

**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 September 30, 2020

or

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

For the transition period from _____ to _____

Commission File Number: 000-10140

CVB FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
Incorporation or organization)

95-3629339

(I.R.S. Employer
Identification No.)

**701 North Haven Ave., Suite 350
Ontario, California**

(Address of principal executive offices)

91764

(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: 135,505,605 outstanding as of October 30, 2020.

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PART I – FINANCIAL INFORMATION (UNAUDITED)

GENERAL

Cautionary Note Regarding Forward-Looking Statements

Certain matters set forth herein (including the exhibits hereto) constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including forward-looking statements relating to the Company's current business plans and expectations and our future financial position and operating results. Words such as "will likely result", "aims", "anticipates", "believes", "could", "estimates", "expects", "hopes", "intends", "may", "plans", "projects", "seeks", "should", "will", "strategy", "possibility", and variations of these words and similar expressions help to identify these forward-looking statements, which involve risks and uncertainties. These forward-looking statements are subject to risks and uncertainties that could cause actual results, performance and/or achievements to differ materially from those projected. These risks and uncertainties include, but are not limited to the following:

- local, regional, national and international economic and market conditions and political events and the impact they may have on us, our customers and our assets and liabilities;
- our ability to attract deposits and other sources of funding or liquidity;
- supply and demand for commercial or residential real estate and periodic deterioration in real estate prices and/or values in California or other states where we lend;
- a sharp or prolonged slowdown or decline in real estate construction, sales or leasing activities;
- changes in the financial performance and/or condition of our borrowers, depositors, key vendors or counterparties;
- changes in our levels of delinquent loans, nonperforming assets, allowance for credit losses and charge-offs;
- the costs or effects of mergers, acquisitions or dispositions we may make, whether we are able to obtain any required governmental approvals in connection with any such mergers, acquisitions or dispositions, and/or our ability to realize the contemplated financial or business benefits or cost savings associated with any such mergers, acquisitions or dispositions;
- the effects of new laws, regulations and/or government programs, including those laws, regulations and programs enacted by federal, state or local governments in the geographic jurisdictions in which we do business in response to the recent national emergency declared in connection with the COVID-19 pandemic;
- the impact of the federal CARES Act and the significant additional lending activities undertaken by the Company in connection with the Small Business Administration's Paycheck Protection Program enacted thereunder, including risks to the Company with respect to the uncertain application by the Small Business Administration of new borrower and loan eligibility, forgiveness and audit criteria;
- the effects of the Company's participation in one or more of the new lending programs recently established by the Federal Reserve, including the Main Street New Loan Facility, the Main Street Priority Loan Facility and the Nonprofit Organization New Loan Facility, and the impact of any related actions or decisions by the Federal Reserve Bank of Boston and its special purpose vehicle established pursuant to such lending programs;
- the effect of changes in laws, regulations and applicable judicial decisions (including laws, regulations and judicial decisions concerning financial reforms, taxes, bank capital levels, allowance for credit losses, consumer, commercial or secured lending, securities and securities trading and hedging, bank operations, compliance, fair lending, the Community Reinvestment Act, employment, executive compensation, insurance, cybersecurity, vendor management and information security technology) with which we and our subsidiaries must comply or believe we should comply or which may otherwise impact us;
- changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant regulatory and accounting standards, including changes in the Basel Committee framework establishing capital standards for bank credit, operations and market risks;
- the accuracy of the assumptions and estimates and the absence of technical error in implementation or calibration of models used to estimate the fair value of financial instruments or currently expected credit losses or delinquencies;
- the sensitivity of our assets and liabilities to changes in market interest rates, or our current allowance for credit losses;
- inflation, changes in market interest rates, securities market and monetary fluctuations;
- changes in government-established interest rates, reference rates or monetary policies, including the possible imposition of negative interest rates on bank reserves;
- the impact of the anticipated phase-out of the London Interbank Offered Rate (LIBOR) on interest rate indexes specified in certain of our customer loan agreements and our interest rate swap arrangements, including any economic and compliance effects related to the expected change from LIBOR to an alternative reference rate;
- changes in the amount, cost and availability of deposit insurance;

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- *disruptions in the infrastructure that supports our business and the communities where we are located, which are concentrated in California, involving or related to physical site access and/or communication facilities;*
- *cyber incidents, attacks, infiltrations, exfiltrations, or theft or loss of Company or customer or employee data or money;*
- *political developments, uncertainties or instability, catastrophic events, acts of war or terrorism, or natural disasters, such as earthquakes, drought, the effects of pandemic diseases, climate changes or extreme weather events, that may affect electrical, environmental, computer servers, and communications or other services or facilities we use, or that may affect our customers, employees or third parties with whom we conduct business;*
- *our timely development and implementation of new banking products and services and the perceived overall value of these products and services by customers and potential customers;*
- *the Company's relationships with and reliance upon outside vendors with respect to certain of the Company's key internal and external systems, applications and controls;*
- *changes in commercial or consumer spending, borrowing and savings preferences or behaviors;*
- *technological changes and the expanding use of technology in banking and financial services (including the adoption of mobile banking, funds transfer applications, electronic marketplaces for loans, blockchain technology and other banking products, systems or services);*
- *our ability to retain and increase market share, retain and grow customers and control expenses;*
- *changes in the competitive environment among banks and other financial services and technology providers;*
- *competition and innovation with respect to financial products and services by banks, financial institutions and non-traditional providers including retail businesses and technology companies;*
- *volatility in the credit and equity markets and its effect on the general economy or local or regional business conditions or on the Company's assets, liabilities, or customers;*
- *fluctuations in the price of the Company's common stock or other securities, and the resulting impact on the Company's ability to raise capital or make acquisitions;*
- *the effect of changes in accounting policies and practices, as may be adopted from time-to-time by the regulatory agencies, as well as by the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;*
- *changes in our organization, management, compensation and benefit plans, and our ability to retain or expand our workforce, management team, key executive positions and/or our board of directors;*
- *our ability to identify suitable and qualified replacements for any of our executive officers who may leave their employment with us, including our Chief Executive Officer;*
- *the costs and effects of legal, compliance and regulatory actions, changes and developments, including the initiation and resolution of legal proceedings (including any securities, lender liability, bank operations, financial product or service, data privacy, consumer or employee class action litigation);*
- *regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations or reviews;*
- *our ongoing relations with our various federal and state regulators, including the SEC, Federal Reserve Board, FDIC and California DFPI;*
- *our success at managing the risks involved in the foregoing items; and*
- *all other factors set forth in the Company's public reports, including its Annual Report on Form 10-K for the year ended December 31, 2019, and particularly the discussion of risk factors within that document.*

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

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements, except as required by law. Any statements about future operating results, such as those concerning accretion and dilution to the Company's earnings or shareholders, are for illustrative purposes only, are not forecasts, and actual results may differ.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2020	December 31, 2019
Assets		
Cash and due from banks	\$ 145,455	\$ 158,310
Interest-earning balances due from Federal Reserve	1,339,498	27,208
Total cash and cash equivalents	1,484,953	185,518
Interest-earning balances due from depository institutions	44,367	2,931
Investment securities available-for-sale, at fair value (with amortized cost of \$2,150,364 at September 30, 2020, and \$1,718,357 at December 31, 2019)	2,205,646	1,740,257
Investment securities held-to-maturity (with fair value of \$603,522 at September 30, 2020, and \$678,948 at December 31, 2019)	577,694	674,452
Total investment securities	2,783,340	2,414,709
Investment in stock of Federal Home Loan Bank (FHLB)	17,688	17,688
Loans and lease finance receivables	8,407,872	7,564,577
Allowance for credit losses	(93,869)	(68,660)
Net loans and lease finance receivables	8,314,003	7,495,917
Premises and equipment, net	51,477	53,978
Bank owned life insurance (BOLI)	228,132	226,281
Accrued interest receivable	30,004	28,122
Intangibles	35,804	42,986
Goodwill	663,707	663,707
Other real estate owned (OREO)	4,189	4,889
Income taxes	21,412	35,587
Other assets	139,635	110,137
Total assets	\$ 13,818,711	\$ 11,282,450
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 6,919,423	\$ 5,245,517
Interest-bearing	4,249,411	3,459,411
Total deposits	11,168,834	8,704,928
Customer repurchase agreements	483,420	428,659
Other borrowings	10,000	-
Deferred compensation	21,259	22,666
Junior subordinated debentures	25,774	25,774
Other liabilities	127,467	106,325
Total liabilities	11,836,754	9,288,352
Commitments and Contingencies		
Stockholders' Equity		
Common stock, authorized, 225,000,000 shares without par; issued and outstanding 135,509,143 at September 30, 2020, and 140,102,480 at December 31, 2019	1,210,646	1,298,792
Retained earnings	735,218	682,692
Accumulated other comprehensive income, net of tax	36,093	12,614
Total stockholders' equity	1,981,957	1,994,098
Total liabilities and stockholders' equity	\$ 13,818,711	\$ 11,282,450

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest income:				
Loans and leases, including fees	\$ 94,200	\$ 98,796	\$ 281,669	\$ 300,326
Investment securities:				
Investment securities available-for-sale	8,447	9,222	26,945	29,985
Investment securities held-to-maturity	3,375	4,298	11,033	13,249
Total investment income	11,822	13,520	37,978	43,234
Dividends from FHLB stock	215	301	761	931
Interest-earning deposits with other institutions	389	946	1,285	1,140
Total interest income	106,626	113,563	321,693	345,631
Interest expense:				
Deposits	2,958	4,589	10,077	12,553
Borrowings and customer repurchase agreements	232	568	972	3,555
Junior subordinated debentures	111	247	444	771
Total interest expense	3,301	5,404	11,493	16,879
Net interest income before provision for credit losses	103,325	108,159	310,200	328,752
Provision for credit losses	-	1,500	23,500	5,000
Net interest income after provision for credit losses	103,325	106,659	286,700	323,752
Noninterest income:				
Service charges on deposit accounts	3,970	4,833	12,555	15,039
Trust and investment services	2,405	2,330	7,302	6,964
Bankcard services	456	637	1,438	2,614
BOLI income	1,469	1,797	5,211	4,482
Gain on OREO, net	13	-	23	129
Gain on sale of building, net	1,680	-	1,680	4,545
Gain on eminent domain condemnation, net	-	-	-	5,685
Other	3,160	2,297	8,736	6,944
Total noninterest income	13,153	11,894	36,945	46,402
Noninterest expense:				
Salaries and employee benefits	31,034	30,122	90,617	88,286
Occupancy and equipment	5,275	4,879	15,143	15,730
Professional services	2,019	1,688	6,643	5,653
Computer software expense	2,837	2,663	8,407	8,032
Marketing and promotion	728	1,517	3,538	4,149
Amortization of intangible assets	2,292	2,648	7,182	8,338
Acquisition related expenses	-	244	-	6,005
Other	5,403	3,774	13,097	13,474
Total noninterest expense	49,588	47,535	144,627	149,667
Earnings before income taxes	66,890	71,018	179,018	220,487
Income taxes	19,398	20,595	51,915	63,941
Net earnings	<u>\$ 47,492</u>	<u>\$ 50,423</u>	<u>\$ 127,103</u>	<u>\$ 156,546</u>
Other comprehensive income:				
Unrealized (loss) gain on securities arising during the period, before tax	\$ (2,004)	\$ 5,423	\$ 33,334	\$ 43,136
Less: Reclassification adjustment for net gain on securities included in net income	-	(5)	-	(5)
Other comprehensive (loss) income, before tax	(2,004)	5,418	33,334	43,131
Less: Income tax benefit (expense) related to items of other comprehensive income	593	(1,602)	(9,855)	(12,751)
Other comprehensive (loss) income, net of tax	(1,411)	3,816	23,479	30,380
Comprehensive income	<u>\$ 46,081</u>	<u>\$ 54,239</u>	<u>\$ 150,582</u>	<u>\$ 186,926</u>
Basic earnings per common share	\$ 0.35	\$ 0.36	\$ 0.93	\$ 1.12
Diluted earnings per common share	\$ 0.35	\$ 0.36	\$ 0.93	\$ 1.12

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 September 30, 2020 and 2019

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, July 1, 2020	135,516	\$ 1,209,449	\$ 712,145	\$ 37,504	\$ 1,959,098
Repurchase of common stock	(15)	(257)	-	-	(257)
Exercise of stock options	4	47	-	-	47
Shares issued pursuant to stock-based compensation plan	4	1,407	-	-	1,407
Cash dividends declared on common stock (\$0.18 per share)	-	-	(24,419)	-	(24,419)
Net earnings	-	-	47,492	-	47,492
Other comprehensive loss	-	-	-	(1,411)	(1,411)
Balance, September 30, 2020	<u>135,509</u>	<u>\$ 1,210,646</u>	<u>\$ 735,218</u>	<u>\$ 36,093</u>	<u>\$ 1,981,957</u>
Balance, July 1, 2019	140,142	\$ 1,296,885	\$ 631,512	\$ 8,280	\$ 1,936,677
Repurchase of common stock	(34)	(723)	-	-	(723)
Exercise of stock options	15	155	-	-	155
Shares issued pursuant to stock-based compensation plan	34	1,821	-	-	1,821
Cash dividends declared on common stock (\$0.18 per share)	-	-	(25,276)	-	(25,276)
Net earnings	-	-	50,423	-	50,423
Other comprehensive income	-	-	-	3,816	3,816
Balance, September 30, 2019	<u>140,157</u>	<u>\$ 1,298,138</u>	<u>\$ 656,659</u>	<u>\$ 12,096</u>	<u>\$ 1,966,893</u>

Nine Months Ended September 30, 2020 and 2019

	Common Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2020	140,102	\$ 1,298,792	\$ 682,692	\$ 12,614	\$ 1,994,098
Cumulative adjustment upon adoption of ASU 2016-13	-	-	(1,325)	-	(1,325)
Repurchase of common stock	(5,004)	(92,687)	-	-	(92,687)
Exercise of stock options	14	168	-	-	168
Shares issued pursuant to stock-based compensation plan	397	4,373	-	-	4,373
Cash dividends declared on common stock (\$0.54 per share)	-	-	(73,252)	-	(73,252)
Net earnings	-	-	127,103	-	127,103
Other comprehensive income	-	-	-	23,479	23,479
Balance, September 30, 2020	<u>135,509</u>	<u>\$ 1,210,646</u>	<u>\$ 735,218</u>	<u>\$ 36,093</u>	<u>\$ 1,981,957</u>
Balance, January 1, 2019	140,000	\$ 1,293,669	\$ 575,805	\$ (18,284)	\$ 1,851,190
Repurchase of common stock	(70)	(1,535)	-	-	(1,535)
Exercise of stock options	160	2,212	-	-	2,212
Shares issued pursuant to stock-based compensation plan	67	3,792	-	-	3,792
Cash dividends declared on common stock (\$0.54 per share)	-	-	(75,692)	-	(75,692)
Net earnings	-	-	156,546	-	156,546
Other comprehensive income	-	-	-	30,380	30,380
Balance, September 30, 2019	<u>140,157</u>	<u>\$ 1,298,138</u>	<u>\$ 656,659</u>	<u>\$ 12,096</u>	<u>\$ 1,966,893</u>

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)

	Nine Months Ended	
	September 30,	
	2020	2019
Cash Flows from Operating Activities		
Interest and dividends received	\$ 301,634	\$ 331,953
Service charges and other fees received	29,918	31,441
Interest paid	(10,975)	(16,155)
Net cash paid to vendors, employees and others	(136,948)	(140,482)
Income taxes	(45,610)	(59,347)
Net cash provided by operating activities	<u>138,019</u>	<u>147,410</u>
Cash Flows from Investing Activities		
Net change in interest-earning balances from depository institutions	(41,436)	1,997
Proceeds from sale of investment securities held-for-sale	-	152,644
Proceeds from repayment of investment securities available-for-sale	426,684	268,766
Proceeds from maturity of investment securities available-for-sale	3,506	6,059
Purchases of investment securities available-for-sale	(870,934)	(225,416)
Proceeds from repayment and maturity of investment securities held-to-maturity	106,491	81,001
Purchases of investment securities held-to-maturity	(11,210)	(42,917)
Net increase in equity investments	(2,890)	(3,511)
Net (increase) decrease in loan and lease finance receivables	(815,151)	289,490
Proceeds on eminent domain condemnation, net	-	5,685
Proceeds from sale of building, net of selling costs	2,131	5,487
Purchase of premises and equipment	(2,444)	(3,061)
Proceeds from BOLI death benefit	4,589	1,509
Proceeds from sales of other real estate owned	-	523
Net cash (used in) provided by investing activities	<u>(1,200,664)</u>	<u>538,256</u>
Cash Flows from Financing Activities		
Net increase in other deposits	2,465,066	37,061
Net decrease in time deposits	(1,160)	(70,221)
Net increase (decrease) in other borrowings	10,000	(275,086)
Net increase (decrease) in customer repurchase agreements	54,761	(34,405)
Cash dividends on common stock	(74,068)	(70,092)
Repurchase of common stock	(92,687)	(1,535)
Proceeds from exercise of stock options	168	2,212
Net cash provided by (used in) financing activities	<u>2,362,080</u>	<u>(412,066)</u>
Net increase in cash and cash equivalents	<u>1,299,435</u>	<u>273,600</u>
Cash and cash equivalents, beginning of period	<u>185,518</u>	<u>163,948</u>
Cash and cash equivalents, end of period	<u>\$ 1,484,953</u>	<u>\$ 437,548</u>

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)

	Nine Months Ended	
	September 30,	
	2020	2019
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities		
Net earnings	\$ 127,103	\$ 156,546
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of investment securities, net	-	(5)
Gain on eminent domain condemnation, net	-	(5,685)
Gain on sale of building, net	(1,680)	(4,545)
Gain on sale of other real estate owned	-	(105)
Increase in BOLI	(4,028)	(5,592)
Net amortization of premiums and discounts on investment securities	10,181	7,593
Accretion of discount for acquired loans, net	(13,106)	(22,369)
Provision for credit losses	23,500	5,000
Valuation allowance on other real estate owned	700	-
Stock-based compensation	4,373	3,792
Depreciation and amortization, net	2,173	16,993
Change in other assets and liabilities	(11,197)	(4,213)
Total adjustments	10,916	(9,136)
Net cash provided by operating activities	<u>\$ 138,019</u>	<u>\$ 147,410</u>
Supplemental Disclosure of Non-cash Investing Activities		
Transfer of loans to other real estate owned	\$ -	\$ 9,450

See accompanying notes to the unaudited condensed consolidated financial statements.

