

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, 2021
- 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: 001-09383

WESTAMERICA BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA
(State or Other Jurisdiction of
Incorporation or Organization)

94-2156203
(I.R.S. Employer
Identification No.)

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code (707) 863-6000

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐

No ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Title of Class
Common Stock,
No Par Value

Shares outstanding as of October 28, 2021
26,866,108

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FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation (the “Company”) for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, future credit quality and performance, the appropriateness of the allowance for credit losses, loan growth or reduction, mitigation of risk in the Company’s loan and investment securities portfolios, income or loss, earnings or loss per share, the payment or nonpayment of dividends, stock repurchases, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believes”, “anticipates”, “expects”, “estimates”, “intends”, “targeted”, “projected”, “forecast”, “continue”, “remain”, “will”, “should”, “may” and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements are based on Management’s current knowledge and belief and include information concerning the Company’s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company’s ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of any difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by riots, terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the local, regional and national economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including a failure or breach in data processing or security systems or those of third party vendors and other service providers, including as a result of cyber attacks or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, hurricanes, fire, flood, drought, and other disasters, on the uninsured value of the Company’s assets and of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company’s market place, and commodities and asset values; (13) changes in the securities markets; (14) the duration and severity of the COVID-19 pandemic and governmental responses to the pandemic; (15) the performance of loans deferred under the CARES Act following their respective deferral periods; and (16) the outcome of contingencies, such as legal proceedings. However, the reader should not consider the above-mentioned factors to be a complete set of all potential risks or uncertainties.

Forward-looking statements speak only as of the date they are made. The Company undertakes no obligation to update any forward-looking statements in this report to reflect circumstances or events that occur after the date forward looking statements are made, except as may be required by law. The reader is directed to the Company’s annual report on Form 10-K for the year ended December 31, 2020, for further discussion of factors which could affect the Company’s business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report.

PART I - FINANCIAL INFORMATION
Item 1 Financial Statements

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	At September 30, 2021	At December 31, 2020
	(In thousands)	
Assets:		
Cash and due from banks	\$1,011,048	\$621,275
Debt securities available for sale	4,602,706	4,063,185
Debt securities held to maturity, net of allowance for credit losses of \$7 at September 30, 2021 and \$9 at December 31, 2020 (Fair value of \$364,741 at September 30, 2021 and \$529,678 at December 31, 2020)	356,106	515,589
Loans	1,132,472	1,256,243
Allowance for credit losses on loans	(23,882)	(23,854)
Loans, net of allowance for credit losses on loans	1,108,590	1,232,389
Premises and equipment, net	31,603	32,813
Identifiable intangibles, net	900	1,104
Goodwill	121,673	121,673
Other assets	170,947	159,903
Total Assets	\$7,403,573	\$6,747,931
Liabilities:		
Noninterest-bearing deposits	\$2,988,329	\$2,725,177
Interest-bearing deposits	3,300,632	2,962,802
Total deposits	6,288,961	5,687,979
Short-term borrowed funds	119,102	102,545
Other liabilities	157,557	112,598
Total Liabilities	6,565,620	5,903,122
Contingencies (Note 10)		
Shareholders' Equity:		
Common stock (no par value), authorized: 150,000 shares		
Issued and outstanding: 26,866 at September 30, 2021 and 26,807 at December 31, 2020	470,676	466,006
Deferred compensation	35	35
Accumulated other comprehensive income	71,284	114,412
Retained earnings	295,958	264,356
Total Shareholders' Equity	837,953	844,809
Total Liabilities and Shareholders' Equity	\$7,403,573	\$6,747,931

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	(In thousands, except per share data)			
Interest and Loan Fee Income:				
Loans	\$14,789	\$15,291	\$44,434	\$44,378
Equity securities	109	103	329	309
Debt securities available for sale	26,452	22,652	77,822	66,396
Debt securities held to maturity	2,091	3,235	7,051	10,759
Interest-bearing cash	369	84	766	1,053
Total Interest and Loan Fee Income	43,810	41,365	130,402	122,895
Interest Expense:				
Deposits	473	450	1,398	1,308
Short-term borrowed funds	19	16	53	34
Other borrowed funds	-	-	-	1
Total Interest Expense	492	466	1,451	1,343
Net Interest and Loan Fee Income	43,318	40,899	128,951	121,552
Provision for Credit Losses	-	-	-	4,300
Net Interest and Loan Fee Income After Provision for Credit Losses	43,318	40,899	128,951	117,252
Noninterest Income:				
Service charges on deposit accounts	3,578	3,298	10,117	10,697
Merchant processing services	3,159	2,860	8,998	7,495
Debit card fees	1,740	1,611	5,132	4,538
Trust fees	839	756	2,467	2,247
ATM processing fees	573	606	1,792	1,703
Other service fees	475	454	1,435	1,380
Financial services commissions	95	58	260	306
Securities gains	-	-	34	71
Other noninterest income	823	833	2,268	3,241
Total Noninterest Income	11,282	10,476	32,503	31,678
Noninterest Expense:				
Salaries and related benefits	11,813	12,540	36,575	38,458
Occupancy and equipment	4,759	5,014	14,447	14,737
Outsourced data processing services	2,429	2,338	7,244	7,067
Professional fees	724	669	2,496	1,701
Courier service	534	500	1,605	1,499
Amortization of identifiable intangibles	67	72	204	218
Other noninterest expense	4,371	3,470	11,323	10,341
Total Noninterest Expense	24,697	24,603	73,894	74,021
Income Before Income Taxes	29,903	26,772	87,560	74,909
Provision for income taxes	7,840	6,721	22,771	18,334
Net Income	\$22,063	\$20,051	\$64,789	\$56,575
Average Common Shares Outstanding	26,866	26,930	26,851	26,977
Average Diluted Common Shares Outstanding	26,875	26,946	26,868	26,998
Per Common Share Data:				
Basic earnings	\$0.82	\$0.74	\$2.41	\$2.10
Diluted earnings	0.82	0.74	2.41	2.10
Dividends paid	0.41	0.41	1.23	1.23

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
	(In thousands)			
Net income	\$22,063	\$20,051	\$64,789	\$56,575
Other comprehensive income:				
Changes in unrealized gains on debt securities available for sale	(22,200)	14,042	(61,196)	110,200
Deferred tax benefits (expense)	6,563	(4,151)	18,092	(32,578)
Reclassification of gains included in net income	-	-	(34)	(71)
Deferred tax expense on gains included in net income	-	-	10	21
Changes in net unrealized gains on debt securities available for sale, net of tax	(15,637)	9,891	(43,128)	77,572
Total comprehensive income	<u>\$6,426</u>	<u>\$29,942</u>	<u>\$21,661</u>	<u>\$134,147</u>

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

	Common Shares Outstanding	Common Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	(In thousands except dividend per share)					
Balance, June 30, 2021	26,865	\$470,330	\$35	\$86,921	\$284,910	\$842,196
Net income for the period					22,063	22,063
Other comprehensive loss				(15,637)		(15,637)
Exercise of stock options	-	-				-
Stock based compensation	-	324				324
Stock awarded to employees	1	22				22
Dividends (\$0.41 per share)					(11,015)	(11,015)
Balance, September 30, 2021	<u>26,866</u>	<u>\$470,676</u>	<u>\$35</u>	<u>\$71,284</u>	<u>\$295,958</u>	<u>\$837,953</u>
Balance, December 31, 2020	26,807	\$466,006	\$35	\$114,412	\$264,356	\$844,809
Net income for the period					64,789	64,789
Other comprehensive loss				(43,128)		(43,128)
Exercise of stock options	53	3,017				3,017
Restricted stock activity	9	526				526
Stock based compensation	-	1,100				1,100
Stock awarded to employees	1	93				93
Retirement of common stock	(4)	(66)			(166)	(232)
Dividends (\$1.23 per share)					(33,021)	(33,021)
Balance, September 30, 2021	<u>26,866</u>	<u>\$470,676</u>	<u>\$35</u>	<u>\$71,284</u>	<u>\$295,958</u>	<u>\$837,953</u>
Balance, June 30, 2020	26,933	\$467,351	\$35	\$93,732	\$246,958	\$808,076
Net income for the period					20,051	20,051
Other comprehensive income				9,891		9,891
Stock based compensation	-	450				450
Stock awarded to employees	-	19				19
Retirement of common stock	(35)	(619)			(1,249)	(1,868)
Dividends (\$0.41 per share)					(11,043)	(11,043)
Balance, September 30, 2020	<u>26,898</u>	<u>\$467,201</u>	<u>\$35</u>	<u>\$103,623</u>	<u>\$254,717</u>	<u>\$825,576</u>
Balance, December 31, 2019	27,062	\$465,460	\$771	\$26,051	\$239,135	\$731,417
Adoption of ASU 2016-13					52	52
Adjusted Balance, January 1, 2020	<u>27,062</u>	<u>465,460</u>	<u>771</u>	<u>26,051</u>	<u>239,187</u>	<u>731,469</u>
Net income for the period					56,575	56,575
Other comprehensive income				77,572		77,572
Exercise of stock options	53	2,838				2,838
Restricted stock activity	10	1,270	(736)			534
Stock based compensation	-	1,500				1,500
Stock awarded to employees	1	85				85
Retirement of common stock	(228)	(3,952)			(7,782)	(11,734)
Dividends (\$1.23 per share)					(33,263)	(33,263)
Balance, September 30, 2020	<u>26,898</u>	<u>\$467,201</u>	<u>\$35</u>	<u>\$103,623</u>	<u>\$254,717</u>	<u>\$825,576</u>

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Nine Months Ended September 30,	
	2021	2020
	(In thousands)	
Operating Activities:		
Net income	\$64,789	\$56,575
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,748	18,482
Provision for credit losses	-	4,300
Net amortization of deferred loan fees	(4,671)	(2,803)
Stock option compensation expense	1,100	1,500
Securities gains	(34)	(71)
Net changes in:		
Interest income receivable	(282)	(1,982)
Other assets	(13,255)	(4,397)
Income taxes payable	4,580	(520)
Net deferred tax asset	(3,109)	325
Interest expense payable	(8)	33
Other liabilities	10,272	24,798
Net Cash Provided by Operating Activities	71,130	96,240
Investing Activities:		
Net repayments (disbursements) of loans	128,791	(181,894)
Purchases of debt securities available for sale	(1,593,799)	(1,612,633)
Proceeds from sale/maturity/calls of debt securities available for sale	1,040,179	807,064
Proceeds from maturity/calls of debt securities held to maturity	157,221	156,993
Purchases of premises and equipment	(1,052)	(1,682)
Net Cash Used in Investing Activities	(268,660)	(832,152)
Financing Activities:		
Net change in deposits	600,982	726,569
Net change in short-term borrowings	16,557	77,045
Exercise of stock options	3,017	2,838
Retirement of common stock	(232)	(11,734)
Common stock dividends paid	(33,021)	(33,263)
Net Cash Provided by Financing Activities	587,303	761,455
Net Change In Cash and Due from Banks	389,773	25,543
Cash and Due from Banks at Beginning of Period	621,275	373,421
Cash and Due from Banks at End of Period	\$1,011,048	\$398,964
Supplemental Cash Flow Disclosures:		
Supplemental disclosure of non cash activities:		
Right-of-use assets acquired in exchange for operating lease liabilities	\$4,972	\$6,457
Securities purchases pending settlement	81,618	-
Supplemental disclosure of cash flow activities:		
Cash paid for amounts included in operating lease liabilities	4,791	4,905
Interest paid for the period	1,459	1,310
Income tax payments for the period	21,300	18,708

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission and follow general practices within the banking industry. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three and nine months ended September 30, 2021 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Note 2: Accounting Policies

The most significant accounting policies followed by the Company are presented in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, it is reasonably possible conditions could change materially affecting results of operations and financial conditions. Certain risks, uncertainties and other factors, including those discussed in Note 20 "Impact of COVID-19" to the consolidated financial statements and "Risk Factors" in Part I – Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2020 may cause actual future results to differ materially from the results discussed in this report on Form 10-Q. Management continues to evaluate the impact of the pandemic on the Company's business. The extent of the impact on the Company's results of operations, cash flow liquidity, and financial performance, as well as the Company's ability to execute near- and long-term business strategies and initiatives, will depend on numerous evolving factors and future developments, which are highly uncertain and cannot be reasonably predicted.

Application of accounting principles requires the Company to make certain estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain accounting policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants a writedown or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

Debt Securities. Debt securities consist of U.S. Treasury, government sponsored entities, states, counties, municipalities, corporations, agency and non-agency mortgage-backed securities, collateralized loan obligations and commercial paper. Securities transactions are recorded on a trade date basis. The Company classifies its debt securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are recorded at fair value with unrealized gains and losses included in net income. Held to maturity debt securities are those securities which the Company has the ability and intent to hold until maturity. Held to maturity debt securities are recorded at cost, adjusted for the amortization of premiums or accretion of discounts. Securities not included in trading or held to maturity are classified as available for sale debt securities. Available for sale debt securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available for sale debt securities are included in accumulated other comprehensive income. Accrued interest is recorded within other assets and reversed against interest income if it is not received.

The Company utilizes third-party sources to value its investment securities; securities individually valued using quoted prices in active markets are classified as Level 1 assets in the fair value hierarchy, and securities valued using quoted prices in active markets for similar securities (commonly referred to as "matrix" pricing) are classified as Level 2 assets in the fair value hierarchy. The Company validates the reliability of third-party provided values by comparing individual security pricing for

securities between more than one third-party source. When third-party information is not available, valuation adjustments are estimated in good faith by Management and classified as Level 3 in the fair value hierarchy.

The Company follows the guidance issued by the Board of Governors of the Federal Reserve System, “Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies” (SR 12-15) and other regulatory guidance when performing investment security pre-purchase analysis or evaluating investment securities for credit loss. Credit ratings issued by recognized rating agencies are considered in the Company’s analysis only as a guide to the historical default rate associated with similarly-rated bonds.

To the extent that debt securities in the held-to-maturity portfolio share common risk characteristics, estimated expected credit losses are calculated in a manner like that used for loans held for investment. That is, for pools of such securities with common risk characteristics, the historical lifetime probability of default and severity of loss in the event of default is derived or obtained from external sources and adjusted for the expected effects of reasonable and supportable forecasts over the expected lives of the securities on those historical credit losses. Expected credit loss on each security in the held-to-maturity portfolio that do not share common risk characteristics with any of the pools of debt securities is individually evaluated and a reserve for credit losses is established at the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the recorded amortized cost basis of the security. For certain classes of debt securities, the bank considers the history of credit losses, current conditions, and reasonable and supportable forecasts, which may indicate that the expectation that nonpayment of the amortized cost basis is, or continues to be, zero. Therefore, for those securities, the Company does not record expected credit losses.

Available for sale debt securities in unrealized loss positions are evaluated for credit related losses at least quarterly. For available for sale debt securities, a decline in fair value due to credit losses results in recording an allowance for credit losses to the extent the fair value is less than the amortized cost basis. Declines in fair value that have not been recorded through an allowance for credit losses, such as declines due to changes in market interest rates, are recorded through other comprehensive income, net of applicable taxes. Although these evaluations involve significant judgment, an unrealized loss in the fair value of a debt security is generally considered not to be related to credit when the fair value of the security is below the carrying value primarily due to changes in risk-free interest rates, there has not been significant deterioration in the financial condition of the issuer, and the Company does not intend to sell nor does it believe it will be required to sell the security before the recovery of its cost basis.

