



CalFirst
California First National Bancorp

Consolidated Financial Report (UNAUDITED)

Third Quarter and Nine Months Ended

March 31, 2020

California First National Bancorp, (OTCQX: CFNB, “CalFirst” or the “Company”), is a bank holding company headquartered in Orange County, California with two subsidiaries, California First National Bank (“CalFirst Bank” or the “Bank”) and California First Leasing Corporation (“CFLC”). The business of the Bank includes leasing and financing capital assets and commercial loans, including non-recourse loans to third parties secured by leases and equipment. The Bank, responsible for substantially all lease and loan origination, gathers deposits through posting rates on the Internet and conducts all banking and other operations from one central location. CFLC participates in transactions with the Bank and also has a portfolio of equity securities.

Due to a change in generally accepted accounting principles (“GAAP”) adopted at the beginning of fiscal 2019, CalFirst includes changes in gains and losses (realized or unrealized) on equity securities in our consolidated statements of earnings. These gains and losses are determined based on the stock price on the last day of the fiscal quarter and these gains and losses can be very significant given the proportion of CFLC’s equity portfolio to total assets and the volatility of the stock market. The amount of investment gains or losses reported in any given quarter may or may not be meaningful to an evaluation of our business and could be misleading to investors who are unfamiliar with these accounting rules.

This financial report contains forward-looking statements which involve management assumptions, risks and uncertainties. The statements in this report that are not strictly historical in nature constitute “forward-looking statements.” Such statements include, but are not limited to, beliefs regarding investments in equity securities, swings in stock prices and the potential for this to cause significant volatility in reported net earnings, projected changes in lease originations and in the lease and loan portfolio, the credit quality of the lease and loan portfolio, the adequacy of reserves for credit losses, the impact of regulatory limitations on business activities and Bank opportunities, estimates of expected tax rates applicable to future periods, impact of changes in interest rates and changes in GAAP. Such forward-looking statements involve known and unknown risks and uncertainties and factors that could cause actual results to differ materially include political, economic, business, competitive, market, regulatory and other risks, including the future impact of the novel coronavirus disease (“COVID-19”) outbreak and measures taken in response to it for which future developments are highly uncertain and difficult to predict. Consequently, if management assumptions prove to be incorrect or such risks or uncertainties materialize, the Company’s actual results could differ materially from the results forecast in the forward-looking statements. All forward-looking statements are qualified in their entirety by this cautionary statement, and the Company undertakes no obligation to revise or update this information to reflect events or circumstances arising after the date hereof (April 30, 2020).

SELECTED FINANCIAL DATA

	Three Months Ended March 31,		Nine months Ended March 31,	
	2020	2019	2020	2019
<i>(in thousands, except per share data)</i>				
Income Statement				
Net interest income, net of provision	\$ 2,382	\$ 3,637	\$ 8,148	\$ 10,364
Net interest margin	4.26%	3.75%	4.12%	3.66%
Unrealized (losses) gains equity securities	\$ (32,167)	\$ 4,760	\$ (21,482)	\$ (1,349)
Total non-interest income (losses)	\$ (31,563)	\$ 5,001	\$ (18,838)	\$ 1,271
Net income (loss)	\$ (27,556)	\$ 4,929	\$ (16,096)	\$ 4,963
Earnings per share	\$ (2.68)	\$ 0.48	\$ (1.57)	\$ 0.48
	March 31,	December	June 30,	March 31,
	2020	2019	2019	2019
<i>(\$ in thousands)</i>				
Balance Sheet				
Total equity investments	\$ 70,208	\$ 102,375	\$ 75,944	\$ 68,682
Net investment in leases and loans	\$ 59,045	\$ 76,162	\$ 121,601	\$ 133,278
Total assets	\$ 247,633	\$ 287,643	\$ 304,944	\$ 328,430
Total deposits	\$ 53,881	\$ 62,166	\$ 87,745	\$ 112,893
Stockholders' equity	\$ 185,889	\$ 213,445	\$ 207,304	\$ 204,884

OVERVIEW

The effects of the novel coronavirus ("COVID-19") pandemic and related actions to contain the spread of the virus have and will continue to impact CalFirst results. The most immediate effect was the virus-led market selloff of equities that led to a 20% decline in the S&P 500 between December 31, 2019 and March 31, 2020. Going forward, the reduction in Fed Funds and other benchmark interest rates will result in a reduction in the growth of interest income and CalFirst may see an increase in non-performing leases if the COVID-19 pandemic conditions continue to impact customers. CalFirst increased the allowance for credit losses at March 31, 2020 to capture the potential impact of COVID-19, but if the current environment continues beyond expectations, further increases to the allowance for credit losses may be required.

CalFirst's results for the third quarter and first nine months ended March 31, 2020 were battered by the stock market decline. The value of the Company's equity portfolio fell by 31% or \$32.17 million during the third quarter ended March 31, 2020, contributing to a net loss of \$27.56 million in the third quarter. Third quarter pre-tax earnings, excluding the impact of equity securities, were down by 15.8% or \$318,500 to \$1.69 million compared to the third quarter of fiscal 2019. This reflected a \$1.26 million or 35% decline in net interest income after provision for credit losses that was offset in part by a \$573,600 or 30.7% reduction in non-interest expenses and an increase of \$368,400 in income from end-of-term transactions

For the first nine months ended March 31, 2020, CalFirst reported a net loss of \$16.1 million that included a loss of \$21.48 million on equity securities. Excluding the impact of equity securities, the Company's pre-tax earnings for the first nine months of fiscal 2020 declined by 9.5% to \$6.75 million. This decline included a \$2.2 million or 21.4% decrease in net interest income after provision for credit losses and \$689,800 drop in income from end-of-term transactions, offset by a \$780,000 increase in gains from sale of leases and \$1.48 million (26.8%) drop in non-interest expenses.

New lease bookings during the third quarter of fiscal 2020 were less than \$1.0 million as the completion of lease transactions in process were stalled by COVID-19 imposed limitations on customer operations. Lease bookings of \$40.2 million for the first nine months of fiscal 2020 were down 9.0% from the comparable 2019 nine month period. Lease originations in the third quarter of fiscal 2020 increased 5% compared to the 2019 third quarter, with year-to-date 2020 originations up over 80%. As a result, the backlog of approved leases of \$33 million at March 31, 2020 was up 76% from the third quarter of last year and up 5% from the level at December 31, 2019.