CVB FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 is also the common stockholder of CVB Statutory Trust III. CVB Statutory Trust III was created in January 2006 to issue trust preferred securities in order to raise capital for the Company. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, Consolidation, this trust does not meet the criteria for consolidation.

The Company’s primary operations are related to traditional banking activities. This includes the acceptance of deposits and the lending and investing of money through the operations of the Bank. The Bank also provides trust and investment-related services to customers through its CitizensTrust Division. The Bank’s customers consist primarily of small to mid-sized businesses and individuals located in the Inland Empire, Los Angeles County, Orange County, San Diego County, Ventura County, Santa Barbara County, and the Central Valley area of California. The Bank operates 57 banking centers, one loan production office in Modesto, California and three trust office locations. The Company is headquartered in the city of Ontario, California.

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 nine months ended September 30, 2020 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, 2019, 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, 2019 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.

Adoption of New Accounting Standard

Provision and Allowance for Credit Losses — On January 1, 2020, the Company adopted ASU No. 2016-13, “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This ASU replaces the current “incurred loss” approach with an “expected loss” model. The new model, referred to as the Current Expected Credit Loss (“CECL”) model, applies to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off balance sheet credit exposures. This includes, but is not limited to, loans, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale (“AFS”) debt securities. For AFS debt securities with unrealized losses, we will measure credit impairment in a manner similar to the approach used prior to the adoption of CECL, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, we will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as required prior to the adoption of CECL. As a policy election, we excluded the accrued interest receivable balance from the amortized cost basis of financing receivables and HTM securities, as well as AFS securities, and disclose total accrued interest receivable separately on the condensed consolidated balance sheet. If accrued interest is not received, it is reversed against interest income, which was zero for the third quarter of 2020.

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

The Company developed an allowance model that calculates reserves over the life of the loan and is largely driven by portfolio characteristics, risk grading, macroeconomic variables and the associated economic outlook, as well as other key methodology assumptions. The allowance is based upon historical lifetime loss rate models segregated by three loan segments: Commercial and Industrial, Commercial Real Estate, and Consumer Retail. In addition to determining the quantitative life of loan loss rate to be applied against the portfolio segments, the ASU indicates management has the opportunity to layer on current conditions and forecast adjustments to ensure that the life of loan loss rate reflects both the current state of the portfolio, and expectations for macroeconomic changes in the near future. We utilized a single economic forecast that is based on probability weighted scenarios to incorporate macroeconomic uncertainty over a 2 or 3-year forecast horizon. After the initial 2 to 3 year forecast horizon, we use an input reversion methodology in the model structure to complete a reasonable and supportable forecast period for the life of the loan.

Beginning in the second half of March 2020, the broader economy experienced a significant deterioration in the economic environment driven by the COVID-19 pandemic resulting in adverse changes to the forecasted macroeconomic variables utilized in our modeling processes. This economic deterioration, coupled with the implementation of the expected loss methodology for determining our provision for credit losses, have contributed to an increased provision for credit losses of \$23.5 million in the first half of 2020. We continue to monitor the impact on the economy from COVID-19 closely, as well as any effects that may result from the CARES Act. The extent to which the COVID-19 pandemic will impact our operations and financial results during the final quarter of 2020 is uncertain, but we may experience increased provision for credit losses if the COVID-19 pandemic results in additional economic stress on our borrowers and loan portfolios.

4. 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.

September 30, 2020					
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
<i>(Dollars in thousands)</i>					
Investment securities available-for-sale:					
Mortgage-backed securities	\$ 1,710,160	\$ 46,713	\$ (2)	\$ 1,756,871	79.65%
CMO/REMIC	404,380	7,326	(212)	411,494	18.66%
Municipal bonds	35,011	1,457	-	36,468	1.65%
Other securities	813	-	-	813	0.04%
Total available-for-sale securities	<u>\$ 2,150,364</u>	<u>\$ 55,496</u>	<u>\$ (214)</u>	<u>\$ 2,205,646</u>	<u>100.00%</u>
Investment securities held-to-maturity:					
Government agency/GSE	\$ 103,317	\$ 6,627	\$ -	\$ 109,944	17.88%
Mortgage-backed securities	152,285	7,837	-	160,122	26.36%
CMO/REMIC	159,676	5,315	-	164,991	27.64%
Municipal bonds	162,416	6,387	(338)	168,465	28.12%
Total held-to-maturity securities	<u>\$ 577,694</u>	<u>\$ 26,166</u>	<u>\$ (338)</u>	<u>\$ 603,522</u>	<u>100.00%</u>
December 31, 2019					
	Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent
<i>(Dollars in thousands)</i>					
Investment securities available-for-sale:					
Mortgage-backed securities	\$ 1,185,757	\$ 21,306	\$ (750)	\$ 1,206,313	69.32%
CMO/REMIC	493,214	1,392	(896)	493,710	28.37%
Municipal bonds	38,506	850	(2)	39,354	2.26%
Other securities	880	-	-	880	0.05%
Total available-for-sale securities	<u>\$ 1,718,357</u>	<u>\$ 23,548</u>	<u>\$ (1,648)</u>	<u>\$ 1,740,257</u>	<u>100.00%</u>
Investment securities held-to-maturity:					
Government agency/GSE	\$ 117,366	\$ 2,280	\$ (657)	\$ 118,989	17.40%
Mortgage-backed securities	168,479	2,083	(54)	170,508	24.98%
CMO/REMIC	192,548	-	(2,458)	190,090	28.55%
Municipal bonds	196,059	3,867	(565)	199,361	29.07%
Total held-to-maturity securities	<u>\$ 674,452</u>	<u>\$ 8,230</u>	<u>\$ (3,734)</u>	<u>\$ 678,948</u>	<u>100.00%</u>

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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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<i>(Dollars in thousands)</i>				
Investment securities available-for-sale:				
Taxable	\$ 8,244	\$ 8,949	\$ 26,313	\$ 29,079
Tax-advantaged	203	273	632	906
Total interest income from available-for-sale securities	8,447	9,222	26,945	29,985
Investment securities held-to-maturity:				
Taxable	2,265	2,883	7,410	8,725
Tax-advantaged	1,110	1,415	3,623	4,524
Total interest income from held-to-maturity securities	3,375	4,298	11,033	13,249
Total interest income from investment securities	<u>\$ 11,822</u>	<u>\$ 13,520</u>	<u>\$ 37,978</u>	<u>\$ 43,234</u>

The adoption of CECL did not have a material impact on the accounting for investment securities, as approximately 93% of the total investment securities portfolio at September 30, 2020 represents securities issued by the U.S. government or U.S. government-sponsored enterprises, with the implied guarantee of payment of principal and interest. The remaining securities are predominately AA- or better general-obligation municipal bonds. The allowance for credit losses for held-to-maturity investment securities under the new CECL model was zero at September 30, 2020.

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

The following table presents the Company's available-for-sale investment securities, by investment category, in an unrealized loss position for which an allowance for credit losses has not been recorded as of September 30, 2020.

	September 30, 2020					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
<i>(Dollars in thousands)</i>						
Investment securities available-for-sale:						
Mortgage-backed securities	\$ 30,851	\$ (2)	\$ -	\$ -	\$ 30,851	\$ (2)
CMO/REMIC	71,781	(212)	-	-	71,781	(212)
Municipal bonds	-	-	-	-	-	-
Total available-for-sale securities	<u>\$ 102,632</u>	<u>\$ (214)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,632</u>	<u>\$ (214)</u>

The table below presents the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019, prior to adoption of ASU 2016-13. Management previously reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired.

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

At September 30, 2020 and December 31, 2019, investment securities having a carrying value of approximately \$1.86 billion and \$1.64 billion, respectively, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities at September 30, 2020, by contractual maturity, are shown in the table below. Although mortgage-backed and CMO/REMIC securities have weighted average remaining contractual maturities of approximately 17 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.

	September 30, 2020			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	<i>(Dollars in thousands)</i>			
Due in one year or less	\$ 27,816	\$ 27,968	\$ 2,730	\$ 2,764
Due after one year through five years	1,960,912	2,012,028	327,785	341,060
Due after five years through ten years	119,315	121,652	81,246	84,329
Due after ten years	42,321	43,998	165,933	175,369
Total investment securities	<u>\$ 2,150,364</u>	<u>\$ 2,205,646</u>	<u>\$ 577,694</u>	<u>\$ 603,522</u>

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 as of September 30, 2020.

5. 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.

	September 30, 2020	December 31, 2019
	<i>(Dollars in thousands)</i>	
Commercial and industrial	\$ 817,056	\$ 935,127
SBA	304,987	305,008
SBA - Paycheck Protection Program (PPP)	1,101,142	-
Real estate:		
Commercial real estate	5,428,223	5,374,617
Construction	101,903	116,925
SFR mortgage	274,731	283,468
Dairy & livestock and agribusiness	252,802	383,709
Municipal lease finance receivables	38,040	53,146
Consumer and other loans	88,988	116,319
Total loans	<u>8,407,872</u>	<u>7,568,319</u>
Less: Deferred loan fees, net (1)	-	(3,742)
Total loans, net of deferred loan fees	<u>8,407,872</u>	<u>7,564,577</u>
Less: Allowance for credit losses	(93,869)	(68,660)
Total loans and lease finance receivables, net	<u>\$ 8,314,003</u>	<u>\$ 7,495,917</u>

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

As of September 30, 2020, 69.04% of the Company's total gross loan portfolio consisted of real estate loans, with commercial real estate loans representing 64.56% of total loans. Substantially all of the Company's real estate loans and construction loans are secured by real properties located in California. As of September 30, 2020, \$271.2 million, or 5.00% of the total commercial real estate loans included loans secured by farmland, compared to \$241.8 million, or 4.50%, at December 31, 2019. The loans secured by farmland included \$121.1 million for loans secured by dairy & livestock land and \$150.2 million for loans secured by agricultural land at September 30, 2020, compared to \$125.9 million for loans secured by dairy & livestock land and \$115.9 million for loans secured by agricultural land at December 31, 2019. As of September 30, 2020, dairy & livestock and agribusiness loans of \$252.8 million were comprised of \$210.4 million for dairy & livestock loans and \$42.4 million for agribusiness loans, compared to \$323.5 million for dairy & livestock loans and \$60.2 million for agribusiness loans at December 31, 2019.

At September 30, 2020 and December 31, 2019, loans totaling \$6.00 billion and \$6.03 billion, respectively, were pledged to secure the borrowings and available lines of credit from the FHLB and the Federal Reserve Bank.

There were no outstanding loans held-for-sale as of September 30, 2020 and December 31, 2019.

Credit Quality Indicators

An important element of our approach to credit risk management is our loan risk rating system. The originating officer assigns each loan an initial risk rating, which is reviewed and confirmed or changed, as appropriate, by credit management. Approvals are made based upon the amount of inherent credit risk specific to the transaction and are reviewed for appropriateness by senior line and credit management personnel. Loans are monitored by line and credit management personnel on an ongoing basis for deterioration or improvement in a borrower's financial condition, which would impact the ability of the borrower to perform under the contract. Risk ratings are adjusted as necessary.

Loans are risk rated into the following categories (Credit Quality Indicators): Pass, Special Mention, Substandard, Doubtful and Loss. Each of these groups is assessed for the proper amount to be used in determining the adequacy of our allowance for losses. These categories can be described as follows:

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

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

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

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

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

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

September 30, 2020	Origination Year						Revolving loans amortized cost basis	Revolving loans converted to term loans	Total
	2020	2019	2018	2017	2016	Prior			
<i>(Dollars in thousands)</i>									
Commercial and industrial loans:									
Risk Rating:									
Pass	\$ 81,480	\$ 170,738	\$ 72,345	\$ 62,918	\$ 41,860	\$ 80,669	\$ 255,407	\$ 8,153	\$ 773,570
Special Mention	-	1,235	3,087	814	241	5,015	15,970	1,022	27,384
Substandard	4,545	111	1,500	1,815	448	8	6,472	1,203	16,102
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Commercial and industrial loans:	\$ 86,025	\$ 172,084	\$ 76,932	\$ 65,547	\$ 42,549	\$ 85,692	\$ 277,849	\$ 10,378	\$ 817,056
SBA loans:									
Risk Rating:									
Pass	\$ 37,389	\$ 13,394	\$ 46,193	\$ 72,665	\$ 26,687	\$ 88,255	\$ -	\$ 2,873	\$ 287,456
Special Mention	-	-	-	1,113	1,352	6,910	-	-	9,375
Substandard	-	-	955	1,998	1,546	3,657	-	-	8,156
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total SBA loans:	\$ 37,389	\$ 13,394	\$ 47,148	\$ 75,776	\$ 29,585	\$ 98,822	\$ -	\$ 2,873	\$ 304,987
SBA - PPP loans:									
Risk Rating:									
Pass	\$ 1,101,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,101,142
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total SBA - PPP loans:	\$ 1,101,142	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,101,142
Commercial real estate loans:									
Risk Rating:									
Pass	\$ 617,068	\$ 701,648	\$ 680,997	\$ 684,519	\$ 589,553	\$ 1,776,989	\$ 201,021	\$ 26,329	\$ 5,278,124
Special Mention	4,619	11,125	18,168	21,767	13,865	48,591	5,447	297	123,879
Substandard	-	793	3,815	5,497	1,281	14,597	237	-	26,220
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Commercial real estate loans:	\$ 621,687	\$ 713,566	\$ 702,980	\$ 711,783	\$ 604,699	\$ 1,840,177	\$ 206,705	\$ 26,626	\$ 5,428,223
Construction loans:									
Risk Rating:									
Pass	\$ 11,160	\$ 8,614	\$ 14,399	\$ 15,667	\$ 10,592	\$ 4	\$ 41,467	\$ -	\$ 101,903
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Construction loans:	\$ 11,160	\$ 8,614	\$ 14,399	\$ 15,667	\$ 10,592	\$ 4	\$ 41,467	\$ -	\$ 101,903
SFR mortgage loans:									
Risk Rating:									
Pass	\$ 52,050	\$ 62,087	\$ 33,614	\$ 25,069	\$ 28,344	\$ 69,215	\$ -	\$ -	\$ 270,379
Special Mention	15	-	-	-	-	456	-	-	471
Substandard	-	238	-	-	229	2,974	-	440	3,881
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total SFR mortgage loans:	\$ 52,065	\$ 62,325	\$ 33,614	\$ 25,069	\$ 28,573	\$ 72,645	\$ -	\$ 440	\$ 274,731

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September 30, 2020	Origination Year						Revolving loans amortized cost basis	Revolving loans converted to term loans	Total
	2020	2019	2018	2017	2016	Prior			
	<i>(Dollars in thousands)</i>								
Dairy & livestock and agribusiness loans:									
Risk Rating:									
Pass	\$ 742	\$ 2,201	\$ 1,675	\$ 5,709	\$ 152	\$ 341	\$ 210,610	\$ 494	\$ 221,924
Special Mention	13	-	-	-	-	-	11,596	1,631	13,240
Substandard	-	-	849	703	2,985	-	824	12,277	17,638
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Dairy & livestock and agribusiness loans:	\$ 755	\$ 2,201	\$ 2,524	\$ 6,412	\$ 3,137	\$ 341	\$ 223,030	\$ 14,402	\$ 252,802
Municipal lease finance receivables loans:									
Risk Rating:									
Pass	\$ 123	\$ -	\$ 2,556	\$ 10,436	\$ 3,587	\$ 20,926	\$ -	\$ -	\$ 37,628
Special Mention	-	-	-	-	-	412	-	-	412
Substandard	-	-	-	-	-	-	-	-	-
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Municipal lease finance receivables loans:	\$ 123	\$ -	\$ 2,556	\$ 10,436	\$ 3,587	\$ 21,338	\$ -	\$ -	\$ 38,040
Consumer and other loans:									
Risk Rating:									
Pass	\$ 5,483	\$ 2,334	\$ 971	\$ 1,068	\$ 1,714	\$ 1,380	\$ 72,501	\$ 1,994	\$ 87,445
Special Mention	-	-	-	-	-	91	737	-	828
Substandard	-	-	-	-	-	174	-	541	715
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Consumer and other loans:	\$ 5,483	\$ 2,334	\$ 971	\$ 1,068	\$ 1,714	\$ 1,645	\$ 73,238	\$ 2,535	\$ 88,988
Gross loans:									
Risk Rating:									
Pass	\$ 1,906,637	\$ 961,016	\$ 852,750	\$ 878,051	\$ 702,489	\$ 2,037,779	\$ 781,006	\$ 39,843	\$ 8,159,571
Special Mention	4,647	12,360	21,255	23,694	15,458	61,475	33,750	2,950	175,589
Substandard	4,545	1,142	7,119	10,013	6,489	21,410	7,533	14,461	72,712
Doubtful & Loss	-	-	-	-	-	-	-	-	-
Total Gross loans:	\$ 1,915,829	\$ 974,518	\$ 881,124	\$ 911,758	\$ 724,436	\$ 2,120,664	\$ 822,289	\$ 57,254	\$ 8,407,872

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

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

Allowance for Credit Losses

The allowance for credit losses for 2020 is based upon historical lifetime loss rate models segregated by three loan segments: Commercial and Industrial, Commercial Real Estate, and Consumer Retail. Our methodology for assessing the appropriateness of the allowance is reviewed on a regular basis and considers overall risks in the Bank's loan portfolio. Refer to Note 3 – *Summary of Significant Accounting Policies* contained herein for a more detailed discussion concerning the allowance for credit losses.

Our allowance for credit losses decreased in the third quarter by \$114,000, as a result of net charge-offs of \$114,000. There was no provision for credit losses in the third quarter of 2020. Our allowance for credit losses at September 30, 2020 was \$93.9 million or 1.12% of total loans. For the nine months ended September 30, 2020, the ACL increased by \$25.2 million, including a \$1.8 million increase from the adoption of CECL on January 1, 2020. The increase in the ACL was primarily due to \$23.5 million in provision for credit losses recorded in the first half of 2020 resulting from the forecasted changes in macroeconomic variables related to the COVID-19 pandemic. Our economic forecast continues to be a blend of multiple forecasts produced by Moody's. Moody's baseline forecast continues to represent more than a 50% weighting in our multi-weighted forecast scenario. This U.S. baseline forecast assumes GDP will increase by 27% in the third quarter, 2.9% in the fourth quarter and then grow by 3.5% in 2021 and 5% in 2022. The unemployment rate in this baseline forecast is forecasted to be 8.9% in the third quarter of 2021, stay at an elevated level over 8% through 2021, before declining to 6.4% percent in 2022. With California slowly re-opening its economy and currently having an unemployment rate greater than 11% percent, our forecast includes a partial weighting of downside economic forecast scenarios from Moody's.

