | $ 2,470,909 |
| Non-owner occupied | - | 559 | 20 | 579 | 4,172,140 | 4,172,719 |
| Construction | | | | | | |
| Speculative (1) | - | - | - | - | 49,732 | 49,732 |
| Non-speculative | - | - | - | - | 10,852 | 10,852 |
| SBA | 83 | - | 794 | 877 | 296,232 | 297,109 |
| SBA - PPP | - | - | - | - | 66,955 | 66,955 |
| Commercial and industrial | - | 357 | 655 | 1,012 | 940,583 | 941,595 |
| Dairy & livestock and agribusiness | - | - | 3,206 | 3,206 | 270,388 | 273,594 |
| Municipal lease finance receivables | - | - | - | - | 64,437 | 64,437 |
| SFR mortgage | - | - | - | - | 260,218 | 260,218 |
| Consumer and other loans | - | - | 37 | 37 | 84,072 | 84,109 |
| Total loans | $ 83 | $ 916 | $ 11,009 | $ 12,008 | $ 8,680,221 | $ 8,692,229 |

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

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 438 | $ - | $ 3,383 | $ 3,821 | $ 2,127,979 | $ 2,131,800 |
| Non-owner occupied | - | - | - | - | 3,657,930 | 3,657,930 |
| Construction | | | | | | |
| Speculative (1) | - | - | - | - | 44,859 | 44,859 |
| Non-speculative | - | - | - | - | 17,405 | 17,405 |
| SBA | 417 | 1,145 | 339 | 1,901 | 286,699 | 288,600 |
| SBA - PPP | - | - | - | - | 186,585 | 186,585 |
| Commercial and industrial | - | 16 | 1,356 | 1,372 | 811,691 | 813,063 |
| Dairy & livestock and agribusiness | - | - | - | - | 386,219 | 386,219 |
| Municipal lease finance receivables | - | - | - | - | 45,933 | 45,933 |
| SFR mortgage | 1,040 | - | - | 1,040 | 239,614 | 240,654 |
| Consumer and other loans | - | - | 42 | 42 | 74,623 | 74,665 |
| Total loans | $ 1,895 | $ 1,161 | $ 5,120 | $ 8,176 | $ 7,879,537 | $ 7,887,713 |

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

Amortized cost of our finance receivables and loans that are on nonaccrual status, including loans with no allowance are presented as of June 30, 2022 and December 31, 2021 by type of loan.

| | June 30, 2022 | | |
|---|---|---|---|
| | **Nonaccrual with No Allowance for Credit Losses** | **Total Nonaccrual (1)** | **Loans Past Due Over 89 Days Still Accruing** |
| | | *(Dollars in thousands)* | |
| Commercial real estate | | | |
| Owner occupied | $ 3,823 | $ 6,823 | $ - |
| Non-owner occupied | 20 | 20 | - |
| Construction | | | |
| Speculative (2) | - | - | - |
| Non-speculative | - | - | - |
| SBA | 349 | 1,075 | - |
| SBA - PPP | - | - | - |
| Commercial and industrial | 1,130 | 1,655 | - |
| Dairy & livestock and agribusiness | 830 | 3,354 | - |
| Municipal lease finance receivables | - | - | - |
| SFR mortgage | - | - | - |
| Consumer and other loans | 37 | 37 | - |
| Total loans | $ 6,189 | $ 12,964 | $ - |

(1) As of June 30, 2022, $1.5 million of nonaccruing loans were current, $83,000 were 30-59 days past due, $357,000 were 60-89 days past due, and $11.0 million were 90+ days past due.
(2) Speculative construction loans are generally for properties where there is no identified buyer or renter.

| | December 31, 2021 | | |
|---|---|---|---|
| | **Nonaccrual with No Allowance for Credit Losses** | **Total Nonaccrual (1)** | **Loans Past Due Over 89 Days Still Accruing** |
| | | *(Dollars in thousands)* | |
| Commercial real estate | | | |
| Owner occupied | $ 3,607 | $ 3,607 | $ - |
| Non-owner occupied | - | - | - |
| Construction | | | |
| Speculative (2) | - | - | - |
| Non-speculative | - | - | - |
| SBA | 521 | 1,034 | - |
| SBA - PPP | - | - | - |
| Commercial and industrial | 1,326 | 1,714 | - |
| Dairy & livestock and agribusiness | - | - | - |
| Municipal lease finance receivables | - | - | - |
| SFR mortgage | 380 | 380 | - |
| Consumer and other loans | 158 | 158 | - |
| Total loans | $ 5,992 | $ 6,893 | $ - |

(1) As of December 31, 2021, $1.2 million of nonaccruing loans were current, $332,000 were 30-59 days past due, $267,000 were 60-89 days past due, and $5.1 million were 90+ days past due.
(2) Speculative construction loans are generally for properties where there is no identified buyer or renter.

***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 dates presented.

| | June 30, 2022 | | | Number of Loans Dependent on Collateral |
|---|---|---|---|---|
| | Real Estate | Business Assets | Other | |
| | (Dollars in thousands) | | | |
| Commercial real estate | $ 9,160 | $ - | $ - | 9 |
| Construction | - | - | - | - |
| SBA | 233 | 841 | - | 8 |
| SBA - PPP | - | - | - | - |
| Commercial and industrial | 457 | 2,998 | 79 | 15 |
| Dairy & livestock and agribusiness | 699 | 17 | 2,638 | 6 |
| Municipal lease finance receivables | - | - | - | - |
| SFR mortgage | - | - | - | - |
| Consumer and other loans | 37 | - | - | 1 |
| Total collateral-dependent loans | $ 10,586 | $ 3,856 | $ 2,717 | 39 |

| | December 31, 2021 | | | Number of Loans Dependent on Collateral |
|---|---|---|---|---|
| | Real Estate | Business Assets | Other | |
| | (Dollars in thousands) | | | |
| Commercial real estate | $ 6,001 | $ - | $ - | 6 |
| Construction | - | - | - | - |
| SBA | 405 | 517 | 112 | 10 |
| SBA - PPP | - | - | - | - |
| Commercial and industrial | 688 | 5,133 | 96 | 19 |
| Dairy & livestock and agribusiness | - | - | - | - |
| Municipal lease finance receivables | - | - | - | - |
| SFR mortgage | 380 | - | - | 2 |
| Consumer and other loans | 158 | - | - | 2 |
| Total collateral-dependent loans | $ 7,632 | $ 5,650 | $ 208 | 39 |

***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. The Bank's ACL methodology produced an allowance of $8.0 million for the off-balance sheet credit exposures as of June 30, 2022. There was no provision or recapture of provision for unfunded loan commitments for the three and six months ended June 30, 2022, compared to a $1.0 million recapture of provision for unfunded loan commitments for the three and six months ended June 30, 2021. As of June 30, 2022 and December 31, 2021, the balance in this reserve was $8.0 million and was included in other liabilities.

***Troubled Debt Restructurings ("TDRs")***

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*, included in our Annual Report on Form 10-K for the year ended December 31, 2021 for a more detailed discussion regarding TDRs.

As of June 30, 2022, there were $5.2 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 June 30, 2022, performing TDRs were comprised of one commercial real estate loan of $2.3 million, three commercial and industrial loans of $1.9 million, and five SFR mortgage loans of $1.0 million.

The majority of TDRs have no specific allowance allocated as any impairment amount is normally charged off at the time the loan is considered uncollectible. We have no allocated allowance to TDRs as of June 30, 2022 and December 31, 2021.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | (Dollars in thousands) | | | |
| **Performing TDRs:** | | | | |
| Beginning balance | $ 5,259 | $ 5,813 | $ 5,293 | $ 2,159 |
| New modifications | - | 2,453 | - | 7,096 |
| Payoffs/payments, net and other | (61) | (51) | (95) | (1,040) |
| TDRs returned to accrual status | - | - | - | - |
| TDRs placed on nonaccrual status | - | - | - | - |
| Ending balance | $ 5,198 | $ 8,215 | $ 5,198 | $ 8,215 |
| **Nonperforming TDRs:** | | | | |
| Beginning balance | $ - | $ - | $ - | $ - |
| New modifications | - | - | - | - |
| Charge-offs | - | - | - | - |
| Payoffs/payments, net and other | - | - | - | - |
| TDRs returned to accrual status | - | - | - | - |
| TDRs placed on nonaccrual status | - | - | - | - |
| Ending balance | $ - | $ - | $ - | $ - |
| Total TDRs | $ 5,198 | $ 8,215 | $ 5,198 | $ 8,215 |

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

***Modifications (1)***

| | For the Six Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at June 30, 2021 | Financial Effect Resulting From Modifications (2) |
| | (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 | - | - | - | - | - |
| **SFR mortgage:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| Total loans | - | $ - | $ - | $ - | $ - |

| | For the Three Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at June 30, 2021 | Financial Effect Resulting From Modifications (2) |
| | (Dollars in thousands) | | | | |
| **Commercial real estate:** | | | | | |
| Interest rate reduction | 1 | $ 2,453 | $ 2,453 | $ 2,450 | $ - |
| Change in amortization period or maturity | - | - | - | - | - |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| **SFR mortgage:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| Total loans | 1 | $ 2,453 | $ 2,453 | $ 2,450 | $ - |

| | For the Six Months Ended June 30, 2021 | | | | |
|---|---|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Outstanding Recorded Investment at June 30, 2021 | Financial Effect Resulting From Modifications (2) |
| | (Dollars in thousands) | | | | |
| **Commercial real estate:** | | | | | |
| Interest rate reduction | 1 | $ 2,453 | $ 2,453 | $ 2,450 | $ - |
| Change in amortization period or maturity | - | - | - | - | - |
| **Commercial and industrial:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | 2 | 4,643 | 4,643 | 4,443 | - |
| **SFR mortgage:** | | | | | |
| Interest rate reduction | - | - | - | - | - |
| Change in amortization period or maturity | - | - | - | - | - |
| Total loans | 3 | $ 7,096 | $ 7,096 | $ 6,893 | $ - |

(1) The tables above exclude modified loans that were paid off prior to the end of the period.
(2) Financial effects resulting from modifications represent charge-offs and current allowance for credit losses at modification date.

As of June 30, 2022 and 2021, there were no loans that were modified as a TDR within the previous 12 months that subsequently defaulted during the six months ended June 30, 2022 and 2021, respectively.

## 7. 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 three and six months ended June 30, 2022, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share, were 99,000 and 540,000, respectively. For the three and six months ended June 30, 2021, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share, were 115,000 and 116,000, 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.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(In thousands, except per share amounts)* | | | |
| **Earnings per common share:** | | | | |
| Net earnings | $ 59,058 | $ 51,179 | $ 104,618 | $ 115,072 |
| Less: Net earnings allocated to restricted stock | 398 | 239 | 650 | 547 |
| Net earnings allocated to common shareholders | $ 58,660 | $ 50,940 | $ 103,968 | $ 114,525 |
| Weighted average shares outstanding | 139,748 | 135,286 | 140,467 | 135,235 |
| Basic earnings per common share | $ 0.42 | $ 0.38 | $ 0.74 | $ 0.85 |
| **Diluted earnings per common share:** | | | | |
| Net income allocated to common shareholders | $ 58,660 | $ 50,940 | $ 103,968 | $ 114,525 |
| Weighted average shares outstanding | 139,748 | 135,286 | 140,467 | 135,235 |
| Incremental shares from assumed exercise of outstanding options | 305 | 221 | 263 | 235 |
| Diluted weighted average shares outstanding | 140,053 | 135,507 | 140,730 | 135,470 |
| Diluted earnings per common share | $ 0.42 | $ 0.38 | $ 0.74 | $ 0.85 |

## 8. 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 valuation methodologies for financial assets and liabilities measured at fair value on a recurring and non-recurring basis are described in Note 18 — *Fair Value Information*, included in our Annual Report on Form 10-K for the year ended December 31, 2021.

### *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 as of the dates presented.

| | Carrying Value at June 30, 2022 | 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 | $ 3,108,915 | $ - | $ 3,108,915 | $ - |
| CMO/REMIC | 490,130 | - | 490,130 | - |
| Municipal bonds | 26,089 | - | 26,089 | - |
| Other securities | 1,023 | - | 1,023 | - |
| Total investment securities - AFS | 3,626,157 | - | 3,626,157 | - |
| Interest rate swaps | 582 | - | 582 | - |
| Total assets | $ 3,626,739 | $ - | $ 3,626,739 | $ - |
| **Description of liability** | | | | |
| Interest rate swaps | $ 582 | $ - | $ 582 | $ - |
| Total liabilities | $ 582 | $ - | $ 582 | $ - |

| | Carrying Value at December 31, 2021 | 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 | $ 2,563,214 | $ - | $ 2,563,214 | $ - |
| CMO/REMIC | 590,158 | - | 590,158 | - |
| Municipal bonds | 29,468 | - | 29,468 | - |
| Other securities | 1,083 | - | 1,083 | - |
| Total investment securities - AFS | 3,183,923 | - | 3,183,923 | - |
| Interest rate swaps | 14,163 | - | 14,163 | - |
| Total assets | $ 3,198,086 | $ - | $ 3,198,086 | $ - |
| **Description of liability** | | | | |
| Interest rate swaps | $ 14,163 | $ - | $ 14,163 | $ - |
| Total liabilities | $ 14,163 | $ - | $ 14,163 | $ - |

*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 impairment write-downs of individual assets.