If the Company intends to sell a debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the debt security is written down to its fair value and the write down is charged against the allowance for credit losses with any incremental loss reported in earnings.

Purchase premiums are amortized to the earliest call date and purchase discounts are amortized to maturity as an adjustment to yield using the effective interest method. Unamortized premiums, unaccreted discounts, and early payment premiums are recognized as a component of gain or loss on sale upon disposition of the related security. Interest and dividend income are recognized when earned. Realized gains and losses from the sale of available for sale debt securities are included in earnings using the specific identification method.

Nonmarketable Equity Securities. Nonmarketable equity securities include securities that are not publicly traded, such as the Company’s Visa Class B common stock, and securities acquired to meet regulatory requirements, such as Federal Reserve Bank stock, which are restricted. These restricted securities are accounted for under the cost method and are included in other assets. The Company reviews those assets accounted for under the cost method at least quarterly. The Company’s review typically includes an analysis of the facts and circumstances of each investment, the expectations for the investment’s cash flows and capital needs, the viability of its business model and any exit strategy. When the review indicates that impairment exists the asset value is reduced to fair value. The Company recognizes the estimated loss in noninterest income.

Loans. Loans are stated at the principal amount outstanding, net of unearned discount and unamortized deferred fees and costs. Interest is accrued daily on the outstanding principal balances and included in other assets. Loans which are more than 90 days delinquent with respect to interest or principal, unless they are well secured and in the process of collection, and other loans on which full recovery of principal or interest is in doubt, are placed on nonaccrual status. Interest previously accrued on loans placed on nonaccrual status is charged against interest income. In addition, some loans secured by real estate and commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status even though the borrowers continue to repay the loans as scheduled. When the ability to fully collect nonaccrual loan principal is in doubt, payments received are applied against the principal balance of the loans on a cost-recovery method until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Nonaccrual loans are reinstated to accrual status when none of the loan’s principal and interest is past due and

improvements in credit quality eliminate doubt as to the full collectability of both principal and interest, or the loan otherwise becomes well secured and in the process of collection. Certain consumer loans or auto receivables are charged off against the allowance for credit losses when they become 120 days past due.

A troubled debt restructuring (“TDR”) occurs when the Company, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower it would not otherwise consider. The Company follows its general nonaccrual policy for TDRs. Performing TDRs are reinstated to accrual status when improvements in credit quality eliminate the doubt as to full collectability of both principal and interest. Under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), banks may elect to deem that loan modifications do not result in TDRs if they are (1) related to the novel coronavirus disease; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the COVID-19 national emergency or (B) December 31, 2020. The Consolidated Appropriations Act, 2021, extended the period during which banks may elect to deem that qualified loan modifications do not result in TDR classification through January 1, 2022.

Allowance for Credit Losses. The Company extends loans to commercial and consumer customers primarily in Northern and Central California. These lending activities expose the Company to the risk borrowers will default, causing loss. The Company’s lending activities are exposed to various qualitative risks. All loan segments are exposed to risks inherent in the economy and market conditions. Significant risk characteristics related to the commercial loan segment include the borrowers’ business performance and financial condition, and the value of collateral for secured loans. Significant risk characteristics related to the commercial real estate segment include the borrowers’ business performance and the value of properties collateralizing the loans. Significant risk characteristics related to the construction loan segment include the borrowers’ performance in successfully developing the real estate into the intended purpose and the value of the property collateralizing the loans. Significant risk characteristics related to the residential real estate segment include the borrowers’ financial wherewithal to service the mortgages and the value of the property collateralizing the loans. Significant risk characteristics related to the consumer loan segment include the financial condition of the borrowers and the value of collateral securing the loans.

The preparation of these financial statements requires Management to estimate the amount of expected losses over the expected contractual life of our existing loan portfolio and establish an allowance for credit losses. Loan agreements generally include a maturity date, and the Company considers the contractual life of a loan agreement to extend from the date of origination to the contractual maturity date. In estimating credit losses, Management must exercise significant judgment in evaluating information deemed relevant. The amount of ultimate losses on the loan portfolio can vary from the estimated amounts. Management follows a systematic methodology to estimate loss potential in an effort to reduce the differences between estimated and actual losses.

The allowance for credit losses is established through provisions for credit losses charged to income. Losses on loans are charged to the allowance for credit losses when all or a portion of the recorded amount of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance when realized. The Company’s allowance for credit losses is maintained at a level considered adequate to provide for expected losses based on historical loss rates adjusted for current and expected conditions over a forecast period. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming and classified loans, recommendations of regulatory authorities, prevailing economic conditions, or credit protection agreements and other factors.

Loans that share common risk characteristics are segregated into pools based on common characteristics, which is primarily determined by loan, borrower, or collateral type. Historical loss rates are determined for each pool. For consumer installment loans, primarily secured by automobiles, historical loss rates are determined using a vintage methodology, which tracks losses based on period of origination. For commercial, construction, and commercial real estate, historical loss rates are determined using an open pool methodology where losses are tracked over time for all loans included in the pool at the historical measurement date. Historical loss rates are adjusted for factors that are not reflected in the historical loss rates that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in past loan charge-off history, estimated losses based on management’s reasonable and supportable expectation of economic trends over a forecast horizon of up to two years, and other factors that impact credit loss expectations that are not reflected in the historical loss rates. Other factors include, but are not limited to, the effectiveness of the Company’s loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, and concentrations of credit. At the end of the two-year forecast period loss rates revert immediately to the historical loss rates. The results of this analysis are applied to the amortized cost of the loans included within each pool.

Loans that do not share risk characteristics with other loans in the pools are evaluated individually. 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. A credit loss reserve for collateral dependent loans is established at the difference between the amortized cost basis in the loan and the fair value of the underlying collateral adjusted for costs to sell. For other individually evaluated loans that are not collateral dependent, a credit loss reserve is established at the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate. The impact of an expected TDR modification is included in the allowance for credit losses when management determines a TDR modification is likely.

Accrued interest is recorded in other assets and is excluded from the estimation of expected credit loss. Accrued interest is reversed through interest income when amounts are determined to be uncollectible, which generally occurs when the underlying receivable is placed on nonaccrual status or charged off.

Liability for Off-Balance Sheet Credit Exposures. Off-balance sheet credit exposures relate to letters of credit and unfunded loan commitments for commercial, construction and consumer loans. The Company maintains a separate allowance for credit losses from off-balance-sheet credit exposures, which is included within other liabilities on the consolidated statements of financial condition. Increases or reductions to the Company's allowance for credit losses from off-balance sheet credit exposures are recorded in other expenses. Management estimates the amount of expected losses by estimating expected usage exposures that are not unconditionally cancellable by the Company and applying the loss factors used in the allowance for credit loss methodology to estimate the liability for credit losses related to unfunded commitments. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

Recently Adopted Accounting Standards

In the nine months ended September 30, 2021, the Company adopted the following new accounting guidance:

FASB ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, was issued December 2019. The ASU is intended to simplify various aspects related to accounting for income taxes, eliminates certain exceptions to the general principles in ASC Topic 740 related to intra-period tax allocation, simplifies when companies recognize deferred taxes in an interim period, and clarifies certain aspects of the current guidance to promote consistent application. This guidance effective for public entities for fiscal years beginning after December 15, 2020, and for interim period within those fiscal years, with early adoption permitted. The Company adopted the ASU provisions on January 1, 2021 and the adoption of the ASU provisions did not have a significant impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

FASB ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, was issued March 2020. The ASU provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered "minor" so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the Codification, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. The Company does not expect any material impact on its consolidated financial statements since the Company has an insignificant number of financial instruments applicable to this ASU.

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Note 3: Investment Securities

Effective January 1, 2020, the Company adopted FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Upon adoption of the ASU the Company recorded an allowance for credit losses for debt securities held to maturity of \$16 thousand. During the fourth quarter ended December 31, 2020, the Company recorded a \$7 thousand reversal of the provision for credit losses on debt securities held to maturity, resulting in the balance of \$9 thousand allowance for credit losses for debt securities held to maturity. During the third quarter ended September 30, 2021, the Company recorded a \$2 thousand reversal of the provision for credit losses on debt securities held to maturity, resulting in the balance of \$7 thousand allowance for credit losses for debt securities held to maturity.

An analysis of the amortized cost and fair value by major categories of debt securities available for sale, which are carried at fair value with net unrealized gains (losses) reported on an after-tax basis as a component of cumulative other comprehensive income, and debt securities held to maturity, which are carried at amortized cost, before allowance for credit losses of \$7 thousand at September 30, 2021 and \$9 thousand at December 31, 2020, follows:

	At September 30, 2021			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
	(In thousands)			
Debt securities available for sale				
Agency residential mortgage-backed securities ("MBS")	\$441,863	\$16,190	\$ -	\$458,053
Securities of U.S. Government entities	128	-	-	128
Obligations of states and political subdivisions	92,623	3,984	(4)	96,603
Corporate securities	2,588,376	86,488	(6,475)	2,668,389
Collateralized loan obligations	1,378,512	1,780	(759)	1,379,533
Total debt securities available for sale	4,501,502	108,442	(7,238)	4,602,706
Debt securities held to maturity				
Agency residential MBS	165,922	4,786	(17)	170,691
Non-agency residential MBS	1,033	12	(12)	1,033
Obligations of states and political subdivisions	189,158	3,866	-	193,024
Total debt securities held to maturity	356,113	8,664	(29)	364,748
Total	\$4,857,615	\$117,106	(\$7,267)	\$4,967,454

	At December 31, 2020			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
	(In thousands)			
Debt securities available for sale				
Agency residential MBS	\$630,174	\$22,779	(\$1)	\$652,952
Securities of U.S. Government entities	154	-	-	154
Obligations of states and political subdivisions	105,679	5,332	(1)	111,010
Corporate securities	1,986,995	131,025	(42)	2,117,978
Commercial paper	24,983	7	-	24,990
Collateralized loan obligations	1,152,766	4,433	(1,098)	1,156,101
Total debt securities available for sale	3,900,751	163,576	(1,142)	4,063,185
Debt securities held to maturity				
Agency residential MBS	240,332	6,852	(32)	247,152
Non-agency residential MBS	1,344	26	-	1,370
Obligations of states and political subdivisions	273,922	7,243	-	281,165
Total debt securities held to maturity	515,598	14,121	(32)	529,687
Total	\$4,416,349	\$177,697	(\$1,174)	\$4,592,872

The amortized cost and fair value of debt securities by contractual maturity are shown in the following tables at the dates indicated:

	At September 30, 2021			
	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
	(In thousands)			
Maturity in years:				
1 year or less	\$241,684	\$244,492	\$23,830	\$23,966
Over 1 to 5 years	780,844	822,330	126,644	129,311
Over 5 to 10 years	2,240,994	2,283,056	38,684	39,747
Over 10 years	796,117	794,775	-	-
Subtotal	4,059,639	4,144,653	189,158	193,024
MBS	441,863	458,053	166,955	171,724
Total	\$4,501,502	\$4,602,706	\$356,113	\$364,748

	At December 31, 2020			
	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
	(In thousands)			
Maturity in years:				
1 year or less	\$212,140	\$213,715	\$54,526	\$54,927
Over 1 to 5 years	922,170	974,438	129,786	133,195
Over 5 to 10 years	1,767,747	1,851,184	89,610	93,043
Over 10 years	368,520	370,896	-	-
Subtotal	3,270,577	3,410,233	273,922	281,165
MBS	630,174	652,952	241,676	248,522
Total	\$3,900,751	\$4,063,185	\$515,598	\$529,687

Expected maturities of mortgage-related securities can differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. In addition, such factors as prepayments and interest rates may affect the yield on the carrying value of mortgage-related securities. At September 30, 2021 and December 31, 2020, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

An analysis of the gross unrealized losses of the debt securities available for sale portfolio follows:

	Debt Securities Available for Sale							
	At September 30, 2021							
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total
	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Unrealized Losses
		(\$ in thousands)						
Agency residential MBS	-	\$ -	\$ -	2	\$92	\$ -	2	\$92
Securities of U.S. Government entities	-	-	-	1	128	-	1	128
Obligations of states and political subdivisions	2	1,440	(3)	2	675	(1)	4	2,115
Corporate securities	37	436,490	(6,475)	-	-	-	37	436,490
Collateralized loan obligations	22	203,700	(606)	6	35,839	(153)	28	239,539
Total	61	\$641,630	(\$7,084)	11	\$36,734	(\$154)	72	\$678,364

An analysis of gross unrecognized losses of the debt securities held to maturity portfolio follows:

	Debt Securities Held to Maturity								
	At September 30, 2021								
	No. of Investment Positions	Less than 12 months		No. of Investment Positions	12 months or longer		No. of Investment Positions	Total	
		Fair Value	Unrecognized Losses		Fair Value	Unrecognized Losses		Fair Value	Unrecognized Losses
(\$ in thousands)									
Agency residential MBS	3	\$112	\$ -	3	\$618	(\$17)	6	\$730	(\$17)
Non-agency residential MBS	1	596	(12)	-	-	-	1	596	(12)
Total	4	\$708	(\$12)	3	\$618	(\$17)	7	\$1,326	(\$29)

Based upon the most recent evaluation, the unrealized losses on the Company's debt securities available for sale were most likely caused by market conditions for these types of investments, particularly changes in risk-free interest rates and/or market bid-ask spreads. The Company does not intend to sell any debt securities available for sale and has concluded that it is more likely than not that it will not be required to sell the debt securities prior to recovery of the amortized cost basis. Therefore, the Company does not consider these debt securities to have credit related losses as of September 30, 2021.

The fair values of debt securities available for sale could decline in the future if the general economy deteriorates, inflation increases, credit ratings decline, the issuers' financial condition deteriorates, or the liquidity for debt securities declines. As a result, significant credit losses on debt securities available for sale may occur in the future.

As of September 30, 2021 and December 31, 2020, the Company had debt securities pledged to secure public deposits and short-term borrowed funds of \$899,099 thousand and \$888,577 thousand, respectively.