Management believes that the ACL was appropriate at September 30, 2020 and December 31, 2019. There is a high degree of uncertainty around the epidemiological assumptions and impact of government responses to the pandemic that impact our economic forecast, so 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.

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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 September 30, 2020				Ending Balance September 30, 2020
	Ending Balance June 30, 2020	Charge-offs	Recoveries	Provision for (Recapture of) Credit Losses	
	<i>(Dollars in thousands)</i>				
Commercial and industrial	\$ 7,991	\$ (161)	\$ 2	\$ 761	\$ 8,593
SBA	3,651	(47)	69	(169)	3,504
SBA - PPP	-	-	-	-	-
Real estate:					
Commercial real estate	74,928	-	-	(473)	74,455
Construction	2,290	-	3	(355)	1,938
SFR mortgage	222	-	-	15	237
Dairy & livestock and agribusiness	3,379	-	-	330	3,709
Municipal lease finance receivables	302	-	-	(153)	149
Consumer and other loans	1,220	(23)	43	44	1,284
Total allowance for credit losses	\$ 93,983	\$ (231)	\$ 117	\$ -	\$ 93,869

	Three Months Ended September 30, 2019				Ending Balance September 30, 2019
	Ending Balance June 30, 2019	Charge-offs	Recoveries	Provision for (Recapture of) Loan Losses	
	<i>(Dollars in thousands)</i>				
Commercial and industrial	\$ 7,857	\$ -	\$ 94	\$ 287	\$ 8,238
SBA	1,119	(65)	-	412	1,466
Real estate:					
Commercial real estate	48,287	-	-	624	48,911
Construction	871	-	3	55	929
SFR mortgage	2,323	-	8	44	2,375
Dairy & livestock and agribusiness	5,341	-	-	88	5,429
Municipal lease finance receivables	726	-	-	(64)	662
Consumer and other loans	608	(3)	3	54	662
Total allowance for loan losses	\$ 67,132	\$ (68)	\$ 108	\$ 1,500	\$ 68,672

	Nine Months Ended September 30, 2020				Ending Balance September 30, 2020
	Ending Balance, prior to adoption of ASU 2016-13 December 31, 2019	Impact of Adoption of ASU 2016-13	Charge-offs	Recoveries	
	<i>(Dollars in thousands)</i>				
Commercial and industrial	\$ 8,880	\$ (2,442)	\$ (172)	\$ 7	\$ 8,593
SBA	1,453	1,818	(203)	72	3,504
SBA - PPP	-	-	-	-	-
Real estate:					
Commercial real estate	48,629	3,547	-	-	74,455
Construction	858	655	-	9	1,938
SFR mortgage	2,339	(2,043)	-	206	237
Dairy & livestock and agribusiness	5,255	(186)	-	-	3,709
Municipal lease finance receivables	623	(416)	-	-	149
Consumer and other loans	623	907	(109)	59	1,284
Total allowance for credit losses	\$ 68,660	\$ 1,840	\$ (484)	\$ 353	\$ 93,869

	Nine Months Ended September 30, 2019				
	Ending Balance December 31, 2018	Charge-offs	Recoveries	Provision for (Recapture of) Loan Losses	Ending Balance September 30, 2019
	<i>(Dollars in thousands)</i>				
Commercial and industrial	\$ 7,528	\$ (48)	\$ 253	\$ 505	\$ 8,238
SBA	1,078	(295)	9	674	1,466
Real estate:					
Commercial real estate	45,097	-	-	3,814	48,911
Construction	981	-	9	(61)	929
SFR mortgage	2,197	-	191	(13)	2,375
Dairy & livestock and agribusiness	5,225	(78)	19	263	5,429
Municipal lease finance receivables	775	-	-	(113)	662
Consumer and other loans	732	(7)	6	(69)	662
Total allowance for loan losses	<u>\$ 63,613</u>	<u>\$ (428)</u>	<u>\$ 487</u>	<u>\$ 5,000</u>	<u>\$ 68,672</u>

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

	September 30, 2019			
	Recorded Investment in Loans		Allowance for Loan Losses	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
	<i>(Dollars in thousands)</i>			
Commercial and industrial	\$ 1,638	\$ 920,040	\$ 254	\$ 7,984
SBA	3,248	316,323	286	1,180
Real estate:				
Commercial real estate	1,500	5,374,168	-	48,911
Construction	-	119,931	-	929
SFR mortgage	3,009	275,635	-	2,375
Dairy & livestock and agribusiness	-	311,229	-	5,429
Municipal lease finance receivables	-	54,468	-	662
Consumer and other loans	385	116,743	-	662
Total	<u>\$ 9,780</u>	<u>\$ 7,488,537</u>	<u>\$ 540</u>	<u>\$ 68,132</u>

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 loan losses, and to determine the adequacy of the ACL, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers and any guarantors, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, 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, 2019, for additional discussion concerning the Bank's policy for past due and nonperforming loans.

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

	September 30, 2020					
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total Loans and Financing Receivables
	<i>(Dollars in thousands)</i>					
Commercial and industrial	\$ 3,582	\$ 1,209	\$ 560	\$ 5,351	\$ 811,705	\$ 817,056
SBA	468	270	777	1,515	303,472	304,987
SBA - PPP	-	-	-	-	1,101,142	1,101,142
Real estate:						
Commercial real estate						
Owner occupied	-	-	3,770	3,770	2,121,430	2,125,200
Non-owner occupied	-	-	1,715	1,715	3,301,308	3,303,023
Construction						
Speculative (1)	-	-	-	-	94,232	94,232
Non-speculative	-	-	-	-	7,671	7,671
SFR mortgage	-	-	467	467	274,264	274,731
Dairy & livestock and agribusiness	-	849	-	849	251,953	252,802
Municipal lease finance receivables	-	-	-	-	38,040	38,040
Consumer and other loans	68	-	34	102	88,886	88,988
Total gross loans	<u>\$ 4,118</u>	<u>\$ 2,328</u>	<u>\$ 7,323</u>	<u>\$ 13,769</u>	<u>\$ 8,394,103</u>	<u>\$ 8,407,872</u>

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

Following the adoption of CECL on January 1, 2020, the definitions of impairment and related impaired loan disclosures were removed. Under CECL, amortized cost of our finance receivables and loans that are on nonaccrual status, including loans with no allowance, are presented as of September 30, 2020 by type of loan.

	September 30, 2020		
	Nonaccrual with No Allowance for Credit Losses	Total Nonaccrual (1) (3)	Loans Past Due Over 89 Days Still Accruing
	<i>(Dollars in thousands)</i>		
Commercial and industrial	\$ 1,421	\$ 1,822	\$ -
SBA	850	1,724	-
SBA - PPP	-	-	-
Real estate:			
Commercial real estate			
Owner occupied	4,766	4,766	-
Non-owner occupied	-	1,715	-
Construction			
Speculative (2)	-	-	-
Non-speculative	-	-	-
SFR mortgage	675	675	-
Dairy & livestock and agribusiness	849	849	-
Municipal lease finance receivables	-	-	-
Consumer and other loans	224	224	-
Total gross loans	<u>\$ 8,785</u>	<u>\$ 11,775</u>	<u>\$ -</u>

- (1) As of September 30, 2020, \$1.8 million of nonaccruing loans were current, \$571,000 were 30-59 days past due, \$2.1 million were 60-89 days past due, and \$7.3 million were 90+ days past due.
- (2) Speculative construction loans are generally for properties where there is no identified buyer or renter.
- (3) Excludes \$51,000 of guaranteed portion of nonaccrual SBA loans that are in process of collection.

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

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

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

Impaired Loans (prior to adoption of CECL)

Following the adoption of CECL as of January 1, 2020, the definitions of impairment and related impaired loan disclosures were removed. As a result of the change, the following tables present information about our impaired loans and lease finance receivables, individually evaluated for impairment by type of loans, as of September 30, 2019 and December 31, 2019, prior to the date of adoption of the amendments to the credit loss standard.

	As of and For the Nine Months Ended September 30, 2019				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(Dollars in thousands)</i>					
With no related allowance recorded:					
Commercial and industrial	\$ 1,382	\$ 1,537	\$ -	\$ 1,560	\$ 4
SBA	2,447	3,554	-	2,606	31
Real estate:					
Commercial real estate					
Owner occupied	494	614	-	508	-
Non-owner occupied	1,006	1,190	-	1,052	21
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SFR mortgage	3,009	3,338	-	3,059	62
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	385	516	-	401	-
Total	<u>8,723</u>	<u>10,749</u>	<u>-</u>	<u>9,186</u>	<u>118</u>
With a related allowance recorded:					
Commercial and industrial	256	345	254	829	-
SBA	801	816	286	816	-
Real estate:					
Commercial real estate					
Owner occupied	-	-	-	-	-
Non-owner occupied	-	-	-	-	-
Construction					
Speculative	-	-	-	-	-
Non-speculative	-	-	-	-	-
SFR mortgage	-	-	-	-	-
Dairy & livestock and agribusiness	-	-	-	-	-
Municipal lease finance receivables	-	-	-	-	-
Consumer and other loans	-	-	-	-	-
Total	<u>1,057</u>	<u>1,161</u>	<u>540</u>	<u>1,645</u>	<u>-</u>
Total impaired loans	<u>\$ 9,780</u>	<u>\$ 11,910</u>	<u>\$ 540</u>	<u>\$ 10,831</u>	<u>\$ 118</u>

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	December 31, 2019		
	Recorded	Unpaid Principal	Related
	Investment	Balance	Allowance
	<i>(Dollars in thousands)</i>		
With no related allowance recorded:			
Commercial and industrial	\$ 1,091	\$ 1,261	\$ -
SBA	2,243	2,734	-
Real estate:			
Commercial real estate			
Owner occupied	479	613	-
Non-owner occupied	642	643	-
Construction			
Speculative	-	-	-
Non-speculative	-	-	-
SFR mortgage	2,979	3,310	-
Dairy & livestock and agribusiness	-	-	-
Municipal lease finance receivables	-	-	-
Consumer and other loans	377	514	-
Total	<u>7,811</u>	<u>9,075</u>	<u>-</u>
With a related allowance recorded:			
Commercial and industrial	253	347	251
SBA	325	324	257
Real estate:			
Commercial real estate			
Owner occupied	-	-	-
Non-owner occupied	-	-	-
Construction			
Speculative	-	-	-
Non-speculative	-	-	-
SFR mortgage	-	-	-
Dairy & livestock and agribusiness	-	-	-
Municipal lease finance receivables	-	-	-
Consumer and other loans	-	-	-
Total	<u>578</u>	<u>671</u>	<u>508</u>
Total impaired loans	<u>\$ 8,389</u>	<u>\$ 9,746</u>	<u>\$ 508</u>

Collateral Dependent Loans

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

	September 30, 2020			Number of Loans Dependent on Collateral
	Real Estate	Business Assets	Other	
	<i>(Dollars in thousands)</i>			
Commercial and industrial	\$ 145	\$ 4,703	\$ 62	14
SBA	1,015	497	7	11
SBA - PPP	-	-	-	-
Real estate:				
Commercial real estate	6,836	-	-	7
Construction	-	-	-	-
SFR mortgage	675	-	-	3
Dairy & livestock and agribusiness	-	849	-	1
Municipal lease finance receivables	-	-	-	-
Consumer and other loans	203	-	20	4
Total collateral-dependent loans	<u>\$ 8,874</u>	<u>\$ 6,049</u>	<u>\$ 89</u>	<u>40</u>

Reserve for Unfunded Loan Commitments

The allowance for off-balance sheet credit exposure relates to commitments to extend credit, letters of credit and undisbursed funds on lines of credit. The Company evaluates credit risk associated with the off-balance sheet loan commitments at the same time as it evaluates credit risk associated with the loan and lease portfolio. As a result of the adoption of ASU 2016-13, the reserve for unfunded loan commitments included a transition adjustment of \$41,000 as of January 1, 2020. There was no provision or recapture of provision for unfunded commitments for the nine months ended September 30, 2020. As of September 30, 2020 and December 31, 2019, the balance in this reserve was \$9.0 million and was included in other liabilities.

Troubled Debt Restructurings (“TDRs”)

Loans that are reported as TDRs are considered nonperforming 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, 2019 for a more detailed discussion regarding TDRs.

As of September 30, 2020, there were \$2.2 million of loans classified as a TDR, all of which were performing. TDRs on accrual status are comprised of loans that were accruing interest at the time of restructuring or have demonstrated repayment performance in compliance with the restructured terms for a sustained period and for which the Company anticipates full repayment of both principal and interest. At September 30, 2020, performing TDRs were comprised of seven SFR mortgage loans of \$1.8 million, one commercial real estate loan of \$354,000, and one commercial and industrial loan of \$47,000.

The majority of TDRs have no specific allowance allocated as any impairment amount is normally charged off at the time a probable loss is determined. We have no allocated allowance to TDRs as of September 30, 2020 and December 31, 2019.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	<i>(Dollars in thousands)</i>			
Performing TDRs:				
Beginning balance	\$ 2,771	\$ 3,219	\$3,112	\$ 3,594
New modifications	-	-	-	-
Payoffs/payments, net and other	(554)	(51)	(895)	(426)
TDRs returned to accrual status	-	-	-	-
TDRs placed on nonaccrual status	-	-	-	-
Ending balance	<u>\$ 2,217</u>	<u>\$ 3,168</u>	<u>\$ 2,217</u>	<u>\$ 3,168</u>
Nonperforming TDRs:				
Beginning balance	\$ -	\$ 263	\$ 244	\$ 3,509
New modifications	-	-	-	-
Charge-offs	-	-	-	(78)
Transfer to OREO	-	-	-	(2,275)
Payoffs/payments, net and other	-	(14)	(244)	(907)
TDRs returned to accrual status	-	-	-	-
TDRs placed on nonaccrual status	-	-	-	-
Ending balance	<u>\$ -</u>	<u>\$ 249</u>	<u>\$ -</u>	<u>\$ 249</u>
Total TDRs	<u>\$ 2,217</u>	<u>\$ 3,417</u>	<u>\$ 2,217</u>	<u>\$ 3,417</u>

As of September 30, 2020 and 2019, there were no loans that were modified as TDRs during the nine months ended September 30, 2020 and 2019, respectively.

There were no loans that were previously modified as a TDR within the previous 12 months that subsequently defaulted during the nine months ended September 30, 2020 and 2019.

In accordance with regulatory guidance, if borrowers are less than 30 days past due on their loans, upon implementation of the modification program, or as allowed under the CARES Act if borrowers are less than 30 days past due on their loans as of December 31, 2019, and enter into short-term loan modifications offered as a result of COVID-19, their loans generally continue to be considered performing loans and continue to accrue interest during the period of the loan modification. For borrowers who are 30 days or more past due when entering into loan modifications offered as a result of COVID-19, we evaluate the loan modifications under our existing troubled debt restructuring framework, and where such a loan modification would result in a concession to a borrower experiencing financial difficulty, the loan will be accounted for as a TDR and will generally not accrue interest. For all borrowers who enroll in these loan modification programs offered as a result of COVID-19, the delinquency status of the borrowers is frozen, resulting in a static delinquency metric during the deferral period. Upon exiting the deferral program, the measurement of loan delinquency will resume where it had left off upon entry into the program. As of October 9, 2020, we have loans with temporary payment deferrals of interest or of principal and interest for 90 days in the amount of \$68.6 million, or less than 1% of our total loan portfolio, at September 30, 2020.

6. 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 nine months ended September 30, 2020, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share, were 517,000 and 361,000, respectively. For the three and nine months ended September 30, 2019, shares deemed to be antidilutive, and thus excluded from the computation of earnings per common share, were 240,000 and 184,000, 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(In thousands, except per share amounts)</i>			
Earnings per common share:				
Net earnings	\$ 47,492	\$ 50,423	\$ 127,103	\$ 156,546
Less: Net earnings allocated to restricted stock	175	116	407	390
Net earnings allocated to common shareholders	\$ 47,317	\$ 50,307	\$ 126,696	\$ 156,156
Weighted average shares outstanding	135,017	139,824	136,369	139,730
Basic earnings per common share	\$ 0.35	\$ 0.36	\$ 0.93	\$ 1.12
Diluted earnings per common share:				
Net income allocated to common shareholders	\$ 47,317	\$ 50,307	\$ 126,696	\$ 156,156
Weighted average shares outstanding	135,017	139,824	136,369	139,730
Incremental shares from assumed exercise of outstanding options	167	151	167	217
Diluted weighted average shares outstanding	135,184	139,975	136,536	139,947
Diluted earnings per common share	\$ 0.35	\$ 0.36	\$ 0.93	\$ 1.12

7. FAIR VALUE INFORMATION

Fair Value Hierarchy

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

The following disclosure provides the fair value information for financial assets and liabilities as of September 30, 2020. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, Level 2 and Level 3).

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

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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.

Description of assets	Carrying Value at September 30, 2020	Quoted Prices in	Significant Other	Significant
		Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<i>(Dollars in thousands)</i>				
Description of assets				
Investment securities - AFS:				
Mortgage-backed securities	\$ 1,756,871	\$ -	\$ 1,756,871	\$ -
CMO/REMIC	411,494	-	411,494	-
Municipal bonds	36,468	-	36,468	-
Other securities	813	-	813	-
Total investment securities - AFS	2,205,646	-	2,205,646	-
Interest rate swaps	37,255	-	37,255	-
Total assets	<u>\$ 2,242,901</u>	<u>\$ -</u>	<u>\$ 2,242,901</u>	<u>\$ -</u>
Description of liability				
Interest rate swaps	\$ 37,255	\$ -	\$ 37,255	\$ -
Total liabilities	<u>\$ 37,255</u>	<u>\$ -</u>	<u>\$ 37,255</u>	<u>\$ -</u>

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

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

We may be required to measure certain assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting or 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 September 30, 2020 and December 31, 2019, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets that had losses during the period.