During the first nine months of fiscal 2020, the Bank sold \$32.1 million of new leases booked, retaining only \$8.1 million in the portfolio, and the last syndicated loans were sold or paid off. As a result, the net investment in leases and loans of \$59.0 million at March 31, 2020 was down 51.4% from \$121.6 million at June 30, 2019. In March 2020, the Bank distributed \$15.0 million to the Company, reducing Tier 1 capital to \$55.8 million or 60.9%. CalFirst continues to maintain strong capital and liquidity with cash equivalents of \$84 million and shareholders' equity of \$185 million.

CONSOLIDATED BALANCE SHEETS

(in thousands, except for share amounts)

	March 31, 2020 (Unaudited)	June 30, 2019	Percent Change
ASSETS			
Cash and due from banks	\$ 80,703	\$ 68,849	17.2 %
Fed funds sold	3,377	2,757	22.5 %
Fixed income securities available-for-sale (AFS)	-	23,978	(100.0) %
Equity investments	70,208	75,944	(7.6) %
Investments held-to-maturity (HTM)	2,731	2,734	(0.1) %
Receivables	138	398	(65.3) %
Property acquired for transactions in process	27,159	3,653	643.5 %
Leases and loans:			
Net investment in leases	56,606	91,640	(38.2) %
Commercial loans	3,676	31,465	(88.3) %
Allowance for credit losses	(1,237)	(1,504)	(17.8) %
Net investment in leases and loans	<u>59,045</u>	<u>121,601</u>	<u>(51.4) %</u>
Net property on operating leases	980	1,720	(43.0) %
Income taxes receivable	356	256	39.1 %
Other assets	816	399	104.5 %
Discounted lease rentals assigned to lenders	2,120	2,655	(20.2) %
Total Assets	<u>\$ 247,633</u>	<u>\$ 304,944</u>	<u>(18.8) %</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities:			
Demand and savings deposits	\$ 27,654	\$ 41,188	(32.9) %
Time certificates of deposit	26,227	46,557	(43.7) %
Accounts payable	415	1,641	(74.7) %
Accrued liabilities	1,305	1,267	3.0 %
Lease deposits	1,236	587	110.6 %
Non-recourse debt	2,120	2,655	(20.2) %
Deferred income taxes, net	2,787	3,745	(25.6) %
Total Liabilities	<u>61,744</u>	<u>97,640</u>	<u>(36.8) %</u>
Commitments and contingencies	-	-	n/a
Stockholders' equity:			
Preferred stock; 2,500,000 shares authorized; none issued	-	-	n/a
Common stock; \$.01 par value; 20,000,000 shares authorized; 10,284,139 issued and outstanding both periods	103	103	-
Additional paid in capital	2,314	2,314	-
Retained earnings	183,472	204,917	(10.5) %
Accumulated other comprehensive income, net of tax	-	(30)	(100.0) %
Total Stockholders' Equity	<u>185,889</u>	<u>207,304</u>	<u>(10.3) %</u>
Total Liabilities and Stockholders' Equity	<u>\$ 247,633</u>	<u>\$ 304,944</u>	<u>(18.8) %</u>

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended			Nine months Ended		
	March 31,		Percent Change	March 31,		Percent Change
	2020	2019		2020	2019	
Finance and loan income	\$ 1,583	\$ 2,294	(31.0) %	\$ 5,156	\$ 7,966	(35.3) %
Investment and dividend income	1,013	1,188	(14.7) %	3,085	2,873	7.4 %
Total interest and dividend income	2,596	3,482	(25.4) %	8,241	10,839	(24.0) %
Interest expense						
Deposits	64	395	(83.8) %	343	1,325	(74.1) %
Total interest expense	64	395	(83.8) %	343	1,325	(74.1) %
Net interest income	2,532	3,087	(18.0) %	7,898	9,514	(17.0) %
Provision for credit losses	150	(550)	NM %	(250)	(850)	(70.6) %
Net interest income after provision for credit losses	2,382	3,637	(34.5) %	8,148	10,364	(21.4) %
Non-interest income						
Operating and sales-type lease income	550	226	143.4 %	1,155	1,072	7.7 %
Gain on sale of leases, loans and leased property	49	5	880.0 %	1,449	1,442	0.5 %
Gain (loss) on equity securities	(32,167)	4,760	NM %	(21,482)	(1,349)	NM %
Other fee income	5	10	(50.0) %	40	106	(62.3) %
Total non-interest income	(31,563)	5,001	NM %	(18,838)	1,271	(1,582.1) %
Non-interest expenses						
Compensation and employee benefits	919	1,314	(30.1) %	2,864	3,857	(25.7) %
Occupancy	49	138	(64.5) %	178	387	(54.0) %
Professional and IT services	209	238	(12.2) %	595	716	(16.9) %
FDIC and regulatory fees	13	33	(60.6) %	43	114	(62.3) %
Other general and administrative	104	144	(27.8) %	363	451	(19.5) %
Total non-interest expenses	1,294	1,867	(30.7) %	4,043	5,525	(26.8) %
Earnings before income taxes	(30,475)	6,771	NM %	(14,733)	6,110	NM %
Income taxes	(2,919)	1,842	NM %	1,363	1,147	18.8 %
Net earnings	\$ (27,556)	\$ 4,929	NM %	\$ (16,096)	\$ 4,963	NM %
Basic earnings per common share	\$ (2.68)	\$ 0.48	NM %	\$ (1.57)	\$ 0.48	NM %
Average common shares outstanding – basic	10,284,139	10,284,139		10,284,139	10,284,139	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands)

	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Net earnings	\$ (27,556)	\$ 4,929	\$ (16,096)	\$ 4,963
Other comprehensive income (loss):				
Unrealized gains on securities available-for-sale	-	78	35	137
Tax effect	-	(21)	(5)	(37)
Total other comprehensive income	-	57	30	100
Total comprehensive (loss) income	\$ (27,556)	\$ 4,986	\$ (16,066)	\$ 5,063

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited, in thousands, except share amounts)

	Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Comprehensive Income	Total
<u>Nine months ended March 31, 2019</u>						
Balance, June 30, 2018	10,284,139	\$ 103	\$ 2,314	\$ 201,210	\$ 1,336	\$ 204,963
Net earnings	-	-	-	4,963	-	4,963
Other comprehensive income/(loss)	-	-	-	-	100	100
Adoption of new accounting standards (1)	-	-	-	1,515	(1,515)	-
Dividends paid	-	-	-	(5,142)	-	(5,142)
Balance, March 31, 2019	<u>10,284,139</u>	<u>\$ 103</u>	<u>\$ 2,314</u>	<u>\$ 202,546</u>	<u>\$ (79)</u>	<u>\$ 204,884</u>
<u>Nine months ended March 31, 2020</u>						
Balance, June 30, 2019	10,284,139	\$ 103	\$ 2,314	\$ 204,917	\$ (30)	\$ 207,304
Net loss	-	-	-	(16,096)	-	(16,096)
Other comprehensive income/(loss)	-	-	-	-	30	30
Dividends paid	-	-	-	(5,349)	-	(5,349)
Balance, March 31, 2020	<u>10,284,139</u>	<u>\$ 103</u>	<u>\$ 2,314</u>	<u>\$ 183,472</u>	<u>\$ -</u>	<u>\$ 185,889</u>

(1) Represents the impact of Accounting Standards Update ("ASU") 2016-01, ASU 2018-02, ASU 2018-03.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine months ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ (16,096)	\$ 4,963
Adjustments to reconcile net earnings to cash flows provided by (used for) operating activities:		
Provision for credit losses	(250)	(850)
Depreciation and net amortization	358	212
Gain on sale of loans held for sale	(19)	(94)
Proceeds from sales of loans held for sale	14,605	47,141
Gain on sale of leased property and sales-type lease income	(638)	(354)
Loss on equity securities, net	21,483	1,349
Deferred income taxes, including income taxes payable	(946)	(1,842)
(Increase) decrease in income taxes receivable	(100)	2,038
Operating lease liability payments	(104)	-
Net increase (decrease) in accounts payable and accrued liabilities	142	(554)
Other, net	1,270	58
Net cash provided by operating activities	<u>19,705</u>	<u>52,067</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in leases, loans and transactions in process	(65,970)	(42,202)
Payments received on lease receivables and loans	57,187	74,158
Proceeds from sales of leased property and sales-type leases	1,080	1,817
Proceeds from sales and assignments of leases	31,957	16,261
Net increase in Fed funds sold	(620)	(2,665)
Purchase of equity investment securities	(21,079)	(31,141)
Pay down on fixed-income securities	24,000	5,000
Pay down on investments	3	2
Proceeds from sale of equity securities	5,332	-
Net (increase) decrease in other assets	(528)	254
Net cash provided by investing activities	<u>31,362</u>	<u>21,484</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in time certificates of deposit	(20,330)	(37,163)
Net decrease in demand and savings deposits	(13,534)	(19,369)
Dividends to stockholders	(5,349)	(5,142)
Net cash used for financing activities	<u>(39,213)</u>	<u>(61,674)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,854	11,877
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>68,849</u>	<u>63,307</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 80,703</u>	<u>\$ 75,184</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
Decrease in lease rentals assigned to lenders and related non-recourse debt	<u>\$ (535)</u>	<u>\$ (535)</u>
Estimated residual values recorded on leases	<u>\$ (229)</u>	<u>\$ (216)</u>
Interest paid on deposits and borrowed funds	<u>\$ 361</u>	<u>\$ 1,336</u>
Income taxes paid	<u>\$ 2,409</u>	<u>\$ 951</u>
Transfers from loans held for investment to loans held for sale	<u>\$ 14,599</u>	<u>\$ 47,322</u>

**DISCUSSION OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
FOR THREE AND NINE MONTHS ENDED MARCH 31, 2020**
Net Interest Income

Net interest income is the difference between interest and dividends earned on the investment in leases, loans, securities and other earning assets and interest paid on deposits. Net interest income is affected by changes in the volume and mix of interest earning assets and the movement of interest rates. The following table presents the components of the increases (decreases) in net finance, loan and interest income before provision for credit losses by volume and rate:

<i>(in thousands)</i>	Quarter Ended March 31, 2020 vs 2019			Nine months Ended March 31, 2020 vs 2019		
	Volume	Rate	Total	Volume	Rate	Total
Interest and dividend income						
Net investment in leases	\$ (666)	\$ 571	\$ (95)	\$ (1,730)	\$ 1,459	\$ (271)
Commercial loans	(606)	(10)	(616)	(2,510)	(29)	(2,539)
Fixed income securities	(206)	26	(180)	(508)	60	(448)
Equity securities	144	112	256	669	114	783
Interest-earning deposits with banks	83	(334)	(251)	262	(385)	(123)
	<u>(1,251)</u>	<u>365</u>	<u>(886)</u>	<u>(3,817)</u>	<u>1,219</u>	<u>(2,598)</u>
Interest expense						
Demand and savings deposits	(43)	(33)	(76)	(139)	(65)	(204)
Time deposits	(188)	(67)	(255)	(609)	(169)	(778)
	<u>(231)</u>	<u>(100)</u>	<u>(331)</u>	<u>(748)</u>	<u>(234)</u>	<u>(982)</u>
Net interest income	<u>\$ (1,020)</u>	<u>\$ 465</u>	<u>\$ (555)</u>	<u>\$ (3,069)</u>	<u>\$ 1,453</u>	<u>\$ (1,616)</u>

The following tables present the Company's average balances, finance, loan and dividend income and interest earned or interest paid, the related yields and rates on major categories of the Company's earning assets and interest-bearing liabilities. Yields/rates are presented on an annualized basis.

<i>(dollars in thousands)</i>	Quarter ended March 31, 2020			Quarter ended March 31, 2019		
	Average Balance (1)	Interest	Yield/ Rate	Average Balance (1)	Interest	Yield/ Rate
Assets						
Interest-earning assets						
Interest-earning deposits with banks	\$ 87,173	\$ 243	1.11%	\$ 74,736	\$ 494	2.64%
Fixed income securities	2,732	42	6.15%	35,530	222	2.50%
Equity securities	84,988	728	3.43%	65,153	472	2.90%
Commercial loans	4,126	39	3.78%	55,065	655	4.76%
Net investment in leases	58,748	1,544	10.51%	98,985	1,639	6.62%
Total interest-earning assets	<u>237,767</u>	<u>2,596</u>	<u>4.37%</u>	<u>329,469</u>	<u>3,482</u>	<u>4.23%</u>
Other assets	<u>31,470</u>			<u>14,581</u>		
	<u>\$ 269,237</u>			<u>\$ 344,050</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities						
Demand and savings deposits	\$ 28,940	30	0.41%	\$ 48,298	106	0.88%
Time deposits	27,829	34	0.49%	79,363	289	1.46%
Total interest-bearing liabilities	<u>56,769</u>	<u>64</u>	<u>0.45%</u>	<u>127,661</u>	<u>395</u>	<u>1.24%</u>
Non-interest bearing demand deposits	1,144			2,035		
Other liabilities	8,163			10,441		
Shareholders' equity	<u>203,161</u>			<u>203,913</u>		
	<u>\$ 269,237</u>			<u>\$ 344,050</u>		
Net interest income		<u>\$ 2,532</u>			<u>\$ 3,087</u>	
Net interest spread (2)			<u>3.92%</u>			<u>2.99%</u>
Net interest margin (3)			<u>4.26%</u>			<u>3.75%</u>
Average interest earning assets over average interest bearing liabilities			<u>418.8%</u>			<u>258.1%</u>

(1) Average balance is based on month-end balances, includes non-accrual leases, and is presented net of unearned income.