For assets measured at fair value on a non-recurring basis that were held on the balance sheet at June 30, 2022 and December 31, 2021, 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. These losses on collateral dependent loans represent the amount of the allowance for credit losses and/or charge-offs during the period applicable to loans held at period-end. The amount of the allowance is included in the ACL.

| | Carrying Value at June 30, 2022 | 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 Six Months Ended June 30, 2022 |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| **Description of assets** | | | | | |
| Loans: | | | | | |
| Commercial real estate | $ 3,000 | $ - | $ - | $ 3,000 | $ 1,233 |
| Construction | - | - | - | - | - |
| SBA | 223 | - | - | 223 | 38 |
| Commercial and industrial | 573 | - | - | 573 | 237 |
| Dairy & livestock and agribusiness | 2,524 | - | - | 2,524 | 2,513 |
| Municipal lease finance receivables | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | 3 |
| Other real estate owned | - | - | - | - | - |
| Asset held-for-sale | - | - | - | - | - |
| Total assets | $ 6,320 | $ - | $ - | $ 6,320 | $ 4,024 |

| | Carrying Value at December 31, 2021 | 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, 2021 |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| **Description of assets** | | | | | |
| Loans: | | | | | |
| Commercial real estate | $ - | $ - | $ - | $ - | $ - |
| Construction | - | - | - | - | - |
| SBA | 646 | - | - | 646 | 255 |
| Commercial and industrial | 340 | - | - | 340 | 3,275 |
| Dairy & livestock and agribusiness | 38 | - | - | 38 | 118 |
| Municipal lease finance receivables | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| Consumer and other loans | - | - | - | - | 11 |
| Other real estate owned | - | - | - | - | - |
| Asset held-for-sale | - | - | - | - | - |
| Total assets | $ 1,024 | $ - | $ - | $ 1,024 | $ 3,659 |

*Fair Value of Financial Instruments*

The following disclosure presents estimated fair value of our financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company may realize in a current market exchange as of June 30, 2022 and December 31, 2021, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| | (Dollars in thousands) | | | | |
| **Assets** | | | | | |
| Total cash and cash equivalents | $ 696,709 | $ 696,709 | $ - | $ - | $ 696,709 |
| Interest-earning balances due from depository institutions | 7,382 | - | 7,382 | - | 7,382 |
| Investment securities available-for-sale | 3,626,157 | - | 3,626,157 | - | 3,626,157 |
| Investment securities held-to-maturity | 2,412,308 | - | 2,134,183 | - | 2,134,183 |
| Total loans, net of allowance for credit losses | 8,612,007 | - | - | 8,102,801 | 8,102,801 |
| Swaps | 582 | - | 582 | - | 582 |
| **Liabilities** | | | | | |
| Deposits: | | | | | |
| Interest-bearing | $ 5,190,996 | $ - | $ 5,186,166 | $ - | $ 5,186,166 |
| Borrowings | 502,829 | - | 426,427 | - | 426,427 |
| Junior subordinated debentures | - | - | - | - | - |
| Swaps | 582 | - | 582 | - | 582 |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| | (Dollars in thousands) | | | | |
| **Assets** | | | | | |
| Total cash and cash equivalents | $ 1,732,548 | $ 1,732,548 | $ - | $ - | $ 1,732,548 |
| Interest-earning balances due from depository institutions | 25,999 | - | 25,999 | - | 25,999 |
| Investment securities available-for-sale | 3,183,923 | - | 3,183,923 | - | 3,183,923 |
| Investment securities held-to-maturity | 1,925,970 | - | 1,921,693 | - | 1,921,693 |
| Total loans, net of allowance for credit losses | 7,822,694 | - | - | 7,696,210 | 7,696,210 |
| Swaps | 14,163 | - | 14,163 | - | 14,163 |
| **Liabilities** | | | | | |
| Deposits: | | | | | |
| Interest-bearing | $ 4,872,386 | $ - | $ 4,871,531 | $ - | $ 4,871,531 |
| Borrowings | 644,669 | - | 586,645 | - | 586,645 |
| Junior subordinated debentures | - | - | - | - | - |
| Swaps | 14,163 | - | 14,163 | - | 14,163 |

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2022 and December 31, 2021. 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.

## 9. 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 June 30, 2022, the Bank has entered into 129 interest-rate swap agreements with customers with a notional amount totaling $443.5 million. The Bank then entered into identical offsetting swaps with a counterparties. 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 June 30, 2022 and December 31, 2021, the total notional amount of the Company's swaps was $443.5 million, and $493.2 million, respectively. The location of the asset and liability, and their respective fair values, are summarized in the tables below.

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | 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 | $ 582 | Other liabilities | $ 582 |
| Total derivatives | | $ 582 | | $ 582 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | 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 | $ 14,163 | Other liabilities | $ 14,163 |
| Total derivatives | | $ 14,163 | | $ 14,163 |

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

The following table summarizes the effect of derivative financial instruments on the condensed 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 | | | |
|---|---|---|---|---|---|
| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | | 2022 | 2021 | 2022 | 2021 |
| | | *(Dollars in thousands)* | | | |
| Interest rate swaps | Other income | $ - | $ - | $ - | $ 215 |
| Total | | $ - | $ - | $ - | $ 215 |

## 10. OTHER COMPREHENSIVE INCOME

The table below provides a summary of the components of other comprehensive income ("OCI") for the periods presented.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | 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 | $ (142,883) | $ 42,241 | $ (100,642) | $ 8,917 | $ (2,636) | $ 6,281 |
| Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity | 93 | (28) | 65 | 20 | (6) | 14 |
| Net change | $ (142,790) | $ 42,213 | $ (100,577) | $ 8,937 | $ (2,642) | $ 6,295 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | 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 | $ (344,955) | $ 101,981 | $ (242,974) | $ (31,474) | $ 9,305 | $ (22,169) |
| Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity | 147 | (44) | 103 | 101 | (30) | 71 |
| Net change | $ (344,809) | $ 101,938 | $ (242,871) | $ (31,373) | $ 9,275 | $ (22,098) |

## 11. 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 condensed 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 condensed 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 condensed consolidated balances.

| | Gross Amounts Recognized in the Condensed Consolidated Balance Sheets | Gross Amounts Offset in the Condensed Consolidated Balance Sheets | Net Amounts Presented in the Condensed Consolidated Balance Sheets | Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets | | Net Amount |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Collateral Pledged | |
| | | | (Dollars in thousands) | | | |
| **June 30, 2022** | | | | | | |
| **Financial assets:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 582 | $ - | $ - | $ 582 | $ - | $ 582 |
| Total | $ 582 | $ - | $ - | $ 582 | $ - | $ 582 |
| **Financial liabilities:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 39,098 | $ (38,516) | $ 582 | $ 38,516 | $ (16,652) | $ 22,446 |
| Repurchase agreements | 502,829 | - | 502,829 | - | (582,654) | (79,825) |
| Total | $ 541,927 | $ (38,516) | $ 503,411 | $ 38,516 | $ (599,306) | $ (57,379) |
| **December 31, 2021** | | | | | | |
| **Financial assets:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 14,163 | $ - | $ - | $ 14,163 | $ - | $ 14,163 |
| Total | $ 14,163 | $ - | $ - | $ 14,163 | $ - | $ 14,163 |
| **Financial liabilities:** | | | | | | |
| Derivatives not designated as hedging instruments | $ 23,502 | $ (9,339) | $ 14,163 | $ 9,339 | $ (37,285) | $ (13,783) |
| Repurchase agreements | 642,388 | - | 642,388 | - | (683,923) | (41,535) |
| Total | $ 665,890 | $ (9,339) | $ 656,551 | $ 9,339 | $ (721,208) | $ (55,318) |

## 12. 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.

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | *(Dollars in thousands)* | |
| **Lease Assets and Liabilities** | | |
| ROU assets | $ 24,503 | $ 19,274 |
| Total lease liabilities | 26,070 | 20,864 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(Dollars in thousands)* | | | |
| **Lease Cost** | | | | |
| Operating lease expense (1) | $ 1,849 | $ 1,681 | $ 3,695 | $ 3,343 |
| Sublease income | - | - | - | - |
| Total lease expense | $ 1,849 | $ 1,681 | $ 3,695 | $ 3,343 |

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

| | | | | |
|---|---|---|---|---|
| **Other Information** | | | | |
| Cash paid for amounts included in the measurement of lease liabilities: | | | | |
| Operating cash outflows from operating leases, net | $ 1,860 | $ 1,845 | $ 3,711 | $ 3,664 |

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Lease Term and Discount Rate** | | |
| Weighted average remaining lease term (years) | 4.36 | 4.26 |
| Weighted average discount rate | 2.64 % | 2.41 % |

The Company's lease arrangements that have not yet commenced as of June 30, 2022 and the Company's short-term lease costs and variable lease costs, for the six months ended June 30, 2022 and 2021 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 June 30, 2022, excluding property taxes and insurance, are as follows:

| | June 30, 2022 |
|---|---|
| | *(Dollars in thousands)* |
| **Year:** | |
| 2022 (excluding the six months ended June 30, 2022) | $ 3,677 |
| 2023 | 6,851 |
| 2024 | 5,689 |
| 2025 | 4,907 |
| 2026 | 3,670 |
| Thereafter | 2,861 |
| Total future lease payments | 27,655 |
| Less: Imputed interest | (1,585) |
| Present value of lease liabilities | $ 26,070 |

## 13. REVENUE RECOGNITION

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)", for the periods indicated.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | *(Dollars in thousands)* | | | |
| **Noninterest income:** | | | | |
| *In-scope of Topic 606:* | | | | |
| Service charges on deposit accounts | $ 5,333 | $ 4,169 | $ 10,392 | $ 8,154 |
| Trust and investment services | 2,962 | 3,167 | 5,784 | 5,778 |
| Bankcard services | 310 | 533 | 726 | 883 |
| Gain on OREO, net | - | 48 | - | 477 |
| Other | 5,462 | 1,679 | 7,080 | 3,361 |
| Noninterest Income (in-scope of Topic 606) | 14,067 | 9,596 | 23,982 | 18,653 |
| Noninterest Income (out-of-scope of Topic 606) | 603 | 1,240 | 1,952 | 5,864 |
| **Total noninterest income** | $ 14,670 | $ 10,836 | $ 25,934 | $ 24,517 |

Refer to Note 3 – *Summary of Significant Accounting Policies* and Note 23 – *Revenue Recognition*, included in our Annual Report on Form 10-K for the year ended December 31, 2021 for a more detailed discussion about noninterest revenue streams that are in-scope of Topic 606.

## ITEM 2. 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. (referred to herein on an unconsolidated basis as "CVB" and on a consolidated basis as "we," "our" or the "Company") and its wholly owned bank subsidiary, Citizens Business Bank (the "Bank" or "CBB"). 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 our Annual Report on Form 10-K for the year ended December 31, 2021 and the unaudited condensed consolidated financial statements and accompanying notes presented elsewhere in this report.

### IMPACT OF COVID-19

The spread of COVID-19 starting in 2020 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 affected our customers and the communities we serve. We recorded a $23.5 million provision for credit losses for the year ended December 31, 2020 due to the forecast, at that time, of a severe economic downturn resulting from the onset of the COVID-19 pandemic. In response to the anticipated effects of the pandemic on the U.S. economy, the Board of Governors of the Federal Reserve System ("FRB") took significant actions, including a reduction in the target range of the federal funds rate to 0.0% to 0.25% in 2020 and established a program of purchases of Treasury and mortgage-backed securities. A $19.5 million recapture of provision for credit losses was recorded in the first quarter of 2021, resulting from improvements in our economic forecast of certain macroeconomic variables resulting from significant monetary and fiscal stimulus, as well as the wide availability of vaccines.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. It contained substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act included the Paycheck Protection Program ("PPP"), a $349 billion program designed to aid small- and medium-sized businesses through 100% Small Business Administration ("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. Legislation passed on April 24, 2020 provided additional PPP funds of $310 billion. During 2020, we originated and funded approximately 4,100 loans, totaling $1.1 billion. Greater than 99% of these loans have been granted forgiveness as of June 30, 2022. In response to the COVID-19 pandemic and the CARES Act, we also implemented a short-term loan modification program in 2020 to provide temporary payment relief to certain of our borrowers who meet the program's qualifications. 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 was set aside for Second Draw ("round two") 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 were not eligible for Second Draw loans. Further, maximum loan amounts were increased for accommodation and food service businesses. We originated approximately 1,900 round two loans totaling $420 million. The Paycheck Protection Program officially ended on May 31, 2021. As of June 30, 2022, the remaining outstanding balance of PPP loans was $67.0 million, including $6.3 million for round one and $60.7 million for round two.

## CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Company’s unaudited condensed consolidated financial statements are based upon the Company’s unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited condensed 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 we believe are most important in our estimation process. We utilize information available to us 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 and information could change future valuations and impact the results of operations.

- Allowance for Credit Losses (“ACL”)
- Fair value estimates associated with Business Combinations
- Impairment of Goodwill
- Income Taxes

Our significant accounting policies are described in greater detail in our 2021 Annual Report on Form 10-K in the “Critical Accounting Policies” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations and in Note 3 – *Summary of Significant Accounting Policies*, included in our Annual Report on Form 10-K for the year ended December 31, 2021, which are essential to understanding Management’s Discussion and Analysis of Financial Condition and Results of Operations.

***Recently Issued Accounting Pronouncements but Not Adopted as of June 30, 2022***

| 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<br><br>*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, and started the transition from LIBOR in 2021. The Company continues to assess the impacts of this transition and alternatives to use in place of LIBOR for various financial instruments, primarily related to our variable-rate and adjustable-rate loans that are indexed to LIBOR. The Company stopped originating loans indexed to LIBOR at the end of 2021, while continuing to use various alternative indexes. We do not expect this ASU to have a material impact on the Company's consolidated financial statements. |
| ASU 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures<br><br>*Issued March 2022* | The FASB issued 2022-02 which eliminates recognition and measurement guidance for TDRs by creditors in Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty, and to require that an entity disclose current-period gross write-offs by year of origination (i.e. the vintage year) for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments-Credit Losses-Measured at Amortized Cost. For entities that have adopted ASU 2016-13, this ASU is effective for interim and reporting periods beginning after December 15, 2022, and should be applied prospectively, except as provided in the next sentence. For the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. Early adoption is permitted. | 1st Quarter 2023 | The adoption of this ASU is not expected to have a material impact on our consolidated financial statements or liquidity, although it will result in additional disclosure requirements related to gross charge offs by vintage year. |
| ASU 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method<br><br>*Issued March 2022* | On March 28, 2022, the FASB issued ASU 2022-01, which establishes the portfolio-layer method, and expands an entity’s ability to achieve fair value hedge accounting for hedges of financial assets in a closed portfolio. This ASU is effective for public business entities for interim and reporting periods beginning after December 15, 2022. Early adoption is permitted on any date on or after issuance of this ASU for entities that have already adopted ASU 2017-12 for the corresponding period. Entities may designate multiple layer hedges only on a prospective basis upon the adoption of this ASU. If the ASU is adopted in an interim period, the cumulative-effect adjustment of adopting the amendments related to basis adjustments shall be reflected as of the beginning of the fiscal year that includes the interim period (that is, the initial application date). | 1st Quarter 2023 | The adoption of this ASU is not expected to have a material impact on our consolidated financial statements. |

## OVERVIEW

For the second quarter of 2022, we reported net earnings of $59.1 million, compared with $45.6 million for the first quarter of 2022 and $51.2 million for the second quarter of 2021. Diluted earnings per share were $0.42 for the second quarter, compared to $0.31 for the prior quarter and $0.38 for the same period last year. The second quarter of 2022 included $3.6 million in provision for credit losses, compared to $2.5 million in provision for the first quarter and a provision recapture of $2.0 million in the second quarter of 2021. Net income of $59.1 million for the second quarter of 2022 produced an annualized return on average equity ("ROAE") of 11.33%, an annualized return on average tangible common equity ("ROATCE") of 18.67%, and an annualized return on average assets ("ROAA") of 1.39%. Our net interest margin, tax equivalent ("NIM"), was 3.16% for the second quarter of 2022, while our efficiency ratio was 37.24%.