Description of assets	Carrying Value at September 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses For the Nine Months Ended September 30, 2020
		<i>(Dollars in thousands)</i>					
Description of assets							
Loans:							
Commercial and industrial	\$ 3,273	\$ -	\$ -	\$ -	\$ 3,273	\$ 2,034	
SBA	712	-	-	-	712	203	
Real estate:							
Commercial real estate	1,715	-	-	-	1,715	1,295	
Construction	-	-	-	-	-	-	
SFR mortgage	-	-	-	-	-	-	
Dairy & livestock and agribusiness	-	-	-	-	-	-	
Consumer and other loans	-	-	-	-	-	-	
Other real estate owned	2,275	-	-	-	2,275	700	
Asset held-for-sale	-	-	-	-	-	-	
Total assets	\$ 7,975	\$ -	\$ -	\$ -	\$ 7,975	\$ 4,232	

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

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 September 30, 2020 and December 31, 2019, respectively. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	September 30, 2020				
	Carrying Amount	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
<i>(Dollars in thousands)</i>					
Assets					
Total cash and cash equivalents	\$ 1,484,953	\$ 1,484,953	\$ -	\$ -	\$ 1,484,953
Interest-earning balances due from depository institutions	44,367	-	44,414	-	44,414
Investment securities available-for-sale	2,205,646	-	2,205,646	-	2,205,646
Investment securities held-to-maturity	577,694	-	603,522	-	603,522
Total loans, net of allowance for credit losses	8,314,003	-	-	8,326,796	8,326,796
Swaps	37,255	-	37,255	-	37,255
Liabilities					
Deposits:					
Interest-bearing	\$ 4,249,411	\$ -	\$ 4,250,728	\$ -	\$ 4,250,728
Borrowings	493,420	-	493,344	-	493,344
Junior subordinated debentures	25,774	-	-	18,917	18,917
Swaps	37,255	-	37,255	-	37,255

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

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2020 and December 31, 2019. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented above.

8. 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 September 30, 2020, the Bank has entered into 133 interest-rate swap agreements with customers with a notional amount totaling \$455.2 million. The Bank then entered into identical offsetting swaps with a counterparty. The swap agreements are not designated as hedging instruments. The purpose of entering into offsetting derivatives not designated as a hedging instrument is to provide the Bank a variable-rate loan receivable and to provide the customer the financial effects of a fixed-rate loan without creating significant volatility in the Bank’s earnings.

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

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

Balance Sheet Classification of Derivative Financial Instruments

As of September 30, 2020 and December 31, 2019, the total notional amount of the Company’s swaps was \$455.2 million, and \$260.0 million, respectively. The location of the asset and liability, and their respective fair values, are summarized in the tables below.

		September 30, 2020			
		Asset Derivatives		Liability Derivatives	
		Balance Sheet	Fair	Balance Sheet	Fair
		Location	Value	Location	Value
		<i>(Dollars in thousands)</i>			
Derivatives not designated as hedging instruments:					
Interest rate swaps	Other assets	\$	37,255	Other liabilities	\$ 37,255
Total derivatives		\$	37,255		\$ 37,255
		December 31, 2019			
		Asset Derivatives		Liability Derivatives	
		Balance Sheet	Fair	Balance Sheet	Fair
		Location	Value	Location	Value
		<i>(Dollars in thousands)</i>			
Derivatives not designated as hedging instruments:					
Interest rate swaps	Other assets	\$	11,502	Other liabilities	\$ 11,502
Total derivatives		\$	11,502		\$ 11,502

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

The following table summarizes the effect of derivative financial instruments on the condensed consolidated statement 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 September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
<i>(Dollars in thousands)</i>					
Interest rate swaps	Other income	\$ 1,591	\$ 378	\$ 4,149	\$ 1,135
Total		\$ 1,591	\$ 378	\$ 4,149	\$ 1,135

9. OTHER COMPREHENSIVE INCOME

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

	Three Months Ended September 30,					
	2020			2019		
	Before-tax	Tax effect	After-tax	Before-tax	Tax effect	After-tax
<i>(Dollars in thousands)</i>						
Investment securities:						
Net change in fair value recorded in accumulated OCI	\$ (1,974)	\$ 584	\$ (1,390)	\$ 5,672	\$ (1,677)	\$ 3,995
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity	(30)	9	(21)	(249)	74	(175)
Net realized gain reclassified into earnings (1)	-	-	-	(5)	1	(4)
Net change	\$ (2,004)	\$ 593	\$ (1,411)	\$ 5,418	\$ (1,602)	\$ 3,816

	Nine Months Ended September 30,					
	2020			2019		
	Before-tax	Tax effect	After-tax	Before-tax	Tax effect	After-tax
<i>(Dollars in thousands)</i>						
Investment securities:						
Net change in fair value recorded in accumulated OCI	\$ 33,382	\$ (9,869)	\$ 23,513	\$ 44,586	\$ (13,181)	\$ 31,405
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity	(48)	14	(34)	(1,450)	429	(1,021)
Net realized gain reclassified into earnings (1)	-	-	-	(5)	1	(4)
Net change	\$ 33,334	\$ (9,855)	\$ 23,479	\$ 43,131	\$ (12,751)	\$ 30,380

(1) Included in other noninterest income.

10. 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		
				Financial Instruments	Collateral Pledged	Net Amount

(Dollars in thousands)

September 30, 2020

Financial assets:

Derivatives not designated as hedging instruments	\$ 37,255	\$ -	\$ -	\$ 37,255	\$ -	\$ 37,255
Total	\$ 37,255	\$ -	\$ -	\$ 37,255	\$ -	\$ 37,255

Financial liabilities:

Derivatives not designated as hedging instruments	\$ 37,255	\$ -	\$ 37,255	\$ -	\$ (66,946)	\$ (29,691)
Repurchase agreements	483,420	-	483,420	-	(498,535)	(15,115)
Total	\$ 520,675	\$ -	\$ 520,675	\$ -	\$ (565,481)	\$ (44,806)

December 31, 2019

Financial assets:

Derivatives not designated as hedging instruments	\$ 11,502	\$ -	\$ -	\$ 11,502	\$ -	\$ 11,502
Total	\$ 11,502	\$ -	\$ -	\$ 11,502	\$ -	\$ 11,502

Financial liabilities:

Derivatives not designated as hedging instruments	\$ 11,619	\$ (117)	\$ 11,502	\$ 117	\$ (23,312)	\$ (11,693)
Repurchase agreements	428,659	-	428,659	-	(510,138)	(81,479)
Total	\$ 440,278	\$ (117)	\$ 440,161	\$ 117	\$ (533,450)	\$ (93,172)

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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.

	September 30, 2020	December 31, 2019
	<i>(Dollars in thousands)</i>	
Lease Assets and Liabilities		
ROU assets	\$ 19,771	\$ 18,522
Total lease liabilities	21,939	21,392

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	<i>(Dollars in thousands)</i>			
Lease Cost				
Operating lease expense (1)	\$ 1,654	\$ 1,628	\$ 4,900	\$ 5,634
Sublease income	-	-	-	-
Total lease expense	<u>\$ 1,654</u>	<u>\$ 1,628</u>	<u>\$ 4,900</u>	<u>\$ 5,634</u>

(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	\$ 1,826	\$ 1,640	\$ 5,630	\$ 6,499

	September 30, 2020	December 31, 2019
Weighted average remaining lease term (years)	4.29	4.18
Weighted average discount rate	2.86%	3.34%

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The Company's lease arrangements that have not yet commenced as of September 30, 2020 and the Company's short-term lease costs and variable lease costs, for the nine months ended September 30, 2020 are not material to the consolidated financial statements. The future lease payments required for leases that have initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2020, excluding property taxes and insurance, are as follows:

	September 30, 2020	
	<i>(Dollars in thousands)</i>	
Year:		
2020 (excluding the nine months ended September 30, 2020)	\$	1,781
2021		6,656
2022		5,475
2023		3,615
2024		2,428
Thereafter		3,461
Total future lease payments		23,416
Less: Imputed interest		(1,477)
Present value of lease liabilities	\$	<u>21,939</u>

12. REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)" and all subsequent ASUs that modified Topic 606. Refer to Note 3 – *Summary of Significant Accounting Policies* and Note 24 – *Revenue Recognition* of our 2019 Annual Report on Form 10-K for the year ended December 31, 2019 for a more detailed discussion about noninterest revenue streams that are in-scope of Topic 606.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the periods indicated.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	<i>(Dollars in thousands)</i>			
Noninterest income:				
<i>In-scope of Topic 606:</i>				
Service charges on deposit accounts	\$ 3,970	\$ 4,833	\$ 12,555	\$ 15,039
Trust and investment services	2,405	2,330	7,302	6,964
Bankcard services	456	637	1,438	2,614
Gain on OREO, net	13	-	23	129
Other	3,160	2,292	8,736	6,939
Noninterest Income (in-scope of Topic 606)	10,004	10,092	30,054	31,685
Noninterest Income (out-of-scope of Topic 606)	3,149	1,802	6,891	14,717
Total noninterest income	<u>\$ 13,153</u>	<u>\$ 11,894</u>	<u>\$ 36,945</u>	<u>\$ 46,402</u>

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, 2019, and the unaudited condensed consolidated financial statements and accompanying notes presented elsewhere in this report.

IMPACT OF COVID-19

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

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. It contains substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic. The CARES Act includes the Paycheck Protection Program ("PPP"), a \$349 billion program designed to aid small- and medium-sized businesses through 100% SBA guaranteed loans distributed through banks. These loans were intended to guarantee 24 weeks of payroll and other costs to help those businesses remain viable and keep their workers employed. The SBA exhausted the initial funding for this program on April 15, 2020, but legislation passed on April 24, 2020 to provide additional PPP funds of \$310 billion. We originated and funded about 4,100 loans, totaling approximately \$1.10 billion, as of September 30, 2020. In response to the COVID-19 pandemic, we have also implemented a short-term loan modification program to provide temporary payment relief to certain of our borrowers who meet the program's qualifications. This program allows for a deferral of payments for 90 days. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date of the existing loan. As of October 9, 2020, we have remaining temporary payment deferments of principal, interest or of principal and interest in response to the CARES Act for 33 loans totaling \$68.6 million. These deferments were primarily for 90 days, with 89% of these loans being pass rated. Of these loans, 27 have received a second deferment and the remaining six loans are first deferments.

The third quarter of 2020 did not include a provision for credit losses, as the economic outlook is generally consistent with the forecast from the prior quarter end. In comparison, the Company recorded a provision for credit losses of \$23.5 million in the first half of 2020, including \$11.5 million in the second quarter. We continue to monitor the impact of COVID-19 closely, as well as any effects that may result from the CARES Act. The extent to which the COVID-19 pandemic will impact our operations and financial results during the fourth quarter of 2020 is highly uncertain, but we may experience increased provision for credit losses if this pandemic results in economic stress greater than forecasted on our borrowers and loan portfolios and lower interest income if the current low interest rate environment continues.

CRITICAL ACCOUNTING POLICIES

The 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")
- Business Combinations
- Valuation and Recoverability of Goodwill
- Income Taxes

Our significant accounting policies are described in greater detail in our 2019 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, 2019, which are essential to understanding Management's Discussion and Analysis of Financial Condition and Results of Operations.

Adoption of Allowance for Credit Losses

We adopted ASU 2016-13, commonly referred to as Current Expected Credit Losses ("CECL"), which replaces the "incurred loss" approach with an "expected loss" model over the life of the loan, effective on January 1, 2020. We adopted the guidance using a modified retrospective approach, as required, and have not adjusted prior period comparative information and will continue to disclose prior period financial information in accordance with the previous accounting guidance. The adoption of ASU 2016-13, resulted in a reduction to our opening retained earnings of approximately \$1.3 million. The ACL policy is described more fully in Note 3 – *Summary of Significant Accounting Policies* of the notes to the unaudited condensed consolidated financial statements.

[Table of Contents](#)**Recently Issued Accounting Pronouncements but Not Adopted as of September 30, 2020**

Standard	Description	Adoption Timing	Impact on Financial Statements
ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting <i>Issued March 2020</i>	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	Although the Company is assessing the impacts of this transition and exploring alternatives to use in place of LIBOR for various financial instruments, primarily related to our variable-rate loans, our subordinated debentures, and interest rate swap derivatives that are indexed to LIBOR, we do not expect this ASU to have a material impact on the Company's consolidated financial statements.
ASU 2020-01, Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) <i>Issued January 2020</i>	The FASB issued ASU 2020-01, Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815). This ASU clarifies the interactions between ASC 321, ASC 323 and ASC 815 and addresses accounting for the transition into and out of the equity method and also provides guidance on whether equity method accounting would be applied to certain purchased options and forward contracts upon settlement.	1st Quarter 2021	The adoption of this ASU will not have an impact on our consolidated financial statements.
ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity <i>Issued August 2020</i>	The FASB issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This ASU reduces the number of accounting models for convertible instruments and allows more contracts to qualify for equity classification.	1st Quarter 2022	The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

OVERVIEW

For the third quarter of 2020, we reported net earnings of \$47.5 million, compared with \$41.6 million for the second quarter of 2020 and \$50.4 million for the third quarter of 2019. Diluted earnings per share were \$0.35 for the third quarter, compared to \$0.31 for the prior quarter and \$0.36 for the same period last year.

No provision for credit losses was recorded for the third quarter of 2020. The Company's economic forecast of macro-economic variables was generally consistent with the forecast at the end of the second quarter. A \$23.5 million provision for credit losses was recorded in the first half of 2020, due to the economic disruption and forecasted impact resulting from COVID-19. In comparison to the prior year, a \$1.5 million loan loss provision was incurred for the third quarter of 2019. During the third quarter of 2020, we experienced minimal credit charge-offs of \$231,000 and total recoveries of \$117,000, resulting in net charge-offs of \$114,000. During the second quarter of 2020, the Company originated, under the SBA Paycheck Protection Program, approximately 4,100 loans, of which \$1.10 billion was outstanding at September 30, 2020. Interest and fee income from PPP loans increased from approximately \$8.5 million in the second quarter of 2020, to \$9.5 million in the third quarter of 2020.

At September 30, 2020, total assets of \$13.82 billion increased \$2.54 billion, or 22.48%, from total assets of \$11.28 billion at December 31, 2019. Interest-earning assets of \$12.59 billion at September 30, 2020 increased \$2.57 billion, or 25.59%, when compared with \$10.03 billion at December 31, 2019. The increase in interest-earning assets was primarily due to a \$1.31 billion increase in interest-earning balances due from the Federal Reserve, an \$843.3 million increase in total loans, and a \$368.6 million increase in investment securities. Excluding PPP loans, total loans declined by \$257.8 million from December 31, 2019.

Total investment securities were \$2.78 billion at September 30, 2020, an increase of \$368.6 million, or 15.27%, from \$2.41 billion at December 31, 2019. At September 30, 2020, investment securities held-to-maturity ("HTM") totaled \$577.7 million. At September 30, 2020, investment securities available-for-sale ("AFS") totaled \$2.21 billion, inclusive of a net pre-tax unrealized gain of \$55.3 million, an increase of \$33.4 million from December 31, 2019. HTM securities declined by \$96.8 million, or 14.35%, and AFS securities increased by \$465.4 million, or 26.74%, from December 31, 2019. Our tax equivalent yield on investments was 1.99% for the quarter ended September 30, 2020, compared to 2.22% for the second quarter of 2020 and 2.47% for the third quarter of 2019.

Total loans and leases, net of deferred fees and discounts, of \$8.41 billion at September 30, 2020 increased by \$843.3 million, or 11.15%, from December 31, 2019. The increase in total loans included \$1.10 billion in PPP loans and a \$130.9 million decline in dairy & livestock and agribusiness loans primarily due to seasonal pay downs, which historically occur in the first quarter of each calendar year. Excluding PPP loans and dairy & livestock and agribusiness loans, total loans declined by \$126.9 million, or 1.77%. The \$126.9 million decrease in loans included decreases of \$118.1 million in commercial and industrial loans, \$27.3 million in consumer and other loans, \$15.1 million in municipal lease financings, \$15.0 million in construction loans, and \$8.7 million in SFR mortgage loans. Partially offsetting these declines was an increase in commercial real estate loans of \$53.6 million. Our yield on loans was 4.47% for the quarter ended September 30, 2020, compared to 4.77% for the second quarter of 2020 and 5.23% for the third quarter of 2019. This decline was primarily due to the impact of the Federal Reserve's rate decreases and the decline in discount accretion income for acquired loans. Interest income for yield adjustments related to discount accretion on acquired loans was \$4.2 million for the quarter ended September 30, 2020, compared to \$4.1 million for the second quarter of 2020 and \$7.2 million for the third quarter of 2019.

Noninterest-bearing deposits were \$6.92 billion at September 30, 2020, an increase of \$1.67 billion, or 31.91%, when compared to December 31, 2019. The significant deposit growth in the first nine months of 2020 was primarily due to our customers maintaining greater liquidity. At September 30, 2020, noninterest-bearing deposits were 61.95% of total deposits, compared to 60.26% at December 31, 2019. Our average cost of total deposits was 0.11% for the quarter ended September 30, 2020, compared to 0.12% for the second quarter of 2020 and 0.21% for the third quarter of 2019.

Customer repurchase agreements totaled \$483.4 million at September 30, 2020, compared to \$428.7 million at December 31, 2019. Our average cost of total deposits including customer repurchase agreements was 0.11% for the quarter ended September 30, 2020, compared to 0.12% for the second quarter of 2020 and 0.22% for the third quarter of 2019.

At September 30, 2020, we had \$10.0 million in short-term borrowings with 0% cost, compared to no borrowings at December 31, 2019 and September 30, 2019. At September 30, 2020, we had \$25.8 million of junior subordinated debentures, unchanged from December 31, 2019. Our average cost of funds was 0.11% for the quarter ended September 30, 2020, 0.13% for the second quarter of 2020, and 0.23% for the third quarter of 2019.

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The allowance for credit losses totaled \$93.9 million at September 30, 2020, compared to \$68.7 million at December 31, 2019. Due to the adoption of CECL, effective on January 1, 2020, a transition adjustment of \$1.8 million was added to the beginning balance of the allowance and was increased by \$23.5 million in provision for credit losses in the first nine months of 2020 due to the severe economic disruption forecasted to result from the COVID-19 pandemic. At September 30, 2020, ACL as a percentage of total loans and leases outstanding was 1.12%, or 1.28% when PPP loans are excluded. This compares to 0.91% at December 31, 2019. As of September 30, 2020, total discounts on acquired loans were \$35.2 million.

The Company's total equity was \$1.98 billion at September 30, 2020. This represented a decrease of \$12.1 million, or 0.61%, from total equity of \$1.99 billion at December 31, 2019. This decrease was primarily due to repurchase of common stock of \$91.7 million under our 10b5-1 stock repurchase program, and \$73.3 million in cash dividends, offset by net earnings of \$127.1 million and a \$23.5 million increase in other comprehensive income resulting from the tax effected impact of the increase in market value of our available-for-sale investment securities portfolio. Our tangible common equity ratio was 9.8% at September 30, 2020.