(2) Net interest spread is equal to the difference between the average yield on interest earning assets and the average rate paid on interest-bearing liabilities.

(3) Net interest margin represents net interest income as a percent of average interest earning assets.

Total interest and dividend income for the third quarter ending March 31, 2020 decreased 25.4% to \$2.60 million from \$3.48 million for the third quarter of fiscal 2019. This decrease includes a \$616,400, or 94.1%, decrease in commercial loan income, a \$95,200 decrease in finance income and a \$174,800 net decrease investment and dividend income.

- The decline in commercial loan income reflected a 92.5% decrease in average loan balances to \$4.1 million and a 98 basis point decrease in average loan yield as the last higher yielding syndicated loans were paid off.
- The 5.8% decrease in finance income was due to a 40.7% decrease in average lease balances to \$58.7 million, offset by a 389 basis point increase in the average yield. The current year quarter benefitted from accelerated finance income from early terminated leases that boosted the yield by 263 basis points. Without that boost, the average lease yield for the third quarter of fiscal 2020 would be 7.9%, up 154 basis points.
- The \$174,800 decrease in investment income for the third quarter of fiscal 2020 included a \$430,500 or 60.2% decrease in interest earned on bank deposits and fed funds due to 16.6% decline in average balances and 153 basis points fall in yields to 1.1%. This was offset by a \$255,760 or 54% increase in dividend income related to the 30.4% increase in average equity security balances and a 53 basis point increase in yield. The increase in reported equity yield in part reflects the decline in fair value of equities since December 31, 2019.
- Interest expense paid on deposits decreased 83.8% to \$63,800, reflecting a 55.5% decrease in the average balance of deposits to \$56.8 million and a 79 basis point decrease in average rate paid to 0.45%.

The average yield on all interest-earning assets for the third quarter of fiscal 2020 increased by 14 basis points to 4.37% from 4.23%, and contributed to an increase in the net interest margin to 4.26% in the third quarter of fiscal 2020 from 3.75% in the third quarter of fiscal 2019.

<i>(dollars in thousands)</i>	Nine months ended March 31, 2020			Nine months ended March 31, 2019		
	Average Balance (1)	Interest	Yield/ Rate	Average Balance (1)	Interest	Yield/ Rate
Assets						
Interest-earning assets						
Interest-earning deposits with banks	\$ 76,018	\$ 988	1.73%	\$ 61,555	\$ 1,111	2.41%
Fixed income securities	7,747	192	3.30%	37,255	640	2.29%
Equity securities	87,294	1,905	2.91%	54,718	1,122	2.73%
Commercial loans	14,653	495	4.50%	84,733	3,034	4.77%
Net investment in leases	70,159	4,661	8.86%	108,044	4,932	6.09%
Total interest-earning assets	<u>255,871</u>	<u>8,241</u>	<u>4.29%</u>	<u>346,305</u>	<u>10,839</u>	<u>4.17%</u>
Other assets	29,356			16,837		
	<u>\$ 285,227</u>			<u>\$ 363,142</u>		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities						
Demand and savings deposits	\$ 32,922	168	0.68%	\$ 52,704	372	0.94%
Time deposits	32,520	175	0.72%	90,166	953	1.41%
Total interest bearing liabilities	<u>65,442</u>	<u>343</u>	<u>0.70%</u>	<u>142,870</u>	<u>1,325</u>	<u>1.24%</u>
Non-interest bearing demand deposits	1,750			1,810		
Other liabilities	10,573			13,505		
Shareholders' equity	<u>207,462</u>			<u>204,958</u>		
	<u>\$ 285,227</u>			<u>\$ 363,143</u>		
Net interest income		<u>\$ 7,898</u>			<u>\$ 9,514</u>	
Net interest spread (2)			<u>3.60%</u>			<u>2.94%</u>
Net interest margin (3)			<u>4.12%</u>			<u>3.66%</u>
Average interest earning assets over average interest bearing liabilities			<u>391.0%</u>			<u>242.4%</u>

(1) Average balance is based on month-end balances, includes non-accrual leases, and is presented net of unearned income.

(2) Net interest spread is equal to the difference between the average yield on interest earning assets and the average rate paid on interest-bearing liabilities.

(3) Net interest margin represents net interest income as a percent of average interest earning assets.

For the first nine months of fiscal 2020, total interest income decreased 24.0% to \$8.24 million from \$10.84 million for the first nine months of the prior year. This decrease is largely due to declines of \$2.5 million in commercial loan income and \$271,600 in finance income, offset by a \$211,600 net increase in investment and dividend income.

- The 83.7% decrease in commercial loan income reflected an 82.7% decrease in average loan balances to \$14.7 million, while average yields fell 27 basis points to 4.50%.
- Finance income decreased by 5.5% to \$4.7 million as the average investment in leases declined 35.1% to \$70.2 million but the average yield earned increased by 277 basis points to 8.86%. Fiscal 2020 finance income

includes accelerated finance income from early terminated leases, which if excluded, reduces the average lease yield for the first nine months of fiscal 2020 to 7.5%, up 157 basis points.

- Investment and dividend income increased by 7.4% to \$3.1 million primarily due to a \$782,300 or 69.7% increase in dividend income on average equity securities balances that increased 59.5%. This was offset by a \$570,700 decline in interest income as treasury securities matured and funds were rolled into Fed funds and bank deposits at lower yields.
- For the nine months ended March 31, 2020, interest expense paid on deposits decreased by 74.2% to \$342,500 as a result of a 54.2% decrease in average deposits to \$65.4 million and a 54 basis point decrease in average rate paid to 0.70%.