On January 7, 2022, we completed the acquisition of Suncrest Bank ("Suncrest"). At close, Citizens Business Bank acquired loans with a fair value of $774.5 million, and assumed $512.8 million of noninterest-bearing deposits and $669.8 million of interest-bearing deposits. The second quarter of 2022 represents a full quarter of financial results. The integration of Suncrest was completed with the consolidation of two banking centers during the second quarter. As a result of the Suncrest merger, we incurred $6.0 million in acquisition expenses for the six months ended June 30, 2022, including $375,000 during the second quarter and $5.6 million in the first quarter of 2022.

The $15.2 million increase in the ACL from December 31, 2021 to June 30, 2022 is comprised primarily of the $8.6 million ACL increase for the Suncrest purchased credit deteriorated ("PCD") loans and a $6.1 million provision for credit losses. The $6.1 million provision for credit losses, includes a provision for credit loss of $4.9 million recorded on January 7, 2022 for the Suncrest acquired loans that were not considered PCD. In addition, the ACL increased by $498,000 in net recoveries during the six month period ending June 30, 2022. During the second quarter of 2022, we experienced credit charge-offs of $8,000 and total recoveries of $511,000, resulting in net recoveries of $503,000.

At June 30, 2022, total assets of $16.76 billion increased by $876.3 million, or 5.52%, from total assets of $15.88 billion at December 31, 2021. Interest-earning assets of $15.28 billion at June 30, 2022 increased by $595.7 million, or 4.06%, when compared with $14.68 billion at December 31, 2021. The increase in interest-earning assets was primarily due to a $928.6 million increase in investment securities and an $804.5 million increase in total loans, partially offset by a $1.12 billion decrease in interest-earning balances due from the Federal Reserve. The $804.5 million increase in total loans included the $774.5 million of loans acquired at fair value from Suncrest.

Total investment securities were $6.04 billion at June 30, 2022, an increase of $928.6 million, or 18.17%, from $5.11 billion at December 31, 2021. We continued to deploy some of our excess liquidity during the second quarter into additional investment securities by purchasing approximately $356 million in new securities in the second quarter of 2022, with an expected average yield of approximately 3.75%. During the six month period ending June 30, 2022, we purchased approximately $1.5 billion of investment securities. At June 30, 2022, investment securities held-to-maturity ("HTM") totaled $2.41 billion. At June 30, 2022, investment securities available-for-sale ("AFS") totaled $3.63 billion, inclusive of a pre-tax net unrealized loss of $346.3 million. HTM securities increased by $486.3 million, or 25.25%, and AFS securities increased by $442.2 million, or 13.89%, from December 31, 2021. Our tax equivalent yield on investments was 1.93% for the quarter ended June 30, 2022, compared to 1.70% for the first quarter of 2022 and 1.55% for the second quarter of 2021.

Total loans and leases, at amortized cost, of $8.69 billion at June 30, 2022 increased by $804.5 million, or 10.20%, from December 31, 2021. The increase in total loans included $774.5 million of loans acquired at fair value from Suncrest in the first quarter of 2022. After adjusting for acquired loans, seasonality related to our Dairy & Livestock loans, and forgiveness of PPP loans ("core loans"), our core loans grew by $319.8 million, or approximately 8% annualized from December 31, 2021. The $319.8 million core loan growth included $273.1 million in commercial real estate loans, $44.1 million in commercial and industrial loans, $19.3 million in SFR mortgage loans, and $9.8 million in consumer and other loans, partially offset by decreases of $18.4 million in construction loans and $11.6 million in SBA loans. The majority of the $130.6 million decrease in dairy & livestock loans was seasonal. Our yield on loans was 4.31% for the quarter ended June 30, 2022, compared to 4.27% for the first quarter of 2022 and 4.46% for the second quarter of 2021. The significant decline in interest rates from the beginning of the pandemic continued to have a negative impact on loan yields, which after excluding discount accretion and the impact from PPP loans, our core loan yield declined by 13 basis points when compared to the second quarter of 2021. However, the recent increases in interest rates, including a 125 basis point increase in the Fed Funds rate between March 31, and June 30, 2022 contributed to a nine basis point increase in core loan yields from the first quarter of 2022 to the second quarter. Interest and fee income from PPP loans was approximately $1.4 million in the second quarter of 2022, compared to $2.9 million in the first quarter of 2022 and $8.1 million in the second quarter of 2021.

Noninterest-bearing deposits were $8.88 billion at June 30, 2022, an increase of $777.2 million, or 9.59% when compared to $8.10 billion at December 31, 2021 and increased $815.8 million, or 10.12%, when compared to $8.07 billion at June 30, 2021. The increase in noninterest-bearing deposits includes the noninterest-bearing deposits assumed from Suncrest of $512.8 million. At June 30, 2022, noninterest-bearing deposits were 63.11% of total deposits, compared to 62.86% at March 31, 2022 and 63.66% at June 30, 2021.

Interest-bearing deposits were $5.19 billion at June 30, 2022, an increase of $318.6 million, or 6.54%, when compared to $4.87 billion at December 31, 2021 and an increase of $587.3 million, or 12.76%, when compared to $4.60 billion at June 30, 2021. The increase in interest-bearing deposits included the interest-bearing deposits assumed from Suncrest of $669.8 million. Customer repurchase agreements totaled $502.8 million at June 30, 2022, compared to $642.4 million at December 31, 2021 and $578.2 million at June 30, 2021. Our average cost of total deposits including customer repurchase agreements of 0.04% increased from 0.03% for the first quarter of 2022 and decreased from 0.05% for the second quarter of 2021. The one basis point increase in the cost of deposits and customer repurchase agreements from the first quarter of 2022 was the net result of an increase in the cost of interest-bearing deposits from 0.08% to 0.09% and a $202.3 million quarter-over-quarter increase in average noninterest-bearing deposits. Compared to the second quarter of 2021, the one basis point decrease was the result of a 3 basis point decline in the cost of interest bearing deposits, as well as noninterest-bearing deposits growing on average by $1.22 billion.

We had no borrowings at June 30, 2022, December 31, 2021 and June 30, 2021. Our average cost of funds increased from 0.03% in the first quarter of 2022 to 0.04% in the second quarter of 2022 and decreased from 0.05% in the second quarter of 2021.

The allowance for credit losses totaled $80.2 million at June 30, 2022, compared to $65.0 million at December 31, 2022. At June 30, 2022, ACL as a percentage of total loans and leases outstanding was 0.92%. This compares to 0.82% and 0.86% at December 31, 2021 and June 30, 2021, respectively. When PPP loans are excluded, the ACL as a percentage of total loans and leases outstanding was 0.93% at June 30, 2022, compared to 0.84% at December 31, 2021 and 0.94% at June 30, 2021.

The Company's total equity was $1.98 billion at June 30, 2022. This represented an overall decrease of $99.3 million from total equity of $2.08 billion at December 31, 2021. Increases to equity included $197.1 million for issuance of 8.6 million shares to acquire Suncrest and $104.6 million in net earnings. Decreases included $52.2 million in cash dividends and a $242.9 million decrease in other comprehensive income from the tax effected impact of the decline in market value of available-for-sale securities. During 2022, we executed on a $70 million accelerated stock repurchase program and retired 2,993,551 shares of common stock at an average price of $23.38. We also repurchased, under our 10b5-1 stock repurchase plan, 1,682,537 shares of common stock, at an average repurchase price of $23.37, totaling $39.3 million. Our tangible book value per share at June 30, 2022 was $8.51.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory requirements. As of June 30, 2022, the Company's Tier 1 leverage capital ratio was 8.8%, common equity Tier 1 ratio was 13.4%, Tier 1 risk-based capital ratio was 13.4%, and total risk-based capital ratio was 14.2%. 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*.

***Acquisition Related***

On January 7, 2022, the Company completed the acquisition of Suncrest, headquartered in Visalia, California. The Company acquired all of the assets and assumed all of the liabilities of Suncrest in a stock and cash transaction for $39.6 million in cash and $197.1 million in stock with the issuance of 8.6 million shares of the Company's common stock. As a result, Suncrest merged with and into the Bank, the principal subsidiary of CVB. At close, Suncrest had seven branch locations and two loan production offices in California’s Central Valley and the Sacramento metro area, which opened as Citizens Business Bank locations on January 10, 2022.

At close, the total fair value of assets acquired approximated $1.38 billion in total assets, including $329.0 million of cash and cash equivalents, net of cash paid, $131.1 million of investment securities, and $765.9 million in net loans. The acquired loans were recorded at fair value, which reflected a net discount of 1.5% for the entire loan portfolio. Approximately 30% of the acquired loans are considered PCD loans. An allowance for credit loss of $8.6 million was established for these PCD loans at acquisition. In addition, the acquired PCD loans were further discounted by almost 2% to adjust them to fair value. Non-PCD loans were valued at a total premium of 0.3%, net of a credit discount of 1.5%. We recorded a loan loss provision to establish a day one allowance for credit losses of $4.9 million on the non-PCD loans.

The second quarter of 2022 represents a full quarter of financial results. The integration of Suncrest, including the conversion of core systems in the first quarter of 2022, was completed with the consolidation of two banking centers during the second quarter.

## ANALYSIS OF THE RESULTS OF OPERATIONS

### *Financial Performance*

| | Three Months Ended June 30, 2022 | Three Months Ended March 31, 2022 | Variance $ | Variance % |
|---|---|---|---|---|
| | *(Dollars in thousands, except per share amounts)* | | | |
| Net interest income | $ 121,940 | $ 112,840 | $ 9,100 | 8.06 % |
| (Provision for) recapture of credit losses | (3,600 ) | (2,500 ) | (1,100 ) | -44.00 % |
| Noninterest income | 14,670 | 11,264 | 3,406 | 30.24 % |
| Noninterest expense | (50,871 ) | (58,238 ) | 7,367 | 12.65 % |
| Income taxes | (23,081 ) | (17,806 ) | (5,275 ) | -29.62 % |
| Net earnings | $ 59,058 | $ 45,560 | $ 13,498 | 29.63 % |
| Earnings per common share: | | | | |
| Basic | $ 0.42 | $ 0.31 | $ 0.11 | |
| Diluted | $ 0.42 | $ 0.31 | $ 0.11 | |
| Return on average assets | 1.39 % | 1.06 % | 0.33 % | |
| Return on average shareholders' equity | 11.33 % | 8.24 % | 3.09 % | |
| Efficiency ratio | 37.24 % | 46.93 % | -9.69 % | |
| Noninterest expense to average assets | 1.20 % | 1.36 % | -0.16 % | |

| | Three Months Ended June 30, 2022 | Three Months Ended June 30, 2021 | Variance $ | Variance % |
|---|---|---|---|---|
| | *(Dollars in thousands, except per share amounts)* | | | |
| Net interest income | $ 121,940 | $ 105,388 | $ 16,552 | 15.71 % |
| (Provision for) recapture of credit losses | (3,600 ) | 2,000 | (5,600 ) | -280.00 % |
| Noninterest income | 14,670 | 10,836 | 3,834 | 35.38 % |
| Noninterest expense | (50,871 ) | (46,545 ) | (4,326 ) | -9.29 % |
| Income taxes | (23,081 ) | (20,500 ) | (2,581 ) | -12.59 % |
| Net earnings | $ 59,058 | $ 51,179 | $ 7,879 | 15.39 % |
| Earnings per common share: | | | | |
| Basic | $ 0.42 | $ 0.38 | $ 0.04 | |
| Diluted | $ 0.42 | $ 0.38 | $ 0.04 | |
| Return on average assets | 1.39 % | 1.35 % | 0.04 % | |
| Return on average shareholders' equity | 11.33 % | 10.02 % | 1.31 % | |
| Efficiency ratio | 37.24 % | 40.05 % | -2.81 % | |
| Noninterest expense to average assets | 1.20 % | 1.23 % | -0.03 % | |

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 | Variance $ | Variance % |
|---|---|---|---|---|
| | *(Dollars in thousands, except per share amounts)* | | | |
| Net interest income | $ 234,780 | $ 208,856 | $ 25,924 | 12.41 % |
| (Provision for) recapture of credit losses | (6,100 ) | 21,500 | (27,600 ) | -128.37 % |
| Noninterest income | 25,934 | 24,517 | 1,417 | 5.78 % |
| Noninterest expense | (109,109 ) | (93,708 ) | (15,401 ) | -16.44 % |
| Income taxes | (40,887 ) | (46,093 ) | 5,206 | 11.29 % |
| Net earnings | $ 104,618 | $ 115,072 | $ (10,454 ) | -9.08 % |
| Earnings per common share: | | | | |
| Basic | $ 0.74 | $ 0.85 | $ (0.11 ) | |
| Diluted | $ 0.74 | $ 0.85 | $ (0.11 ) | |
| Return on average assets | 1.23 % | 1.56 % | -0.33 % | |
| Return on average shareholders' equity | 9.74 % | 11.37 % | -1.63 % | |
| Efficiency ratio | 41.85 % | 40.15 % | 1.70 % | |
| Noninterest expense to average assets | 1.28 % | 1.27 % | 0.01 % | |