Our capital ratios under the revised capital framework referred to as Basel III remain well-above regulatory requirements. As of September 30, 2020, the Company's Tier 1 leverage capital ratio totaled 9.88%, our common equity Tier 1 ratio totaled 14.60%, our Tier 1 risk-based capital ratio totaled 14.89%, and our total risk-based capital ratio totaled 16.08%. We did not elect to phase in the impact of CECL on regulatory capital, as allowed under the interim final rule of the FDIC and other U.S. banking agencies. Refer to our *Analysis of Financial Condition – Capital Resources*.

ANALYSIS OF THE RESULTS OF OPERATIONS
Financial Performance

	Three Months Ended		Variance	
	September 30, 2020	June 30, 2020	\$	%
	<i>(Dollars in thousands, except per share amounts)</i>			
Net interest income	\$ 103,325	\$ 104,569	\$ (1,244)	-1.19%
Provision for credit losses	-	(11,500)	11,500	100.00%
Noninterest income	13,153	12,152	1,001	8.24%
Noninterest expense	(49,588)	(46,398)	(3,190)	-6.88%
Income taxes	(19,398)	(17,192)	(2,206)	-12.83%
Net earnings	\$ 47,492	\$ 41,631	\$ 5,861	14.08%
Earnings per common share:				
Basic	\$ 0.35	\$ 0.31	\$ 0.04	
Diluted	\$ 0.35	\$ 0.31	\$ 0.04	
Return on average assets	1.38%	1.33%	0.05%	
Return on average shareholders' equity	9.51%	8.51%	1.00%	
Efficiency ratio	42.57%	39.75%	2.82%	
Noninterest expense to average assets	1.44%	1.48%	-0.04%	

	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2020	2019			2020	2019		
	<i>(Dollars in thousands, except per share amounts)</i>							
Net interest income	\$ 103,325	\$ 108,159	\$ (4,834)	-4.47%	\$ 310,200	\$ 328,752	\$(18,552)	-5.64%
Provision for credit losses	-	(1,500)	1,500	100.00%	(23,500)	(5,000)	(18,500)	-370.00%
Noninterest income	13,153	11,894	1,259	10.59%	36,945	46,402	(9,457)	-20.38%
Noninterest expense	(49,588)	(47,535)	(2,053)	-4.32%	(144,627)	(149,667)	5,040	3.37%
Income taxes	(19,398)	(20,595)	1,197	5.81%	(51,915)	(63,941)	12,026	18.81%
Net earnings	\$ 47,492	\$ 50,423	\$ (2,931)	-5.81%	\$ 127,103	\$ 156,546	\$ (29,443)	-18.81%
Earnings per common share:								
Basic	\$ 0.35	\$ 0.36	\$ (0.01)		\$ 0.93	\$ 1.12	\$ (0.19)	
Diluted	\$ 0.35	\$ 0.36	\$ (0.01)		\$ 0.93	\$ 1.12	\$ (0.19)	
Return on average assets	1.38%	1.78%	-0.40%		1.35%	1.86%	-0.51%	
Return on average shareholders' equity	9.51%	10.18%	-0.67%		8.55%	10.89%	-2.34%	
Efficiency ratio	42.57%	39.60%	2.97%		41.66%	39.89%	1.77%	
Noninterest expense to average assets	1.44%	1.68%	-0.24%		1.54%	1.77%	-0.23%	

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			Nine Months Ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Dollars in thousands)				
Net Income	\$ 47,492	\$ 41,631	\$ 50,423	\$ 127,103	\$ 156,546
Add: Amortization of intangible assets	2,292	2,445	2,648	7,182	8,338
Less: Tax effect of amortization of intangible assets (1)	(678)	(723)	(783)	(2,123)	(2,465)
Tangible net income	\$ 49,106	\$ 43,353	\$ 52,288	\$ 132,162	\$ 162,419
Average stockholders' equity	\$ 1,985,842	\$ 1,966,600	\$ 1,965,427	\$ 1,986,300	\$ 1,921,981
Less: Average goodwill	(663,707)	(663,707)	(663,707)	(663,707)	(665,470)
Less: Average intangible assets	(37,133)	(39,287)	(46,720)	(39,376)	(49,682)
Average tangible common equity	\$ 1,285,002	\$ 1,263,606	\$ 1,255,000	\$ 1,283,217	\$ 1,206,829
Return on average equity, annualized	9.51%	8.51%	10.18%	8.55%	10.89%
Return on average tangible common equity, annualized	15.20%	13.80%	16.53%	13.76%	17.99%

(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 nine months ended September 30, 2020 and 2019. 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.

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The table below presents the interest rate spread, net interest margin and the composition of average interest-earning assets and average interest-bearing liabilities by category for the periods indicated, including the changes in average balance, composition, and average yield/rate between these respective periods.

	Three Months Ended September 30,					
	2020			2019		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<i>(Dollars in thousands)</i>						
INTEREST-EARNING ASSETS						
Investment securities (1)						
Available-for-sale securities:						
Taxable	\$ 1,970,636	\$ 8,244	1.82%	\$ 1,505,087	\$ 8,949	2.38%
Tax-advantaged	36,193	203	3.26%	40,189	273	3.75%
Held-to-maturity securities:						
Taxable	429,897	2,265	2.11%	506,203	2,883	2.28%
Tax-advantaged	164,854	1,110	3.26%	205,996	1,415	3.32%
Investment in FHLB stock	17,688	215	4.84%	17,688	301	6.75%
Interest-earning deposits with other institutions	1,494,149	389	0.10%	174,119	946	2.16%
Loans (2)	8,382,257	94,200	4.47%	7,495,289	98,796	5.23%
Total interest-earning assets	12,495,674	106,626	3.45%	9,944,571	113,563	4.55%
Total noninterest-earning assets	1,231,502			1,269,845		
Total assets	<u>\$ 13,727,176</u>			<u>\$ 11,214,416</u>		
INTEREST-BEARING LIABILITIES						
Savings deposits (3)	\$ 3,735,204	2,010	0.21%	\$ 2,991,330	3,501	0.46%
Time deposits	449,484	948	0.84%	473,347	1,088	0.91%
Total interest-bearing deposits	4,184,688	2,958	0.28%	3,464,677	4,589	0.53%
FHLB advances, other borrowings, and customer repurchase agreements	539,833	343	0.25%	446,087	815	0.72%
Interest-bearing liabilities	4,724,521	3,301	0.28%	3,910,764	5,404	0.55%
Noninterest-bearing deposits	6,731,711			5,227,595		
Other liabilities	285,102			110,630		
Stockholders' equity	1,985,842			1,965,427		
Total liabilities and stockholders' equity	<u>\$ 13,727,176</u>			<u>\$ 11,214,416</u>		
Net interest income		<u>\$ 103,325</u>			<u>\$108,159</u>	
Net interest spread - tax equivalent			3.17%			4.00%
Net interest margin			3.33%			4.32%
Net interest margin - tax equivalent			3.34%			4.34%

- (1) Includes tax equivalent (TE) adjustments utilizing federal statutory rates of 21% in effect for the three months ended September 30, 2020 and 2019. The non TE rates were 1.93% and 2.40% for the three months ended September 30, 2020 and 2019, respectively.
- (2) Includes loan fees of \$7.4 million and \$782,000 for the three months ended September 30, 2020 and 2019, respectively. Prepayment penalty fees of \$1.8 million and \$1.0 million are included in interest income for the three months ended September 30, 2020 and 2019, respectively.
- (3) Includes interest-bearing demand and money market accounts.

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	Nine Months Ended September 30,					
	2020			2019		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<i>(Dollars in thousands)</i>						
INTEREST-EARNING ASSETS						
Investment securities (1)						
Available-for-sale securities:						
Taxable	\$ 1,737,723	\$ 26,313	2.08%	\$ 1,582,902	\$ 29,079	2.45%
Tax-advantaged	36,897	632	3.30%	42,746	906	3.87%
Held-to-maturity securities:						
Taxable	449,230	7,410	2.20%	509,247	8,725	2.29%
Tax-advantaged	177,364	3,623	3.29%	216,343	4,524	3.37%
Investment in FHLB stock	17,688	761	5.75%	17,688	931	7.04%
Interest-earning deposits with other institutions	947,211	1,285	0.18%	70,848	1,140	2.15%
Loans (2)	7,972,208	281,669	4.72%	7,571,502	300,326	5.30%
Total interest-earning assets	11,338,321	321,693	3.82%	10,011,276	345,631	4.63%
Total noninterest-earning assets	1,237,241			1,269,160		
Total assets	<u>\$ 12,575,562</u>			<u>\$ 11,280,436</u>		
INTEREST-BEARING LIABILITIES						
Savings deposits (3)	\$ 3,396,259	7,131	0.28%	\$ 3,047,444	9,159	0.40%
Time deposits	448,615	2,946	0.88%	497,370	3,394	0.91%
Total interest-bearing deposits	3,844,874	10,077	0.35%	3,544,814	12,553	0.47%
FHLB advances, other borrowings, and customer repurchase agreements	505,710	1,416	0.37%	573,633	4,326	1.00%
Interest-bearing liabilities	4,350,584	11,493	0.35%	4,118,447	16,879	0.55%
Noninterest-bearing deposits	6,063,469			5,136,233		
Other liabilities	175,209			103,775		
Stockholders' equity	1,986,300			1,921,981		
Total liabilities and stockholders' equity	<u>\$ 12,575,562</u>			<u>\$ 11,280,436</u>		
Net interest income		<u>\$ 310,200</u>			<u>\$328,752</u>	
Net interest spread - tax equivalent			3.47%			4.08%
Net interest margin			3.67%			4.39%
Net interest margin - tax equivalent			3.68%			4.41%

- (1) Includes tax equivalent (TE) adjustments utilizing federal statutory rates of 21% in effect for the nine months ended September 30, 2020 and 2019. The non TE rates were 2.16% and 2.45% for the nine months ended September 30, 2020 and 2019, respectively.
- (2) Includes loan fees of \$15.3 million and \$2.3 million for the nine months ended September 30, 2020 and 2019, respectively. Prepayment penalty fees of \$5.4 million and \$3.4 million are included in interest income for the nine months ended September 30, 2020 and 2019, respectively.
- (3) Includes interest-bearing demand and money market accounts.

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

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

	Comparison of Three Months Ended September 30, 2020 Compared to 2019			
	Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total
<i>(Dollars in thousands)</i>				
Interest income:				
Available-for-sale securities:				
Taxable investment securities	\$ 1,835	\$ (2,108)	\$ (432)	\$ (705)
Tax-advantaged investment securities	(24)	(42)	(4)	(70)
Held-to-maturity securities:				
Taxable investment securities	(395)	(194)	(29)	(618)
Tax-advantaged investment securities	(273)	(27)	(5)	(305)
Investment in FHLB stock	-	(86)	-	(86)
Interest-earning deposits with other institutions	7,184	(902)	(6,839)	(557)
Loans	12,369	(15,170)	(1,795)	(4,596)
Total interest income	20,696	(18,529)	(9,104)	(6,937)
Interest expense:				
Savings deposits	874	(1,894)	(471)	(1,491)
Time deposits	(53)	(83)	(4)	(140)
FHLB advances, other borrowings, and customer repurchase agreements	172	(532)	(112)	(472)
Total interest expense	993	(2,509)	(587)	(2,103)
Net interest income	\$ 19,703	\$ (16,020)	\$ (8,517)	\$ (4,834)

	Comparison of Nine Months Ended September 30, 2020 Compared to 2019			
	Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Total
<i>(Dollars in thousands)</i>				
Interest income:				
Available-for-sale securities:				
Taxable investment securities	\$ 1,861	\$ (4,349)	\$ (278)	\$ (2,766)
Tax-advantaged investment securities	(124)	(174)	24	(274)
Held-to-maturity securities:				
Taxable investment securities	(1,015)	(339)	39	(1,315)
Tax-advantaged investment securities	(815)	(105)	19	(901)
Investment in FHLB stock	-	(170)	-	(170)
Interest-earning deposits with other institutions	14,238	(1,054)	(13,039)	145
Loans	15,682	(32,613)	(1,726)	(18,657)
Total interest income	29,827	(38,804)	(14,961)	(23,938)
Interest expense:				
Savings deposits	1,045	(2,758)	(315)	(2,028)
Time deposits	(331)	(130)	13	(448)
FHLB advances, other borrowings, and customer repurchase agreements	(513)	(2,719)	322	(2,910)
Total interest expense	201	(5,607)	20	(5,386)
Net interest income	\$ 29,626	\$ (33,197)	\$ (14,981)	\$ (18,552)

Third Quarter of 2020 Compared to the Third Quarter of 2019

Net interest income, before provision for credit losses, of \$103.3 million for the third quarter of 2020 decreased \$4.8 million, or 4.47%, compared to \$108.2 million for the third quarter of 2019. Interest-earning assets increased on average by \$2.55 billion, or 25.65%, from \$9.94 billion for the third quarter of 2019 to \$12.50 billion for the third quarter of 2020. Our net interest margin (TE) was 3.34% for the third quarter of 2020, compared to 4.34% for the third quarter of 2019.

Interest income for the third quarter of 2020 was \$106.6 million, which represented a \$6.9 million, or 6.11%, decrease when compared to the same period of 2019. Average interest-earning assets increased to \$12.50 billion and the average interest-earning asset yield of 3.45%, compared to 4.55% for the third quarter of 2019. The 110 basis point decrease in the interest-earning asset yield over the third quarter of 2019 was primarily due to a combination of a 76 basis point decrease in loan yields, a 48 basis point decrease in investment yields and a change in mix of earning assets with average balances at the Federal Reserve growing to 11.62% of earning assets for the third quarter of 2020, compared to 1.69% for the third quarter of 2019. The increase in balances at the Federal Reserve resulted from \$2.22 billion in average deposit growth during the third quarter of 2020.

Interest income and fees on loans for the third quarter of 2020 of \$94.2 million decreased \$4.6 million, or 4.65%, when compared to the third quarter of 2019. Average loans increased \$887.0 million for the third quarter of 2020 when compared with the same period of 2019, primarily due to \$1.10 billion in average PPP loans originated in the second quarter of 2020. The PPP loans we originated resulted in the recognition of approximately \$9.5 million in loan interest and fee income in the third quarter of 2020. Discount accretion on acquired loans decreased by \$2.9 million compared to the third quarter of 2019. The Federal Reserve lowered short-term interest rates by 175 basis points when compared to the end of the third quarter of 2019. The significant decline in interest rates over the past four quarters had a negative impact on loan yields, which after excluding discount accretion, nonaccrual interest income, and the impact from PPP loans, declined by 44 basis points from the third quarter of 2019.

Interest income from investment securities was \$11.8 million for the third quarter of 2020, a \$1.7 million, or 12.56%, decrease from \$13.5 million for the third quarter of 2019. This decrease was primarily the result of a 47 basis point decline in the non tax-equivalent yield on investments as the decline in interest rates over the past four quarters decreased yields on investment securities. Partially offsetting the decline from lower rates was a \$344.1 million increase in average investment securities for the third quarter of 2020, compared to the same period of 2019.

Interest expense of \$3.3 million for the third quarter of 2020, decreased \$2.1 million, or 38.92%, compared to the third quarter of 2019. The average rate paid on interest-bearing liabilities declined to 0.28% for the third quarter of 2020 from 0.55% for the third quarter of 2019. On average, noninterest-bearing deposits were 61.67% of our total deposits for the third quarter of 2020, compared to 60.14% for the third quarter of 2019. In comparison to the third quarter of 2019, our overall cost of funds decreased by 12 basis points, as average noninterest-bearing deposits grew by \$1.50 billion. Average interest-bearing deposits increased by \$720.0 million compared to the third quarter of 2019, while the cost of interest-bearing deposits decreased by 25 basis points.

Nine Months of 2020 Compared to the Nine Months of 2019

Net interest income, before provision for credit losses, was \$310.2 million for the nine months ended September 30, 2020, a decrease of \$18.6 million, or 5.64%, compared to \$328.8 million for the same period of 2019. Interest-earning assets increased on average by \$1.33 billion, or 13.26%, from \$10.01 billion for the nine months ended September 30, 2019 to \$11.34 billion for the current year. Our net interest margin (TE) was 3.68% during the first nine months of 2020, compared to 4.41% for the same period of 2019.

Interest income for the nine months ended September 30, 2020 was \$321.7 million, which represented a \$23.9 million, or 6.93%, decrease when compared to the same period of 2019. Compared to the first nine months of 2019, average interest-earning assets increased by \$1.33 billion primarily due to PPP loans, and the yield on interest-earning assets decreased by 81 basis points. The 81 basis point decrease in the earning asset yield over the first nine months of 2020, resulted from a 58 basis point decrease in loan yields from 5.30% for first nine months of 2019 to 4.72% for the same period of 2020, and a 31 basis point decline in investment yields, as well as a change in the mix of earning assets resulting from an \$852.6 million increase in average balances at the Federal Reserve. Average loans as a percentage of earning assets declined from 75.63% for the first nine months of 2019 to 70.31% for the first nine months of 2020. Conversely, average balances at the Federal Reserve grew as a percentage of earning assets from 0.64% in the prior year to 8.09% for the first nine months of 2020.

Interest income and fees on loans for the first nine months of 2020 of \$281.7 million decreased \$18.7 million, or 6.21%, when compared to the same period of 2019. Average loans increased \$400.7 million for the first nine months of 2020 when compared with the same period of 2019, primarily due to \$591.4 million in average PPP loans. The PPP loans we originated resulted in approximately \$13.5 million in fee income and \$4.5 million in loan interest during the first nine months of 2020. The first nine months of 2020 reflected a \$9.3 million decrease in discount accretion on acquired loans and nonaccrual interest income when compared to the same period of 2019. Loan yields decreased by 58 basis points from the prior nine month period. Excluding the impact of PPP loans, interest income related to purchase discount accretion and nonaccrual interest income, loan yields were 33 basis points lower than the first nine months of 2019. This decline in loan yields was primarily due to lower rates on loans indexed to variable interest rates such as the Bank's prime rate.

Interest income from investment securities was \$38.0 million for the nine months ended September 30, 2020, a \$5.3 million decrease from \$43.2 million for the first nine months of 2019. This decrease was the net result of a 29 basis point decline in the non tax-equivalent yield on securities, compared to the first nine months of 2019, partially offset by a \$50.0 million increase in the average investment securities for the first nine months of 2020.