An analysis of the gross unrealized losses of the debt securities available for sale portfolio follows:

	Debt Securities Available for Sale								
	At December 31, 2020								
	No. of Investment Positions	Less than 12 months		No. of Investment Positions	12 months or longer		No. of Investment Positions	Total	
		Fair Value	Unrealized Losses		Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
					(\$ in thousands)				
Agency residential MBS Securities of U.S. Government entities	1	\$96	(\$1)	1	\$17	\$ -	2	\$113	(\$1)
Obligations of states and political subdivisions	1	154	-	-	-	-	1	154	-
Corporate securities	2	692	(1)	-	-	-	2	692	(1)
Collateralized loan obligations	-	-	-	1	14,963	(42)	1	14,963	(42)
	36	268,584	(1,098)	-	-	-	36	268,584	(1,098)
Total	40	\$269,526	(\$1,100)	2	\$14,980	(\$42)	42	\$284,506	(\$1,142)

An analysis of gross unrecognized losses of the debt securities held to maturity portfolio follows:

Debt Securities Held to Maturity									
At December 31, 2020									
No. of Investment Positions	Less than 12 months		No. of Investment Positions	12 months or longer		No. of Investment Positions	Total		
	Fair Value	Unrecognized Losses		Fair Value	Unrecognized Losses		Fair Value	Unrecognized Losses	
(\$ in thousands)									
Agency residential MBS	3	\$377	(\$1)	3	\$788	(\$31)	6	\$1.165	(\$32)

The Company evaluates debt securities on a quarterly basis including changes in security ratings issued by rating agencies, changes in the financial condition of the issuer, and, for mortgage-backed and asset-backed securities, collateral levels, delinquency and loss information with respect to the underlying collateral, changes in the levels of subordination for the Company's particular position within the repayment structure and remaining credit enhancement as compared to expected credit losses of the security. Substantially all of these securities were investment grade rated by a major rating agency as of September 30, 2021. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset backed securities.

The following table presents the activity in the allowance for credit losses for debt securities held to maturity:

	For the Nine Months Ended September 30,	
	2021	2020
	(In thousands)	
Allowance for credit losses:		
Balance, end of prior period	\$9	\$ -
Impact of adopting ASU 2016-13	-	16
Beginning balance	9	16
Reversal of provision	(2)	-
Chargeoffs	-	-
Recoveries	-	-
Total ending balance	<u>\$7</u>	<u>\$16</u>

Agency mortgage-backed securities were assigned no credit loss allowance due to the perceived backing of government sponsored entities. Municipal securities were evaluated for risk of default based on credit rating and remaining term to maturity using Moody's risk of default factors; Moody's loss upon default factors were applied to the assumed defaulted principal amounts to estimate the amount for credit loss allowance.

The following table summarizes the amortized cost of debt securities held to maturity at September 30, 2021, aggregated by credit rating:

	Credit Risk Profile by Credit Rating			
	At September 30, 2021			
	AAA/AA/A	BB/B	Not Rated	Total
	(In thousands)			
Agency residential MBS	\$165,922	\$ -	\$ -	\$165,922
Non-agency residential MBS	176	607	250	1,033
Obligations of states and political subdivisions	185,168	-	3,990	189,158
Total	<u>\$351,266</u>	<u>\$607</u>	<u>\$4,240</u>	<u>\$356,113</u>

There were no debt securities held to maturity on nonaccrual status or past due 30 days or more as of September 30, 2021.

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

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
	(In thousands)			
Taxable	\$26,674	\$23,079	\$78,564	\$67,963
Tax-exempt from federal income tax	1,978	2,911	6,638	9,501
Total interest income from investment securities	<u>\$28,652</u>	<u>\$25,990</u>	<u>\$85,202</u>	<u>\$77,464</u>

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Note 4: Loans, Allowance for Credit Losses and Other Real Estate Owned

A summary of the major categories of loans outstanding is shown in the following tables at the dates indicated.

	At September 30, 2021	At December 31, 2020
	(In thousands)	
Commercial:		
Paycheck Protection Program ("PPP") loans	\$102,977	\$186,945
Other	186,752	207,861
Total Commercial	289,729	394,806
Commercial Real Estate	540,541	564,300
Construction	50	129
Residential Real Estate	18,540	23,471
Consumer Installment & Other	283,612	273,537
Total	\$1,132,472	\$1,256,243

PPP loans are 100% guaranteed by the Small Business Administration ("SBA"). PPP loan proceeds used for eligible payroll and certain other operating costs are eligible for forgiveness, with repayment of loan principal and accrued interest made by the SBA. Management does not expect credit losses on PPP loans. Therefore, there is not an allowance for such loans. The following summarizes activity in the allowance for credit losses:

	Allowance for Credit Losses					
	For the Three Months Ended September 30, 2021					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$6,858	\$6,752	\$5	\$57	\$10,065	\$23,737
Provision (reversal)	10	(754)	(3)	(7)	756	2
Chargeoffs	(56)	-	-	-	(916)	(972)
Recoveries	80	705	-	-	330	1,115
Total allowance for credit losses	\$6,892	\$6,703	\$2	\$50	\$10,235	\$23,882

	Allowance for Credit Losses					
	For the Nine Months Ended September 30, 2021					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$9,205	\$5,660	\$6	\$47	\$8,936	\$23,854
(Reversal) provision	(2,425)	314	(4)	3	2,114	2
Chargeoffs	(56)	-	-	-	(2,176)	(2,232)
Recoveries	168	729	-	-	1,361	2,258
Total allowance for credit losses	\$6,892	\$6,703	\$2	\$50	\$10,235	\$23,882

	Allowance for Credit Losses					
	For the Three Months Ended September 30, 2020					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$8,072	\$4,623	\$7	\$57	\$11,770	\$24,529
Provision (reversal)	867	1,030	-	(5)	(1,892)	-
Chargeoffs	-	-	-	-	(872)	(872)
Recoveries	46	12	-	-	427	485
Total allowance for credit losses	\$8,985	\$5,665	\$7	\$52	\$9,433	\$24,142

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Allowance for Credit Losses
For the Nine Months Ended September 30, 2020

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
				(In thousands)			
Allowance for credit losses:							
Balance at beginning of period, prior to adoption of ASU 2016-13	\$4,959	\$4,064	\$109	\$206	\$6,445	\$3,701	\$19,484
Impact of adopting ASU 2016-13	3,385	618	(31)	(132)	1,878	(3,701)	2,017
Adjusted beginning balance	8,344	4,682	78	74	8,323	-	21,501
Provision (reversal)	537	946	(71)	(22)	2,910	-	4,300
Chargeoffs	(178)	-	-	-	(3,071)	-	(3,249)
Recoveries	282	37	-	-	1,271	-	1,590
Total allowance for credit losses	\$8,985	\$5,665	\$7	\$52	\$9,433	\$ -	\$24,142

The Company's customers are small businesses, professionals and consumers. Given the scale of these borrowers, corporate credit rating agencies do not evaluate the borrowers' financial condition. The Company's subsidiary, Westamerica Bank (the "Bank") maintains a Loan Review Department which reports directly to the Audit Committee of the Board of Directors. The Loan Review Department performs independent evaluations of loans and validates management assigned credit risk grades on evaluated loans using grading standards employed by bank regulatory agencies. Loans judged to carry lower-risk attributes are assigned a "pass" grade, with a minimal likelihood of loss. Loans judged to carry higher-risk attributes are referred to as "classified loans," and are further disaggregated, with increasing expectations for loss recognition, as "substandard," "doubtful," and "loss." Loan Review Department performs continuous evaluations throughout the year. If the Bank becomes aware of deterioration in a borrower's performance or financial condition between Loan Review Department examinations, assigned risk grades are re-evaluated promptly. Credit risk grades assigned by management and validated by the Loan Review Department are subject to review by the Bank's regulatory authorities during regulatory examinations.

The following summarizes the credit risk profile by internally assigned grade:

	Credit Risk Profile by Internally Assigned Grade					
	At September 30, 2021					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
				(In thousands)		
Grade:						
Pass	\$289,225	\$527,191	\$50	\$17,259	\$280,850	\$1,114,575
Substandard	504	13,350	-	1,281	1,362	16,497
Doubtful	-	-	-	-	809	809
Loss	-	-	-	-	591	591
Total	\$289,729	\$540,541	\$50	\$18,540	\$283,612	\$1,132,472

	Credit Risk Profile by Internally Assigned Grade					
	At December 31, 2020					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
				(In thousands)		
Grade:						
Pass	\$386,144	\$545,398	\$129	\$22,105	\$270,925	\$1,224,701
Substandard	8,662	18,902	-	1,366	1,498	30,428
Doubtful	-	-	-	-	543	543
Loss	-	-	-	-	571	571
Total	\$394,806	\$564,300	\$129	\$23,471	\$273,537	\$1,256,243

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The following tables summarize loans by delinquency and nonaccrual status:

	Summary of Loans by Delinquency and Nonaccrual Status					
	At September 30, 2021					
	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Loans
	(In thousands)					
Commercial	\$289,529	\$ -	\$ -	\$ -	\$200	\$289,729
Commercial real estate	539,749	-	244	-	548	540,541
Construction	50	-	-	-	-	50
Residential real estate	18,103	294	-	-	143	18,540
Consumer installment and other	280,059	1,828	842	537	346	283,612
Total	\$1,127,490	\$2,122	\$1,086	\$537	\$1,237	\$1,132,472

	Summary of Loans by Delinquency and Nonaccrual Status					
	At December 31, 2020					
	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Loans
	(In thousands)					
Commercial	\$394,004	\$713	\$6	\$ -	\$83	\$394,806
Commercial real estate	560,580	-	-	-	3,720	564,300
Construction	129	-	-	-	-	129
Residential real estate	22,269	770	271	-	161	23,471
Consumer installment and other	270,240	2,010	472	450	365	273,537
Total	\$1,247,222	\$3,493	\$749	\$450	\$4,329	\$1,256,243

There was no allowance for credit losses allocated to loans on nonaccrual status as of September 30, 2021 and December 31, 2020. There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at September 30, 2021 and December 31, 2020.

The following tables provide information on troubled debt restructurings (TDRs):

Troubled Debt Restructurings				
At September 30, 2021				
Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Credit Loss Allowance	
	(\$ in thousands)			
Commercial real estate	2	\$2,785	\$1,868	\$ -
Residential real estate	1	241	173	-
Total	3	\$3,026	\$2,041	\$ -

Troubled Debt Restructurings				
At December 31, 2020				
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Credit Loss Allowance
		(\$ in thousands)		
Commercial real estate	6	\$8,367	\$6,040	\$ -
Residential real estate	1	241	181	-
Total	7	\$8,608	\$6,221	\$ -

During the three and nine months ended September 30, 2021 and September 30, 2020, the Company did not modify any loans that were considered troubled debt restructurings for accounting purposes. Section 4013 of the CARES Act allowed certain loan modifications for borrowers impacted by the COVID-19 pandemic to be excluded from TDR accounting. During the three and nine months ended September 30, 2021, the Company modified loans under Section 4013 of the CARES Act, granting 90 day deferrals of principal and interest payments. As of September 30, 2021, loans deferred under the CARES Act that are not considered TDRs consisted of consumer loans totaling \$1.0 million. There were no chargeoffs related to troubled debt restructurings made during the three and nine months ended September 30, 2021 and September 30, 2020. During the three and nine months ended September 30, 2021 and September 30, 2020, no troubled debt restructured loans defaulted within 12 months of the modification date. A troubled debt restructuring is considered to be in default when payments are 90 days or more past due.

TDRs of \$2,041 thousand included no loans on nonaccrual status at September 30, 2021. TDRs of \$6,221 thousand included a loan with a balance of \$3,420 thousand on nonaccrual status at December 31, 2020; no allowance for credit losses was allocated to this commercial real estate loan secured by real property.

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 loans were considered collateral dependent at September 30, 2021: five commercial real estate loans totaling \$8.5 million secured by real property, \$1.6 million of indirect consumer installment loans secured by personal property, one commercial loan with a balance of \$87 thousand secured by business assets, and four residential real estate loans totaling \$519 thousand secured by real property. There were no other collateral dependent loans at September 30, 2021. The following loans were considered collateral dependent at December 31, 2020: five commercial real estate loans totaling \$11.1 million secured by real property, \$446 thousand of indirect consumer installment loans secured by personal property and two residential real estate loans totaling \$346 thousand secured by real property. There were no other collateral dependent loans at December 31, 2020.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

At September 30, 2021									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Revolving Loans Amortized Cost Basis	Total
	Prior	2017	2018	2019	2020	2021			
	(In thousands)								
Commercial loans by grade									
Pass	\$39,166	\$5,312	\$10,392	\$32,780	\$47,492	\$120,340	\$255,482	\$33,743	\$289,225
Substandard	33	-	-	-	-	87	120	384	504
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$39,199	\$5,312	\$10,392	\$32,780	\$47,492	\$120,427	\$255,602	\$34,127	\$289,729

At September 30, 2021									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Revolving Loans Amortized Cost Basis	Total
	Prior	2017	2018	2019	2020	2021			
	(In thousands)								
Commercial real estate loans by grade									
Pass	\$128,404	\$89,190	\$78,940	\$79,412	\$84,384	\$66,861	\$527,191	\$ -	\$527,191
Substandard	10,244	256	-	2,023	827	-	13,350	-	13,350
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$138,648	\$89,446	\$78,940	\$81,435	\$85,211	\$66,861	\$540,541	\$ -	\$540,541

At September 30, 2021									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Revolving Loans Amortized Cost Basis	Total
	Prior	2017	2018	2019	2020	2021			
	(In thousands)								
Construction loans by grade									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$50	\$50
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$50	\$50

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	At September 30, 2021							Revolving Loans Amortized Cost Basis	
	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans			
	Prior	2017	2018	2019	2020	2021			Total
	(In thousands)								
Residential Real Estate loans by grade									
Pass	\$17,259	\$ -	\$ -	\$ -	\$ -	\$ -	\$17,259	\$ -	\$17,259
Substandard	1,281	-	-	-	-	-	1,281	-	1,281
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$18,540	\$ -	\$ -	\$ -	\$ -	\$ -	\$18,540	\$ -	\$18,540

The Company considers the delinquency and nonaccrual status of the consumer loan portfolio and its impact on the allowance for credit losses. The following table presents the amortized cost in consumer installment and other loans based on delinquency and nonaccrual status:

	At September 30, 2021							Revolving Loans	
	Term Loans Amortized Cost Basis by Origination Year						Total	Amortized	
	Prior	2017	2018	2019	2020	2021	Term Loans	Cost Basis	Total
	(In thousands)								
Consumer installment and other loans by delinquency and nonaccrual status									
Current	\$10,707	\$12,593	\$31,160	\$43,128	\$65,362	\$94,335	\$257,285	\$22,774	\$280,059
30-59 days past due	134	80	325	250	609	422	1,820	8	1,828
60-89 days past due	29	38	46	244	172	310	839	3	842
Past due 90 days or more	21	21	12	182	143	158	537	-	537
Nonaccrual	-	-	-	-	-	-	-	346	346
Total	\$10,891	\$12,732	\$31,543	\$43,804	\$66,286	\$95,225	\$260,481	\$23,131	\$283,612

There were no loans held for sale at September 30, 2021, and December 31, 2020.

The Company held no other real estate owned (OREO) at September 30, 2021 and December 31, 2020. The amount of consumer mortgage loans outstanding secured by residential real estate properties for which formal foreclosure proceedings were in process was \$346 thousand at September 30, 2021 and at December 31, 2020.