### *Return on Average Tangible Common Equity Reconciliation (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.

| | Three Months Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | June 30, 2022 | March 31, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| | | | *(Dollars in thousands)* | | |
| Net Income | $ 59,058 | $ 45,560 | $ 51,179 | $ 104,618 | $ 115,072 |
| Add: Amortization of intangible assets | 1,998 | 1,998 | 2,167 | 3,996 | 4,334 |
| Less: Tax effect of amortization of intangible assets (1) | (591) | (591) | (641) | (1,181) | (1,281) |
| Tangible net income | $ 60,465 | $ 46,967 | $ 52,705 | $ 107,433 | $ 118,125 |
| | | | | | |
| Average stockholders' equity | $ 2,091,454 | $ 2,243,335 | $ 2,048,956 | $ 2,166,975 | $ 2,040,861 |
| Less: Average goodwill | (765,822) | (759,014) | (663,707) | (762,437) | (663,707) |
| Less: Average intangible assets | (26,381) | (28,190) | (30,348) | (27,280) | (31,463) |
| Average tangible common equity | $ 1,299,251 | $ 1,456,131 | $ 1,354,901 | $ 1,377,258 | $ 1,345,691 |
| | | | | | |
| Return on average equity, annualized | 11.33 % | 8.24 % | 10.02 % | 9.74 % | 11.37 % |
| Return on average tangible common equity, annualized | 18.67 % | 13.08 % | 15.60 % | 15.73 % | 17.70 % |

(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 three and six months ended June 30, 2022 and 2021. 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 2 – *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 tables 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.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| | (Dollars in thousands) | | | | | |
| INTEREST-EARNING ASSETS | | | | | | |
| Investment securities (1) | | | | | | |
| Available-for-sale securities: | | | | | | |
| Taxable | $ 3,708,306 | $ 16,863 | 1.85 % | $ 2,832,787 | $ 9,226 | 1.35 % |
| Tax-advantaged | 27,770 | 179 | 3.10 % | 29,765 | 184 | 2.97 % |
| Held-to-maturity securities: | | | | | | |
| Taxable | 2,078,983 | 9,978 | 1.93 % | 859,175 | 4,007 | 1.87 % |
| Tax-advantaged | 288,978 | 1,736 | 2.92 % | 203,667 | 1,123 | 2.67 % |
| Investment in FHLB stock | 18,012 | 273 | 6.08 % | 17,688 | 283 | 6.42 % |
| Interest-earning deposits with other institutions | 804,147 | 1,463 | 0.73 % | 1,738,785 | 479 | 0.11 % |
| Loans (2) | 8,634,575 | 92,770 | 4.31 % | 8,249,481 | 91,726 | 4.46 % |
| Total interest-earning assets | 15,560,771 | 123,262 | 3.20 % | 13,931,348 | 107,028 | 3.11 % |
| Total noninterest-earning assets | 1,446,177 | | | 1,258,796 | | |
| Total assets | $ 17,006,948 | | | $ 15,190,144 | | |
| | | | | | | |
| INTEREST-BEARING LIABILITIES | | | | | | |
| Savings deposits (3) | $ 4,887,799 | $ 1,136 | 0.09 % | $ 4,231,812 | $ 1,098 | 0.10 % |
| Time deposits | 361,463 | 65 | 0.07 % | 401,291 | 327 | 0.33 % |
| Total interest-bearing deposits | 5,249,262 | 1,201 | 0.09 % | 4,633,103 | 1,425 | 0.12 % |
| FHLB advances, other borrowings, and customer repurchase agreements | 581,613 | 121 | 0.08 % | 607,977 | 215 | 0.14 % |
| Interest-bearing liabilities | 5,830,875 | 1,322 | 0.09 % | 5,241,080 | 1,640 | 0.13 % |
| Noninterest-bearing deposits | 8,923,043 | | | 7,698,640 | | |
| Other liabilities | 161,576 | | | 201,468 | | |
| Stockholders' equity | 2,091,454 | | | 2,048,956 | | |
| Total liabilities and stockholders' equity | $ 17,006,948 | | | $ 15,190,144 | | |
| | | | | | | |
| Net interest income | | $ 121,940 | | | $ 105,388 | |
| | | | | | | |
| Net interest spread - tax equivalent | | | 3.11 % | | | 2.98 % |
| Net interest margin | | | 3.15 % | | | 3.05 % |
| Net interest margin - tax equivalent | | | 3.16 % | | | 3.06 % |

(1) Includes tax equivalent (TE) adjustments utilizing federal statutory rates of 21% in effect for the three months ended June 30, 2022 and June 30, 2021. The non TE rates were 1.91% and 1.52% for the three months ended June 30, 2022 and 2021, respectively.

(2) Includes loan fees of $2.1 million and $6.7 million for the three months ended June 30, 2022 and 2021, respectively. Prepayment penalty fees of $2.4 million and $3.4 million are included in interest income for the three months ended June 30, 2022 and 2021, respectively.

(3) Includes interest-bearing demand and money market accounts.

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| | (Dollars in thousands) | | | | | |
| INTEREST-EARNING ASSETS | | | | | | |
| Investment securities (1) | | | | | | |
| Available-for-sale securities: | | | | | | |
| Taxable | $ 3,613,093 | $ 29,512 | 1.68 % | $ 2,679,052 | $ 18,194 | 1.41 % |
| Tax-advantaged | 28,916 | 362 | 3.00 % | 29,961 | 375 | 2.99 % |
| Held-to-maturity securities: | | | | | | |
| Taxable | 2,022,005 | 19,082 | 1.90 % | 720,596 | 6,818 | 1.90 % |
| Tax-advantaged | 277,129 | 3,295 | 2.88 % | 201,519 | 2,252 | 2.70 % |
| Investment in FHLB stock | 18,470 | 644 | 7.03 % | 17,688 | 500 | 5.70 % |
| Interest-earning deposits with other institutions | 1,232,928 | 2,236 | 0.37 % | 1,701,695 | 892 | 0.11 % |
| Loans (2) | 8,567,876 | 182,231 | 4.29 % | 8,259,824 | 183,521 | 4.48 % |
| Total interest-earning assets | 15,760,417 | 237,362 | 3.06 % | 13,610,335 | 212,552 | 3.18 % |
| Total noninterest-earning assets | 1,433,991 | | | 1,239,953 | | |
| Total assets | $ 17,194,408 | | | $ 14,850,288 | | |
| INTEREST-BEARING LIABILITIES | | | | | | |
| Savings deposits (3) | $ 4,984,664 | $ 2,189 | 0.09 % | $ 4,129,598 | $ 2,296 | 0.11 % |
| Time deposits | 371,648 | 139 | 0.08 % | 404,644 | 941 | 0.47 % |
| Total interest-bearing deposits | 5,356,312 | 2,328 | 0.09 % | 4,534,242 | 3,237 | 0.14 % |
| FHLB advances, other borrowings, and customer repurchase agreements | 630,526 | 254 | 0.08 % | 599,124 | 459 | 0.15 % |
| Interest-bearing liabilities | 5,986,838 | 2,582 | 0.09 % | 5,133,366 | 3,696 | 0.15 % |
| Noninterest-bearing deposits | 8,822,444 | | | 7,470,832 | | |
| Other liabilities | 218,151 | | | 205,229 | | |
| Stockholders' equity | 2,166,975 | | | 2,040,861 | | |
| Total liabilities and stockholders' equity | $ 17,194,408 | | | $ 14,850,288 | | |
| Net interest income | | $ 234,780 | | | $ 208,856 | |
| Net interest spread - tax equivalent | | | 2.98 % | | | 3.03 % |
| Net interest margin | | | 3.02 % | | | 3.11 % |
| Net interest margin - tax equivalent | | | 3.03 % | | | 3.12 % |

(1) Includes tax equivalent (TE) adjustments utilizing federal statutory rates of 21% in effect for the six months ended June 30, 2022 and 2021. The non TE rates were 1.79% and 1.56% for the six months ended June 30, 2022 and 2021, respectively.

(2) Includes loan fees of $5.4 million and $15.6 million for the six months ended June 30, 2022 and 2021, respectively. Prepayment penalty fees of $4.6 million and $5.0 million are included in interest income for the six months ended June 30, 2022 and 2021, respectively.

(3) Includes interest-bearing demand and money market accounts.

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 and reflect an adjustment for the number of days as appropriate.

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

| | Comparison of Three Months Ended June 30, 2022 Compared to 2021 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| | Volume | Rate | Rate/ Volume | Total |
| | *(Dollars in thousands)* | | | |
| Interest income: | | | | |
| Available-for-sale securities: | | | | |
| Taxable investment securities | $ 3,082 | $ 3,397 | $ 1,158 | $ 7,637 |
| Tax-advantaged investment securities | (12) | 8 | (1) | (5) |
| Held-to-maturity securities: | | | | |
| Taxable investment securities | 5,642 | 130 | 199 | 5,971 |
| Tax-advantaged investment securities | 462 | 106 | 45 | 613 |
| Investment in FHLB stock | 5 | (15) | - | (10) |
| Interest-earning deposits with other institutions | (257) | 2,684 | (1,443) | 984 |
| Loans | 4,282 | (3,094) | (144) | 1,044 |
| Total interest income | 13,204 | 3,216 | (186) | 16,234 |
| Interest expense: | | | | |
| Savings deposits | 170 | (114) | (18) | 38 |
| Time deposits | (32) | (255) | 25 | (262) |
| FHLB advances, other borrowings, and customer repurchase agreements | (9) | (87) | 2 | (94) |
| Total interest expense | 129 | (456) | 9 | (318) |
| Net interest income | $ 13,075 | $ 3,672 | $ (195) | $ 16,552 |

| | Comparison of Six Months Ended June 30, 2022 Compared to 2021 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| | Volume | Rate | Rate/ Volume | Total |
| | *(Dollars in thousands)* | | | |
| Interest income: | | | | |
| Available-for-sale securities: | | | | |
| Taxable investment securities | $ 13,023 | $ 7,079 | $ (8,784) | $ 11,318 |
| Tax-advantaged investment securities | (26) | - | 13 | (13) |
| Held-to-maturity securities: | | | | |
| Taxable investment securities | 24,727 | 28 | (12,491) | 12,264 |
| Tax-advantaged investment securities | 1,675 | 299 | (931) | 1,043 |
| Investment in FHLB stock | 45 | 235 | (136) | 144 |
| Interest-earning deposits with other institutions | (496) | 4,425 | (2,585) | 1,344 |
| Loans | 13,800 | (15,811) | 721 | (1,290) |
| Total interest income | 52,748 | (3,745) | (24,193) | 24,810 |
| Interest expense: | | | | |
| Savings deposits | 959 | (973) | (93) | (107) |
| Time deposits | (155) | (1,592) | 945 | (802) |
| FHLB advances, other borrowings, and customer repurchase agreements | 48 | (434) | 181 | (205) |
| Total interest expense | 852 | (2,999) | 1,033 | (1,114) |
| Net interest income | $ 51,896 | $ (746) | $ (25,226) | $ 25,924 |

*Second Quarter of 2022 Compared to the Second Quarter of 2021*

Net interest income, before provision for credit losses, of $121.9 million for the second quarter of 2022 increased $16.6 million, or 15.71%, compared to $105.4 million for the second quarter of 2021. Interest-earning assets increased on average by $1.63 billion, or 11.70%, from $13.93 billion for the second quarter of 2021 to $15.56 billion for the second quarter of 2022. Our net interest margin (TE) was 3.16% for the second quarter of 2022, compared to 3.06% for the second quarter of 2021. The increase in our net interest margin was the result of the increase in our average earning asset yield, while maintaining our very low cost of funds that declined from 5 basis points in the second quarter of 2021 to 4 basis points in the second quarter of 2022, during a period of time that the Federal Reserve increased Fed Funds by 150 basis points.

Total interest income was $123.3 million for the second quarter of 2022, which was $16.2 million, or 15.17%, higher than the same period of 2021. The increase was due to a combination of growth in average interest-earning assets of $1.63 billion and expanding earning asset yield by 9 basis points, to 3.20% for the second quarter of 2022, compared to 3.11% for the second quarter of 2021. Year-over-year earning asset growth resulted from both the acquisition of Suncrest on January 7, 2022, in addition to core loan and deposit growth over the last year. The 9 basis point increase in the average interest-earning asset yield compared to the second quarter of 2021, was impacted by higher yields on investments and a change in asset mix. Excess liquidity held at the Federal Reserve was invested into higher yielding investments, which increased from 28.18% of average earning assets in the second quarter of 2021 to 39.23% in the second quarter of 2022. Throughout the first half of 2022, we deployed some of the excess liquidity on the balance sheet at the end of 2021 into additional investment securities by purchasing approximately $1.5 billion in securities. Total investment income of $28.8 million increased $14.2 million, or 97.77%, from the second quarter of 2021. Investment income growth resulted from both higher levels of investment securities and higher investment yields. Investment yields increased from 1.55% in the second quarter of 2021 to 1.93% in the second quarter of 2022.

Total interest income and fees on loans for the second quarter of 2022 was $92.8 million, an increase of $1.0 million, or 1.14%, from the second quarter of 2021. The increase in interest income and fees on loans year-over-year was primarily due to a $385.1 million increase in average loans, offset by lower loan yields of 15 basis points, primarily resulting from lower loan yields on new loan originations during a time period of very low interest rates. Additionally, interest and fee income from PPP loans declined by $6.7 million from $8.1 million in the second quarter of 2021. Discount accretion on acquired loans decreased by $1.6 million compared to the second quarter of 2021. The decline in interest rates since the start of the pandemic has had a negative impact on loan yields, which, after excluding discount accretion and the impact from PPP loans ("core") loan yield declined by 13 basis points compared to the second quarter of 2021.

Interest income from investment securities was $28.8 million, an increase of $14.2 million, or 97.77%, from the second quarter of 2021. Investment income growth resulted from higher levels of investment securities as a result of purchases of investment securities funded by the growth in the Bank's deposits. Excess liquidity held at the Federal Reserve was invested into higher yielding investments, while our balance at the Federal Reserve averaged $797.3 million for the second quarter of 2022, compared to more than $1.7 billion in the second quarter of 2021. During the second quarter of 2022, we purchased approximately $356 million in investment securities, with expected yields of approximately 3.75%. With interest rates increasing during the second quarter of 2022, our tax-equivalent yield on investment securities increased from 1.55% in the second quarter of 2021 to 1.93% for the second quarter of 2022.