Interest expense of \$11.5 million for the nine months ended September 30, 2020, decreased by \$5.4 million from the same period of 2019. The average rate paid on interest-bearing liabilities decreased by 20 basis points, to 0.35% for the first nine months of 2020, from 0.55% for the same period of 2019. The rate on interest-bearing deposits for the first nine months of 2020 decreased by 12 basis points from the same period in 2019. Average interest-bearing liabilities were \$232.1 million higher for the first nine months of 2020 when compared with the same period of 2019. Average interest-bearing deposits grew by \$300.1 million when compared to the first nine months of 2019. Average noninterest-bearing deposits represented 61.20% of our total deposits for the nine months ended September 30, 2020, compared to 59.17% for the same period of 2019. Total cost of funds for the first nine months of 2020 was 0.15%, compared with 0.24% for the same period of 2019.

Provision for Credit Losses

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

The allowance for credit losses on loans totaled \$93.9 million at September 30, 2020, compared to \$68.7 million at December 31, 2019 and \$68.7 million as of September 30, 2019. Upon adoption of CECL, a transition adjustment of \$1.8 million was added to the beginning balance of the allowance, with no impact on the consolidated statement of earnings, and was increased by \$23.5 million in provision for credit losses in the first nine months of 2020 due to the severe economic disruption forecasted as a result of the COVID-19 pandemic. For the nine months ended September 30, 2020, we experienced minimal credit charge-offs of \$484,000 and total recoveries of \$353,000, resulting in net charge-offs of \$131,000. This compares to a \$5.0 million loan loss provision and net recoveries of \$59,000 for the same period of 2019. The ratio of the allowance for credit losses to total loans and leases outstanding, net of deferred fees and discount, as of September 30, 2020, was 1.12%, or 1.28% when PPP loans are excluded. This compares to 0.91% and 0.92%, as of December 31, 2019 and September 30, 2019, respectively. As of September 30, 2020, remaining discounts on acquired loans were \$35.2 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 adversely affect the Company's service areas or other circumstances will or will not be reflected in increased provisions for credit losses in the future, as the nature of this process requires considerable judgment. We may experience increases in the provision for credit losses, in future periods, due to further deterioration in economic conditions from the COVID-19 pandemic. See "Allowance for Credit Losses" under *Analysis of Financial Condition* herein.

Noninterest Income

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

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

	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30,				September 30,			
	2020	2019	\$	%	2020	2019	\$	%
<i>(Dollars in thousands)</i>								
Noninterest income:								
Service charges on deposit accounts	\$ 3,970	\$ 4,833	\$(863)	-17.86%	\$ 12,555	\$ 15,039	\$(2,484)	-16.52%
Trust and investment services	2,405	2,330	75	3.22%	7,302	6,964	338	4.85%
Bankcard services	456	637	(181)	-28.41%	1,438	2,614	(1,176)	-44.99%
BOLI income	1,469	1,797	(328)	-18.25%	5,211	4,482	729	16.27%
Swap fee income	1,591	378	1,213	320.90%	4,149	1,135	3,014	265.55%
Gain on OREO, net	13	-	13	-	23	129	(106)	-82.17%
Gain on sale of building, net	1,680	-	1,680	-	1,680	4,545	(2,865)	-63.04%
Gain on eminent domain condemnation, net	-	-	-	-	-	5,685	(5,685)	-100.00%
Other	1,569	1,919	(350)	-18.24%	4,587	5,809	(1,222)	-21.04%
Total noninterest income	\$ 13,153	\$ 11,894	\$ 1,259	10.59%	\$ 36,945	\$ 46,402	\$(9,457)	-20.38%

Third Quarter of 2020 Compared to the Third Quarter of 2019

The \$1.3 million increase in noninterest income was primarily due to a \$1.7 million net gain on the sale of one of our bank owned buildings, related to a banking center that was closed in September in the third quarter of 2020.

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 8 – *Derivative Financial Instruments* of the notes to the unaudited condensed consolidated financial statements of this report for additional information). The third quarter of 2020 included higher swap fee income of \$1.2 million compared to the third quarter of 2019, due to higher volume of swap transactions. We executed on swap agreements related to new loan originations with a notional amount totaling \$73.2 million for the third quarter of 2020, compared to \$19.0 million for the third quarter of 2019.

Service charges on deposit accounts decreased by \$863,000 from the third quarter of 2019. This decrease was primarily due to the increase in noninterest-bearing deposits held at the Bank by our customers, which earn credits toward the fees associated with the products and services utilized by our business customers.

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 September 30, 2020, CitizensTrust had approximately \$2.91 billion in assets under management and administration, including \$2.08 billion in assets under management. CitizensTrust generated fees of \$2.4 million for the third quarter of 2020, compared to \$2.3 million for the third quarter of 2019.

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. Increases in the cash value of these policies, as well as insurance proceeds received, are recorded in noninterest income and are not subject to income tax, as long as they are held for the life of the covered parties. Income from BOLI declined by \$328,000 compared to the third quarter of 2019.

Nine Months of 2020 Compared to the Nine Months of 2019

The \$9.5 million decrease in noninterest income for the nine months ended September 30, 2020, was primarily due to a \$5.7 million net gain from the legal settlement of an eminent condemnation of one of our business financial center buildings in Bakersfield during the first nine months of 2019. In addition, there was a \$2.9 million decrease in net gains on sale of bank owned buildings between the first nine months of 2020 and the first nine months of 2019. Service charges on deposit accounts decreased by \$2.5 million from the first nine months of 2019. This decrease was primarily due to the higher earnings credits generated by the significant increase in our customer's noninterest-bearing deposits held at the Bank. In addition, bankcard services decreased by approximately \$1.2 million when compared to 2019, primarily due to the Durbin Amendment's cap on debit card interchange fees. Swap fee income increased \$3.0 million compared to the third quarter of 2019, due to higher volume of swap transactions. The \$729,000 increase in BOLI income included \$1.2 million of death benefits included in our BOLI policies for the first nine months of 2020. The \$1.2 million decrease in other income in the first nine months of 2020 included decreases in dividend income from various equity investments, other banking fee income and SBA servicing income when compared to the same period of 2019.

Noninterest Expense

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

	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30,				September 30,			
	2020	2019	\$	%	2020	2019	\$	%
<i>(Dollars in thousands)</i>								
Noninterest expense:								
Salaries and employee benefits	\$ 31,034	\$ 30,122	\$ 912	3.03%	\$ 90,617	\$ 88,286	\$ 2,331	2.64%
Occupancy	4,290	3,976	314	7.90%	12,171	12,771	(600)	-4.70%
Equipment	985	903	82	9.08%	2,972	2,959	13	0.44%
Professional services	2,019	1,688	331	19.61%	6,643	5,653	990	17.51%
Computer software expense	2,837	2,663	174	6.53%	8,407	8,032	375	4.67%
Marketing and promotion	728	1,517	(789)	-52.01%	3,538	4,149	(611)	-14.73%
Amortization of intangible assets	2,292	2,648	(356)	-13.44%	7,182	8,338	(1,156)	-13.86%
Telecommunications expense	643	656	(13)	-1.98%	1,929	2,126	(197)	-9.27%
Regulatory assessments	998	147	851	578.91%	1,313	1,805	(492)	-27.26%
Insurance	400	430	(30)	-6.98%	1,192	1,368	(176)	-12.87%
Loan expense	207	308	(101)	-32.79%	833	1,115	(282)	-25.29%
OREO expense	830	-	830	-	1,200	37	1,163	3143.24%
Directors' expenses	358	350	8	2.29%	1,067	1,029	38	3.69%
Stationery and supplies	227	259	(32)	-12.36%	894	867	27	3.11%
Acquisition related expenses	-	244	(244)	-100.00%	-	6,005	(6,005)	-100.00%
Other	1,740	1,624	116	7.14%	4,669	5,127	(458)	-8.93%
Total noninterest expense	<u>\$ 49,588</u>	<u>\$ 47,535</u>	<u>\$ 2,053</u>	<u>4.32%</u>	<u>\$ 144,627</u>	<u>\$ 149,667</u>	<u>\$(5,040)</u>	<u>-3.37%</u>
Noninterest expense to average assets	1.44%	1.68%			1.54%	1.77%		
Efficiency ratio (1)	42.57%	39.60%			41.66%	39.89%		

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

Third Quarter of 2020 Compared to the Third Quarter of 2019

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 1.44% for the third quarter of 2020, compared to 1.68% for the third quarter of 2019. This decline mostly reflects the \$2.51 billion growth in average assets that resulted primarily from \$2.22 billion in average deposit growth.

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 42.57% for the third quarter of 2020, compared to 39.60% for the third quarter of 2019.

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Noninterest expense of \$49.6 million for the third quarter of 2020 was \$2.1 million, or 4.32%, higher than the third quarter of 2019. There were no merger related expenses related to the Community Bank (“CB”) acquisition for the third quarter of 2020, compared to \$244,000 for the third quarter of 2019. The \$912,000 increase in salary expense from the prior year was primarily due to \$1.1 million in additional bonus expense for “Thank You Awards” paid to all Bank employees during the third quarter of 2020. The third quarter of 2020 also reflected an \$833,000 increase in regulatory assessments resulting from final application of assessment credits provided by the FDIC at the end of the second quarter of 2020 and a \$700,000 write-down of one OREO property. These increases were partially offset by a \$789,000 decrease in marketing and promotion expense.

Nine Months of 2020 Compared to the Nine Months of 2019

Noninterest expense of \$144.6 million for the first nine months of 2020 was \$5.0 million lower than the prior year period. The decrease was primarily due to \$6.0 million in merger related expenses for the nine months ended September 30, 2019, compared to no merger related expense for the same period of 2020. The year-over-year decrease also included a \$1.2 million decrease in amortization of CDI. These decreases were partially offset by a \$2.3 million increase in salaries and benefit costs. Salary and benefit expense would have increased by \$3.9 million, or approximately 4%, when a \$1.6 million increase in net deferred loan costs, primarily related to the origination of PPP loans, is excluded for the nine months ended September 30, 2020. This \$3.9 million increase was primarily due to \$3.0 million, or 3.93%, in higher salaries, payroll taxes and benefits when compared to the prior year period. As a percentage of average assets, noninterest expense was 1.54% for the nine months ended September 30, 2020, compared to 1.77% for the same period of 2019. For the nine months ended September 30, 2020, the efficiency ratio was 41.66%, compared to 39.89% for the same period of 2019.

Income Taxes

The Company’s effective tax rate for the three and nine months ended September 30, 2020 was 29.00%, compared to 29.00% for the same periods of 2019. 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 \$13.82 billion at September 30, 2020 increased \$2.54 billion, or 22.48%, from total assets of \$11.28 billion at December 31, 2019. Interest-earning assets totaled \$12.59 billion at September 30, 2020, an increase of \$2.57 billion, or 25.59%, when compared with \$10.03 billion at December 31, 2019. The increase in interest-earning assets was primarily due to a \$1.31 billion increase in interest-earning balances due from the Federal Reserve, an \$843.3 million increase in total loans, and a \$368.6 million increase in investment securities. The increase in total loans was due to the origination of approximately 4,100 PPP loans, totaling \$1.10 billion at September 30, 2020. Excluding PPP loans, total loans declined by \$257.8 million from December 31, 2019.

Total liabilities were \$11.84 billion at September 30, 2020, an increase of \$2.55 billion, or 27.44%, from total liabilities of \$9.29 billion at December 31, 2019. Total deposits grew by \$2.46 billion, or 28.30%. This significant deposit growth in the first nine months of 2020 was primarily due to our customers maintaining greater liquidity. Total equity decreased \$12.1 million, or 0.61%, to \$1.98 billion at September 30, 2020, compared to total equity of \$1.99 billion at December 31, 2019. The \$12.1 million decrease in equity was primarily due to the repurchase of 4.9 million shares of common stock for \$91.7 million under our 10b5-1 stock repurchase program. We previously announced that we suspended this 10b5-1 stock repurchase program due to the Company's outlook due to the uncertainty of the COVID-19 pandemic. We had \$127.1 million in net earnings during the first nine months of 2020, offset by \$73.3 million in cash dividends declared and a cumulative effect adjustment to beginning retained earnings of \$1.3 million, net of tax, due to the adoption of CECL on January 1, 2020. Our equity also increased by \$23.5 million as a result of an increase in other comprehensive income from the increase in our tax adjusted market value of our available-for-sale investment securities.

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 September 30, 2020, total investment securities were \$2.78 billion. This represented an increase of \$368.6 million, or 15.27%, from total investment securities of \$2.41 billion at December 31, 2019. The increase in investment securities was primarily due to new securities purchased exceeding cash outflow from the portfolio in the first nine months of 2020. At September 30, 2020, investment securities HTM totaled \$577.7 million. At September 30, 2020, our AFS investment securities totaled \$2.21 billion, inclusive of a pre-tax net unrealized gain of \$55.3 million. The after-tax unrealized gain reported in AOCI on AFS investment securities was \$38.9 million. The changes in the net unrealized holding gain resulted primarily from fluctuations in market interest rates. For the nine months ended September 30, 2020 and 2019, repayments/maturities of investment securities totaled \$536.7 million and \$355.8 million, respectively. The Company purchased additional investment securities totaling \$882.1 million and \$268.3 million for the nine months ended September 30, 2020 and 2019, respectively. There were no investment securities sold during the first nine months of 2020. During the first nine months of 2019, we sold 14 investment securities at book value of approximately \$152.6 million. The average duration of our investment securities portfolio was approximately 2.7 years at September 30, 2020.

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

September 30, 2020					
Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent	
<i>(Dollars in thousands)</i>					
Investment securities available-for-sale:					
Mortgage-backed securities	\$ 1,710,160	\$ 46,713	\$ (2)	\$ 1,756,871	79.65%
CMO/REMIC	404,380	7,326	(212)	411,494	18.66%
Municipal bonds	35,011	1,457	-	36,468	1.65%
Other securities	813	-	-	813	0.04%
Total available-for-sale securities	<u>\$ 2,150,364</u>	<u>\$ 55,496</u>	<u>\$ (214)</u>	<u>\$ 2,205,646</u>	<u>100.00%</u>
Investment securities held-to-maturity:					
Government agency/GSE	\$ 103,317	\$ 6,627	\$ -	\$ 109,944	17.88%
Mortgage-backed securities	152,285	7,837	-	160,122	26.36%
CMO/REMIC	159,676	5,315	-	164,991	27.64%
Municipal bonds	162,416	6,387	(338)	168,465	28.12%
Total held-to-maturity securities	<u>\$ 577,694</u>	<u>\$ 26,166</u>	<u>\$ (338)</u>	<u>\$ 603,522</u>	<u>100.00%</u>
December 31, 2019					
Amortized Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value	Total Percent	
<i>(Dollars in thousands)</i>					
Investment securities available-for-sale:					
Mortgage-backed securities	\$ 1,185,757	\$ 21,306	\$ (750)	\$ 1,206,313	69.32%
CMO/REMIC	493,214	1,392	(896)	493,710	28.37%
Municipal bonds	38,506	850	(2)	39,354	2.26%
Other securities	880	-	-	880	0.05%
Total available-for-sale securities	<u>\$ 1,718,357</u>	<u>\$ 23,548</u>	<u>\$ (1,648)</u>	<u>\$ 1,740,257</u>	<u>100.00%</u>
Investment securities held-to-maturity:					
Government agency/GSE	\$ 117,366	\$ 2,280	\$ (657)	\$ 118,989	17.40%
Mortgage-backed securities	168,479	2,083	(54)	170,508	24.98%
CMO/REMIC	192,548	-	(2,458)	190,090	28.55%
Municipal bonds	196,059	3,867	(565)	199,361	29.07%
Total held-to-maturity securities	<u>\$ 674,452</u>	<u>\$ 8,230</u>	<u>\$ (3,734)</u>	<u>\$ 678,948</u>	<u>100.00%</u>

As of September 30, 2020, approximately \$66.7 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 7% of the total investment portfolio, are predominately AA or higher rated securities.

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

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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 September 30, 2020.

	September 30, 2020					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
	<i>(Dollars in thousands)</i>					
Investment securities available-for-sale:						
Mortgage-backed securities	\$ 30,851	\$ (2)	\$ -	\$ -	\$ 30,851	\$ (2)
CMO/REMIC	71,781	(212)	-	-	71,781	(212)
Municipal bonds	-	-	-	-	-	-
Total available-for-sale securities	<u>\$ 102,632</u>	<u>\$ (214)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,632</u>	<u>\$ (214)</u>

The table below presents the Company's investment securities' gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019, prior to adoption of ASU 2016-13. Management previously reviewed individual securities to determine whether a decline in fair value below the amortized cost basis is other-than-temporary. The unrealized losses on these securities were primarily attributed to changes in interest rates. The issuers of these securities have not, to our knowledge, evidenced any cause for default on these securities. These securities have fluctuated in value since their purchase dates as market interest rates have fluctuated. However, we have the ability and the intention to hold these securities until their fair values recover to cost or maturity. As such, management does not deem these securities to be other-than-temporarily-impaired.

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

Refer to Note 4 – *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, net of deferred fees and discounts, of \$8.41 billion at September 30, 2020 increased by \$843.3 million, or 11.15%, from \$7.56 billion at December 31, 2019. The increase in total loans included \$1.10 billion in PPP loans and a \$130.9 million decline in dairy & livestock and agribusiness loans primarily due to seasonal pay downs, which historically occur in the first quarter of each calendar year. Excluding PPP loans and dairy & livestock and agribusiness loans, total loans declined by \$126.9 million, or 1.77%. The \$126.9 million decrease in loans included decreases of \$118.1 million in commercial and industrial loans, \$27.3 million in consumer and other loans, \$15.1 million in municipal lease financings, \$15.0 million in construction loans, and \$8.7 million in SFR mortgage loans. Partially offsetting these declines was an increase in commercial real estate loans of \$53.6 million.