For the first nine months of fiscal 2020, the average yield on all interest earning assets increased by 12 basis points to 4.29% from 4.17%, while the average rate paid on all interest-bearing liabilities decreased by 54 basis points to 0.70%. As a result, the net interest margin increased to 4.12% in the first nine months of fiscal 2020 from 3.66% for the first nine months of fiscal 2019. The increase in net interest spread and margin in fiscal 2020 largely reflects lower rates paid on a declining deposit base with the additional benefit of accelerated finance income recognized in the period.

Provision for Credit Losses

The Company recorded a \$150,000 provision for credit losses during the third quarter of fiscal 2020, which compared to a \$550,000 release of reserves for the 2019 third quarter, while for the nine months \$250,000 of reserves were released, down from \$850,000 released in the first nine months of fiscal 2019. The Company saw no increase in non-performing leases during the third quarter of fiscal 2020, but the emergence of the COVID-19 pandemic at the end of the quarter provided early indicators of potential problems in the portfolio, including lessee requests for payment deferrals. With the third quarter provision for credit losses and 51% decline in net investment in leases and loans to \$60.3 million, the allowance for credit losses at March 31, 2020 increased to 2.05% of the net investment in leases and loans from 1.31% at March 31, 2019 and 1.41% at December 31, 2019. This level is deemed reasonable at this time but the Company is actively monitoring the portfolio.

As a result of the foregoing, third quarter net interest income after provision for credit losses decreased 34.5% to \$2.38 million from \$3.64 million for the third quarter of the prior year, while net interest income after provision for credit losses for the nine months ended March 31, 2020 decreased 21.4% to \$8.15 million.

Non-interest Income

Non-interest income for the third quarter of fiscal 2020 was negative \$31.56 million compared to \$5.0 million for the third quarter of the prior year. Since gains and losses on equity securities, including unrealized amounts arising from changes in the fair values, are included in non-interest income, the large swing reflects the loss of \$32.17 million recognized for the third quarter of 2020 as compared to a \$4.76 million gain recognized in the third quarter of fiscal 2019. Excluding the equity gains and losses in both periods, non-interest income for the third quarter of fiscal 2020 of \$603,700 was up 150.7%, primarily due to a \$368,400 increase in income from end of term transactions.

Non-interest income of negative \$18.8 million for the first nine months of fiscal 2020 compared to \$1.3 million reported for the first nine months of fiscal 2019. The \$20.1 million swing reflects a nine-month 2020 loss on equity securities of \$21.48 million compared to a \$1.35 million loss on equity securities for the first nine months of fiscal 2019. Excluding equity losses, non-interest income for the first nine months of fiscal 2020 of \$2.64 million was essentially unchanged as an \$854,300 increase in gains on the sale of leases offset a \$689,800 decrease in income from end of term transactions.

Non-interest Expenses

The Company's non-interest expenses of \$1.29 million for the quarter ended March 31, 2020 declined by \$573,600 or 30.7% from \$1.87 million in the third quarter of fiscal 2019. The decrease included reductions of \$395,000 (30%) in compensation and \$88,900 (64%) in occupancy expenses. For the nine months ended March 31, 2020, non-interest expenses of \$4.04 million declined by \$1.48 million or 26.8% from \$5.52 million reported for the same period of the prior year, and included a \$1.13 million (28%) reduction in compensation costs and \$208,500 (54%) decline in occupancy expenses. Upon the adoption of ASU 2016-02, Leases (Topic 842) on July 1, 2019, certain incremental internal costs previously eligible for capitalization are no longer deferred, while reported nine-month 2019 expenses were reduced by \$132,200 in deferred SG&A.

Income Taxes

In accordance with GAAP, the Company's third quarter and nine month provision for income taxes assumes no tax benefits from the unrealized losses recorded on the equity securities portfolio. As a result, third quarter of fiscal 2020 net tax benefit of \$2.9 million includes the tax benefit of \$8.29 million attributable to the equity portfolio loss, offset by a

tax valuation allowance of \$5.37 million on the \$19.7 million cumulative loss on the equity securities portfolio at the effective tax rate of 27.2%. Although the Company has positive taxable income from operations, the deferred tax benefit may not be realized due to the lack of capital gains and the Company cannot assume future appreciation of the equity portfolio required to realize the tax benefit.

The Company's tax expense of \$1.36 million for the nine months ended March 31, 2020 reflects a tax benefit of \$4.0 million offset by the tax valuation allowance of \$5.37 million at the 27.2% effective tax rate. Comparisons to the first nine months of the prior fiscal year are difficult as that period benefited from tax expense reductions related to the reclassification of unrealized equity gains and reconciliation adjustments as a result of the 2017 Tax Act. The periodic effective income tax rate will vary between periods due to changes in mix of pre-tax earnings, particularly related to unrealized gains and losses on securities and underlying income tax rates applicable in different taxing jurisdictions.

The Company's components of earnings and taxes are summarized as follows:

(dollars in thousands)	Three Months Ended			Nine Months Ended		
	March 31,		Percent Change	March 31,		Percent Change
	2020	2019		2020	2019	
Pretax earnings						
Pretax earnings excluding equity portfolio	\$ 1,692	\$ 2,011	(15.9) %	\$ 6,749	\$ 7,459	(9.5) %
Equity portfolio	<u>(32,167)</u>	<u>4,760</u>	(775.8) %	<u>(21,482)</u>	<u>(1,349)</u>	1,492.4 %
Pretax (loss) earnings	<u>(30,475)</u>	<u>6,771</u>	(550.1) %	<u>(14,733)</u>	<u>6,110</u>	(62.3) %
Income taxes						
Income tax expense excluding equity portfolio	460	547	(15.9) %	1,836	2,029	(9.5) %
Income tax (benefit)/expense on equity portfolio	(8,749)	1,295	(775.8) %	(5,843)	(367)	1,492.4 %
Income tax valuation allowance	5,370	-	n/m %	5,370	-	n/m %
Reconciliation adjustments of the Tax Act	<u>-</u>	<u>-</u>	n/m %	<u>-</u>	<u>(515)</u>	(100.0) %
Net tax (benefit)/expense	<u>(2,919)</u>	<u>1,842</u>	(258.5) %	<u>1,363</u>	<u>1,147</u>	18.8 %
Net earnings						
Net earnings excluding equity portfolio	1,232	1,464	(15.9) %	4,913	5,945	(17.4) %
Net equity portfolio (loss)/gain	<u>(28,788)</u>	<u>3,465</u>	(930.7) %	<u>(21,009)</u>	<u>(982)</u>	2,039.2 %
Net (loss)/earnings	<u>\$ (27,556)</u>	<u>\$ 4,929</u>	(659.1) %	<u>\$ (16,096)</u>	<u>\$ 4,963</u>	(424.3) %

Financial Condition Analysis

Consolidated total assets at March 31, 2020 of \$247.6 million were down 18.8% from \$304.9 million at June 30, 2019 and 24.6% from March 31, 2019. The change since June 30, 2019 includes declines of \$35.1 million in the net investment in leases, \$27.5 million in the commercial loan portfolio, \$24.0 million in fixed income securities, and a decrease of \$5.7 million in equity securities, offset by a \$23.5 million increase in property acquired for transactions in process and by a \$12.5 million increase in cash and cash equivalents.