Interest expense of $1.3 million for the second quarter of 2022, decreased $318,000, or 19.39%, compared to the second quarter of 2021. Although short-term interest rates were higher during the second quarter of 2022, compared to the prior year, the average rate paid on interest-bearing liabilities decreased by 4 basis points, to 0.09% for the second quarter of 2022 from 0.13% for the second quarter of 2021. Average interest-bearing liabilities were $589.8 million higher for the second quarter of 2022 when compared to the second quarter of 2021. On average, noninterest-bearing deposits were 62.96% of our total deposits for the second quarter of 2022, compared to 62.43% for the second quarter of 2021. In comparison to the second quarter of 2021, our overall cost of funds decreased by one basis point, partially due to growth in average noninterest-bearing deposits of $1.22 billion, compared to the increase in average interest-bearing deposits of $616.2 million.

*Six Months of 2022 Compared to Six Months of 2021*

Net interest income, before provision for credit losses, was $234.8 million for the six months ended June 30, 2022, an increase of $25.9 million, or 12.41%, compared to $208.9 million for the same period of 2021. Interest-earning assets increased on average by $2.15 billion, or 15.80%, from $13.61 billion for the six months ended June 30, 2021 to $15.76 billion for the same period in the current year. Our net interest margin (TE) was 3.03% for the first six months of 2022, compared to 3.12% for the same period of 2021.

Interest income for the six months ended June 30, 2022, was $237.4 million, which represented a $24.8 million, or 11.67%, increase when compared to the same period of 2021. Compared to the first six months of 2021, average interest-earning assets increased by $2.15 billion, while the yield on interest-earning assets decreased by 12 basis points. Year-over-year earning asset growth resulted from both the acquisition of Suncrest on January 7, 2022, in addition to core loan and deposit growth over the last year. The 12 basis point decrease in the earning asset yield over the first six months of 2021, resulted from a 19 basis point decline in loan yields from 4.48% for the first six months of 2021 to 4.29% for the same period of 2022, as well as a change in the mix of earning assets. Average loans as a percentage of earning assets declined from 60.69% for the first six months of 2021 to 54.36% for the first six months of 2022. Throughout the first half of 2022, we deployed some of our excess liquidity on our balance sheet at the end of 2021 into additional investment securities by purchasing approximately $1.5 billion in securities during the first six months of 2022. Average investments as a percentage of earning assets increased to 37.70% for the first six months of 2022 from 26.68% for the same period of 2021. The non tax-equivalent yield on investment securities was 1.79% for the six months ended June 30, 2022, compared to 1.56% for the same period of 2021.

Total interest income and fees on loans for the first six months of 2022 of $182.2 million decreased $1.3 million, or 0.70%, when compared to the same period of 2021. Although average loans increased $308.1 million for the first six months of 2022 when compared with the same period of 2021, the decline in interest rates since the start of the pandemic has had a negative impact on loan yields, which, after excluding discount accretion and the impact from PPP loans ("core") loan yield declined by 13 basis points compared to the first six months of 2021. In addition to the decrease in core loan yields, the first six months of 2022 reflected a $3.8 million decrease in discount accretion on acquired loans when compared to the first six months of 2021. Additionally, the PPP loans generated approximately $4.2 million in loan fee and interest income during the first six months of 2022, compared to $18.4 million for the same period in 2021.

Interest income from investment securities of $52.3 million for the six months ended June 30, 2022, increased $24.6 million from $27.6 million for the first six months of 2021. This increase was the combined result of a $2.31 billion increase in average investment securities and a 23 basis point increase in the yield on securities, compared to the first six months of 2021.

Interest expense of $2.6 million for the six months ended June 30, 2022, decreased by $1.1 million from the same period of 2021. The average rate paid on interest-bearing liabilities decreased by 6 basis points, to 0.09% for the first six months of 2022, from 0.15% for the same period of 2021. The rate on interest-bearing deposits for the first six months of 2022 decreased by 5 basis points from the same period in 2021. Average interest-bearing liabilities were $853.5 million higher for the first six months of 2022 when compared with the same period of 2021. Average interest-bearing deposits grew by $822.1 million when compared to the first six months of 2021. Average noninterest-bearing deposits represented 62.22% of our total deposits for the six months ended June 30, 2022, compared to 62.23% for the same period of 2021. Total cost of funds for the first six months of 2022 was 0.04%, compared with 0.06% for the same period of 2021.

***Provision for (Recapture of) 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.

The allowance for credit losses on loans totaled $80.2 million at June 30, 2022, compared to $65.0 million at December 31, 2021 and $69.3 million as of June 30, 2021. The second quarter of 2022 included $3.6 million in provision for credit losses, compared to a $2.5 million in provision for credit losses in the first quarter of 2022. The $2.5 million provision for credit losses in the first quarter of 2022 was the net result of the $4.9 million provision for credit losses recorded for the acquisition of the Suncrest non-PCD loans on January 7, 2022 and a subsequent $2.4 million recapture of provision due to the net impact of improvements in the underlying loan characteristics of certain classified loans and the impact of changes in the economic forecast of certain macroeconomic variables. A $2.0 million recapture of provision for credit losses was recorded in the second quarter of 2021. The $3.6 million provision for credit losses in the most recent quarter was the result of core loan growth of approximately $155 million from March 31, 2022 to June 30, 2022 and an increase in projected loss rates from a deteriorating economic forecast that assumes very modest growth in GDP, lower commercial real estate values and an increase in unemployment for the next 18 to 24 months. The $3.6 million provision for credit losses was also impacted by net recoveries of $503,000 during the second quarter and a decline in specific loan loss reserves of approximately $900,000.

For the six months ended June 30, 2022, we recorded $6.1 million in provision for credit losses, and experienced credit charge-offs of $24,000 and total recoveries of $522,000, resulting in net recoveries of $498,000. For the six months ended June 30, 2021, we recaptured $21.5 million in provision for credit losses, due to the improved outlook in our forecast of certain macroeconomic variables that were influenced by the economic impact of the pandemic and government stimulus. For the six months ended June 30, 2021, we experienced credit charge-offs of $3.0 million and total recoveries of $135,000, resulting in net charge-offs of $2.9 million. At June 30, 2022, ACL as a percentage of total loans and leases outstanding, at amortized cost, was 0.92%, or 0.93% of total loans when excluding the $67.0 million in PPP loans. This compares to 0.82% and 0.84% at December 31, 2021, respectively. As of June 30, 2022, remaining discounts on acquired loans were $11.1 million. Refer to the discussion of “Allowance for Credit Losses” in Item 2 – *Management’s Discussion and Analysis of Financial Condition and Results of Operations* contained herein for discussion concerning observed changes in the credit quality of various components of our loan portfolio as well as changes and refinements to our methodology.

No assurance can be given that economic conditions which affect the Company’s service areas or other circumstances will or will not be reflected in future changes in the level of our allowance for credit losses and the resulting provision or recapture of provision for credit losses. The process to estimate the allowance for credit losses requires considerable judgment and our economic forecasts may continue to vary due to the uncertainty of the future impact that the pandemic, geopolitical events in Europe, and overall supply chain issues may have on inflation, interest rates, and the overall economy and resulting impact on our customers. See “Allowance for credit Losses” under *Analysis of Financial Condition* herein.

***Noninterest Income***

Noninterest income includes income derived from financial services offered to our customers, 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, Bank Owned Life Insurance ("BOLI"), gains (net of losses) from the disposition of investment securities, loans, other real estate owned, and fixed assets, and other revenues not included as interest on earning assets.

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

| | Three Months Ended June 30, | | Variance | | Six Months Ended June 30, | | Variance | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | $ | % | 2022 | 2021 | $ | % |
| | | | | (Dollars in thousands) | | | | |
| Noninterest income: | | | | | | | | |
| Service charges on deposit accounts | $ 5,333 | $ 4,169 | $ 1,164 | 27.92 % | $ 10,392 | $ 8,154 | $ 2,238 | 27.45 % |
| Trust and investment services | 2,962 | 3,167 | (205) | -6.47 % | 5,784 | 5,778 | 6 | 0.10 % |
| Bankcard services | 310 | 533 | (223) | -41.84 % | 726 | 883 | (157) | -17.78 % |
| BOLI income | 603 | 1,240 | (637) | -51.37 % | 1,952 | 5,864 | (3,912) | -66.71 % |
| Swap fee income | - | - | - | - | - | 215 | (215) | -100.00 % |
| Gain on OREO, net | - | 48 | (48) | -100.00 % | - | 477 | (477) | -100.00 % |
| Other | 5,462 | 1,679 | 3,783 | 225.31 % | 7,080 | 3,146 | 3,934 | 125.05 % |
| Total noninterest income | $ 14,670 | $ 10,836 | $ 3,834 | 35.38 % | $ 25,934 | $ 24,517 | $ 1,417 | 5.78 % |

*Second Quarter of 2022 Compared to the Second Quarter of 2021*

Noninterest income was $14.7 million for the second quarter of 2022, compared with $10.8 million for the second quarter of 2021.The second quarter of 2022 included $2.7 million in net gains on the sale of properties associated with banking centers, including $2.4 million from the sale of one property. In addition, the second quarter of 2022 reflected a $1.0 million net increase in income on our CRA investments, including a $1.3 million gain from a distribution related to one of these investments. Service charges on deposit accounts increased by $1.2 million from the prior year quarter, due to increases in the volume of services provided to our business customers and the addition of customers from the Suncrest acquisition.

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 June 30, 2022, CitizensTrust had approximately $3.14 billion in assets under management and administration, including $2.32 billion in assets under management. CitizensTrust generated fees of $3.0 million for the second quarter of 2022, compared to $3.2 million for the same period of 2021. Market conditions, both equity and fixed income, have negatively impacted assets under management values and trust fee income.

The Bank's investment in BOLI includes life insurance policies acquired through acquisitions and the purchase of life insurance by the Bank on a select group of employees. The Bank is the owner and beneficiary of these policies. BOLI is recorded as an asset at its cash surrender value. The policies consist of general account, separate account, and hybrid policies. 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. There were no death benefits from our BOLI policies for the second quarter of 2022 and 2021. Second quarter income from BOLI declined by $637,000 compared to the second quarter of 2021, due to lower returns on separate account policies that are used to fund deferred compensation liabilities.

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 9 – *Derivative Financial Instruments* of the notes to the unaudited condensed consolidated financial statements of this report for additional information). Generally speaking, our volume of interest rate swaps is impacted by the shape of the yield curve, with a relatively flat yield curve more conducive to a higher volume of swaps. There were no executed swap agreements related to new loan originations for the second quarter of 2022 and the second quarter of 2021.

*Six Months of 2022 Compared to Six Months of 2021*

The $1.4 million increase in noninterest income was primarily due to $2.4 million in net gain on the sale of one of our properties and a $1.3 million gain from a distribution related to one of our CRA investments during the first six months of 2022. Service charges on deposit accounts increased by $2.2 million from the first six months of 2021. BOLI income declined from the prior year period, as the first six months of 2021 included $3.5 million in death benefits that exceeded the asset value of certain BOLI policies.

### *Noninterest Expense*

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

| | Three Months Ended June 30, | | Variance | | Six Months Ended June 30, | | Variance | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | $ | % | 2022 | 2021 | $ | % |
| | | | | *(Dollars in thousands)* | | | | |
| Noninterest expense: | | | | | | | | |
| Salaries and employee benefits | $ 31,553 | $ 28,836 | $ 2,717 | 9.42 % | $ 64,209 | $ 58,542 | $ 5,667 | 9.68 % |
| Occupancy | 4,483 | 4,256 | 227 | 5.33 % | 9,031 | 8,363 | 668 | 7.99 % |
| Equipment | 1,084 | 693 | 391 | 56.42 % | 2,107 | 1,449 | 658 | 45.41 % |
| Professional services | 2,305 | 2,248 | 57 | 2.54 % | 4,350 | 4,416 | (66) | -1.49 % |
| Computer software expense | 3,103 | 2,657 | 446 | 16.79 % | 6,898 | 5,501 | 1,397 | 25.40 % |
| Marketing and promotion | 1,638 | 1,799 | (161) | -8.95 % | 3,096 | 2,524 | 572 | 22.66 % |
| Amortization of intangible assets | 1,998 | 2,167 | (169) | -7.80 % | 3,996 | 4,334 | (338) | -7.80 % |
| Telecommunications expense | 516 | 526 | (10) | -1.90 % | 1,070 | 1,078 | (8) | -0.74 % |
| Regulatory assessments | 1,379 | 1,139 | 240 | 21.07 % | 2,768 | 2,198 | 570 | 25.93 % |
| Insurance | 494 | 455 | 39 | 8.57 % | 982 | 908 | 74 | 8.15 % |
| Loan expense | 171 | 311 | (140) | -45.02 % | 539 | 549 | (10) | -1.82 % |
| OREO expense | - | 33 | (33) | -100.00 % | (3) | 42 | (45) | -107.14 % |
| (Recapture of) provision for unfunded loan commitments | - | (1,000) | 1,000 | 100.00 % | - | (1,000) | 1,000 | 100.00 % |
| Directors' expenses | 365 | 389 | (24) | -6.17 % | 729 | 768 | (39) | -5.08 % |
| Stationery and supplies | 232 | 241 | (9) | -3.73 % | 466 | 485 | (19) | -3.92 % |
| Acquisition related expenses | 375 | | 375 | - | 6,013 | - | 6,013 | - |
| Other | 1,175 | 1,795 | (620) | -34.54 % | 2,858 | 3,551 | (693) | -19.52 % |
| Total noninterest expense | $ 50,871 | $ 46,545 | $ 4,326 | 9.29 % | $ 109,109 | $ 93,708 | $ 15,401 | 16.44 % |
| | | | | | | | | |
| Noninterest expense to average assets | 1.20 % | 1.23 % | | | 1.28 % | 1.27 % | | |
| Efficiency ratio (1) | 37.24 % | 40.05 % | | | 41.85 % | 40.15 % | | |

(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 1.20% for the second quarter of 2022, compared to 1.23% for the second quarter of 2021. The decline in this ratio for 2022 reflects the $1.82 billion growth in average assets that resulted in growth in assets that exceeded the 9% growth in expense.

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) can be measured by the efficiency ratio and indicates the percentage of net revenue that is used to cover expenses. The efficiency ratio was 37.24% for the second quarter of 2022, compared to 40.05% for the second quarter of 2021.