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

Distribution of Loan Portfolio by Type

	September 30, 2020	December 31, 2019
	<i>(Dollars in thousands)</i>	
Commercial and industrial	\$ 817,056	\$ 935,127
SBA	304,987	305,008
SBA - Paycheck Protection Program (PPP)	1,101,142	-
Real estate:		
Commercial real estate	5,428,223	5,374,617
Construction	101,903	116,925
SFR mortgage	274,731	283,468
Dairy & livestock and agribusiness	252,802	383,709
Municipal lease finance receivables	38,040	53,146
Consumer and other loans	88,988	116,319
Total loans	<u>8,407,872</u>	<u>7,568,319</u>
Less: Deferred loan fees, net (1)	-	(3,742)
Total loans, net of deferred loan fees	<u>8,407,872</u>	<u>7,564,577</u>
Less: Allowance for credit losses	(93,869)	(68,660)
Total loans and lease finance receivables, net	<u>\$ 8,314,003</u>	<u>\$ 7,495,917</u>

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

As of September 30, 2020, 69.04% of the Company's total gross loan portfolio consisted of real estate loans, with commercial real estate loans representing 64.56% of total loans. As of September 30, 2020, \$271.2 million, or 5.00% of the total commercial real estate loans included loans secured by farmland, compared to \$241.8 million, or 4.50%, at December 31, 2019. The loans secured by farmland included \$121.1 million for loans secured by dairy & livestock land and \$150.2 million for loans secured by agricultural land at September 30, 2020, compared to \$125.9 million for loans secured by dairy & livestock land and \$115.9 million for loans secured by agricultural land at December 31, 2019. As of September 30, 2020, dairy & livestock and agribusiness loans of \$252.8 million were comprised of \$210.4 million for dairy & livestock loans and \$42.4 million for agribusiness loans, compared to \$323.5 million for dairy & livestock loans and \$60.2 million for agribusiness loans at December 31, 2019.

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

As of September 30, 2020, the Company had \$185.5 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 September 30, 2020, the Company had \$119.5 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.

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As an active participant in the SBA's Paycheck Protection Program, we have originated approximately 4,100 PPP loans, totaling \$1.10 billion as of September 30, 2020.

As of September 30, 2020, the Company had \$101.9 million in construction loans. This represents 1.21% of total loans held-for-investment. Although our construction loans are located throughout our market footprint, the majority of construction loans consist of commercial land development and construction projects in Los Angeles County, Orange County, and the Inland Empire region of Southern California. There were no nonperforming construction loans at September 30, 2020.

Our loan portfolio is geographically disbursed throughout our marketplace. The following is the breakdown of our total held-for-investment commercial real estate loans, by region as of September 30, 2020.

	September 30, 2020			
	Total Loans		Commercial Real Estate Loans	
	<i>(Dollars in thousands)</i>			
Los Angeles County	\$ 3,609,538	42.9%	\$ 2,219,742	40.9%
Central Valley	1,316,422	15.7%	941,699	17.3%
Orange County	1,119,311	13.3%	666,886	12.3%
Inland Empire	1,183,026	14.1%	829,791	15.3%
Central Coast	523,297	6.2%	368,346	6.8%
San Diego	234,903	2.8%	144,973	2.7%
Other California	127,669	1.5%	83,544	1.5%
Out of State	293,706	3.5%	173,242	3.2%
	<u>\$ 8,407,872</u>	<u>100.0%</u>	<u>\$ 5,428,223</u>	<u>100.0%</u>

The table below breaks down our commercial real estate portfolio.

	September 30, 2020			
	Loan Balance	Percent	Percent Owner-Occupied (1)	Average Loan Balance
	<i>(Dollars in thousands)</i>			
Commercial real estate:				
Industrial	\$ 1,842,412	33.9%	54.4%	\$ 1,390
Office	992,216	18.3%	25.1%	1,603
Retail	771,125	14.2%	13.3%	1,673
Multi-family	608,374	11.2%	2.1%	1,662
Medical	300,867	5.6%	47.7%	1,791
Secured by farmland (2)	271,242	5.0%	97.4%	1,858
Other (3)	641,987	11.8%	54.7%	1,417
Total commercial real estate	<u>\$ 5,428,223</u>	<u>100.0%</u>	39.2%	\$ 1,534

- (1) Represents percentage of reported owner-occupied at origination in each real estate loan category.
- (2) The loans secured by farmland included \$121.1 million for loans secured by dairy & livestock land and \$150.2 million for loans secured by agricultural land at September 30, 2020.
- (3) Other loans consist of a variety of loan types, none of which exceeds 2.0% of total commercial real estate loans at September 30, 2020.

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

At September 30, 2020, commercial real estate loans on retail properties comprised \$771.1 million and approximately 9% of total loans; 1% of these loans are on deferment and \$7 million of these loans are classified. At origination, these loans on retail properties were underwritten with loan-to-values averaging approximately 53%. Approximately 53% of these loans were originated prior to 2017. We also have \$66.6 million of commercial real estate loans for hospitality properties, which is less than 1% of total loans; none of these loans are classified, but 16% of these loans are on deferment.

At September 30, 2020, commercial and industrial and SBA loans to customers in the hotel, restaurant, entertainment, retail trade, or recreation industries represented approximately \$96 million in loans, or approximately 1% of total loans; \$1.6 million of these loans are classified and \$1.4 million are on deferment.

Nonperforming Assets

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

	September 30, 2020	December 31, 2019
	<i>(Dollars in thousands)</i>	
Nonaccrual loans	\$ 11,775	\$ 5,033
Loans past due 90 days or more and still accruing interest	-	-
Nonperforming troubled debt restructured loans (TDRs)	-	244
Total nonperforming loans	11,775	5,277
OREO, net	4,189	4,889
Total nonperforming assets	\$ 15,964	\$ 10,166
Performing TDRs	\$ 2,217	\$ 3,112
Total nonperforming loans and performing TDRs	\$ 13,992	\$ 8,389
Percentage of nonperforming loans and performing TDRs to total loans, net of deferred fees	0.17%	0.11%
Percentage of nonperforming assets to total loans, net of deferred fees, and OREO	0.19%	0.13%
Percentage of nonperforming assets to total assets	0.12%	0.09%

Troubled Debt Restructurings ("TDRs")

Total TDRs were \$2.2 million at September 30, 2020, compared to \$3.4 million at December 31, 2019. At September 30, 2020, all of our TDRs were performing and accruing interest as restructured loans. Our performing TDRs were generally provided a modification of loan repayment terms in response to borrower financial difficulties. The performing restructured loans represent the only loans accruing interest at each respective reporting date. A performing restructured loan is categorized as such if we believe that it is reasonably assured of repayment and is performing in accordance with the modified terms.

In accordance with regulatory guidance, if borrowers are less than 30 days past due on their loans and enter into loan modifications offered as a result of COVID-19, their loans generally continue to be considered performing loans and continue to accrue interest during the period of the loan modification. For borrowers who are 30 days or more past due when entering into loan modifications offered as a result of COVID-19, we evaluate the loan modifications under our existing troubled debt restructuring framework, and where such a loan modification would result in a concession to a borrower experiencing financial difficulty, the loan will be accounted for as a TDR and will generally not accrue interest. For all borrowers who enroll in these loan modification programs offered as a result of COVID-19, the delinquency status of the borrowers is frozen, resulting in a static delinquency metric during the deferral period. Upon exiting the deferral program, the measurement of loan delinquency will resume where it had left off upon entry into the program. As of October 9, 2020, we have temporary payment deferments of principal, interest or of principal and interest on 33 loans in the amount of \$68.6 million, or less than 1% of our total loan portfolio, at September 30, 2020. These deferments were primarily for 90 days, with 89% of these loans being pass rated; 27 of these loans have received a second deferment and the remaining six loans are first deferments. The majority of the loans with payment deferments were commercial real estate loans, which represented approximately \$65.9 million of the \$68.6 million.

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

	<u>September 30, 2020</u>		<u>December 31, 2019</u>	
	<u>Balance</u>	<u>Number of Loans</u>	<u>Balance</u>	<u>Number of Loans</u>
<i>(Dollars in thousands)</i>				
Performing TDRs:				
Commercial and industrial	\$ 47	1	\$ 78	2
SBA	-	-	536	1
Real Estate:				
Commercial real estate	354	1	397	1
Construction	-	-	-	-
SFR mortgage	1,816	7	2,101	8
Dairy & livestock and agribusiness	-	-	-	-
Consumer and other	-	-	-	-
Total performing TDRs	<u>\$2,217</u>	<u>9</u>	<u>\$3,112</u>	<u>12</u>
Nonperforming TDRs:				
Commercial and industrial	\$ -	-	\$ -	-
SBA	-	-	-	-
Real Estate:				
Commercial real estate	-	-	-	-
Construction	-	-	-	-
SFR mortgage	-	-	-	-
Dairy & livestock and agribusiness	-	-	-	-
Consumer and other	-	-	244	1
Total nonperforming TDRs	<u>\$ -</u>	<u>-</u>	<u>\$ 244</u>	<u>1</u>
Total TDRs	<u>\$2,217</u>	<u>9</u>	<u>\$3,356</u>	<u>13</u>

At September 30, 2020, there was no ACL allocated to TDRs. At December 31, 2019, there was no allowance for loan losses specifically allocated to TDRs. Impairment amounts identified are typically charged off against the allowance at the time a probable loss is determined. There were no charge-offs on TDRs for the nine months ended September 30, 2020, compared to \$78,000 for the nine months ended September 30, 2019.

Nonperforming Assets and Delinquencies

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

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
<i>(Dollars in thousands)</i>					
Nonperforming loans (1):					
Commercial and industrial	\$ 1,822	\$ 1,222	\$ 1,703	\$ 1,266	\$ 1,550
SBA	1,724	1,598	2,748	2,032	2,706
Real estate:					
Commercial real estate	6,481	2,628	947	724	1,083
Construction	-	-	-	-	-
SFR mortgage	675	1,080	864	878	888
Dairy & livestock and agribusiness	849	-	-	-	-
Consumer and other loans	224	289	166	377	385
Total	\$ 11,775	\$ 6,817	\$ 6,428	\$ 5,277	\$ 6,612
% of Total loans	0.14%	0.08%	0.09%	0.07%	0.09%
Past due 30-89 days:					
Commercial and industrial	\$ 3,627	\$ 630	\$ 665	\$ 2	\$ 756
SBA	66	214	3,086	1,402	303
Real estate:					
Commercial real estate	-	4	210	-	368
Construction	-	-	-	-	-
SFR mortgage	-	446	233	249	-
Dairy & livestock and agribusiness	-	882	166	-	-
Consumer and other loans	67	413	-	-	-
Total	\$ 3,760	\$ 2,589	\$ 4,360	\$ 1,653	\$ 1,427
% of Total loans	0.04%	0.03%	0.06%	0.02%	0.02%
OREO:					
SBA	\$ 797	\$ 797	\$ 797	\$ 797	\$ 444
Real estate:					
Commercial real estate	1,575	2,275	2,275	2,275	2,275
SFR mortgage	1,817	1,817	1,817	1,817	6,731
Total	\$ 4,189	\$ 4,889	\$ 4,889	\$ 4,889	\$ 9,450
Total nonperforming, past due, and OREO	\$ 19,724	\$ 14,295	\$ 15,677	\$ 11,819	\$ 17,489
% of Total loans	0.23%	0.17%	0.21%	0.16%	0.23%

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

Nonperforming loans, defined as nonaccrual loans, nonperforming TDR loans and loans past due 90 days or more and still accruing interest, were \$11.8 million at September 30, 2020, or 0.14% of total loans. Total nonperforming loans at September 30, 2020 included \$9.3 million of nonperforming loans acquired from CB in the third quarter of 2018. This compares to nonperforming loans of \$5.3 million, or 0.07% of total loans, at December 31, 2019 and \$6.6 million, or 0.09% of total loans, at September 30, 2019. The \$5.0 million quarter-over-quarter increase in nonperforming loans was primarily due to increases of \$3.9 million in nonperforming commercial real estate loans, \$849,000 in nonperforming dairy & livestock and agribusiness loans, \$600,000 in nonperforming commercial and industrial loans, and \$126,000 in nonperforming SBA loans. This was partially offset by a \$405,000 decrease in nonperforming SFR mortgage loans and a \$65,000 decrease in nonperforming consumer and other loans.

In response to the COVID-19 pandemic, we have implemented a short-term loan modification program to provide temporary payment relief to certain of our borrowers who meet the program's qualifications. This program allows for a deferral of payments for 90 days, which we may extend for an additional 90 days, for a maximum of 180 days on a cumulative basis. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date of the existing loan.

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At September 30, 2020, we had four OREO properties with a carrying value of \$4.2 million, compared to four OREO properties with a carrying value of \$4.9 million at December 31, 2019 and three OREO properties with a carrying value of \$9.5 million at September 30, 2019. We reflected a \$700,000 write-down of one OREO property in the third quarter of 2020. There were no additions to or sales of OREO properties for the nine months ended September 30, 2020.

Changes in economic and business conditions have had an impact on our market area and on our loan portfolio. We continually monitor these conditions in determining our estimates of needed reserves. However, we cannot predict the extent to which the deterioration in general economic conditions, real estate values, changes in general rates of interest and changes in the financial conditions or business of a borrower may adversely affect a specific borrower's ability to pay or the value of our collateral. See *"Risk Management – Credit Risk Management"* contained in our Annual Report on Form 10-K for the year ended December 31, 2019.

Allowance for Credit Losses

We adopted CECL on January 1, 2020, which replaces the "incurred loss" approach with an "expected loss" model over the life of the loan, as further described in Note 3 – *Summary of Significant Accounting Policies* of the notes to the unaudited condensed consolidated financial statements. The allowance for credit losses totaled \$93.9 million as of September 30, 2020, compared to \$68.7 million as of December 31, 2019 and \$68.7 million as of September 30, 2019. Our allowance for credit losses at September 30, 2020 was 1.12%, or 1.28% of total loans when excluding the \$1.10 billion in PPP loans. Upon implementation of CECL, a transition adjustment of \$1.8 million was added to the beginning balance of the allowance and was increased by a \$23.5 million credit loss provision in the first nine months of 2020 due to the severe economic disruption resulting from the COVID-19 pandemic. Net charge-offs were \$131,000 for the nine months ended September 30, 2020. This compares to a \$5.0 million loan loss provision and \$59,000 in net recoveries for the same period of 2019.

Our modeling processes incorporate a lifetime historical loss rate methodology by different asset classes. These models use key loan attributes by asset class and macroeconomic variables. Macroeconomic variables include GDP, and unemployment rate, among others. Our economic forecast incorporates a weighting of multiple forecasts. The forecast includes a reasonable and supportable forecast period of two to three years for the macroeconomic variables, which revert to a historical mean based on an input reversion approach. We consider publicly published economic forecasts from multiple sources, including Moody's. Our economic forecast continues to be a blend of multiple forecasts produced by Moody's. Moody's baseline forecast continues to represent more than a 50% weighting in our multi-weighted forecast scenario. This U.S. baseline forecast assumes GDP will increase by 27% in the third quarter, 2.9% in the fourth quarter and then grow by 3.5% in 2021 and 5% in 2022. The unemployment rate in this baseline forecast is forecasted to be 8.9% in the third quarter of 2021, stay at an elevated level over 8% through 2021, before declining to 6.4% percent in 2022. With California slowly re-opening its economy and currently having an unemployment rate greater than 11% percent, our forecast includes a partial weighting of downside economic forecast scenarios from Moody's. If the economic forecast deteriorates further due to the COVID-19 pandemic, or the economic impact on our borrowers is more severe than we have forecasted, we may experience increases in the allowance for credit losses in future periods.

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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 Nine Months Ended September 30,	
	2020	2019
	<i>(Dollars in thousands)</i>	
Allowance for credit losses at beginning of period	\$ 68,660	\$ 63,613
Impact of adopting ASU 2016-13	1,840	-
Charge-offs:		
Commercial and industrial	(172)	(48)
SBA	(203)	(295)
Commercial real estate	-	-
Construction	-	-
SFR mortgage	-	-
Dairy & livestock and agribusiness	-	(78)
Consumer and other loans	(109)	(7)
Total charge-offs	<u>(484)</u>	<u>(428)</u>
Recoveries:		
Commercial and industrial	7	253
SBA	72	9
Commercial real estate	-	-
Construction	9	9
SFR mortgage	206	191
Dairy & livestock and agribusiness	-	19
Consumer and other loans	59	6
Total recoveries	<u>353</u>	<u>487</u>
Net (charge-offs) recoveries	(131)	59
Provision for credit losses	23,500	5,000
Allowance for credit losses at end of period	<u>\$ 93,869</u>	<u>\$ 68,672</u>
Summary of reserve for unfunded loan commitments:		
Reserve for unfunded loan commitments at beginning of period	\$ 8,959	\$ 8,959
Impact of adopting ASU 2016-13	41	-
Provision for unfunded loan commitments	-	-
Reserve for unfunded loan commitments at end of period	<u>\$ 9,000</u>	<u>\$ 8,959</u>
Reserve for unfunded loan commitments to total unfunded loan commitments	0.50%	0.55%
Amount of total loans at end of period (1)	\$ 8,407,872	\$ 7,494,451
Average total loans outstanding (1)	\$ 7,972,208	\$ 7,571,502
Net recoveries to average total loans	-0.002%	0.001%
Net recoveries to total loans at end of period	-0.002%	0.001%
Allowance for credit losses to average total loans	1.18%	0.91%
Allowance for credit losses to total loans at end of period	1.12%	0.92%
Net (charge-offs) recoveries to allowance for credit losses	-0.14%	0.09%
Net (charge-offs) recoveries to provision for credit losses	-0.56%	1.18%

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

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The ACL/Total Loan Coverage Ratio as of September 30, 2020 increased to 1.12%, compared to 0.93% as of January 1, 2020 due to the forecasted impact on the economy from the COVID-19 crisis.

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

While we believe that the allowance at September 30, 2020 was appropriate to absorb losses from known or inherent risks in the portfolio, no assurance can be given that economic conditions, interest rate fluctuations, conditions of our borrowers (including fraudulent activity), or natural disasters, which adversely affect our service areas or other circumstances or conditions, including those defined above, will not be reflected in increased provisions for credit losses in the future.

Deposits

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

Total deposits were \$11.17 billion at September 30, 2020. This represented an increase of \$2.46 billion, or 28.30%, over total deposits of \$8.70 billion at December 31, 2019. The composition of deposits is summarized as of the dates presented in the table below.

	September 30, 2020		December 31, 2019	
	Balance	Percent	Balance	Percent
	<i>(Dollars in thousands)</i>			
Noninterest-bearing deposits	\$ 6,919,423	61.95%	\$ 5,245,517	60.26%
Interest-bearing deposits				
Investment checking	447,910	4.01%	454,565	5.22%
Money market	2,878,457	25.77%	2,158,161	24.79%
Savings	477,896	4.28%	400,377	4.60%
Time deposits	445,148	3.99%	446,308	5.13%
Total deposits	<u>\$ 11,168,834</u>	<u>100.00%</u>	<u>\$ 8,704,928</u>	<u>100.00%</u>

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 \$6.92 billion at September 30, 2020, representing an increase of \$1.67 billion, or 31.91%, from noninterest-bearing deposits of \$5.25 billion at December 31, 2019. Noninterest-bearing deposits represented 61.95% of total deposits for September 30, 2020, compared to 60.26% of total deposits for December 31, 2019.