Note 5: Concentration of Credit Risk

Under the California Financial Code, credit extended to any one person owing to a commercial bank at any one time shall not exceed the following limitations: (a) unsecured loans shall not exceed 15 percent of the sum of the shareholders' equity, allowance for credit losses, capital notes, and debentures of the bank, or (b) secured and unsecured loans in all shall not exceed 25 percent of the sum of the shareholders' equity, allowance for credit losses, capital notes, and debentures of the bank. At September 30, 2021, the Bank did not have credit extended to any one entity exceeding these limits. At September 30, 2021, the Bank had 32 lending relationships each with aggregate amounts of \$5 million or more. The Company has significant credit arrangements that are secured by real estate collateral. In addition to real estate loans outstanding as disclosed in Note 4, the Company had loan commitments related to real estate loans of \$36,287 thousand and \$37,456 thousand at September 30, 2021 and December 31, 2020, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios at origination generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans. At September 30, 2021, the Bank held corporate bonds in 110 issuing entities that exceeded \$5 million for each issuer.

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Note 6: Other Assets and Other Liabilities

Other assets consisted of the following:

	At September 30, 2021	At December 31, 2020
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock ⁽¹⁾	\$14,069	\$14,069
Other investments	158	158
Total cost method equity investments	14,227	14,227
Life insurance cash surrender value	62,421	60,444
Right-of-use asset	19,285	18,832
Limited partnership investments	27,997	18,335
Interest receivable	33,304	33,022
Prepaid assets	3,526	4,572
Other assets	10,187	10,471
Total other assets	<u>\$170,947</u>	<u>\$159,903</u>

⁽¹⁾ A bank applying for membership in the Federal Reserve System is required to subscribe to stock in the Federal Reserve Bank (FRB) in its district in a sum equal to six percent of the bank's paid-up capital stock and surplus. One-half of the amount of the bank's subscription shall be paid to the FRB and the remaining half will be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System.

The Company owns 211 thousand shares of Visa Inc. class B common stock which have transfer restrictions; the carrying value is \$-0- thousand. On September 30, 2019, Visa Inc. announced a revised conversion rate applicable to its class B common stock resulting from its September 27, 2019 deposit of funds into its litigation escrow account. This funding reduced the conversion rate of class B common stock into class A common stock, which is unrestricted and trades actively on the New York Stock Exchange, from 1.6298 to 1.6228 per share, effective as of September 27, 2019. Visa Inc. class A common stock had a closing price of \$222.75 per share on September 30, 2021, the last day of stock market trading for the third quarter 2021. The ultimate value of the Company's Visa Inc. class B shares is subject to the extent of Visa Inc.'s future litigation escrow fundings, the resulting conversion rate to class A common stock, and current and future trading restrictions on the class B common stock.

The Company invests in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credits. At September 30, 2021, this investment totaled \$27,997 thousand and \$20,228 thousand of this amount represents outstanding equity capital commitments that are included in other liabilities. At December 31, 2020, this investment totaled \$18,335 thousand and \$12,202 thousand of this amount represents outstanding equity capital commitments that are included in other liabilities. At September 30, 2021, the \$20,228 thousand of outstanding equity capital commitments are expected to be paid as follows, \$2,025 thousand in the remainder of 2021, \$7,032 thousand in 2022, \$8,039 thousand in 2023, \$2,323 thousand in 2024, \$179 thousand in 2025, \$77 thousand in 2026, and \$553 thousand in 2027 or thereafter.

The amounts recognized in net income for these investments include:

	For the Three Months Ended 2021	For the Three Months Ended September 30, 2020	For the Nine Months Ended 2021	For the Nine Months Ended 2020
	(In thousands)			
Investment loss included in pre-tax income	\$620	\$640	\$1,820	\$1,840
Tax credits recognized in provision for income taxes	200	225	650	675

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Other liabilities consisted of the following:

	At September 30, 2021	At December 31, 2020
	(In thousands)	
Net deferred tax liability	\$4,567	\$25,778
Operating lease liability	19,285	18,832
Securities purchases pending settlement	81,618	29,000
Other liabilities	52,087	38,988
Total other liabilities	<u>\$157,557</u>	<u>\$112,598</u>

The net deferred tax liability at September 30, 2021 of \$4,567 thousand was net of deferred tax benefits of \$25,353 thousand, and included deferred tax obligations of \$29,920 thousand related to unrealized gains of \$101,204 thousand on available for sale debt securities. The deferred tax liability at December 31, 2020 of \$25,778 thousand, net of deferred tax benefits of \$22,805 thousand, included deferred tax obligations of \$48,021 thousand related to unrealized gains of \$162,434 thousand on available for sale debt securities.

The Company has entered into leases for most branch locations and certain other offices that were classified as operating leases primarily with original terms of five years. Certain lease arrangements contain extension options, which can be exercised at the Company's option, for one or more additional five year terms. Unexercised extension options are not considered reasonably certain of exercise and have not been included in the lease term used to determine the lease liability or right-of-use asset. The Company did not have any finance leases as of September 30, 2021.

As of September 30, 2021, the Company recorded a lease liability of \$19,285 thousand and a right-of-use asset of \$19,285 thousand. The weighted average remaining life of operating leases and weighted average discount rate used to determine operating lease liabilities were 4.3 years and 1.70%, respectively, at September 30, 2021. The Company did not have any material lease incentives, unamortized initial direct costs, prepaid lease expense, or accrued lease expense as of September 30, 2021.

Total lease costs during the three and nine months ended September 30, 2021, of \$1,637 thousand and \$4,949 thousand, respectively, were recorded within occupancy and equipment expense. Total lease costs during the three and nine months ended September 30, 2020, of \$1,671 thousand and \$4,988 thousand, respectively, were recorded within occupancy and equipment expense. The Company did not have any material short-term or variable leases costs or sublease income during the nine months ended September 30, 2021 and September 30, 2020.

The following table summarizes the remaining lease payments of operating lease liabilities:

	Minimum future lease payments At September 30, 2021 (In thousands)
2021	\$1,525
2022	5,660
2023	4,952
2024	3,364
2025	2,173
Thereafter	<u>2,251</u>
Total minimum lease payments	<u>19,925</u>
Less: discount	<u>(640)</u>
Present value of lease liability	<u>\$19,285</u>

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Note 7: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is evaluated for impairment at least annually. The Company did not recognize impairment during the three and nine months ended September 30, 2021 and year ended December 31, 2020. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the three and nine months ended September 30, 2021 and year ended December 31, 2020 no such adjustments were recorded.

The carrying values of goodwill were:

	<u>At September 30, 2021</u>	<u>At December 31, 2020</u>
	(In thousands)	
Goodwill	\$121,673	\$121,673

The gross carrying amount of identifiable intangible assets and accumulated amortization was:

	<u>At September 30, 2021</u>		<u>At December 31, 2020</u>	
	Gross		Gross	
	Carrying	Accumulated	Carrying	Accumulated
	Amount	Amortization	Amount	Amortization
	(In thousands)			
Core deposit intangibles	\$56,808	(\$55,908)	\$56,808	(\$55,704)

As of September 30, 2021, the current period and estimated future amortization expense for identifiable intangible assets, to be fully amortized in 2025, was:

	Total Core Deposit Intangibles
	<u>(In thousands)</u>
For the nine months ended September 30, 2021 (actual)	\$204
Estimate for the remainder of 2021	65
Estimate for year ending December 31, 2022	252
2023	236
2024	222
2025	125

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Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

	Deposits	
	At September 30, 2021	At December 31, 2020
	(In thousands)	
Noninterest-bearing	\$2,988,329	\$2,725,177
Interest-bearing:		
Transaction	1,257,460	1,102,601
Savings	1,894,290	1,703,812
Time deposits less than \$100 thousand	75,776	79,825
Time deposits \$100 thousand through \$250 thousand	48,550	49,323
Time deposits more than \$250 thousand	24,556	27,241
Total deposits	<u>\$6,288,961</u>	<u>\$5,687,979</u>

Demand deposit overdrafts of \$870 thousand and \$682 thousand were included as loan balances at September 30, 2021 and December 31, 2020, respectively. Interest expense for aggregate time deposits with individual account balances in excess of \$100 thousand was \$58 thousand and \$204 thousand for the three and nine months ended September 30, 2021, respectively, and \$80 thousand and \$238 thousand for the three and nine months ended September 30, 2020, respectively.

The following table provides additional detail regarding short-term borrowed funds.

	Repurchase Agreements (Sweep) Accounted for as Secured Borrowings	
	Remaining Contractual Maturity of the Agreements Overnight and Continuous	
	At September 30, 2021	At December 31, 2020
	(In thousands)	
Repurchase agreements:		
Collateral securing borrowings:		
Agency residential MBS	\$46,984	\$67,019
Corporate securities	185,493	188,195
Total collateral carrying value	<u>\$232,477</u>	<u>\$255,214</u>
Total short-term borrowed funds	<u>\$119,102</u>	<u>\$102,545</u>

Note 9: Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Debt securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as other real estate owned, loans individually evaluated for credit loss, certain loans held for investment, debt securities held to maturity, and other assets. These nonrecurring fair value adjustments typically involve the lower-of-cost or fair-value accounting of individual assets.

In accordance with the Fair Value Measurement and Disclosure topic of the FASB Accounting Standards Codification, the Company bases its fair values on the price that would be received to sell an asset or paid to transfer a liability in the principal market or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. A fair value measurement reflects all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance.

The Company groups its assets and liabilities measured at fair value into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. When the valuation assumptions used to measure the fair value of the asset or liability are categorized within different levels of the fair value hierarchy, the asset or liability is categorized in its entirety within the lowest level of the hierarchy. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 includes U.S. Treasury and equity securities, which are traded by dealers or brokers in active

markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 includes mutual funds, federal agency securities, mortgage-backed securities, corporate securities, commercial paper, collateralized loan obligations, municipal bonds and securities of U.S government entities.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Company relies on independent vendor pricing services to measure fair value for equity securities, debt securities available for sale and debt securities held to maturity. The Company employs three pricing services. To validate the pricing of these vendors, the Company compares vendors' pricing for each of the securities for consistency; significant pricing differences, if any, are evaluated using all available independent quotes with the quote most closely reflecting the market generally used as the fair value estimate. In addition, the Company evaluates debt securities for credit losses on a quarterly basis. As with any valuation technique used to estimate fair value, changes in underlying assumptions used could significantly affect the results of current and future values. Accordingly, these fair value estimates may not be realized in an actual sale of the securities.

The Company regularly reviews the valuation techniques and assumptions used by its vendors and determines which valuation techniques are utilized based on observable market inputs for the type of securities being measured. The Company uses the information to determine the placement in the fair value hierarchy as level 1, 2 or 3.

Assets Recorded at Fair Value on a Recurring Basis

The tables below present assets measured at fair value on a recurring basis on the dates indicated.

	At September 30, 2021			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) ⁽¹⁾
		(In thousands)		
Debt securities available for sale				
Agency residential mortgage-backed securities (MBS)	\$458,053	\$ -	\$458,053	\$ -
Securities of U.S. Government entities	128	-	128	-
Obligations of states and political subdivisions	96,603	-	96,603	-
Corporate securities	2,668,389	-	2,668,389	-
Collateralized loan obligations	1,379,533	-	1,379,533	-
Total debt securities available for sale	<u>\$4,602,706</u>	<u>\$ -</u>	<u>\$4,602,706</u>	<u>\$ -</u>

⁽¹⁾ There were no transfers in to or out of level 3 during the nine months ended September 30, 2021.

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	At December 31, 2020			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) ⁽¹⁾
		(In thousands)		
Debt securities available for sale				
Agency residential MBS	\$652,952	\$ -	\$652,952	\$ -
Securities of U.S. Government entities	154	-	154	-
Obligations of states and political subdivisions	111,010	-	111,010	-
Corporate securities	2,117,978	-	2,117,978	-
Commercial paper	24,990	-	24,990	-
Collateralized loan obligations	1,156,101	-	1,156,101	-
Total debt securities available for sale	\$4,063,185	\$ -	\$4,063,185	\$ -

⁽¹⁾ There were no transfers in to or out of level 3 during the year ended December 31, 2020.

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost or fair-value accounting of individual assets. For assets measured at fair value on a nonrecurring basis that were recorded in the balance sheet at September 30, 2021 and December 31, 2020, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at period end.

Carrying Value	At September 30, 2021			For the Nine Months Ended September 30, 2021
	Level 1	Level 2	Level 3	Total Losses
(In thousands)				
Loans:				
Commercial real estate	\$290	\$ -	\$ -	\$290
Residential real estate	173	-	-	173
Total assets measured at fair value on a nonrecurring basis	<u>\$463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$463</u>

Carrying Value	At December 31, 2020			For the Year Ended December 31, 2020
	Level 1	Level 2	Level 3	Total Losses
(In thousands)				
Loans:				
Commercial	\$5,270	\$ -	\$ -	\$5,270
Commercial real estate	3,710	-	-	3,710
Residential real estate	181	-	-	181
Total assets measured at fair value on a nonrecurring basis	<u>\$9,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$9,161</u>

Level 3 – Valuation is based upon present value of expected future cash flows, independent market prices, estimated liquidation values of loan collateral or appraised value of the collateral as determined by third-party independent appraisers, less 10% for selling costs, generally. The unobservable inputs and qualitative information about the unobservable inputs are not presented as the inputs were not developed by the Company.

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Disclosures about Fair Value of Financial Instruments

The tables below are a summary of fair value estimates for financial instruments and the level of the fair value hierarchy within which the fair value measurements are categorized, excluding financial instruments recorded at fair value on a recurring basis. The values assigned do not necessarily represent amounts which ultimately may be realized for assets or paid to settle liabilities. In addition, these values do not give effect to adjustments to fair value which may occur when financial instruments are sold or settled in larger quantities. The carrying amounts in the following tables are recorded in the balance sheet under the indicated captions.

The Company has not included assets and liabilities that are not financial instruments such as goodwill, long-term relationships with deposit, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes, and other assets and liabilities. The total estimated fair values do not represent, and should not be construed to represent, the underlying value of the Company.

At September 30, 2021					
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			(In thousands)		
Cash and due from banks	\$1,011,048	\$1,011,048	\$1,011,048	\$ -	\$ -
Debt securities held to maturity	356,106	364,741	-	364,741	-
Loans	1,108,590	1,128,250	-	-	1,128,250
Financial Liabilities:					
Deposits	\$6,288,961	\$6,288,843	\$ -	\$6,140,079	\$148,764
Short-term borrowed funds	119,102	119,102	-	119,102	-
At December 31, 2020					
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			(In thousands)		
Cash and due from banks	\$621,275	\$621,275	\$621,275	\$ -	\$ -
Debt securities held to maturity	515,589	529,678	-	529,678	-
Loans	1,232,389	1,290,938	-	-	1,290,938
Financial Liabilities:					
Deposits	\$5,687,979	\$5,688,049	\$ -	\$5,531,590	\$156,459
Short-term borrowed funds	102,545	102,545	-	102,545	-

The majority of the Company's standby letters of credit and other commitments to extend credit carry current market interest rates if converted to loans. No premium or discount was ascribed to these commitments because virtually all funding would be at current market rates.