Lease Portfolio

During the nine months ended March 31, 2020 and 2019, 100% of new leases booked were originated by the Bank with 20.2% and 62.6%, respectively, retained in the Company's portfolio. The Company's net investment in leases consisted of the following:

	March 31, 2020	June 30, 2019
	(in thousands)	
Minimum lease payments receivable	\$ 58,670	\$ 97,429
Estimated residual value	2,479	2,579
Less unearned income	<u>(4,543)</u>	<u>(8,368)</u>
Net investment in leases before allowances	56,606	91,640
Less allowance for lease losses	(1,151)	(1,089)
Less valuation allowance for estimated residual value	<u>(25)</u>	<u>(25)</u>
Net investment in leases	<u>\$ 55,430</u>	<u>\$ 90,526</u>

The Company often makes payments to purchase leased property prior to the commencement of the lease. The disbursements for these lease transactions in process are generally made to facilitate the lessees' property implementation schedule. The lessee generally is obligated by the lease to make rental payments directly to the Company during the period that the transaction is in process, and contractually obligated to reimburse the Company for all disbursements under certain circumstances. Income is not recognized while a transaction is in process and prior to the commencement of the lease. At March 31, 2020, the Company's investment in property acquired for transactions in process of \$27.2 million was up from \$3.7 million at June 30, 2019 and up from \$7.1 million at March 31, 2019. In addition, the Company had \$6.5 million of unfunded commitments to purchase property for approved leases in process. These commitments are binding and generally have fixed expiration dates or other termination clauses and are estimated to be completed within one year, but some of the commitments will expire without being funded.

Commercial Loan Portfolio

The Company's net commercial loan portfolio decreased 88.4% during the first nine months of fiscal 2020 to \$3.6 million after \$27.8 million were paid off or sold. The Company's investment in commercial loans consists of the following:

	March 31, 2020	June 30, 2019
	(in thousands)	
Commercial term loans	\$ -	\$ 27,592
Commercial real estate loans	3,676	3,878
Total commercial loans	3,676	31,470
Less unearned income and discounts	-	(5)
Less allowance for loan losses	(61)	(390)
Net commercial loans	<u>\$ 3,615</u>	<u>\$ 31,075</u>

Commercial loans are reported at their outstanding unpaid principal balances reduced by the allowance for loan losses and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. The Company had no unused commitments on revolving lines of credit at March 31, 2020 or June 30, 2019. The fair value of the commercial real estate loan portfolio at March 31, 2020 was \$3.72 million.

Equity Securities

CalFirst's equity investment portfolio decreased by 7.6% from \$75.9 million at June 30, 2019, reflecting new investments of \$21.1 million and sales of \$5.2 million offset by \$21.48 million loss in fair value at March 31, 2020. The portfolio consists of common stock holdings in approximately 36 public companies with readily available prices and is carried at fair value. During the first nine months of fiscal 2020, the Company invested an additional \$19.1 million in 21 existing holdings and \$2 million in 2 new positions. It also realized a net loss of \$171,500 on the sale of eight stocks for \$5.2 million. At March 31, 2020, the aggregate fair market value of the equity securities of \$70.2 million included approximately \$19.7 million of net unrealized losses. Investments in equity securities as of March 31, 2020 and June 30, 2019 are summarized by primary industry sector in the table below:

	Cost Basis	Unrealized		Fair Value
		Gains	(Losses)	
(in thousands)				
as of March 31, 2020				
Commercial / Industrial	\$ 42,006	\$ 1,646	\$ (11,530)	\$ 32,122
Consumer	22,146	1,159	(4,939)	18,366
Financial	16,536	-	(5,646)	10,890
Healthcare	9,265	291	(726)	8,830
Total equity securities	<u>\$ 89,953</u>	<u>\$ 3,096</u>	<u>\$ (22,841)</u>	<u>\$ 70,208</u>
as of June 30, 2019				
Commercial / Industrial	\$ 33,399	\$ 3,523	\$ (1,172)	\$ 35,750
Consumer	18,901	1,750	(1,554)	19,097
Financial	11,787	726	(723)	11,790
Healthcare	10,290	106	(1,089)	9,307
Total equity securities	<u>\$ 74,377</u>	<u>\$ 6,105</u>	<u>\$ (4,538)</u>	<u>\$ 75,944</u>

Fixed Income Securities Available-for-sale

During the nine months ending March 31, 2020, all seven U.S. Treasury Notes held by the Bank matured, and as a result, fixed income securities available for sale of \$24 million at June 30, 2019 were reduced to zero.

Investments

Investments are carried at cost and consist of the following:

(in thousands)	March 31, 2020		June 30, 2019	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value
Federal Reserve Bank Stock	\$ 1,955	\$ 1,955	\$ 1,955	\$ 1,955
Federal Home Loan Bank Stock	672	672	672	672
Mortgage-backed investment	104	114	107	114
	<u>\$ 2,731</u>	<u>\$ 2,741</u>	<u>\$ 2,734</u>	<u>\$ 2,741</u>

CalFirst Bank is required to hold Federal Reserve Bank stock equal to 6% of its capital surplus, which is defined as additional paid-in capital stock, less any gains (losses) on available for sale securities as of the current period end. The investment in Federal Home Loan Bank of San Francisco ("FHLB") stock is a required investment related to CalFirst Bank's borrowing relationship with the FHLB. These investments have no stated maturity.