Savings deposits, which include savings, interest-bearing demand, and money market accounts, totaled \$3.80 billion at September 30, 2020, representing an increase of \$791.2 million, or 26.26%, from savings deposits of \$3.01 billion at December 31, 2019.

Time deposits totaled \$445.1 million at September 30, 2020, representing a decrease of \$1.2 million, or 0.26%, from total time deposits of \$446.3 million for December 31, 2019.

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 September 30, 2020 and December 31, 2019, total funds borrowed under these agreements were \$483.4 million and \$428.7 million, respectively, with a weighted average interest rate of 0.14% and 0.44%, respectively.

At September 30, 2020, we had \$10.0 million in short-term borrowings that were interest-free advances from the FHLB. We had no short-term borrowings at December 31, 2019.

At September 30, 2020, \$6.00 billion of loans and \$1.86 billion of investment securities, at carrying value, were pledged to secure public deposits, short and long-term borrowings, and for other purposes as required or permitted by law.

Aggregate Contractual Obligations

The following table summarizes the aggregate contractual obligations as of September 30, 2020.

	Total	Maturity by Period			
		Less Than One Year	One Year Through Three Years	Four Years Through Five Years	Over Five Years
		<i>(Dollars in thousands)</i>			
Deposits (1)	\$ 11,168,834	\$ 11,126,422	\$ 32,422	\$ 9,394	\$ 596
Customer repurchase agreements (1)	483,420	483,420	-	-	-
Junior subordinated debentures (1)	25,774	-	-	-	25,774
Deferred compensation	21,864	681	1,172	619	19,392
Operating leases	23,416	6,880	9,921	4,476	2,139
Affordable housing investment	3,159	2,285	814	47	13
Total	\$ 11,726,467	\$ 11,619,688	\$ 44,329	\$ 14,536	\$47,914

(1) Amounts exclude accrued interest.

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

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

At September 30, 2020, we had \$10.0 million in FHLB short-term borrowings with a cost of 0.0%, compared to zero at December 31, 2019 and September 30, 2019.

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

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

Operating leases represent the total minimum lease payments due under non-cancelable operating leases. Refer to Note 11 – *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 September 30, 2020.

	Maturity by Period				
	Total	Less Than One Year	One Year to Three Years	Four Years to Five Years	After Five Years
<i>(Dollars in thousands)</i>					
Commitment to extend credit:					
Commercial and industrial	\$ 989,178	\$ 672,740	\$ 197,626	\$ 5,295	\$ 113,517
SBA	591	185	-	-	406
SBA - PPP	-	-	-	-	-
Real estate:					
Commercial real estate	310,666	49,450	91,984	126,299	42,933
Construction	78,623	63,329	15,294	-	-
SFR Mortgage	1,706	-	-	-	1,706
Dairy & livestock and agribusiness (1)	232,870	188,380	43,873	130	487
Consumer and other loans	131,693	10,354	12,069	3,952	105,318
Total commitment to extend credit	1,745,327	984,438	360,846	135,676	264,367
Obligations under letters of credit	48,776	46,337	2,391	48	-
Total	\$ 1,794,103	\$ 1,030,775	\$ 363,237	\$ 135,724	\$ 264,367

(1) Total commitments to extend credit to agribusiness were \$17.2 million at September 30, 2020.

As of September 30, 2020, we had commitments to extend credit of approximately \$1.75 billion, and obligations under letters of credit of \$48.8 million. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any material condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. We use the same credit underwriting policies in granting or accepting such commitments or contingent obligations as we do for on-balance sheet instruments, which consist of evaluating customers' creditworthiness individually. Due to the adoption of CECL on January 1, 2020, a transition adjustment of \$41,000 was added to the beginning balance of the reserve for unfunded loan commitments. The Company recorded no provision or recapture of provision for unfunded loan commitments for the three and nine months ended September 30, 2020 and 2019. The Company had a reserve for unfunded loan commitments of \$9.0 million as of September 30, 2020 and December 31, 2019 included in other liabilities.

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

Capital Resources

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

Total equity decreased \$12.1 million, or 0.61%, to \$1.98 billion at September 30, 2020, compared to total equity of \$1.99 billion at December 31, 2019. The \$12.1 million decrease in equity was primarily due to the repurchase of 4.9 million shares of common stock for \$91.7 million under our 10b5-1 stock repurchase program. We previously announced that we suspended this 10b5-1 stock repurchase program due to the uncertainty of the COVID-19 pandemic. We had \$127.1 million in net earnings during the first nine months of 2020, offset by \$73.3 million in cash dividends declared and a cumulative effect adjustment to beginning retained earnings of \$1.3 million, net of tax, due to the adoption of CECL on January 1, 2020. Our equity also increased by \$23.5 million as a result of an increase in other comprehensive income from the increase in our tax adjusted market value of our available-for-sale investment securities. Our tangible common equity ratio was 9.78% at September 30, 2020.

During the third quarter of 2020, the Board of Directors of CVB declared quarterly cash dividends totaling \$0.18 per share. Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. CVB's ability to pay cash dividends to its shareholders is subject to restrictions under federal and California law, including restrictions imposed by the Federal Reserve, and covenants set forth in various agreements we are a party to including covenants set forth in our junior subordinated debentures.

On August 11, 2016, our Board of Directors approved a program to repurchase up to 10,000,000 shares of CVB common stock in the open market or in privately negotiated transactions, at times and at prices considered appropriate by us, depending upon prevailing market conditions and other corporate and legal considerations. There is no expiration date for this repurchase program. Up to 9,577,917 of such shares were available for repurchase under the Company's current 10b5-1 plan originally adopted in November, 2018 and subsequently amended in July, 2019. On March 31, 2020, the Company announced that it suspended its 10b5-1 stock repurchase program due to the uncertainty of the COVID-19 pandemic. For the nine months ended September 30, 2020, the Company repurchased 4,944,290 shares of CVB common stock outstanding under this program. As of September 30, 2020, we have 4,585,145 shares of CVB common stock remaining that are eligible for repurchase under the common stock repurchase program.

The Bank and the Company are required to meet risk-based capital standards under the revised capital framework referred to as Basel III set by their respective regulatory authorities. The risk-based capital standards require the achievement of a minimum total risk-based capital ratio of 8.0%, a Tier 1 risk-based capital ratio of 6.0% and a common equity Tier 1 ("CET1") capital ratio of 4.5%. In addition, the regulatory authorities require the highest rated institutions to maintain a minimum leverage ratio of 4.0%. To be considered "well-capitalized" for bank regulatory purposes, the Bank and the Company are required to have a CET1 capital ratio equal to or greater than 6.5%, a Tier 1 risk-based capital ratio equal to or greater than 8.0%, a total risk-based capital ratio equal to or greater than 10.0% and a Tier 1 leverage ratio equal to or greater than 5.0%. At September 30, 2020, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios required to be considered "well-capitalized" for regulatory purposes. For further information about capital requirements and our capital ratios, see "Item 1. Business – Capital Adequacy Requirements" as described in our Annual Report on Form 10-K for the year ended December 31, 2019.

At September 30, 2020, the Bank and the Company exceeded the minimum risk-based capital ratios and leverage ratios, under the revised capital framework referred to as Basel III, required to be considered "well-capitalized" for regulatory purposes. We did not elect to phase in the impact of CECL on regulatory capital, as allowed under the interim final rule of the FDIC and other U.S. banking agencies.

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

<u>Capital Ratios</u>	<u>Adequately Capitalized Ratios</u>	<u>Minimum Required Plus Capital Conservation Buffer</u>	<u>Well Capitalized Ratios</u>	<u>September 30, 2020</u>		<u>December 31, 2019</u>	
				<u>CVB Financial Corp. Consolidated</u>	<u>Citizens Business Bank</u>	<u>CVB Financial Corp. Consolidated</u>	<u>Citizens Business Bank</u>
Tier 1 leverage capital ratio	4.00%	4.00%	5.00%	9.88%	9.71%	12.33%	12.19%
Common equity Tier 1 capital ratio	4.50%	7.00%	6.50%	14.60%	14.64%	14.83%	14.94%
Tier 1 risk-based capital ratio	6.00%	8.50%	8.00%	14.89%	14.64%	15.11%	14.94%
Total risk-based capital ratio	8.00%	10.50%	10.00%	16.08%	15.83%	16.00%	15.83%

ASSET/LIABILITY AND MARKET RISK MANAGEMENT

Liquidity and Cash Flow

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

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

Our primary sources and uses of funds for the Company are deposits and loans. Our deposit levels and cost of deposits may fluctuate from period-to-period due to a variety of factors, including the stability of our deposit base, prevailing interest rates, and market conditions. Total deposits of \$11.17 billion at September 30, 2020 increased \$2.46 billion, or 28.30%, over total deposits of \$8.70 billion at December 31, 2019. This significant deposit growth was primarily due to our customers maintaining greater liquidity.

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

At September 30, 2020, we had \$25.8 million in subordinated debt and \$10.0 million in FHLB short-term borrowings at 0% cost. The Bank has available lines of credit exceeding \$4 billion, most of which is secured by pledged loans. Our balance sheet has significant liquidity and our assets are funded almost entirely with core deposits. Furthermore, we have significant off-balance sheet sources of liquidity.

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

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Below is a summary of our average cash position and statement of cash flows for the nine months ended September 30, 2020 and 2019. 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

	Nine Months Ended September 30,	
	2020	2019
	<i>(Dollars in thousands)</i>	
Average cash and cash equivalents	\$ 1,071,392	\$ 237,244
Percentage of total average assets	8.52%	2.10%
Net cash provided by operating activities	\$ 138,019	\$ 147,410
Net cash (used in) provided by investing activities	(1,200,664)	538,256
Net cash provided by (used in) financing activities	2,362,080	(412,066)
Net increase in cash and cash equivalents	<u>\$ 1,299,435</u>	<u>\$ 273,600</u>

Average cash and cash equivalents increased by \$834.1 million, or 351.60%, to \$1.07 billion for the nine months ended September 30, 2020, compared to \$237.2 million for the same period of 2019.

At September 30, 2020, cash and cash equivalents totaled \$1.48 billion. This represented an increase of \$1.05 billion, or 239.38%, from \$437.5 million at September 30, 2019.

Interest Rate Sensitivity Management

During periods of changing interest rates, the ability to re-price interest-earning assets and interest-bearing liabilities can influence net interest income, the net interest margin, and consequently, our earnings. Interest rate risk is managed by attempting to control the spread between rates earned on interest-earning assets and the rates paid on interest-bearing liabilities within the constraints imposed by market competition in our service area. The primary goal of interest rate risk management is to control exposure to interest rate risk, within policy limits approved by the Board of Directors. These limits and guidelines reflect our risk appetite for interest rate risk over both short-term and long-term horizons. We measure these risks and their impact by identifying and quantifying exposures through the use of sophisticated simulation and valuation models, which, as described in additional detail below, are employed by management to understand net interest income (NII) at risk and economic value of equity (EVE) at risk. Net interest income at risk sensitivity captures asset and liability re pricing mismatches and is considered a shorter term measure, while EVE sensitivity captures mismatches within the period end balance sheets through the financial instruments’ respective maturities or estimated durations and is considered a longer term measure.

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

Our interest rate risk policy measures the sensitivity of our net interest income over both a one-year and two-year cumulative time horizon.

The simulation model estimates the impact of changing interest rates on interest income from all interest-earning assets and interest expense paid on all interest-bearing liabilities reflected on our balance sheet. This sensitivity analysis is compared to policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon assuming no balance sheet growth, given a 200 basis point upward and either a 100 or 200 basis point downward shift in interest rates depending on the level of current market rates. The simulation model uses a parallel yield curve shift that ramps rates up or down on a pro rata basis over the 12-month and 24-month time horizon.

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

Estimated Net Interest Income Sensitivity (1)					
Interest Rate Scenario	September 30, 2020		Interest Rate Scenario	December 31, 2019	
	24-month Period			24-month Period	
	12-month Period	(Cumulative)		12-month Period	(Cumulative)
+ 200 basis points	9.30%	18.30%	+ 200 basis points	5.20%	10.00%
- 100 basis points	-0.60%	-1.40%	- 100 basis points	-2.10%	-4.60%

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

Based on our current simulation models, we believe that the interest rate risk profile of the balance sheet is asset sensitive over both a one-year and a two-year horizon. The estimated sensitivity does not necessarily represent a forecast and the results may not be indicative of actual changes to our net interest income. These estimates are based upon a number of assumptions including: the nature and timing of interest rate levels including yield curve shape, re-pricing characteristics and balance fluctuations of deposits with indeterminate or non-contractual maturities, prepayments on loans and securities, pricing strategies on loans and deposits, and replacement of asset and liability cash flows. While the assumptions used are based on current economic and local market conditions, there is no assurance as to the predictive nature of these conditions including how customer preferences or competitor influences might change. Our exposure in the rates down scenario is impacted by the current low interest rate environment and the model does not assume that rates go below 0.01%.

We also perform valuation analysis, which incorporates all cash flows over the estimated remaining life of all material balance sheet and derivative positions. The valuation of the balance sheet, at a point in time, is defined as the discounted present value of all asset cash flows and derivative cash flows minus the discounted present value of all liability cash flows, the net of which is referred to as EVE. The sensitivity of EVE to changes in the level of interest rates is a measure of the longer-term re-pricing risk and options risk embedded in the balance sheet. EVE uses instantaneous changes in rates, as shown in the table below. Assumptions about the timing and variability of balance sheet cash flows are critical in the EVE analysis. Particularly important are the assumptions driving prepayments and the expected duration and pricing of the indeterminate deposit portfolios. EVE sensitivity is reported in both upward and downward rate shocks. At September 30, 2020 and December 31, 2019, the EVE profile indicates a decline in net balance sheet value due to instantaneous downward changes in rates, compared to an increase resulting from an increase in rates.

Economic Value of Equity Sensitivity

Instantaneous Rate Change	September 30, 2020	December 31, 2019
100 bp decrease in interest rates	-21.6%	-17.5%
100 bp increase in interest rates	15.2%	14.2%
200 bp increase in interest rates	26.5%	25.5%
300 bp increase in interest rates	30.7%	30.0%
400 bp increase in interest rates	36.3%	36.2%

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

LIBOR is expected to be phased out after 2021, as such the Company is assessing the impacts of this transition and exploring alternatives to use in place of LIBOR for various financial instruments, primarily related to our variable-rate loans, our subordinated debentures, and interest rate swap derivatives that are indexed to LIBOR. 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, 2019. 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 fiscal quarter ended September 30, 2020, 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.

PART II – OTHER INFORMATION

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, 2019. 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.

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

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

Furthermore, the pandemic could further influence the recognition of credit losses in our loan portfolios and further increase our allowance for credit losses, particularly as many businesses remain closed or partially open. Our customers could be expected to draw further on their lines of credit or to seek deferments of scheduled loan payments to help mitigate the effects of lost revenues. As previously noted, we have already increased our allowance for expected credit losses by \$23.5 million for the nine months ended September 30, 2020, due to the continuing anticipated impact of COVID-19-related economic distress on our loan portfolios, coupled with the implementation of CECL for determining our overall provision for credit losses in the first quarter of 2020. In addition, as also noted above, through October 9, 2020, we have granted temporary payment deferments of interest or of principal and interest to customers for 33 loans, with a gross balance of \$68.6 million, or less than 1% of our total loan portfolio at September 30, 2020. Depending on the scope and duration of the COVID-19 pandemic, we believe there is a reasonable possibility that additional loan payment deferments and increased provisions for expected credit losses could prove necessary for the final calendar quarter in 2020.

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

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

As one set of responses to the COVID-19 pandemic, our federal, state and local governments have promulgated a wide variety of laws, regulations, executive orders and programs designed to ameliorate the severe and widespread economic distress caused by the mandatory closings of many businesses throughout the State of California and counties in which we operate. One such program is the Paycheck Protection Program (PPP) enacted under the federal CARES Act. This program is designed, among other things, to provide employee payroll maintenance support for small and medium-sized businesses throughout the United States, including in the State of California, through loans made by authorized lenders and guaranteed by the federal Small Business Administration (SBA). Because the Company is an authorized SBA lender and our primary customer base consists of small and medium-sized businesses, the Company has actively participated in the PPP. Including the second round of funding after Legislation passed on April 24, 2020, we have originated and funded approximately 4,100 PPP loans from our customers and, through two separate rounds of authorized funding for the PPP, totaling \$1.10 billion as of September 30, 2020.

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Under interim final regulations promulgated by the SBA, PPP lenders are entitled to rely on borrower certifications with respect to issues such as program eligibility and eligible loan amounts, and PPP loans are designed to be subsequently forgivable, in whole or part, if certain additional criteria are met by the borrower with respect to employee payroll maintenance. However, in view of the fact that the PPP was by design intended to support economically distressed businesses, the SBA's guarantee of PPP loan amounts to participating lenders is a critical feature of the program. In this regard, because the PPP was quickly implemented into operation and the SBA's interim regulations have been repeatedly revised and are continuing to evolve, there are significant risks to the Company's participation in the PPP, including whether certain borrowers will ultimately be found to have been eligible for PPP loans, whether eligible PPP loan amounts for certain borrowers were correctly calculated, whether certain PPP loans will ultimately be determined to be forgivable, and if not, whether the SBA's guarantee will continue to apply to any unforgiven PPP loan amounts. As of November 5, 2020, 69 loans, representing approximately \$43 million, were submitted to the SBA and granted forgiveness. To date, our customers who have had their forgiveness requests reviewed by the SBA have received nearly 100% loan forgiveness.

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

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

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

On August 11, 2016, our Board of Directors approved a program to repurchase up to 10,000,000 shares of CVB common stock in the open market or in privately negotiated transactions. There is no expiration date for this repurchase program. On March 31, 2020, the Company announced that it suspended its 10b5-1 stock repurchase program. During the three months ended September 30, 2020, the Company did not repurchase any shares of CVB common stock outstanding under this program. As of September 30, 2020, we have 4,585,145 shares of CVB common stock available for repurchase under the common stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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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	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, has been formatted in Inline XBRL.

* Filed herewith

** Furnished herewith

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.

Date: November 6, 2020

CVB FINANCIAL CORP.
(Registrant)

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

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: November 6, 2020

By: /s/ David A. Brager
David A. Brager
Chief Executive Officer

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: November 6, 2020

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

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 September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Brager, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2020

By: /s/ David A. Brager

David A. Brager
Chief Executive Officer

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 September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Allen Nicholson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2020

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