Note 10: Commitments and Contingent Liabilities

Loan commitments are agreements to lend to a customer provided there is no violation of any condition established in the agreement. Certain agreements provide the Company the right to cancel or reduce its obligations to lend to customers. The portions that are not cancellable unconditionally by the Company aggregated \$36,287 thousand at September 30, 2021. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements. Loan commitments are subject to the Company's normal credit policies and collateral requirements. Unfunded loan commitments were \$234,089 thousand at September 30, 2021 and \$277,878 thousand at December 31, 2020. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. Standby letters of credit are primarily issued to support customers' short-term financing requirements and must meet the Company's normal credit policies and collateral requirements. Financial and performance standby letters of credit outstanding totaled \$3,403 thousand at September 30, 2021 and \$2,357 thousand at December 31, 2020. Commitments for commercial and similar

letters of credit totaled \$95 thousand at September 30, 2021 and there were no such outstanding commitments at December 31, 2020. The Company had \$580 thousand in outstanding full recourse guarantees to a 3rd party credit card company at September 30, 2021 and December 31, 2020. At September 30, 2021, the Company had a reserve for unfunded commitments of \$101 thousand for the above-mentioned loan commitments of \$36,287 thousand that are not cancellable unconditionally by the Company. The Company's reserve for unfunded commitments was \$101 thousand at December 31, 2020. The reserve for unfunded commitments is included in other liabilities.

The Company determined that it will be obligated to provide refunds of revenue recognized in years prior to 2018 to some customers. The Company initially estimated the probable amount of these obligations to be \$5,542 thousand and accrued a liability for such amount in 2017; based on additional information received in the second quarter 2019, the Company increased such liability to \$5,843 thousand by recognizing an expense of \$301 thousand. The Company paid \$13 thousand and \$452 thousand during the three and nine months ended September 30, 2021, respectively, and \$4,410 thousand during the year ended December 31, 2020 to customers eligible for refunds. The remaining accrued obligations at September 30, 2021 totaled \$981 thousand, included in other liabilities.

Due to the nature of its business, the Company is subject to various threatened or filed legal cases. Based on the advice of legal counsel, the Company does not expect such cases will have a material, adverse effect on its financial position or results of operations. Legal liabilities are accrued when obligations become probable and the amount can be reasonably estimated.

Note 11: Earnings Per Common Share

The table below shows earnings per common share and diluted earnings per common share. Basic earnings per common share are computed by dividing net income by the average number of common shares outstanding during the period. Diluted earnings per common share are computed by dividing net income by the average number of common shares outstanding during the period plus the impact of common stock equivalents.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	(In thousands, except per share data)			
Net income applicable to common equity (numerator)	\$22,063	\$20,051	\$64,789	\$56,575
Basic earnings per common share				
Weighted average number of common shares outstanding - basic (denominator)	26,866	26,930	26,851	26,977
Basic earnings per common share	\$0.82	\$0.74	\$2.41	\$2.10
Diluted earnings per common share				
Weighted average number of common shares outstanding - basic	26,866	26,930	26,851	26,977
Add common stock equivalents for options	9	16	17	21
Weighted average number of common shares outstanding - diluted (denominator)	26,875	26,946	26,868	26,998
Diluted earnings per common share	\$0.82	\$0.74	\$2.41	\$2.10

For the three and nine months ended September 30, 2021, options to purchase 744 thousand and 618 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price exceeded the fair value of the Company's common stock such that their inclusion would have had an anti-dilutive effect.

For the three and nine months ended September 30, 2020, options to purchase 567 thousand and 560 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price exceeded the fair value of the Company's common stock such that their inclusion would have had an anti-dilutive effect.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

WESTAMERICA BANCORPORATION FINANCIAL SUMMARY

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
	(In thousands, except per share data)			
Net Interest and Loan Fee Income (FTE)⁽¹⁾	\$43,952	\$41,780	\$131,034	\$124,390
Provision for Credit Losses	-	-	-	4,300
Noninterest Income	11,282	10,476	32,503	31,678
Noninterest Expense	24,697	24,603	73,894	74,021
Income Before Income Taxes (FTE)⁽¹⁾	30,537	27,653	89,643	77,747
Income Tax Provision (FTE)⁽¹⁾	8,474	7,602	24,854	21,172
Net Income	<u>\$22,063</u>	<u>\$20,051</u>	<u>\$64,789</u>	<u>\$56,575</u>
Average Common Shares Outstanding	26,866	26,930	26,851	26,977
Average Diluted Common Shares Outstanding	26,875	26,946	26,868	26,998
Common Shares Outstanding at Period End	26,866	26,898		
Per Common Share:				
Basic Earnings	\$0.82	\$0.74	\$2.41	\$2.10
Diluted Earnings	0.82	0.74	2.41	2.10
Book Value	31.19	30.69		
Financial Ratios:				
Return on Assets	1.22%	1.24%	1.25%	1.25%
Return on Common Equity	11.58%	11.17%	11.62%	10.67%
Net Interest Margin (FTE) ⁽¹⁾	2.60%	2.78%	2.67%	2.95%
Net Loan (Recoveries) Losses to Average Loans	(0.05%)	0.12%	0.00%	0.18%
Efficiency Ratio ⁽²⁾	44.7%	47.1%	45.2%	47.4%
Average Balances:				
Assets	\$7,158,462	\$6,414,399	\$6,939,636	\$6,044,098
Loans	1,176,114	1,312,758	1,227,971	1,223,250
Investment Securities	4,615,540	4,360,119	4,484,084	4,055,733
Deposits	6,223,500	5,533,144	6,017,175	5,188,797
Shareholders' Equity	755,682	714,400	745,382	708,559
Period End Balances:				
Assets	\$7,403,573	\$6,563,215		
Loans	1,132,472	1,310,009		
Investment Securities	4,958,819	4,561,805		
Deposits	6,288,961	5,539,190		
Shareholders' Equity	837,953	825,576		
Capital Ratios at Period End:				
Total Risk Based Capital	15.54%	15.42%		
Tangible Equity to Tangible Assets	9.83%	10.91%		
Dividends Paid Per Common Share	\$0.41	\$0.41	\$1.23	\$1.23
Common Dividend Payout Ratio	50%	55%	51%	59%

The above financial summary has been derived from the Company's unaudited consolidated financial statements. This information should be read in conjunction with those statements, notes and the other information included elsewhere herein. Percentages under the heading "Financial Ratios" are annualized with the exception of the efficiency ratio.

(1) Yields on securities and certain loans have been adjusted upward to a "fully taxable equivalent" ("FTE") basis in order to reflect the effect of income which is exempt from federal income taxation at the current statutory tax rate.

(2) The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income on an FTE basis and noninterest income).

Financial Overview

Westamerica Bancorporation and subsidiaries (collectively, the “Company”) reported net income of \$22.1 million or \$0.82 diluted earnings per common share (“EPS”) for the third quarter 2021 and net income of \$64.8 million or \$2.41 EPS for the nine months ended September 30, 2021. Results for 2021 include “make-whole” interest income on corporate bonds redeemed prior to maturity of \$732 thousand for the third quarter 2021, which increased EPS \$0.02, and \$2.8 million for the first nine months of 2021, which increased EPS \$0.07. These results compare with net income of \$20.1 million or \$0.74 EPS for the third quarter 2020 and net income of \$56.6 million or \$2.10 diluted earnings per common share for the nine months ended September 30, 2020.

The Company’s primary and wholly-owned subsidiary, Westamerica Bank (the “Bank”), continued to support its customers during the pandemic. The Bank originated \$106 million in loans under the second round of the Paycheck Protection Program (“PPP”) during the first six months of 2021. PPP loans meaningfully increased interest-earning assets and related interest and fee income. The Bank continues to work with loan customers requesting deferral of loan payments due to economic weakness caused by the pandemic. At September 30, 2021, loans granted deferrals under the CARES Act included \$1.0 million, all of which were consumer automobile loans. The results for the nine months ended September 30, 2020 included a provision for credit losses of \$4.3 million, which reduced EPS \$0.11, representing Management’s estimate of additional reserves needed over the remaining life of its loans due to increased credit-risk from deteriorating economic conditions caused by the COVID-19 pandemic.

In response to the pandemic, the Federal Reserve has engaged significant levels of monetary policy to provide liquidity and credit facilities to the financial markets. On March 15, 2020, the Federal Open Market Committee (“FOMC”) reduced the target range for the federal funds rate to 0 to 0.25 percent; relatedly, the FOMC reduced the interest rate paid on deposit balances to 0.10 percent effective March 16, 2020. Effective June 17, 2021, FOMC increased the interest rate paid on excess reserve balances to 0.15%. The Bank maintains deposit balances at the Federal Reserve Bank; the amount that earns interest is identified in the Company’s financial statements as “interest-bearing cash”.

The Company presents its net interest margin and net interest income on a fully taxable equivalent (“FTE”) basis using the current statutory federal tax rate. Management believes the FTE basis is valuable to the reader because the Company’s loan and investment securities portfolios contain a relatively large portion of municipal loans and securities that are federally tax exempt. The Company’s tax exempt loans and securities composition may not be similar to that of other banks, therefore in order to reflect the impact of the federally tax exempt loans and securities on the net interest margin and net interest income for comparability with other banks, the Company presents its net interest margin and net interest income on an FTE basis.

The Company’s significant accounting policies (see Note 1, “Summary of Significant Accounting Policies,” to Financial Statements in the Company’s 2020 Form 10-K and Note 2 “Summary of Significant Accounting Policies” in this Form 10-Q) are fundamental to understanding the Company’s results of operations and financial condition. Certain risks, uncertainties and other factors, including those discussed in Note 20 “Impact of COVID-19” to the consolidated financial statements and “Risk Factors” in Part I – Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 may cause actual future results to differ materially from the results discussed in this report on Form 10-Q. Management continues to evaluate the impact of the pandemic on the Company’s business. The extent of the impact on the Company’s results of operations, cash flow liquidity, and financial performance, as well as the Company’s ability to execute near- and long-term business strategies and initiatives, will depend on numerous evolving factors and future developments, which are highly uncertain and cannot be reasonably predicted.

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Net Income

Following is a summary of the components of net income for the periods indicated:

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
	(In thousands, except per share data)			
Net interest and loan fee income (FTE)	\$43,952	\$41,780	\$131,034	\$124,390
Provision for credit losses	-	-	-	4,300
Noninterest income	11,282	10,476	32,503	31,678
Noninterest expense	24,697	24,603	73,894	74,021
Income before taxes (FTE)	30,537	27,653	89,643	77,747
Income tax provision (FTE)	8,474	7,602	24,854	21,172
Net income	<u>\$22,063</u>	<u>\$20,051</u>	<u>\$64,789</u>	<u>\$56,575</u>
Average diluted common shares	26,875	26,946	26,868	26,998
Diluted earnings per common share	\$0.82	\$0.74	\$2.41	\$2.10
Average total assets	\$7,158,462	\$6,414,399	\$6,939,636	\$6,044,098
Net income to average total assets (annualized)	1.22%	1.24%	1.25%	1.25%
Net income to average common shareholders' equity (annualized)	11.58%	11.17%	11.62%	10.67%

Net income for the third quarter 2021 increased \$2.0 million compared with the third quarter 2020. Net interest and loan fee income (FTE) increased \$2.2 million in the third quarter 2021 compared with the third quarter 2020 due to higher average balances of investments and interest-bearing cash, partially offset by lower average balances of loans and the mix of interest-earning assets. Additionally, third quarter 2021 results include “make-whole” interest income on corporate bonds redeemed prior to maturity of \$732 thousand. The provision for credit losses was zero for the third quarter 2021 and the third quarter 2020, reflecting Management's evaluation of credit risk over the remaining life of loans and bonds. Third quarter 2021 noninterest income increased \$806 thousand compared with third quarter 2020 due to higher levels of merchant processing services fees, deposit related fees and debit card fees. Third quarter 2021 noninterest expense remained at the same level compared with the third quarter 2020. The tax rate (FTE) was 27.8% for the third quarter 2021 and 27.5% for the third quarter 2020.

Comparing the first nine months of 2021 with the first nine months of 2020, net income increased \$8.2 million. Net interest and loan fee (FTE) income increased \$6.6 million due to higher average balances of investments and interest-bearing cash, partially offset by lower yield on interest-earning assets. Results for the first nine months of 2021 include “make-whole” interest income on corporate bonds redeemed prior to maturity of \$2.8 million. The provision for credit losses was zero in the first nine months of 2021, reflecting Management's evaluation of credit risk over the remaining life of loans and bonds. Results for the first quarter 2020 include a provision of credit losses of \$4.3 million, representing Management's estimate of additional reserves needed over the remaining life of its loans due to credit-risk from economic weakness caused by the COVID-19 pandemic. Noninterest income increased \$825 thousand in the first nine months of 2021 compared with the first nine months of 2020 due to higher fee income from merchant card processing, debit cards and trust accounts, offset by lower deposit services charges. Additionally, the first nine months of 2020 results included a \$603 thousand recovery on previously charged off loans. In the first nine months of 2021 noninterest expense decreased \$127 thousand compared with the first nine months of 2020 due to lower salaries and related benefits offset by higher professional fees and other noninterest expense. The tax rate (FTE) was 27.7% for the first nine months of 2021 and 27.2% for the first nine months of 2020.

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Net Interest and Loan Fee Income (FTE)

Following is a summary of the components of net interest and loan fee income (FTE) for the periods indicated:

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
	(\$ in thousands)			
Interest and loan fee income	\$43,810	\$41,365	\$130,402	\$122,895
FTE adjustment	634	881	2,083	2,838
Interest expense	492	466	1,451	1,343
Net interest and loan fee income (FTE)	<u>\$43,952</u>	<u>\$41,780</u>	<u>\$131,034</u>	<u>\$124,390</u>
Average earning assets	\$6,754,281	\$6,001,287	\$6,535,949	\$5,627,517
Net interest margin (FTE) (annualized)	2.60%	2.78%	2.67%	2.95%

Net interest and loan fee income (FTE) increased \$2.2 million in the third quarter 2021 compared with the third quarter 2020 due to higher average balances of investments (up \$255 million) and interest-bearing cash (up \$634 million), partially offset by lower average balances of loans (down \$137 million) and increases in average balances of lower-yielding of interest-earning assets. Results for the third quarter 2021 results include “make-whole” interest income on corporate bonds redeemed prior to maturity of \$732 thousand.

Net interest and loan fee (FTE) income increased \$6.6 million in the first nine months of 2021 compared with the first nine months of 2020 due to higher average balances of investments (up \$428 million) and interest-bearing cash (up \$475 million), partially offset by lower yield on interest-earning assets (down 0.28%). Results for the first nine months of 2021 include “make-whole” interest income on corporate bonds redeemed prior to maturity of \$2.8 million.

The annualized net interest margin (FTE) was 2.60% in the third quarter 2021 and 2.67% in the first nine months of 2021 compared with 2.78% in the third quarter 2020 and 2.95% in the first nine months of 2020. The lower yield in the third quarter 2021 and the first nine months of 2021 compared with the same periods of 2020 is primarily due to low yield on interest-bearing cash which made up a higher percentage of total earning assets in the current periods (14.3% in the third quarter 2021 compared with 5.5% in the third quarter 2020 and 12.6% in the first nine months of 2021 compared with 6.2% in the first nine months of 2020).

The Company’s funding costs were 0.03% in the third quarter 2021 and 2020 and in the first nine months of 2021 and 2020. Average balances of higher costing time deposits in the first nine months of 2021 declined \$10 million from the first nine months of 2020. Average balances of lower costing checking and saving deposits increased \$839 million in the first nine months of 2021 compared with the first nine months of 2020. Average balances of those checking and saving deposits accounted for 97.4% of average total deposits in the first nine months of 2021 compared with 96.8% in the first nine months of 2020.