Asset Quality

As part of assessing and monitoring the performance of all leases and loans, the Company disaggregates the portfolio into four classes: 1) commercial leases, 2) education, government and non-profit leases, 3) commercial and industrial loans and 4) commercial real estate loans. The Company's credit process also classifies all leases and loans in accordance with a risk rating classification system consistent with regulatory models under which leases and loans may be rated as "pass", "special mention", "substandard", or "doubtful". The classification of the Company's lease and loan portfolios by class is as follows:

(dollars in thousands)	Commercial Leases	Education Government Non-profit Leases	Commercial & Industrial Loans	Commercial Real Estate Loans	Total
As of March 31, 2020:					
Pass	\$ 34,600	\$ 18,190	\$ -	\$ 3,676	\$ 56,466
Special Mention	2,130	1,524	-	-	3,654
Substandard	-	162	-	-	162
Doubtful	-	-	-	-	-
	<u>\$ 36,730</u>	<u>\$ 19,876</u>	<u>\$ -</u>	<u>\$ 3,676</u>	<u>\$ 60,282</u>
Non-accrual	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(dollars in thousands)	Commercial Leases	Education Government Non-profit Leases	Commercial & Industrial Loans	Commercial Real Estate Loans	Total
As of June 30, 2019:					
Pass	\$ 62,701	\$ 28,170	\$ 27,587	\$ 3,878	\$ 123,336
Special Mention	125	644	-	-	769
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
	<u>\$ 62,826</u>	<u>\$ 28,814</u>	<u>\$ 27,587</u>	<u>\$ 3,878</u>	<u>\$ 123,105</u>
Non-accrual	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There was no change in the past due credits or increase in non-performing assets during the quarter and nine months ended March 31, 2020. The following table presents the aging of the leases and loans by portfolio class:

(dollars in thousands)	31-89 Days	Greater Than 90 Days	Total Past Due	Current	Total	Over 90 Days & Accruing
As of March 31, 2020:						
Commercial Leases	\$ -	\$ -	\$ -	\$ 36,730	\$ 36,730	\$ -
Education, Government, Non-profit Leases	-	-	-	19,876	19,876	-
Commercial and Industrial Loans	-	-	-	-	-	-
Commercial Real Estate Loans	-	-	-	3,676	3,676	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,282</u>	<u>\$ 60,282</u>	<u>\$ -</u>
As of June 30, 2019:						
Commercial Leases	\$ -	\$ -	\$ -	\$ 62,826	\$ 62,826	\$ -
Education, Government, Non-profit Leases	-	-	-	28,814	28,814	-
Commercial and Industrial Loans	-	-	-	27,587	27,587	-
Commercial Real Estate Loans	-	-	-	3,878	3,878	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,105</u>	<u>\$ 123,105</u>	<u>\$ -</u>

Allowance for Credit Losses

The allowance for credit losses provides coverage for probable and estimable losses in the Company's lease and loan portfolios. The allowance recorded is based on a quarterly review of all leases and loans outstanding and transactions in process. Lease receivables, loans or residuals are charged off when they are deemed completely uncollectible. The allowance for credit losses of \$1.24 million at March 31, 2020 was reduced by \$267,000 when compared to June 30, 2019 and was reduced by \$527,000 from \$1.76 million at March 31, 2019. The Company considers the allowance for credit losses at March 31, 2020 adequate to cover losses specifically identified as well as inherent in the lease and loan portfolios. However, no assurance can be given that the Company will not, in any particular period, sustain losses that are sizeable in relation to the amount reserved, or that subsequent evaluations of the portfolio, in light of factors then prevailing, will not require significant increases in the allowance for credit losses. Among other factors, economic, political and regulatory actions may have an adverse impact on the adequacy of the allowance for credit losses.

	Nine months ended March 31,	
	2020	2019
(dollars in thousands)		
Net investment in leases and loans before allowance	\$ 60,282	\$ 135,042
Allowance for credit losses at beginning of period	\$ 1,504	\$ 2,888
Charge-off of lease receivables	-	(17)
Transfer of loans to held-for-sale	(17)	(263)
Recovery of amounts previously written off	-	6
Provision for credit losses	(250)	(850)
Allowance for credit losses at end of period	\$ 1,237	\$ 1,764
Components of allowance for credit losses:		
Allowance for lease losses	\$ 1,151	\$ 1,089
Residual valuation allowance	25	25
Allowance for loan losses	61	650
	\$ 1,237	\$ 1,764
Allowance for credit losses as a percent of net investment in leases and loans before allowances	2.05%	1.31%

The allowance balances and activity in the allowance by portfolio segment for the nine months ended March 31, 2020 and 2019 are presented in the following table:

(dollars in thousands)	Commercial Leases	Education Government Non-profit Leases	Commercial & Industrial Loans	Commercial Real Estate Loans	Total
Nine months ended March 31, 2020:					
Balance beginning of period	\$ 872	\$ 242	\$ 329	\$ 61	\$ 1,504
Charge-offs	-	-	-	-	-
Transfer of loans to held-for-sale	-	-	(17)	-	(17)
Recoveries	-	-	-	-	-
Provision	12	50	(312)	-	(250)
Balance end of period	\$ 884	\$ 292	\$ -	\$ 61	\$ 1,237
Nine months ended March 31, 2019:					
Balance beginning of period	\$ 1,142	\$ 258	\$ 1,427	\$ 61	\$ 2,888
Charge-offs	(1)	(16)	-	-	(17)
Transfer of loans to held-for-sale	-	-	(263)	-	(263)
Recoveries	6	-	-	-	6
Provision	(275)	-	(575)	-	(850)
Balance end of period	\$ 872	\$ 242	\$ 589	\$ 61	\$ 1,764

Liquidity and Capital Resources

The Company funds its operating activities through internally generated funds, bank deposits and borrowings, and non-recourse debt. At March 31, 2020 and June 30, 2019, the Company's cash and cash equivalents were \$84.1 million and \$71.6 million, respectively.