*Second Quarter of 2022 Compared to the Second Quarter of 2021*

Noninterest expense of $50.9 million for the second quarter of 2022 was $4.3 million, or 9.29%, higher than the second quarter of 2021. The $4.3 million increase year-over-year was primarily the result of expense growth associated with the acquisition of Suncrest Bank, including an increase of $2.7 million in salaries and employee benefits and an increase in occupancy and equipment of $618,000. Occupancy and equipment expense growth was primarily due to the addition of seven banking centers resulting from the acquisition of Suncrest at the beginning of 2022, two of which were consolidated at the end of the second quarter. Acquisition expense related to the merger of Suncrest was $375,000 for the second quarter of 2022. The systems integration and consolidations associated with the Suncrest's acquisition were completed by the end of the second quarter. The second quarter of 2021 included a $1.0 million recapture of provision for unfunded loan commitments. The recapture was the result of our improving economic forecast and the resulting impact from the macroeconomic variables on lower expected losses from unfunded commitments.

*Six Months of 2022 Compared to Six Months of 2021*

Noninterest expense of $109.1 million for the first six months of 2022 was $15.4 million higher than the prior year period. The year-over-year increase included a $5.7 million increase in salaries and employee benefits, which included additional compensation related expenses for the newly hired and former Suncrest associates. Occupancy and equipment increased by $1.3 million due to the addition of seven banking centers resulting from the acquisition of Suncrest. Acquisition expense related to the merger of Suncrest was $6.0 million for the first six months of 2022. The increase in software expense of $1.4 million, included costs associated with the continued use of Suncrest's legacy banking systems, prior to conversions, as well as continued investments in technology. The year-over-year increase also included a $1.0 million recapture of provision for unfunded loan commitments in the second quarter of 2021. The increase in marketing and promotion expense compared to the first six months of 2021 was primarily due to the impact that the COVID-19 pandemic had on marketing and promotional events in 2021. As a percentage of average assets, noninterest expense was 1.28% for the six months ended June 30, 2022, compared to 1.27% for the same period of 2021. If acquisition expense is excluded, noninterest expense as a percentage of average assets was 1.21% for the first six months of 2022. For the six months ended June 30, 2022, the efficiency ratio was 41.85%, compared to 40.15% for the same period of 2021. Excluding acquisition expense, the efficiency ratio was 39.54% for the six months ended June 30, 2022.

***Income Taxes***

The Company's effective tax rate for the three and six months ended June 30, 2022 was 28.10%, compared to 28.60% for the three and six months ended June 30, 2021, respectively. Our estimated annual effective tax rate varies depending upon the level of tax-advantaged income as well as available tax credits.

The Company's effective tax rates are below the nominal combined Federal and State tax rate primarily 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 $16.76 billion at June 30, 2022 increased by $876.3 million, or 5.52%, from total assets of $15.88 billion at December 31, 2021. Interest-earning assets of $15.28 billion at June 30, 2022 increased by $595.7 million, or 4.06%, when compared with $14.68 billion at December 31, 2021. The increase in interest-earning assets was primarily due to a $928.6 million increase in investment securities and an $804.5 million increase in total loans, partially offset by a $1.12 billion decrease in interest-earning balances due from the Federal Reserve.

On January 7, 2022, we completed the acquisition of Suncrest with approximately $1.38 billion in total assets, acquired at fair value, and seven banking centers. The increase in total assets at June 30, 2022 included $765.9 million of acquired net loans at fair value, $131.1 million of investment securities, and $9 million in bank-owned life insurance. The acquisition resulted in $102.1 million of goodwill and $3.9 million in core deposit intangibles. Net cash proceeds were used to fund the $39.6 million in cash paid to the former shareholders of Suncrest as part of the merger consideration.

Total liabilities were $14.78 billion at June 30, 2022, an increase of $975.6 million, or 7.07%, from total liabilities of $13.80 billion at December 31, 2021. Total deposits grew by $1.10 billion, or 8.44%. Total equity decreased $99.3 million, or 4.77%, to $1.98 billion at June 30, 2022, compared to total equity of $2.08 billion at December 31, 2021. Increases to equity included $197.1 million for issuance of 8.6 million shares to acquire Suncrest and $104.6 million in net earnings. Decreases included $52.2 million in cash dividends and a $242.9 million decrease in other comprehensive income from the tax effected impact of the decline in market value of available-for-sale securities. During 2022, we executed on a $70 million accelerated stock repurchase program and retired 2,993,551 shares of common stock at an average price of $23.38. We also repurchased, under our 10b5-1 stock repurchase plan, 1,682,537 shares of common stock, at an average repurchase price of $23.37, totaling $39.3 million.

***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 June 30, 2022, total investment securities were $6.04 billion. This represented an increase of $928.6 million, or 18.17%, from $5.11 billion at December 31, 2021. The increase in investment securities was primarily due to new securities purchased exceeding cash outflow from the portfolio in the first half of 2022. At June 30, 2022, investment securities HTM totaled $2.41 billion. At June 30, 2022, our AFS investment securities totaled $3.63 billion, inclusive of a pre-tax net unrealized loss of $346.3 million. The after-tax unrealized loss reported in AOCI on AFS investment securities was $243.9 million. The changes in the net unrealized holding loss resulted primarily from fluctuations in market interest rates. For the six months ended June 30, 2022 and 2021, repayments/maturities of investment securities totaled $497.3 million and $507.9 million, respectively. We deployed some of our excess liquidity into additional securities by purchasing $1.5 billion in new investment securities, with yields on average of approximately 2.69%, and $1.55 billion for the six months ended June 30, 2022 and 2021, respectively. During the second quarter of 2022, we purchased approximately $264.5 million of AFS securities with an average expected yield of approximately 3.49% and $91.9 million of HTM securities with an average expected yield of approximately 4.5%. The first quarter of 2022, included purchases of approximately $813.2 million in new AFS securities with an expected tax equivalent yield of 2.42% and $357.2 million in new HTM securities with an expected tax equivalent yield of approximately 1.61%. There were no investment securities sold during the second quarter of 2022 and 2021.

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

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 3,386,552 | $ 423 | $ (278,060) | $ 3,108,915 | 85.74 % |
| CMO/REMIC | 557,723 | 8 | (67,601) | 490,130 | 13.52 % |
| Municipal bonds | 27,139 | 100 | (1,150) | 26,089 | 0.72 % |
| Other securities | 1,023 | - | - | 1,023 | 0.02 % |
| Total available-for-sale securities | $ 3,972,437 | $ 531 | $ (346,811) | $ 3,626,157 | 100.00 % |
| Investment securities held-to-maturity: | | | | | |
| Government agency/GSE | $ 562,287 | $ 359 | $ (82,668) | $ 479,978 | 23.31 % |
| Mortgage-backed securities | 688,320 | 159 | (74,344) | 614,135 | 28.53 % |
| CMO/REMIC | 799,591 | - | (83,786) | 715,805 | 33.15 % |
| Municipal bonds | 362,110 | 245 | (38,090) | 324,265 | 15.01 % |
| Total held-to-maturity securities | $ 2,412,308 | $ 763 | $ (278,888) | $ 2,134,183 | 100.00 % |

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 2,553,246 | $ 25,873 | $ (15,905) | $ 2,563,214 | 80.50 % |
| CMO/REMIC | 602,555 | 1,586 | (13,983) | 590,158 | 18.53 % |
| Municipal bonds | 28,365 | 1,103 | - | 29,468 | 0.93 % |
| Other securities | 1,083 | - | - | 1,083 | 0.04 % |
| Total available-for-sale securities | $ 3,185,249 | $ 28,562 | $ (29,888) | $ 3,183,923 | 100.00 % |
| Investment securities held-to-maturity: | | | | | |
| Government agency/GSE | $ 576,899 | $ 5,907 | $ (7,312) | $ 575,494 | 29.95 % |
| Mortgage-backed securities | 647,390 | 4,109 | (6,106) | 645,393 | 33.61 % |
| CMO/REMIC | 490,670 | 596 | (5,030) | 486,236 | 25.48 % |
| Municipal bonds | 211,011 | 4,714 | (1,155) | 214,570 | 10.96 % |
| Total held-to-maturity securities | $ 1,925,970 | $ 15,326 | $ (19,603) | $ 1,921,693 | 100.00 % |

As of June 30, 2022, approximately $43.0 million in U.S. government agency bonds are callable. The Agency CMO/REMIC securities are backed by agency-pooled collateral. Municipal bonds, which represented approximately 6% of the total investment portfolio, are predominately AA or higher rated securities.

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 June 30, 2022 and December 31, 2021.

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 2,212,757 | $ (168,634) | $ 810,125 | $ (109,426) | $ 3,022,882 | $ (278,060) |
| CMO/REMIC | 109,306 | (8,662) | 378,651 | (58,939) | 487,957 | (67,601) |
| Municipal bonds | 22,793 | (1,150) | - | - | 22,793 | (1,150) |
| Total available-for-sale securities | $ 2,344,856 | $ (178,446) | $ 1,188,776 | $ (168,365) | $ 3,533,632 | $ (346,811) |
| Investment securities held-to-maturity: | | | | | | |
| Government agency/GSE | $ 233,979 | $ (36,324) | $ 226,224 | $ (46,344) | $ 460,203 | $ (82,668) |
| Mortgage-backed securities | 552,966 | (73,582) | 4,209 | (762) | 557,175 | (74,344) |
| CMO/REMIC | 715,805 | (83,786) | - | - | 715,805 | (83,786) |
| Municipal bonds | 221,355 | (26,968) | 54,397 | (11,122) | 275,752 | (38,090) |
| Total held-to-maturity securities | $ 1,724,105 | $ (220,660) | $ 284,830 | $ (58,228) | $ 2,008,935 | $ (278,888) |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 1,465,647 | $ (15,099) | $ 44,244 | $ (806) | $ 1,509,891 | $ (15,905) |
| CMO/REMIC | 450,393 | (11,515) | 53,745 | (2,468) | 504,138 | (13,983) |
| Municipal bonds | - | - | - | - | - | - |
| Total available-for-sale securities | $ 1,916,040 | $ (26,614) | $ 97,989 | $ (3,274) | $ 2,014,029 | $ (29,888) |

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. Management determined that credit losses did not exist for securities in an unrealized loss position as of June 30, 2022 and December 31, 2021.

Refer to Note 5 – *Investment Securities* of the notes to the unaudited condensed consolidated financial statements of this report for additional information on our investment securities portfolio.

***Loans***

Total loans and leases, at amortized cost, of $8.69 billion at June 30, 2022 increased by $804.5 million, or 10.20%, from December 31, 2021. The increase in total loans included $774.5 million of loans acquired from Suncrest in the first quarter of 2022. After adjusting for acquired loans, seasonality and forgiveness of PPP loans, our core loans grew by $319.8 million, or 4.35%, from the end of 2021, or approximately 8% annualized. The $319.8 million core loan growth included $273.1 million in commercial real estate loans, $44.1 million in commercial and industrial loans, $19.3 million in SFR mortgage loans, and $9.8 million in consumer and other loans, partially offset by decreases of $18.4 million in construction loans and $11.6 million in SBA loans. The majority of the $130.6 million decrease in dairy & livestock loans was seasonal.

The following table presents our loan portfolio by type as of the dates presented.

**Distribution of Loan Portfolio by Type**

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Commercial real estate | $ 6,643,628 | $ 5,789,730 |
| Construction | 60,584 | 62,264 |
| SBA | 297,109 | 288,600 |
| SBA - Paycheck Protection Program (PPP) | 66,955 | 186,585 |
| Commercial and industrial | 941,595 | 813,063 |
| Dairy & livestock and agribusiness | 273,594 | 386,219 |
| Municipal lease finance receivables | 64,437 | 45,933 |
| SFR mortgage | 260,218 | 240,654 |
| Consumer and other loans | 84,109 | 74,665 |
| Total loans, at amortized cost | 8,692,229 | 7,887,713 |
| Less: Allowance for credit losses | (80,222) | (65,019) |
| Total loans and lease finance receivables, net | $ 8,612,007 | $ 7,822,694 |

As of June 30, 2022, $499.6 million, or 7.52% of the total commercial real estate loans included loans secured by farmland, compared to $364.4 million, or 6.29%, at December 31, 2021. The loans secured by farmland included $132.1 million for loans secured by dairy & livestock land and $367.5 million for loans secured by agricultural land at June 30, 2022, compared to $134.9 million for loans secured by dairy & livestock land and $229.5 million for loans secured by agricultural land at December 31, 2021. As of June 30, 2022, dairy & livestock and agribusiness loans of $273.6 million included $52.4 million of agribusiness loans. This compares to $34.5 of agribusiness loans included in the $386.2 million dairy & livestock and agribusiness loans as of December 31, 2021.

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 June 30, 2022, the Company had $209.2 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 June 30, 2022, the Company had $87.9 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 originated approximately 4,100 PPP loans totaling $1.10 billion in round one, with a remaining outstanding balance of $6.3 million as of June 30, 2022. As of June 30, 2022, we have originated approximately 1,900 PPP loans in round two with a remaining outstanding balance of $60.7 million.

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 June 30, 2022.

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | Total Loans | | Commercial Real Estate Loans | |
| | (Dollars in thousands) | | | |
| Los Angeles County | $ 3,271,236 | 37.6 % | $ 2,350,329 | 35.4 % |
| Central Valley and Sacramento | 2,074,554 | 23.9 % | 1,662,209 | 25.0 % |
| Inland Empire | 1,062,439 | 12.2 % | 697,117 | 10.5 % |
| Orange County | 984,068 | 11.3 % | 857,857 | 12.9 % |
| Central Coast | 478,386 | 5.5 % | 398,130 | 6.0 % |
| San Diego | 323,512 | 3.7 % | 298,315 | 4.5 % |
| Other California | 159,515 | 1.9 % | 94,258 | 1.4 % |
| Out of State | 338,519 | 3.9 % | 285,413 | 4.3 % |
| | $ 8,692,229 | 100.0 % | $ 6,643,628 | 100.0 % |

The table below breaks down our commercial real estate portfolio.