Net Interest Margin (FTE)

The following summarizes the components of the Company's net interest margin (FTE) for the periods indicated (percentages are annualized.)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
Yield on earning assets (FTE)	2.63%	2.81%	2.70%	2.98%
Rate paid on interest-bearing liabilities	0.06%	0.06%	0.06%	0.06%
Net interest spread (FTE)	2.57%	2.75%	2.64%	2.92%
Impact of noninterest-bearing demand deposits	0.03%	0.03%	0.03%	0.03%
Net interest margin (FTE)	<u>2.60%</u>	<u>2.78%</u>	<u>2.67%</u>	<u>2.95%</u>

Summary of Average Balances, Yields/Rates and Interest Differential

The following tables present information regarding the consolidated average assets, liabilities and shareholders' equity, the amounts of interest income earned from average interest earning assets and the resulting yields, and the amounts of interest expense incurred on average interest-bearing liabilities and the resulting rates. Average loan balances include nonperforming loans. Interest income includes the reversal of previously accrued interest on loans placed on non-accrual status during the period, proceeds from loans on nonaccrual status only to the extent cash payments have been received and applied as interest income, and accretion of purchased loan discounts. Yields, rates and interest margins are annualized.

Distribution of Assets, Liabilities & Shareholders' Equity and Yields, Rates & Interest Margin

	For the Three Months Ended September 30, 2021		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$4,322,464	\$26,674	2.47%
Tax-exempt ⁽¹⁾	293,076	2,508	3.42%
Total investments ⁽¹⁾	4,615,540	29,182	2.53%
Loans:			
Taxable			
Paycheck Protection Program ("PPP") loans	144,641	1,865	5.12%
Other taxable	981,074	12,534	5.07%
Total taxable	1,125,715	14,399	5.08%
Tax-exempt ⁽¹⁾	50,399	494	3.89%
Total loans ⁽¹⁾	1,176,114	14,893	5.02%
Total interest-bearing cash	962,627	369	0.15%
Total Interest-earning assets ⁽¹⁾	6,754,281	44,444	2.63%
Other assets	404,181		
Total assets	<u>\$7,158,462</u>		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,960,207	\$-	- %
Savings and interest-bearing transaction	3,111,068	373	0.05%
Time less than \$100,000	83,414	42	0.20%
Time \$100,000 or more	68,811	58	0.33%
Total interest-bearing deposits	3,263,293	473	0.06%
Short-term borrowed funds	107,547	19	0.07%
Total interest-bearing liabilities	3,370,840	492	0.06%
Other liabilities	71,733		
Shareholders' equity	755,682		
Total liabilities and shareholders' equity	<u>\$7,158,462</u>		
Net interest spread ^{(1) (2)}			2.57%
Net interest and fee income and interest margin ^{(1) (3)}		<u>\$43,952</u>	2.60%

⁽¹⁾ Amounts calculated on an FTE basis using the current statutory federal tax rate.

⁽²⁾ Net interest spread represents the average yield earned on interest-earning assets less the average rate incurred on interest-bearing liabilities.

⁽³⁾ Net interest margin is computed by calculating the difference between interest income and expense, divided by the average balance of interest-earning assets. The net interest margin is greater than the net interest spread due to the benefit of noninterest-bearing demand deposits.

Distribution of Assets, Liabilities & Shareholders' Equity and Yields, Rates & Interest Margin

For the Three Months Ended September 30, 2020			
	Average Balance	Interest Income/ Expense (\$ in thousands)	Yields/ Rates
Assets			
Investment securities:			
Taxable	\$3,918,846	\$23,079	2.36%
Tax-exempt ⁽¹⁾	441,273	3,689	3.34%
Total investments ⁽¹⁾	4,360,119	26,768	2.46%
Loans:			
Taxable			
PPP loans	243,104	2,501	4.08%
Other	1,020,270	12,403	4.84%
Total taxable	1,263,374	14,904	4.69%
Tax-exempt ⁽¹⁾	49,384	490	3.95%
Total loans ⁽¹⁾	1,312,758	15,394	4.67%
Total interest-bearing cash	328,410	84	0.10%
Total Interest-earning assets ⁽¹⁾	6,001,287	42,246	2.81%
Other assets	413,112		
Total assets	\$6,414,399		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,695,458	\$-	- %
Savings and interest-bearing transaction	2,674,647	323	0.05%
Time less than \$100,000	90,994	47	0.21%
Time \$100,000 or more	72,045	80	0.44%
Total interest-bearing deposits	2,837,686	450	0.06%
Short-term borrowed funds	94,031	16	0.07%
Total interest-bearing liabilities	2,931,717	466	0.06%
Other liabilities	72,824		
Shareholders' equity	714,400		
Total liabilities and shareholders' equity	\$6,414,399		
Net interest spread ^{(1) (2)}			2.75%
Net interest and fee income and interest margin ^{(1) (3)}		\$41,780	2.78%

⁽¹⁾ Amounts calculated on an FTE basis using the current statutory federal tax rate.

⁽²⁾ Net interest spread represents the average yield earned on interest-earning assets less the average rate incurred on interest-bearing liabilities.

⁽³⁾ Net interest margin is computed by calculating the difference between interest income and expense, divided by the average balance of interest-earning assets. The net interest margin is greater than the net interest spread due to the benefit of noninterest-bearing demand deposits.

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Distribution of Assets, Liabilities & Shareholders' Equity and Yields, Rates & Interest Margin

For the Nine Months Ended September 30, 2021			
	Average Balance	Interest Income/ Expense (\$ in thousands)	Yields/ Rates
Assets			
Investment securities:			
Taxable	\$4,154,211	\$78,564	2.52%
Tax-exempt ⁽¹⁾	329,873	8,410	3.40%
Total investments ⁽¹⁾	4,484,084	86,974	2.59%
Loans:			
Taxable			
PPP loans	180,214	6,431	4.77%
Other taxable	996,584	36,833	4.94%
Total taxable	1,176,798	43,264	4.92%
Tax-exempt ⁽¹⁾	51,173	1,481	3.87%
Total loans ⁽¹⁾	1,227,971	44,745	4.87%
Total interest-bearing cash	823,894	766	0.12%
Total Interest-earning assets ⁽¹⁾	6,535,949	132,485	2.70%
Other assets	403,687		
Total assets	\$6,939,636		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,854,936	\$-	- %
Savings and interest-bearing transaction	3,007,473	1,068	0.05%
Time less than \$100,000	84,508	126	0.20%
Time \$100,000 or more	70,258	204	0.39%
Total interest-bearing deposits	3,162,239	1,398	0.06%
Short-term borrowed funds	105,001	53	0.07%
Other borrowed funds	71	-	0.35%
Total interest-bearing liabilities	3,267,311	1,451	0.06%
Other liabilities	72,007		
Shareholders' equity	745,382		
Total liabilities and shareholders' equity	\$6,939,636		
Net interest spread ^{(1) (2)}			2.64%
Net interest and fee income and interest margin ^{(1) (3)}		\$131,034	2.67%

⁽¹⁾ Amounts calculated on an FTE basis using the current statutory federal tax rate.

⁽²⁾ Net interest spread represents the average yield earned on interest-earning assets less the average rate incurred on interest-bearing liabilities.

⁽³⁾ Net interest margin is computed by calculating the difference between interest income and expense, divided by the average balance of interest-earning assets. The net interest margin is greater than the net interest spread due to the benefit of noninterest-bearing demand deposits.

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Distribution of Assets, Liabilities & Shareholders' Equity and Yields, Rates & Interest Margin

For the Nine Months Ended September 30, 2020			
	Average Balance	Interest Income/ Expense (\$ in thousands)	Yields/ Rates
Assets			
Investment securities:			
Taxable	\$3,574,164	\$67,963	2.54%
Tax-exempt ⁽¹⁾	481,569	12,037	3.33%
Total investments ⁽¹⁾	4,055,733	80,000	2.63%
Loans:			
Taxable:			
PPP loans	125,632	4,174	4.43%
Other	1,050,243	39,069	4.97%
Total taxable	1,175,875	43,243	4.91%
Tax-exempt ⁽¹⁾	47,375	1,437	4.05%
Total loans ⁽¹⁾	1,223,250	44,680	4.88%
Total interest-bearing cash	348,534	1,053	0.40%
Total Interest-earning assets ⁽¹⁾	5,627,517	125,733	2.98%
Other assets	416,581		
Total assets	\$6,044,098		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,472,495	\$-	- %
Savings and interest-bearing transaction	2,551,053	922	0.05%
Time less than \$100,000	92,531	148	0.21%
Time \$100,000 or more	72,718	238	0.44%
Total interest-bearing deposits	2,716,302	1,308	0.06%
Short-term borrowed funds	68,917	34	0.07%
Other borrowed funds	232	1	0.35%
Total interest-bearing liabilities	2,785,451	1,343	0.06%
Other liabilities	77,593		
Shareholders' equity	708,559		
Total liabilities and shareholders' equity	\$6,044,098		
Net interest spread ^{(1) (2)}			2.92%
Net interest and fee income and interest margin ^{(1) (3)}		\$124,390	2.95%

⁽¹⁾ Amounts calculated on an FTE basis using the current statutory federal tax rate.

⁽²⁾ Net interest spread represents the average yield earned on interest-earning assets less the average rate incurred on interest-bearing liabilities.

⁽³⁾ Net interest margin is computed by calculating the difference between interest income and expense, divided by the average balance of interest-earning assets. The net interest margin is greater than the net interest spread due to the benefit of noninterest-bearing demand deposits.

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Summary of Changes in Interest Income and Expense due to Changes in Average Asset & Liability Balances and Yields Earned & Rates Paid

The following tables set forth a summary of the changes in interest income and interest expense due to changes in average assets and liability balances (volume) and changes in average interest yields/rates for the periods indicated. Changes not solely attributable to volume or yields/rates have been allocated in proportion to the respective volume and yield/rate components.

Summary of Changes in Interest Income and Expense

	For the Three Months Ended September 30, 2021		
	Compared with		
	For the Three Months Ended September 30, 2020		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	\$2,377	\$1,218	\$3,595
Tax-exempt ⁽¹⁾	(1,239)	58	(1,181)
Total investments ⁽¹⁾	1,138	1,276	2,414
Loans:			
Taxable:			
PPP loans	(1,013)	377	(636)
Other	(450)	581	131
Total taxable	(1,463)	958	(505)
Tax-exempt ⁽¹⁾	11	(7)	4
Total loans ⁽¹⁾	(1,452)	951	(501)
Total interest-bearing cash	162	123	285
Total (decrease) increase in interest and loan fee income ⁽¹⁾	(152)	2,350	2,198
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	54	(4)	50
Time less than \$100,000	(4)	(1)	(5)
Time \$100,000 or more	(3)	(19)	(22)
Total interest-bearing deposits	47	(24)	23
Short-term borrowed funds	2	1	3
Total increase (decrease) in interest expense	49	(23)	26
(Decrease) increase in net interest and loan fee income ⁽¹⁾	(\$201)	\$2,373	\$2,172

⁽¹⁾ Amounts calculated on an FTE basis using the current statutory federal tax rate.

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Summary of Changes in Interest Income and Expense

	For the Nine Months Ended September 30, 2021 Compared with For the Nine Months Ended September 30, 2020		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	\$11,030	(\$429)	\$10,601
Tax-exempt ⁽¹⁾	(3,792)	165	(3,627)
Total investments ⁽¹⁾	7,238	(264)	6,974
Loans:			
Taxable:			
PPP loans	1,793	464	2,257
Other	(2,027)	(209)	(2,236)
Total taxable	(234)	255	21
Tax-exempt ⁽¹⁾	114	(70)	44
Total loans ⁽¹⁾	(120)	185	65
Total interest-bearing cash	1,432	(1,719)	(287)
Total increase (decrease) in interest and loan fee income ⁽¹⁾	8,550	(1,798)	6,752
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	164	(18)	146
Time less than \$100,000	(13)	(9)	(22)
Time \$100,000 or more	(8)	(26)	(34)
Total interest-bearing deposits	143	(53)	90
Short-term borrowed funds	18	1	19
Other borrowed funds	(1)	-	(1)
Total increase (decrease) in interest expense	160	(52)	108
Increase (decrease) in net interest and loan fee income ⁽¹⁾	\$8,390	(\$1,746)	\$6,644

⁽¹⁾ Amounts calculated on an FTE basis using the current statutory federal tax rate.

Provision for Credit Losses

The Company manages credit costs by consistently enforcing conservative underwriting and administration procedures and aggressively pursuing collection efforts with debtors experiencing financial difficulties. The provision for credit losses reflects Management's assessment of credit risk in the loan portfolio and debt securities held to maturity during each of the periods presented.

The Company provided no provision for credit losses in the third quarter and first nine months of 2021, and the third quarter 2020, based on Management's evaluation of credit quality and the adequacy of the allowance for credit losses. The Company's first nine months of 2020 results include a provision for credit losses of \$4.3 million recorded in the first quarter of 2020, which represented Management's estimate of additional reserves needed over the remaining life of its loans due to the credit-risk from weakened economic conditions caused by the COVID-19 pandemic. For further information regarding credit risk, net credit losses, and the allowance for credit losses, see the "Loan Portfolio Credit Risk" and "Allowance for Credit Losses" sections of this Report.

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Noninterest Income

The following table summarizes the components of noninterest income for the periods indicated.

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
	(In thousands)			
Service charges on deposit accounts	\$3,578	\$3,298	\$10,117	\$10,697
Merchant processing services	3,159	2,860	8,998	7,495
Debit card fees	1,740	1,611	5,132	4,538
Trust fees	839	756	2,467	2,247
ATM processing fees	573	606	1,792	1,703
Other service fees	475	454	1,435	1,380
Financial services commissions	95	58	260	306
Securities gains	-	-	34	71
Other noninterest income	823	833	2,268	3,241
Total	<u>\$11,282</u>	<u>\$10,476</u>	<u>\$32,503</u>	<u>\$31,678</u>

Third quarter 2021 noninterest income increased \$806 thousand compared with third quarter 2020 due to increases in service charges on deposits accounts and higher transaction volumes from merchant processing services and debit cards.

Noninterest income increased \$825 thousand in the first nine months of 2021 compared with the first nine months of 2020. Higher transaction volumes from merchant processing services and debit cards and increases in trust fees were offset by decreases in service charges on deposits accounts. Additionally, the first nine months of 2020 included a \$603 thousand recovery in excess of previously charged off loan amounts.

Noninterest Expense

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

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2021	2020	2021	2020
	(In thousands)			
Salaries and related benefits	\$11,813	\$12,540	\$36,575	\$38,458
Occupancy and equipment	4,759	5,014	14,447	14,737
Outsourced data processing services	2,429	2,338	7,244	7,067
Professional fees	724	669	2,496	1,701
Courier service	534	500	1,605	1,499
Amortization of identifiable intangibles	67	72	204	218
Other noninterest expense	4,371	3,470	11,323	10,341
Total	<u>\$24,697</u>	<u>\$24,603</u>	<u>\$73,894</u>	<u>\$74,021</u>

Noninterest expense increased \$94 thousand in the third quarter 2021 compared with the third quarter 2020. An increase in other noninterest expense was partially offset by decreases in salaries and related benefits due to attrition. Additionally, occupancy and equipment expenses decreased due to lower depreciation expenses.