Deposits at CalFirst Bank of \$53.9 million at March 31, 2020 were down 52.3% from \$112.9 million at March 31, 2019 and 38.6% from \$87.7 million at June 30, 2019. The \$59.0 million decrease from March 31, 2019 is related to the 55.7% decline in the lease and loan portfolio over that period and the Company's reduced funding needs. The following table presents the ending balances, average balances and average rates paid on deposits for the six months ended March 31, 2020 and 2019:

	Nine months ended March 31,					
	2020			2019		
	Ending Balance	Average Balance	Average Rate Paid	Ending Balance	Average Balance	Average Rate Paid
	(dollars in thousands)					
Non-interest bearing demand deposits	\$ 1,084	\$ 1,750	n/a	\$ 2,022	\$ 1,810	n/a
Interest-bearing demand deposits	1,374	1,409	0.05%	793	969	0.15%
Money market and savings deposits	25,195	31,513	0.71%	41,739	51,735	0.96%
Time deposits, less than \$100,000	7,851	10,226	0.67%	17,231	22,075	1.33%
Time deposits, \$100,000 or more	\$ 18,376	\$ 22,294	0.74%	\$ 51,108	\$ 68,091	1.44%

The following table shows the maturities of certificates of deposits at March 31, 2020:

	\$250,000 or less	More Than \$250,000
	(in thousands)	
Under 3 months	\$ 7,219	\$ 3,717
3 – 6 months	4,549	1,611
7 – 12 months	4,917	2,522
13 – 24 months	734	-
25 – 36 months	396	562
	<u>\$ 17,815</u>	<u>\$ 8,412</u>

The Bank has a borrowing agreement with the FHLB for overnight and term advances at published daily rates. The Bank had no short-term borrowings outstanding at March 31, 2020 and 2019. Under terms of the blanket collateral agreement, advances from the FHLB would be collateralized by qualifying real estate loans. The Bank also has the authority to borrow from the FRB discount window amounts secured by certain lease receivables with unused borrowing availability at March 31, 2020 of approximately \$12.3 million.

Capital Resources

The following table presents capital and capital ratio information for the Company and CalFirst Bank as of March 31, 2020 and June 30, 2019. The Company and Bank continue to exceed regulatory capital requirements and are considered "well-capitalized" under guidelines established by the FRB and OCC.

	Actual		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio
March 31, 2020	(dollars in thousands)			
<u>California First National Bancorp</u>				
Common equity Tier 1 capital	\$ 185,890	100.27%	-	-
Tier 1 risk-based capital	\$ 187,127	100.93%	-	-
Total risk-based capital	\$ 185,890	100.27%	-	-
Tier 1 leverage capital	\$ 185,890	70.72%	-	-
<u>California First National Bank</u>				
Common equity Tier 1 capital	\$ 55,782	60.87%	\$ 5,957	6.50%
Tier 1 risk-based capital	\$ 56,928	62.12%	\$ 7,332	8.00%
Total risk-based capital	\$ 55,782	60.87%	\$ 9,165	10.00%
Tier 1 leverage capital	\$ 55,782	41.88%	\$ 6,659	5.00%
June 30, 2019				
<u>California First National Bancorp</u>				
Common equity Tier 1 capital	\$ 207,333	91.66%	-	-
Tier 1 risk-based capital	\$ 207,333	91.66%	-	-
Total risk-based capital	\$ 208,837	92.32%	-	-
Tier 1 leverage capital	\$ 207,333	67.17%	-	-

California First National Bank	Actual		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio
Common equity Tier 1 capital	\$ 67,317	49.81%	\$ 8,784	6.50%
Tier 1 risk-based capital	\$ 67,317	49.81%	\$ 10,811	8.00%
Total risk-based capital	\$ 68,747	50.87%	\$ 13,514	10.00%
Tier 1 leverage capital	\$ 67,317	38.34%	\$ 8,780	5.00%

Market and Interest Rate Risk

Market risk is the risk of loss in a financial asset arising from changes in interest rates and equity prices. The Company's principal market risk is associated with equity prices, as equity securities now represent 28.4% of the Company's assets and can be susceptible to significant price volatility. Investment gains and losses, whether realized from dispositions or unrealized from changes in market prices of equity securities, have caused and will continue to cause significant volatility in periodic earnings.

Interest rate risk results from differences in the repricing characteristics of interest-earning assets and interest-bearing liabilities. Market risk also arises from the impact that fluctuations in interest rates may have on security prices and the values of equity securities that are accounted for at fair value. At March 31, 2020, the Company had assets of \$117.9 million subject to changes in interest rates over the next twelve months, compared to repricing liabilities of \$51.1 million. The mismatch between repricing of maturities within a time band is commonly referred to as the "gap" for that period. A positive gap (asset sensitive), where interest rate sensitive assets exceed interest rate sensitive liabilities, generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite result on the net interest margin. However, the traditional gap analysis does not assess the relative sensitivity of assets and liabilities to changes in interest rates and other factors that could have an impact on interest rate sensitivity or net interest income. Sudden and substantial increase or decrease in interest rates may adversely impact our income to the extent that the interest rates associated with the assets and liabilities do not change at the same speed, to the same extent, or on the same basis. Non-recourse debt does not represent an interest rate risk to the Company because it is fully amortized through direct payments from lessees to the purchaser of the lease receivable.

The distribution of assets and liabilities by maturity at March 31, 2020 is as follows:

(dollars in thousands)	3 Months or Less	Over 3 to 12 Months	Over 1- 5 years	Over 5 years	Non-rate Sensitive	Total
Rate Sensitive Assets (RSA):						
Cash due from banks	\$ 84,080	\$ -	\$ -	\$ -	\$ -	\$ 84,080
Investment securities	-	-	-	2,731	-	2,731
Equity Securities	-	-	-	-	70,208	70,208
Net investment in leases	9,490	24,074	27,585	-	(5,719)	55,430
Commercial loans	69	210	1,215	2,182	(61)	3,615
Non-interest earning assets	-	-	-	-	31,569	31,569
Totals	\$ 93,639	24,284	28,800	4,913	\$ 95,997	\$ 247,633
Cumulative total for RSA	\$ 93,639	\$ 117,923	\$ 146,723	\$ 151,636		
Rate Sensitive Liabilities (RSL):						
Demand and savings deposits	\$ 26,570	\$ -	\$ -	\$ -	\$ 1,084	\$ 27,654
Time deposits	10,935	13,599	1,693	-	-	26,227
Non-interest bearing liabilities	-	-	-	-	7,863	7,863
Stockholders' equity	-	-	-	-	185,889	185,889
Totals	\$ 37,505	13,599	1,693	-	\$ 194,836	\$ 247,633
Cumulative total for RSL	\$ 37,505	\$ 51,104	\$ 52,797	\$ 52,797		
Interest rate sensitivity gap	\$ 56,134	\$ 10,685	\$ 27,107	\$ 4,913		
Cumulative GAP	\$ 56,134	\$ 66,819	\$ 93,926	\$ 98,839		
RSA divided by RSL (cumulative)	249.67%	230.75%	277.90%	287.21%		
Cumulative GAP / total assets	22.67%	26.98%	37.93%	39.91%		