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | Loan Balance | Percent | Percent Owner-Occupied (1) | Average Loan Balance |
| | (Dollars in thousands) | | | |
| Commercial real estate: | | | | |
| Industrial | $ 2,239,654 | 33.7 % | 50.0 % | $ 1,554 |
| Office | 1,121,196 | 16.9 % | 24.7 % | 1,654 |
| Retail | 927,862 | 14.0 % | 10.2 % | 1,605 |
| Multi-family | 740,905 | 11.1 % | 0.8 % | 1,479 |
| Secured by farmland (2) | 499,646 | 7.5 % | 97.8 % | 1,380 |
| Medical | 323,206 | 4.9 % | 33.7 % | 1,496 |
| Other (3) | 791,159 | 11.9 % | 47.7 % | 1,390 |
| Total commercial real estate | $ 6,643,628 | 100.0 % | 37.2 % | $ 1,529 |

(1) Represents percentage of reported owner-occupied at origination in each real estate loan category.
(2) The loans secured by farmland included $132.1 million for loans secured by dairy & livestock land and $367.5 million for loans secured by agricultural land at June 30, 2022.
(3) Other loans consist of a variety of loan types, none of which exceeds 2.0% of total commercial real estate loans at June 30, 2022.

*__Nonperforming Assets__*

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| | (Dollars in thousands) | |
| Nonaccrual loans | $ 12,964 | $ 6,893 |
| Loans past due 90 days or more and still accruing interest | - | - |
| Nonperforming troubled debt restructured loans (TDRs) | - | - |
| **Total nonperforming loans** | 12,964 | 6,893 |
| OREO, net | - | - |
| **Total nonperforming assets** | $ 12,964 | $ 6,893 |
| **Performing TDRs** | $ 5,198 | $ 5,293 |
| Total nonperforming loans and performing TDRs | $ 18,162 | $ 12,186 |
| Percentage of nonperforming loans and performing TDRs to total loans, at amortized cost | 0.21 % | 0.15 % |
| Percentage of nonperforming assets to total loans, at amortized cost, and OREO | 0.15 % | 0.09 % |
| Percentage of nonperforming assets to total assets | 0.08 % | 0.04 % |

*__Troubled Debt Restructurings ("TDRs")__*

Total TDRs were $5.2 million at June 30, 2022, compared to $5.3 million at December 31, 2021. At June 30, 2022, 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.

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

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Balance | Number of Loans | Balance | Number of Loans |
| | (Dollars in thousands) | | | |
| Performing TDRs: | | | | |
| Commercial real estate | $ 2,318 | 1 | $ 2,394 | 1 |
| Construction | - | - | - | - |
| SBA | - | - | - | - |
| Commercial and industrial | 1,878 | 3 | 1,885 | 3 |
| Dairy & livestock and agribusiness | - | - | - | - |
| SFR mortgage | 1,002 | 5 | 1,014 | 5 |
| Consumer and other | - | - | - | - |
| Total performing TDRs | $ 5,198 | 9 | $ 5,293 | 9 |
| Nonperforming TDRs: | | | | |
| Commercial real estate | $ - | - | $ - | - |
| Construction | - | - | - | - |
| SBA | - | - | - | - |
| Commercial and industrial | - | - | - | - |
| Dairy & livestock and agribusiness | - | - | - | - |
| SFR mortgage | - | - | - | - |
| Consumer and other | - | - | - | - |
| Total nonperforming TDRs | $ - | - | $ - | - |
| Total TDRs | $ 5,198 | 9 | $ 5,293 | 9 |

At June 30, 2022 and December 31, 2021, there was no ACL allocated to TDRs. Impairment amounts identified are typically charged off against the allowance at the time the loan is considered uncollectible. There were no charge-offs on TDRs for the six months ended June 30, 2022 and 2021.

***Nonperforming Assets and Delinquencies***

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

| | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 | June 30, 2021 |
|---|---|---|---|---|---|
| | | | *(Dollars in thousands)* | | |
| **Nonperforming loans:** | | | | | |
| Commercial real estate | $ 6,843 | $ 7,055 | $ 3,607 | $ 4,073 | $ 4,439 |
| Construction | - | - | - | - | - |
| SBA | 1,075 | 1,575 | 1,034 | 1,513 | 1,382 |
| SBA - PPP | - | 2 | - | - | - |
| Commercial and industrial | 1,655 | 1,771 | 1,714 | 2,038 | 1,818 |
| Dairy & livestock and agribusiness | 3,354 | 2,655 | - | 118 | 118 |
| SFR mortgage | - | 167 | 380 | 399 | 406 |
| Consumer and other loans | 37 | 40 | 158 | 305 | 308 |
| **Total** | **$ 12,964** | **$ 13,265** | **$ 6,893** | **$ 8,446** | **$ 8,471** |
| **% of Total loans** | **0.15 %** | **0.15 %** | **0.09 %** | **0.11 %** | **0.10 %** |
| **Past due 30-89 days:** | | | | | |
| Commercial real estate | $ 559 | $ 565 | $ 438 | $ - | $ - |
| Construction | - | - | - | - | - |
| SBA | - | 549 | 979 | - | - |
| Commercial and industrial | - | 6 | - | 122 | 415 |
| Dairy & livestock and agribusiness | - | 1,099 | - | 1,000 | - |
| SFR mortgage | - | 403 | 1,040 | - | - |
| Consumer and other loans | - | - | - | - | - |
| **Total** | **$ 559** | **$ 2,622** | **$ 2,457** | **$ 1,122** | **$ 415** |
| **% of Total loans** | **0.01 %** | **0.03 %** | **0.03 %** | **0.01 %** | **0.01 %** |
| **OREO:** | | | | | |
| Commercial real estate | $ - | $ - | $ - | $ - | $ - |
| SBA | - | - | - | - | - |
| SFR mortgage | - | - | - | - | - |
| **Total** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| **Total nonperforming, past due, and OREO** | **$ 13,523** | **$ 15,887** | **$ 9,350** | **$ 9,568** | **$ 8,886** |
| **% of Total loans** | **0.16 %** | **0.18 %** | **0.12 %** | **0.12 %** | **0.11 %** |
| **Classified Loans** | **$ 76,170** | **$ 64,108** | **$ 56,102** | **$ 49,755** | **$ 49,044** |

Nonperforming loans, defined as nonaccrual loans, nonperforming TDR loans and loans past due 90 days or more and still accruing interest, were $13.0 million at June 30, 2022, or 0.15% of total loans. This compares to nonperforming loans of $6.9 million, or 0.09% of total loans, at December 31, 2021 and $8.5 million, or 0.10% of total loans, at June 30, 2021. Of the $13.0 million in nonperforming loans, $4.4 million were commercial real estate loans acquired from Suncrest. Classified loans are loans that are graded “substandard” or worse. Classified loans of $76.2 million increased $20.1 million from December 31, 2021. Total classified loans at June 30, 2022 included $17.8 million of classified loans acquired from Suncrest, of which $9.8 million were commercial real estate loans. Excluding the $17.8 million of acquired classified Suncrest loans, classified loans increased $2.3 million from December 31, 2021 and included a $4.8 million increase in classified commercial real estate loans and a $2.7 million increase in classified dairy & livestock and agribusiness loans, partially offset by a $4.0 million decrease in classified commercial and industrial loans and a $1.0 million decrease in classified SFR loans.

At June 30, 2022, December 31, 2021, and June 30, 2021 we had no OREO properties. There were no additions to OREO properties for the six months ended June 30, 2022.

***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 contained in our Annual Report on Form 10-K for the year ended December 31, 2021. The allowance for credit losses totaled $80.2 million as of June 30, 2022, compared to $65.0 million as of December 31, 2021 and $69.3 million as of June 30, 2021. Our allowance for credit losses at June 30, 2022 was 0.92%, or 0.93% of total loans when excluding the $67.0 million in PPP loans. The ACL increased by $15.2 million in June 30, 2022 compared to December 31, 2021, including $8.6 million for the acquired Suncrest PCD loans and a $6.1 million provision for credit losses for the first six months of 2022. Net recoveries were $498,000 for the six months ended June 30, 2022, which compares to $2.9 million in net charge-offs for the same period of 2021.

The allowance for credit losses as of June 30, 2022 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. The allowance for credit loss is sensitive to both changes in these portfolio characteristics and the forecast of 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.

Our economic forecast continues to be a blend of multiple forecasts produced by Moody's. These U.S. economic forecasts include a baseline forecast, as well as multiple downside forecasts. The baseline forecast continues to represent the largest weighting in our multi-weighted forecast scenario. Our weighted forecast at June 30, 2022 assumes GDP will increase by 0.5% in the second half of 2022, 0.8% for 2023 and then grow by 2.5% in 2024. The unemployment rate is forecasted to be 4.6% in the second half of 2022, 5.4% in 2023 and then decline to 5% in 2024. As of December 31, 2021, our weighted forecast assumed GDP would increase by 2.7% in 2022, 2.0% for 2023 and then grow by 3% in 2024. The forecast at the end of 2021 expected the unemployment rate to be 5.2% in 2022, 5.4% in 2023 and then decline to 4.8% in 2024. Management believes that the ACL was appropriate at June 30, 2022 and December 31, 2021. As there continues to be a degree of uncertainty around the epidemiological assumptions and impact of government responses to the COVID-19 pandemic that impact our economic forecast, as well as inflationary pressures and changes in monetary policies, 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 charge-offs and recoveries by type, the provision for credit losses on loans, and the resulting allowance for credit losses for the periods presented.

| | As of and For the Six Months Ended June 30, 2022 | As of and For the Six Months Ended June 30, 2021 |
|---|---|---|
| | (Dollars in thousands) | |
| Allowance for credit losses at beginning of period | $ 65,019 | $ 93,692 |
| Charge-offs: | | |
| Commercial real estate | - | - |
| Construction | - | - |
| SBA | - | - |
| Commercial and industrial | (21) | (2,975) |
| Dairy & livestock and agribusiness | - | - |
| SFR mortgage | - | - |
| Consumer and other loans | (3) | (10) |
| Total charge-offs | (24) | (2,985) |
| Recoveries: | | |
| Commercial real estate | - | - |
| Construction | 6 | 44 |
| SBA | 58 | 8 |
| Commercial and industrial | 456 | 4 |
| Dairy & livestock and agribusiness | 2 | - |
| SFR mortgage | - | 79 |
| Consumer and other loans | - | - |
| Total recoveries | 522 | 135 |
| Net (charge-offs) recoveries | 498 | (2,850) |
| Initial ACL for PCD loans at acquisition | 8,605 | - |
| Provision recorded at acquisition | 4,932 | - |
| Provision (recapture of) for credit losses | 1,168 | (21,500) |
| Allowance for credit losses at end of period | $ 80,222 | $ 69,342 |
| | | |
| Summary of reserve for unfunded loan commitments: | | |
| Reserve for unfunded loan commitments at beginning of period | $ 8,000 | $ 9,000 |
| (Recapture of) provision for unfunded loan commitments | - | (1,000) |
| Reserve for unfunded loan commitments at end of period | $ 8,000 | $ 8,000 |
| | | |
| Reserve for unfunded loan commitments to total unfunded loan commitments | 0.43% | 0.45% |
| | | |
| Amount of total loans at end of period (1) | $ 8,692,229 | $ 8,071,310 |
| Average total loans outstanding (1) | $ 8,567,876 | $ 8,259,824 |
| | | |
| Net recoveries (charge-offs) to average total loans | 0.006% | -0.035% |
| Net recoveries (charge-offs) to total loans at end of period | 0.006% | -0.035% |
| Allowance for credit losses to average total loans | 0.94% | 0.84% |
| Allowance for credit losses to total loans at end of period | 0.92% | 0.86% |
| Net recoveries (charge-offs) to allowance for credit losses | 0.62% | -4.11% |
| Net recoveries (charge-offs) to provision for (recapture of) credit losses | 8.16% | 13.26% |

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

The Bank's ACL methodology also produced an allowance of $8.0 million for our off-balance sheet credit exposures as of June 30, 2022, compared with $8.0 million as of December 31, 2021 and June 30, 2021. The second quarter of 2021 included $1.0 million in recapture of provision for unfunded loan commitments.

While we believe that the allowance at June 30, 2022 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.

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*" contained in our Annual Report on Form 10-K for the year ended December 31, 2021.

***Deposits***

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

Total deposits were $14.07 billion at June 30, 2022. This represented an increase of $1.1 billion, or 8.44%, over total deposits of $12.98 billion at December 31, 2021. The composition of deposits is summarized as of the dates presented in the table below.

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | **Balance** | **Percent** | **Balance** | **Percent** |
| | *(Dollars in thousands)* | | | |
| Noninterest-bearing deposits | $ 8,881,223 | 63.11 % | $ 8,104,056 | 62.45 % |
| Interest-bearing deposits | | | | |
| Investment checking | 695,054 | 4.94 % | 655,333 | 5.05 % |
| Money market | 3,533,931 | 25.11 % | 3,342,531 | 25.76 % |
| Savings | 611,703 | 4.35 % | 546,840 | 4.21 % |
| Time deposits | 350,308 | 2.49 % | 327,682 | 2.53 % |
| Total Deposits | $ 14,072,219 | 100.00 % | $ 12,976,442 | 100.00 % |

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. Noninterest-bearing deposits totaled $8.88 billion at June 30, 2022, representing an increase of $777.2 million, or 9.59%, from noninterest-bearing deposits of $8.10 billion at December 31, 2021. Noninterest-bearing deposits represented 63.11% of total deposits at June 30, 2022, compared to 62.45% of total deposits at December 31, 2021.

Savings deposits, which include savings, interest-bearing demand, and money market accounts, totaled $4.84 billion at June 30, 2022, representing an increase of $296.0 million, or 6.51%, from savings deposits of $4.54 billion at December 31, 2021

Time deposits totaled $350.3 million at June 30, 2022, representing an increase of $22.6 million, or 6.9%, from total time deposits of $327.7 million for December 31, 2021.

***Borrowings***

We offer a repurchase agreement product to our customers. This product, known as Citizens Sweep Manager, sells our investment securities overnight to our customers under an agreement to repurchase them the next day at a price that 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 June 30, 2022 and December 31, 2021, total funds borrowed under these agreements were $502.8 million and $642.4 million, respectively, with a weighted average interest rate of 0.09% and 0.08%, respectively.

On June 15, 2021, we redeemed our junior subordinated debentures of $25.8 million, representing the amounts that are due from the Company to CVB Statutory Trust III, which had a borrowing cost of approximately 1.60%. The debentures and the Trust Preferred Securities had an original maturity date of 2036. The interest rate on these debentures were three-month LIBOR plus 1.38%.

At June 30, 2022, $4.27 billion of loans and $2.20 billion of investment securities, at carrying value, were pledged to secure public deposits, repurchase agreements, short and long-term borrowing lines of credit, and for other purposes as required or permitted by law.