In the first nine months of 2021 noninterest expense decreased \$127 thousand compared with the first nine months of 2020. Lower salaries and related benefits are attributable to attrition. Occupancy and equipment expenses decreased due to lower depreciation expenses. These decreases were partially offset by higher professional fees and other noninterest expense.

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Provision for Income Tax

The Company's income tax provision (FTE) was \$8.5 million for the third quarter 2021 and \$24.9 million for the nine months ended September 30, 2021 compared with \$7.6 million for the third quarter 2020 and \$21.2 million for the nine months ended September 30, 2020. The effective tax rates (FTE) were 27.8% for the third quarter 2021 and 27.7% for the nine months ended September 30, 2021 compared with 27.5% for the third quarter 2020 and 27.2% for the nine months ended September 30, 2020.

Investment Securities Portfolio

The Company maintains an investment securities portfolio consisting of securities issued by state and political subdivisions and corporations, collateralized loan obligations, agency and non-agency issued mortgage backed securities, and other securities.

Management managed the investment securities portfolio in response to changes in deposit and loan volumes. The carrying value of the Company's investment securities portfolio was \$5.0 billion at September 30, 2021 and \$4.6 billion at December 31, 2020. The following table indicates the carrying values of investment securities in the Company's portfolio by type as of the indicated dates. The Company adopted ASU 2016-13 effective January 1, 2020. Debt securities held to maturity of \$356,113 thousand at September 30, 2021 and \$515,598 thousand at December 31, 2020, are listed at amortized cost before related reserve for expected credit losses of \$7 thousand and \$9 thousand, respectively.

	At September 30, 2021		At December 31, 2020	
	Carrying Value	As a percent of total investment securities	Carrying Value	As a percent of total investment securities
	(\$ in thousands)			
Agency residential mortgage-backed securities	\$623,975	12%	\$893,284	20%
Obligations of states and political subdivisions	285,761	6%	384,932	8%
Corporate securities	2,668,389	54%	2,117,978	46%
Commercial paper	-	- %	24,990	1%
Collateralized loan obligations	1,379,533	28%	1,156,101	25%
Other	1,161	- %	1,498	- %
Total	<u>\$4,958,819</u>	<u>100%</u>	<u>\$4,578,783</u>	<u>100%</u>
Debt securities available for sale	\$4,602,706		\$4,063,185	
Debt securities held to maturity	<u>356,113</u>		<u>515,598</u>	
Total	<u>\$4,958,819</u>		<u>\$4,578,783</u>	

Management continually evaluates the Company's investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability, liquidity, and the level of interest rate risk to which the Company is exposed. These evaluations may cause Management to change the level of funds the Company deploys into investment securities and change the composition of the Company's investment securities portfolio.

At September 30, 2021, substantially all of the Company's investment securities were investment grade as rated by one or more major rating agencies. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset-backed securities. The Company's procedures for evaluating investments in securities are in accordance with guidance issued by the Board of Governors of the Federal Reserve System, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies" (SR 12-15) and other regulatory guidance. There have been no significant differences in the Company's internal analyses compared with the ratings assigned by the third party credit rating agencies.

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The following table summarizes total corporate securities by credit rating:

	At September 30, 2021		At December 31, 2020	
	Market value	As a percent of total corporate securities	Market value	As a percent of total corporate securities
	(\$ in thousands)			
AAA	\$21,619	1%	\$21,905	1%
AA+	20,646	1%	20,979	1%
AA	19,916	1%	41,232	2%
AA-	116,233	4%	46,969	2%
A+	129,426	5%	153,917	7%
A	502,617	19%	374,155	18%
A-	575,395	21%	385,642	18%
BBB+	744,553	28%	489,677	23%
BBB	526,184	20%	486,108	23%
BBB-	11,800	-%	82,431	4%
Investment grade	2,668,389	100%	2,103,015	99%
Below investment grade	-	-%	14,963	1%
Total Corporate securities	<u>\$2,668,389</u>	<u>100%</u>	<u>\$2,117,978</u>	<u>100%</u>

The Company's below investment grade corporate bond with a balance of \$14.96 million at December 31, 2020 paid off in full at maturity in July 2021.

The following table summarizes total corporate securities by the industry sector in which the issuing companies operate:

	At September 30, 2021		At December 31, 2020	
	Market value	As a percent of total corporate securities	Market value	As a percent of total corporate securities
	(\$ in thousands)			
Financial	\$1,329,371	50%	\$938,222	44%
Consumer, Non-cyclical	272,870	10%	184,069	9%
Utilities	221,331	8%	185,486	9%
Industrial	219,183	8%	188,803	9%
Communications	178,594	7%	173,483	8%
Consumer, Cyclical	126,760	5%	93,330	4%
Basic Materials	116,744	4%	120,811	6%
Technology	103,214	4%	130,725	6%
Energy	100,322	4%	103,049	5%
Total Corporate securities	<u>\$2,668,389</u>	<u>100%</u>	<u>\$2,117,978</u>	<u>100%</u>

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The following table summarizes total consumer, cyclical by sub-sector:

	At September 30, 2021
	Market value
	(In thousands)
Hotels	\$ -
Restaurants	20,718
Department Stores	-
Casinos	-
Airlines	-
Other	106,042
Total Consumer, Cyclical	<u>\$126,760</u>

The Company's \$20.7 million (fair value) in corporate bonds to issuers operating in the consumer cyclical – restaurant subsector represent bonds of one company which retails, roasts and provides its own brand of specialty coffee and other complementary products through retail locations worldwide and sells coffee through several distribution channels. The bonds mature in 2023. At September 30, 2021, the bonds were rated BBB and priced with an unrealized gain of \$722 thousand.

	At September 30, 2021	
	Amortized	Fair
	Cost	Value
	(In thousands)	
Energy	\$95,446	\$100,322
Industrial	213,308	219,183
Total	<u>\$308,754</u>	<u>\$319,505</u>

The \$100.3 million (fair value) in corporate bonds in the energy sector are issued by four issuers at September 30, 2021. The \$219.2 million (fair value) in corporate bonds in the industrial sector are issued by 10 issuers at September 30, 2021.

The Company's \$1.4 billion (fair value) in collateralized loan obligations at September 30, 2021, include investments in 166 issues that are within the senior tranches of their respective fund securitization structures. All of the Company's collateralized loan obligation investments are rated AAA or AA at September 30, 2021.

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The following tables summarize the total general obligation and revenue bonds issued by states and political subdivisions held in the Company's investment securities portfolios as of the dates indicated, identifying the state in which the issuing government municipality or agency operates.

At September 30, 2021, the Company's investment securities portfolios included securities issued by 225 state and local government municipalities and agencies located within 33 states. The largest exposure to any one single municipality or agency issuer was \$7.5 million (fair value) represented by five general obligation bonds.

	At September 30, 2021	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	\$49,507	\$51,258
Washington	15,603	16,127
Texas	11,688	12,075
Other (28 states)	127,543	131,284
Total general obligation bonds	<u>\$204,341</u>	<u>\$210,744</u>
Revenue bonds:		
California	\$16,065	\$16,395
Kentucky	10,317	10,610
Indiana	8,251	8,355
Virginia	7,583	7,850
Colorado	6,299	6,419
Maryland	5,975	6,011
Washington	4,558	4,585
Other (10 states)	18,392	18,658
Total revenue bonds	<u>77,440</u>	<u>78,883</u>
Total obligations of states and political subdivisions	<u><u>\$281,781</u></u>	<u><u>\$289,627</u></u>

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At December 31, 2020, the Company's investment securities portfolios included securities issued by 317 state and local government municipalities and agencies located within 40 states. The largest exposure to any one single municipality or agency issuer was \$8.2 million (fair value) represented by six general obligation bonds.

At December 31, 2020		
	Amortized Cost	Fair Value
(In thousands)		
Obligations of states and political subdivisions:		
General obligation bonds:		
California	\$67,386	\$70,075
Texas	20,644	21,283
New Jersey	17,403	17,629
Washington	16,226	17,000
Other (32 states)	159,019	164,764
Total general obligation bonds	<u>\$280,678</u>	<u>\$290,751</u>
Revenue bonds:		
California	\$17,587	\$18,054
Kentucky	10,822	11,210
Indiana	9,350	9,565
Virginia	7,604	8,019
Colorado	6,302	6,519
Washington	6,225	6,358
Maryland	5,972	6,043
Other (19 states)	35,061	35,656
Total revenue bonds	<u>98,923</u>	<u>101,424</u>
Total obligations of states and political subdivisions	<u><u>\$379,601</u></u>	<u><u>\$392,175</u></u>

At September 30, 2021 and December 31, 2020, the revenue bonds in the Company's investment securities portfolios were issued by state and local government municipalities and agencies to fund public services such as water utilities, sewer utilities, recreational and school facilities, and general public and economic improvements. The revenue bonds were payable from 16 revenue sources at September 30, 2021 and 19 revenue sources December 31, 2020. The revenue sources that represent 5% or more individually of the total revenue bonds are summarized in the following tables.

At September 30, 2021		
	Amortized Cost	Fair Value
(In thousands)		
Revenue bonds by revenue source:		
Water	\$12,227	\$12,360
Sewer	11,601	11,936
Sales tax	9,620	9,770
Lease (renewal)	8,705	8,953
Lease (abatement)	6,932	7,042
Lease (appropriation)	4,566	4,644
Special Assessment	4,080	4,216
Fuel Sales Tax	3,999	4,006
Lease Revenue	3,859	3,947
Other (7 sources)	11,851	12,009
Total revenue bonds by revenue source	<u><u>\$77,440</u></u>	<u><u>\$78,883</u></u>

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	At December 31, 2020	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	\$22,731	\$23,095
Sewer	12,447	12,989
Sales tax	10,738	11,013
Lease (renewal)	9,209	9,545
Lease (abatement)	8,483	8,674
Other (14 sources)	35,315	36,108
Total revenue bonds by revenue source	<u>\$98,923</u>	<u>\$101,424</u>

See Note 3 to the unaudited consolidated financial statements for additional information related to the investment securities.

Loan Portfolio Credit Risk

The Company extends loans to commercial and consumer customers which expose the Company to the risk that the borrowers will default, causing loss. The Company's lending activities are exposed to various qualitative risks. All loan segments are exposed to risks inherent in the economy and market conditions. Significant risk characteristics related to the commercial loan segment include the borrowers' business performance and financial condition, and the value of collateral for secured loans. Significant risk characteristics related to the commercial real estate segment include the borrowers' business performance and the value of properties collateralizing the loans. Significant risk characteristics related to the construction loan segment include the borrowers' performance in successfully developing the real estate into the intended purpose and the value of the property collateralizing the loans. Significant risk characteristics related to the residential real estate segment include the borrowers' financial wherewithal to service the mortgages and the value of the property collateralizing the loans. Significant risk characteristics related to the consumer loan segment include the financial condition of the borrowers and the value of collateral securing the loans.

During 2020 and the first six months of 2021, the Bank processed customer PPP loan applications pursuant to the CARES Act. The United States Small Business Administration guarantees PPP loans; given this guarantee, the PPP loans are not considered to have default risk and do not carry an allowance for credit losses. The outstanding balances of PPP loans, net of deferred fees and costs, were \$103 million at September 30, 2021.

On April 7, 2020, the U.S. banking agencies issued an Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised). The statement describes accounting for COVID-19-related loan modifications, including clarifying the interaction between current accounting rules and the temporary relief provided by the CARES Act. The Bank has been actively working with consumer and commercial borrowers requesting deferral of loan payments, granting deferrals of principal and interest payments for 90 days. At September 30, 2021, loans granted loan deferrals totaled \$1.0 million, all of which were consumer automobile loans.

The preparation of the financial statements requires Management to estimate the amount of expected losses in the loan portfolio and establish an allowance for credit losses. The allowance for credit losses is maintained by assessing or reversing a provision for credit losses through the Company's earnings. In estimating credit losses, Management must exercise judgment in evaluating information deemed relevant, such as financial information regarding individual borrowers, overall loss experience, the amount of past due, nonperforming and classified loans, recommendations of regulatory authorities, prevailing economic conditions and other information. The amount of ultimate losses on the loan portfolio can vary from the estimated amounts. Management follows a systematic methodology to estimate loss potential in an effort to reduce the differences between estimated and actual losses.

The Company closely monitors the markets in which it conducts its lending operations and follows a strategy to control exposure to loans with high credit risk. The Bank's organization structure separates the functions of business development and loan underwriting; Management believes this segregation of duties avoids inherent conflicts of combining business development and loan approval functions. In measuring and managing credit risk, the Company adheres to the following practices:

- The Bank maintains a Loan Review Department which reports directly to the audit committee of the Board of Directors. The Loan Review Department performs independent evaluations of loans to challenge the credit risk grades

assigned by Management, using grading standards employed by bank regulatory agencies. Those loans judged to carry higher risk attributes are referred to as “classified loans.” Classified loans receive elevated Management attention in order to maximize collection.

- The Bank maintains two loan administration offices whose sole responsibility is to manage and collect classified loans.

Classified loans with higher levels of credit risk are further designated as “nonaccrual loans.” Management places classified loans on nonaccrual status when full collection of contractual interest and principal payments is in doubt. Uncollected interest previously accrued on loans placed on nonaccrual status is reversed as a charge against interest income. The Company does not accrue interest income on loans following placement on nonaccrual status. Interest payments received on nonaccrual loans are applied to reduce the carrying amount of the loan unless the carrying amount is well secured by loan collateral. “Nonperforming assets” include nonaccrual loans, loans 90 or more days past due and still accruing, and repossessed loan collateral (commonly referred to as “Other Real Estate Owned”).

Nonperforming Assets

	At September 30, 2021	At September 30, 2020	At December 31, 2020
	(In thousands)		
Nonperforming nonaccrual loans	\$801	\$409	\$526
Performing nonaccrual loans	436	3,971	3,803
Total nonaccrual loans	1,237	4,380	4,329
Accruing loans 90 or more days past due	537	360	450
Total nonperforming loans	1,774	4,740	4,779
Other real estate owned	-	43	-
Total nonperforming assets	<u>\$1,774</u>	<u>\$4,783</u>	<u>\$4,779</u>

At September 30, 2021, nonaccrual loans consisted of seven loans with an average carrying value of \$177 thousand.

Management believes the overall credit quality of the loan portfolio is reasonably stable; however, classified and nonperforming assets could fluctuate from period to period. The performance of any individual loan can be affected by external factors such as the interest rate environment, economic conditions, pandemics, and collateral values or factors particular to the borrower. No assurance can be given that additional increases in nonaccrual and delinquent loans will not occur in the future.