***Aggregate Contractual Obligations***

The following table summarizes the aggregate contractual obligations as of June 30, 2022.

| | | 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) | $ 14,072,219 | $ 14,041,312 | $ 22,472 | $ 7,723 | $ 712 |
| Customer repurchase agreements (1) | 502,829 | 502,829 | - | - | - |
| Deferred compensation | 25,000 | 883 | 1,177 | 1,152 | 21,788 |
| Operating leases | 27,655 | 7,274 | 11,454 | 7,389 | 1,538 |
| Affordable housing investment | 6,350 | 1,511 | 4,826 | 13 | - |
| Total | $ 14,634,053 | $ 14,553,809 | $ 39,929 | $ 16,277 | $ 24,038 |

(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.

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 12 – *Leases* of the notes to the Company's unaudited condensed consolidated financial statements for a more detailed discussion about leases.

***Off-Balance Sheet Arrangements***

The following table summarizes the off-balance sheet items at June 30, 2022.

| | | Maturity by Period | | | |
|---|---|---|---|---|---|
| | **Total** | **Less Than One Year** | **One Year Through Three Years** | **Four Years Through Five Years** | **Over Five Years** |
| | | | *(Dollars in thousands)* | | |
| Commitment to extend credit: | | | | | |
| Commercial real estate | $ 419,608 | $ 52,017 | $ 156,184 | $ 163,503 | $ 47,904 |
| Construction | 65,164 | 52,882 | - | - | 12,282 |
| SBA | 864 | 339 | - | - | 525 |
| SBA - PPP | - | - | - | - | - |
| Commercial and industrial | 934,024 | 754,791 | 106,818 | 5,604 | 66,811 |
| Dairy & livestock and agribusiness (1) | 260,086 | 146,151 | 113,934 | 1 | - |
| SFR Mortgage | 14,169 | - | - | - | 14,169 |
| Municipal lease finance receivables | 5,224 | 2,500 | - | - | 2,724 |
| Consumer and other loans | 112,350 | 11,668 | 9,976 | 4,307 | 86,399 |
| Total commitment to extend credit | 1,811,489 | 1,020,348 | 386,912 | 173,415 | 230,814 |
| Obligations under letters of credit | 45,316 | 7,126 | 38,172 | - | 18 |
| Total | $ 1,856,805 | $ 1,027,474 | $ 425,084 | $ 173,415 | $ 230,832 |

(1) Total commitments to extend credit to agribusiness were $26.0 million at June 30, 2022.

As of June 30, 2022, we had commitments to extend credit of approximately $1.81 billion, and obligations under letters of credit of $45.3 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. There was no provision or recapture of provision for unfunded loan commitments for the three and six months ended June 30, 2022, compared to a $1.0 million recapture of provision for unfunded loan commitments for the three and six months ended June 30, 2021. As of June 30, 2022 and December 31, 2021, the balance in this reserve was $8.0 million and was 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 plan and capital stress testing.

Total equity decreased $99.3 million, or 4.77%, to $2.08 billion at June 30, 2022, compared to total equity of $2.08 billion at December 31, 2021. Increases to equity included $197.1 million for issuance of 8.6 million shares to acquire Suncrest and $104.6 million in net earnings. Decreases included $52.2 million in cash dividends and a $242.9 million decrease in other comprehensive income from the tax effected impact of the decline in market value of available-for-sale securities. During the first half of 2022, we executed on a $70 million accelerated stock repurchase program and retired 2,993,551 shares of common stock at an average price of $23.38. We also repurchased, under our 10b5-1 stock repurchase plan, 1,682,537 shares of common stock, at an average repurchase price of $23.37, totaling $39.3 million. Our tangible book value per share at June 30, 2022 was $8.51.

During the second quarter of 2022, the Board of Directors of CVB declared quarterly cash dividends totaling $0.19 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 declare 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.

On February 1, 2022, we announced that our Board of Directors authorized a share repurchase plan to repurchase up to 10,000,000 shares of the Company's common stock ("2022 Repurchase Program"), including by means of (i) an initial $70 million dollar Accelerated Share Repurchase, or ASR Plan, and (ii) one or more Rule 10b5-1 plans or other appropriate buyback arrangements, including open market purchases and private transactions. We completed the execution of the $70 million accelerated stock repurchase program in the second quarter of 2022, and retired a total of 2,993,551 shares of common stock at an average price of $23.38. During the six month period we also repurchased, under our 10b5-1 stock repurchase plan, 1,682,537 shares of common stock, at an average repurchase price of $23.37, totaling $39.3 million. As of June 30, 2022, we had 5,323,912 shares of CVB common stock available for repurchase under the 2022 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 June 30, 2022, 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 – Capital Adequacy Requirements*" as described in our Annual Report on Form 10-K for the year ended December 31, 2021.

At June 30, 2022 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.

| | | | | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|---|---|---|
| **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% | 8.85% | 8.56% | 9.18% | 8.90% |
| Common equity Tier 1 capital ratio | 4.50% | 7.00% | 6.50% | 13.41% | 12.97% | 14.86% | 14.41% |
| Tier 1 risk-based capital ratio | 6.00% | 8.50% | 8.00% | 13.41% | 12.97% | 14.86% | 14.41% |
| Total risk-based capital ratio | 8.00% | 10.50% | 10.00% | 14.22% | 13.79% | 15.63% | 15.18% |

## 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 $14.07 billion at June 30, 2022 increased $1.1 billion, or 8.44%, over total deposits of $12.98 billion at December 31, 2021. This 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. 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. 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 Bank has available lines of credit exceeding $4 billion, most of which is secured by pledged loans. 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 June 30, 2022, the Bank had no short-term borrowings.

CVB is a holding company separate and apart from the Bank that must provide for its own liquidity and must service its own obligations. On June 15, 2021, we redeemed our $25.8 million in subordinated debt with an interest rate of three month LIBOR plus 1.38% at par. 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.

Below is a summary of our average cash position and statement of cash flows for the six months ended June 30, 2022 and 2021. For further details see our "*Condensed Consolidated Statements of Cash Flows* (Unaudited)" under Part I, Item 1 of this report.

*Consolidated Summary of Cash Flows*

| | Six Months Ended June 30, 2022 | Six Months Ended June 30, 2021 |
|---|---|---|
| | *(Dollars in thousands)* | |
| Average cash and cash equivalents | $ 1,405,827 | $ 1,821,224 |
| Percentage of total average assets | 8.18 % | 12.26 % |
| | | |
| Net cash provided by operating activities | $ 128,388 | $ 70,699 |
| Net cash used in investing activities | (776,221 ) | (689,133 ) |
| Net cash (used in) provided by financing activities | (388,006 ) | 992,139 |
| Net (decrease) increase in cash and cash equivalents | $ (1,035,839 ) | $ 373,705 |

Average cash and cash equivalents decreased by $415.4 million, or 22.81%, to $1.41 billion for the six months ended June 30, 2022, compared to $1.82 billion for the same period of 2021.

At June 30, 2022, cash and cash equivalents totaled $696.7 million. This represented a decrease of $1.63 billion, or 70.12%, from $2.33 billion at June 30, 2021.

***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 a 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 200bps over a 12-month time horizon.

| | Estimated Net Interest Income Sensitivity (1) | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2022 | | | | December 31, 2021 | |
| Interest Rate Scenario | 12-month Period | 24-month Period (Cumulative) | Interest Rate Scenario | | 12-month Period | 24-month Period (Cumulative) |
| + 200 basis points | 5.46% | 9.93% | + 200 basis points | | 9.85% | 16.84% |
| - 200 basis points | -6.07% | -10.83% | - 100 basis points | (2) | -4.30% | -4.99% |

(1) Percentage change from base scenario.
(2) Policy at December 31, 2021

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 zero.

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 June 30, 2022 and December 31, 2021, 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 | June 30, 2022 | December 31, 2021 |
|---|---|---|
| 200 bp decrease in interest rates | -18.9% | N/A |
| 100 bp decrease in interest rates | -7.6% | -14.1% |
| 100 bp increase in interest rates | 4.9% | 5.3% |
| 200 bp increase in interest rates | 8.6% | 11.8% |
| 300 bp increase in interest rates | 9.1% | 13.6% |
| 400 bp increase in interest rates | 11.0% | 16.8% |

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.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2022, we had not entered into any futures, forwards, or option contracts. LIBOR is expected to be completely phased out by 2023, as such the Company continues to assess the impacts of this transition and exploring alternatives to use in place of LIBOR for various financial instruments, primarily related to our variable or adjustable rate loans and interest rate swap derivatives that are indexed to LIBOR. The Bank will use multiple alternative indices as replacements for LIBOR for new instruments originated after 2021. For further quantitative and qualitative disclosures about market risks in our portfolio, see *Asset/Liability Management and Interest Rate Sensitivity Management*" included in Item 2 "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" presented elsewhere in this report. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2021. Our analysis of market risk and market-sensitive financial information contains forward-looking statements and is subject to the disclosure at the beginning of Part I regarding such forward-looking information.

## ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer, the Chief Financial Officer and other senior management of the Company. Based on the foregoing, the Company's Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

During the quarter ended June 30, 2022, there have been no changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

## ITEM 1. 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 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 1A. RISK FACTORS

Except as discussed below there have been no material changes to the risk factors as previously disclosed in Item 1A. to Part I of our Annual Report on Form 10-K for the year ended December 31, 2021. The materiality of any risks and uncertainties identified in our Forward Looking Statements contained in this report together with those previously disclosed in the Form 10-K and any subsequent Form 10-Q or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Item 2. “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in this Quarterly Report on Form 10-Q.

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

We are subject to macroeconomic and interest rate risk due to domestic and global economic instability that has resulted in higher inflation than the United States has experienced in more than 40 years. The global economic impact from the geopolitical events in Europe that is contributing to rising energy and commodity prices, as well as the on-going supply chain disruptions have resulted in inflationary pressures and increases to prevailing interest rates. As of June 30, 2022, the target range for the Federal Funds rate has increased by 1.50% since the beginning of this year. The Federal Reserve’s Open market Committee (“FOMC”) raised the target range for the federal funds rate an additional 0.75% to 2.50% on July 28, 2022 and communicated its plan to continue to reduce the size of the Federal Reserve’s holdings of Treasury and Mortgage-Backed securities. These recent increases in prevailing interest rates and the expectation that further increases are likely will impact both our customers and many aspects of our business. Higher interest rates will not only impact the interest we receive on loans and investment securities and the amount of interest we pay our depositors, but could also impact our ability to grow loans and deposits.  The U.S. Gross Domestic Product has declined in both quarters of 2022, reflecting the general slow down in the economy. Rising interest rates, higher commodity prices, and supply chain issues and an overall slowdown in economic growth could also impact the fair value of our assets and adversely impact our asset quality.

***The occurrence of fraudulent activity, breaches or failures of information security controls or cybersecurity-related incidents to either our information systems or information systems provided by third party vendors 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 other cybersecurity-related incidents that may be committed against us or our customers, which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customer information, misappropriation of assets, privacy breaches against our customers, litigation, or damage to our reputation. The U.S. government has warned financial institutions of the potential increase in malicious cyber-attacks and other activities involving critical infrastructure, such as the financial sector, and has encouraged the banking sector to enhance cyber-defense, and these warnings have been reiterated in connection with the current conflict in Europe initiated by Russia against Ukraine. While CBB has taken measures to protect its own and customer funds and confidential information against cyber-attacks, as well as other malicious activities, there can be no assurance that such measures will be successful in thwarting such attacks and activities.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On February 1, 2022, we announced that our Board of Directors authorized a share repurchase plan to repurchase up to 10,000,000 shares of the Company's common stock ("2022 Repurchase Program"), including by means of (i) an initial $70 million dollar Accelerated Share Repurchase, or ASR Plan, and (ii) one or more Rule 10b5-1 plans or other appropriate buyback arrangements, including open market purchases and private transactions. During the first half of 2022, we executed on a $70 million accelerated stock repurchase program and retired 2,993,551 shares of common stock at an average price of $23.38. We also repurchased, under our 10b5-1 stock repurchase plan, 1,682,537 shares of common stock, at an average repurchase price of $23.37, totaling $39.3 million.

| Period | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Average Price Paid Per Share | | Maximum Number of Shares Available for Repurchase Under the Plans or Programs |
|---|---|---|---|---|
| January 1 - 31, 2022 | - | $ | - | 10,000,000 |
| February 1 - 28, 2022 | 2,544,298 | $ | 23.38 | 7,455,702 |
| March 1 - 31, 2022 | 536,010 | $ | 23.40 | 6,919,692 |
| April 1 - 30, 2022 | 620,613 | $ | 23.09 | 6,299,079 |
| May 1 - 31, 2022 | 360,242 | $ | 23.55 | 5,938,837 |
| June 1 - 30, 2022 | 614,925 | $ | 23.53 | 5,323,912 |
| Total | 4,676,088 | $ | 23.38 | 5,323,912 |

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

## ITEM 5. OTHER INFORMATION

None

**ITEM 6. EXHIBITS**

| Exhibit No. | Description of Exhibits |
| --- | --- |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| 101.INS | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, has been formatted in Inline XBRL. |

| | |
| --- | --- |
| * | Filed herewith |
| ** | Furnished herewith |
| † | Indicates a management contract or compensation plan. |

**SIGNATURES**

Pursuant to the requirements 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.

CVB FINANCIAL CORP.
(Registrant)

Date: August 9, 2022

/s/ E. Allen Nicholson
E. Allen Nicholson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**Exhibit 31.1**

**CERTIFICATION**

I, David A. Brager, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: | August 9, 2022 | By: | /s/ David A. Brager<br>David A. Brager<br>President and Chief Executive Officer |

**Exhibit 31.2**

**CERTIFICATION**

I, E. Allen Nicholson, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: August 9, 2022

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 Quarterly Report of CVB Financial Corp. (the “Company”) on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David A. Brager, 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: | August 9, 2022 | By: | /s/ David A. Brager<br>David A. Brager<br>President and Chief Executive 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 Quarterly Report of CVB Financial Corp. (the “Company”) on Form 10-Q for the period ended June 30, 2022, 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: | August 9, 2022 | By: | /s/ E. Allen Nicholson<br>E. Allen Nicholson<br>Chief Financial Officer |