Allowance for Credit Losses

Effective January 1, 2020, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (“CECL”). The following table summarizes allowance for credit losses at the dates indicated:

	At September 30, 2021	At September 30, 2020	At December 31, 2020
	(In thousands)		
Allowance for Credit Losses on Loans	\$23,882	\$24,142	\$23,854
Allowance for Credit Losses on Held to Maturity Debt Securities	7	16	9
Total Allowance for Credit Losses	<u>\$23,889</u>	<u>\$24,158</u>	<u>\$23,863</u>
Allowance for unfunded credit commitments	\$101	\$53	\$101

Allowance for Credit Losses on Debt Securities Held to Maturity

Management segmented debt securities held to maturity, selected methods to estimate losses for each segment, and measured a loss estimate. Agency mortgage-backed securities were assigned no credit loss allowance due to the perceived backing of government sponsored entities. Municipal securities were evaluated for risk of default based on credit rating and remaining term to maturity using Moody’s risk of default factors; Moody’s loss upon default factors were applied to the assumed defaulted

principal amounts to estimate the amount for credit loss allowance. The adoption of the ASU resulted in the establishment of an allowance for credit losses related to debt securities held to maturity of \$16 thousand. It was reduced to \$9 thousand at December 31, 2020, and \$7 thousand at September 30, 2021.

Allowance for Credit Losses on Loans

The Company's allowance for credit losses on loans represents Management's estimate of forecasted credit losses in the loan portfolio based on the current expected credit loss (CECL) model. In evaluating credit risk for loans, Management measures the loss potential of the carrying value of loans. As described above, payments received on nonaccrual loans may be applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected.

The following table summarizes the allowance for credit losses, chargeoffs and recoveries for the periods indicated:

	For the Three Months		For the Nine Months	
	2021	Ended September 30, 2020	2021	2020
	(\$ in thousands)			
Analysis of the Allowance for Credit Losses				
Balance, beginning of period	\$23,737	\$24,529	\$23,854	\$19,484
Adoption of ASU 2016-13	-	-	-	2,017
Balance, beginning of period	23,737	24,529	23,854	21,501
Provision for credit losses	2	-	2	4,300
Loans charged off				
Commercial	(56)	-	(56)	(178)
Consumer installment and other	(916)	(872)	(2,176)	(3,071)
Total chargeoffs	(972)	(872)	(2,232)	(3,249)
Recoveries of loans previously charged off				
Commercial	80	46	168	282
Commercial real estate	705	12	729	37
Consumer installment and other	330	427	1,361	1,271
Total recoveries	1,115	485	2,258	1,590
Net loan recoveries (losses)	143	(387)	26	(1,659)
Balance, end of period	\$23,882	\$24,142	\$23,882	\$24,142
Net loan (recoveries) losses as a percentage of average total loans (annualized)	(0.05%)	0.12%	0.00%	0.18%

The Company's allowance for credit losses on loans is maintained at a level considered adequate to provide for expected losses based on historical loss rates adjusted for current and expected conditions over a forecast period. These include conditions unique to individual borrowers as well as overall loss experience, the amount of past due, nonperforming and classified loans, recommendations of regulatory authorities, prevailing and forecasted economic conditions, or credit protection agreements and other factors. Loans that share common risk characteristics are segregated into pools based on common characteristics, which is primarily determined by loan, borrower, or collateral type. Historical loss rates are determined for each pool. Loans that do not share risk characteristics with other loans in the pools are evaluated individually. See Note 2 to the unaudited consolidated financial statements for additional information.

Allowance for Credit Losses					
For the Three Months Ended September 30, 2021					
Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
(In thousands)					
Allowance for credit losses:					
Balance at beginning of period	\$6,858	\$6,752	\$5	\$57	\$10,065
Provision (reversal)	10	(754)	(3)	(7)	756
Chargeoffs	(56)	-	-	-	(916)
Recoveries	80	705	-	-	330
Total allowance for credit losses	\$6,892	\$6,703	\$2	\$50	\$10,235

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Allowance for Credit Losses
For the Nine Months Ended September 30, 2021

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$9,205	\$5,660	\$6	\$47	\$8,936	\$23,854
(Reversal) provision	(2,425)	314	(4)	3	2,114	2
Chargeoffs	(56)	-	-	-	(2,176)	(2,232)
Recoveries	168	729	-	-	1,361	2,258
Total allowance for credit losses	<u>\$6,892</u>	<u>\$6,703</u>	<u>\$2</u>	<u>\$50</u>	<u>\$10,235</u>	<u>\$23,882</u>

The allowance for credit losses on consumer loans increased due to a higher than average volume of loans in the first nine months of 2021, which increased the size of the total consumer loan portfolio. The allowance for credit losses on commercial loans decreased in the first nine months of 2021, due to the pay down of a previously individually evaluated loan, resulting in lower future expected losses. Management considers the \$23.9 million allowance for credit losses on loans to be adequate as a reserve against current expected credit losses in the loan portfolio as of September 30, 2021.

See Note 4 to the unaudited consolidated financial statements for additional information related to the loan portfolio, loan portfolio credit risk, allowance for credit losses on loans, and other real estate owned.

Asset/Liability and Market Risk Management

Asset/liability management involves the evaluation, monitoring and management of interest rate risk, market risk, liquidity and funding. The fundamental objective of the Company's management of assets and liabilities is to maximize its economic value while maintaining adequate liquidity and a conservative level of interest rate risk.

Interest Rate Risk

Interest rate risk is a significant market risk affecting the Company. Many factors affect the Company's exposure to interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Financial instruments may mature or re-price at different times. Financial instruments may re-price at the same time but by different amounts. Short-term and long-term market interest rates may change by different amounts. The timing and amount of cash flows of various financial instruments may change as interest rates change. In addition, the changing levels of interest rates may have an impact on loan demand and demand for various deposit products.

The Company's earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the United States government and its agencies, particularly the FOMC. The monetary policies of the FOMC can influence the overall growth of loans, investment securities, and deposits, and the level of interest rates earned on loans, investment securities, and paid for deposits and other borrowings. The nature and impact of future changes in monetary policies are generally not predictable.

Management attempts to manage interest rate risk while enhancing the net interest margin and net interest income. At times, depending on expected increases or decreases in market interest rates, the relationship between long and short-term interest rates, market conditions and competitive factors, Management may adjust the Company's interest rate risk position. The Company's results of operations and net portfolio values remain subject to changes in interest rates and to fluctuations in the difference between long and short-term interest rates.

Management monitors the Company's interest rate risk using a purchased simulation model, which is periodically validated using supervisory guidance issued by the Board of Governors of the Federal Reserve System, SR 11-7 "Guidance on Model Risk Management." Management measures its exposure to interest rate risk using both a static and dynamic composition of financial instruments. Within the static composition simulation, cash flows are assumed redeployed into like financial instruments at prevailing rates and yields, except cash flows from PPP loans are reinvested into interest-bearing cash. Within the dynamic composition simulation, Management makes assumptions regarding the expected change in the volume of financial instruments. Both simulations are used to measure expected changes in net interest income assuming various levels of change in market interest rates.

The Company's asset and liability position was "asset sensitive" at September 30, 2021, depending on the interest rate assumptions applied to each simulation model. An "asset sensitive" position results in a slightly larger change in interest income than in interest expense resulting from application of assumed interest rate changes.

At September 30, 2021, Management's most recent measurements of estimated changes in net interest income were:

Static Simulation (balance sheet composition unchanged):

Assumed Immediate Parallel Shift in Interest Rates	+1.00%
First Year Change in Net Interest Income	+13.6%

Dynamic Simulation (balance sheet composition changes):

Assumed Change in Interest Rates Over 1 Year	+1.00%
First Year Change in Net Interest Income	+8.8%

Simulation estimates depend on, and will change with, the size and mix of the actual and projected composition of financial instruments at the time of each simulation.

The Company does not currently engage in trading activities or use derivative instruments to manage interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

Market Risk - Equity Markets

Equity price risk can affect the Company. Preferred or common stock holdings, as permitted by banking regulations, can fluctuate in value. Changes in value of preferred or common stock holdings are recognized in the Company's income statement.

Fluctuations in the Company's common stock price can impact the Company's financial results in several ways. First, the Company has at times repurchased and retired its common stock; the market price paid to retire the Company's common stock affects the level of the Company's shareholders' equity, cash flows and shares outstanding. Second, the Company's common stock price impacts the number of dilutive equivalent shares used to compute diluted earnings per share. Third, fluctuations in the Company's common stock price can motivate holders of options to purchase Company common stock through the exercise of such options thereby increasing the number of shares outstanding and potentially adding volatility to the book tax provision. Finally, the amount of compensation expense and tax deductions associated with share based compensation fluctuates with changes in and the volatility of the Company's common stock price.

Market Risk - Other

Market values of loan collateral can directly impact the level of loan chargeoffs and the provision for credit losses. The financial condition and liquidity of debtors issuing bonds and debtors whose mortgages or other obligations are securitized can directly impact the credit quality of the Company's investment securities portfolio requiring the Company to establish or increase reserves for credit losses. Other types of market risk, such as foreign currency exchange risk, are not significant in the normal course of the Company's business activities.

Liquidity and Funding

The objective of liquidity management is to manage cash flow and liquidity reserves so that they are adequate to fund the Company's operations and meet obligations and other commitments on a timely basis and at a reasonable cost. The Company achieves this objective through the selection of asset and liability maturity mixes that it believes best meet its needs. The Company's liquidity position is enhanced by its ability to raise additional funds as needed by selling debt securities available-for-sale or borrowing in the wholesale markets.

In recent years, the Company's deposit base has provided the majority of the Company's funding requirements. This relatively stable and low-cost source of funds, along with shareholders' equity, provided 97% of funding for average total assets in the quarter ended September 30, 2021 and in the year ended December 31, 2020. The stability of the Company's funding from customer deposits is in part reliant on the confidence clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining an appropriate level of liquidity.

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. The Company's investment securities portfolio provides a substantial secondary source of liquidity. The Company held \$5.0 billion in total investment securities at September 30, 2021. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At September 30, 2021, such collateral requirements totaled approximately \$899 million.

The Bank funded \$249 million in PPP loans in the second quarter 2020 and \$106 million in the first six months of 2021 by crediting loan proceeds to the borrower's deposit accounts. PPP loans, net of deferred fees and costs, were \$103 million at September 30, 2021. The Federal Reserve Board established the Paycheck Protection Program Liquidity Facility ("PPPLF") to provide funding for eligible firms extending PPP loans. Under the PPPLF, the Bank must pledge PPP loans as collateral for PPPLF borrowings. Principal reductions on the pledged PPP loans must immediately result in principal reduction of the PPPLF borrowing. The Bank had no PPLF borrowings at September 30, 2021.

Liquidity risk can result from the mismatching of asset and liability cash flows, or from disruptions in the financial markets. The Company performs liquidity stress tests on a periodic basis to evaluate the sustainability of its liquidity. Under the stress testing, the Company assumes outflows of funds increase beyond expected levels. Measurement of such heightened outflows considers the composition of the Company's deposit base, including any concentration of deposits, non-deposit funding such as short-term borrowings, and unfunded lending commitments. The Company evaluates its stock of highly liquid assets to meet the assumed higher levels of outflows. Highly liquid assets include cash and amounts due from other banks from daily transaction settlements, reduced by branch cash needs and Federal Reserve Bank reserve requirements, and investment securities based on regulatory risk-weighting guidelines. Based on the results of the most recent liquidity stress test, Management is satisfied with the liquidity condition of the Bank and the Company. However, no assurance can be given the Bank or Company will not experience a period of reduced liquidity.

Management continually monitors the Company's cash levels. Loan demand from credit worthy borrowers will be dictated by economic and competitive conditions. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to changes in interest rates. The growth of these deposit balances is subject to heightened competition, the success of the Company's sales efforts, delivery of superior customer service, new regulations and market conditions. The Company does not aggressively solicit higher-costing time deposits. Changes in interest rates, most notably rising interest rates or increased consumer spending, could impact deposit volumes. Depending on economic conditions, interest rate levels, liquidity management and a variety of other conditions, deposit growth may be used to fund loans or purchase investment securities. However, due to possible volatility in economic conditions, competition and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

Westamerica Bancorporation ("Parent Company") is a separate entity apart from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for the payment of dividends declared for its shareholders, and interest and principal on any outstanding debt. The Parent Company currently has no debt. Substantially all of the Parent Company's revenues are obtained from subsidiary dividends and service fees.

The Bank's dividends paid to the Parent Company, proceeds from the exercise of stock options, and Parent Company cash balances provided adequate cash for the Parent Company to pay shareholder dividends of \$33 million in the nine months ended September 30, 2021 and \$44 million in the year ended December 31, 2020 and retire common stock in the amounts of \$232 thousand and \$16 million, respectively. Payment of dividends to the Parent Company by the Bank is limited under California and Federal laws. The Company believes these regulatory dividend restrictions will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

Capital Resources

The Company has historically generated high levels of earnings, which provide a means of accumulating capital. The Company's net income as a percentage of average shareholders' equity ("return on equity" or "ROE") has been 11.6% for the nine months ended September 30, 2021 and 11.3% for the year ended December 31, 2020. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options was \$3.0 million in the nine months ended September 30, 2021 and \$2.8 million in the year ended December 31, 2020.

The Company paid common dividends totaling \$33 million in the nine months ended September 30, 2021 and \$44 million in the year ended December 31, 2020, which represent dividends per common share of \$1.23 and \$1.64, respectively. The Company's earnings have historically exceeded dividends paid to shareholders. The amount of earnings in excess of dividends provides the Company resources to finance growth and maintain appropriate levels of shareholders' equity. In the absence of profitable growth opportunities, the Company has at times repurchased and retired its common stock as another means to return capital to shareholders. The Company repurchased and retired 4 thousand shares valued at \$232 thousand in the nine months ended September 30, 2021 and 319 thousand shares valued at \$16 million in the year ended December 31, 2020.

The Company's primary capital resource is shareholders' equity, which was \$838 million at September 30, 2021 compared with \$845 million at December 31, 2020. The Company's ratio of equity to total assets was 11.3% at September 30, 2021 and 12.5% at December 31, 2020.

The Company performs capital stress tests on a periodic basis to evaluate the sustainability of its capital. Under the stress testing, the Company assumes various scenarios such as deteriorating economic and operating conditions, and unanticipated asset devaluations. The Company measures the impact of these scenarios on its earnings and capital. Based on the results of the most recent stress tests, Management is satisfied with the capital condition of the Bank and the Company. However, no assurance can be given the Bank or Company will not experience a period of reduced earnings or a reduction in capital from unanticipated events and circumstances.

Capital to Risk-Adjusted Assets

The capital ratios for the Company and the Bank under current regulatory capital standards are presented in the tables below, on the dates indicated. For Common Equity Tier I Capital, Tier I Capital and Total Capital, the minimum percentage required for regulatory capital adequacy purposes include a 2.5% "capital conservation buffer."

	At September 30, 2021		Required for	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank	Capital Adequacy Purposes	
Common Equity Tier I Capital	14.98%	12.37%	7.00%	6.50%
Tier I Capital	14.98%	12.37%	8.50%	8.00%
Total Capital	15.54%	13.08%	10.50%	10.00%
Leverage Ratio	9.13%	7.52%	4.00%	5.00%

	At December 31, 2020		Required for	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank	Capital Adequacy Purposes	
Common Equity Tier I Capital	16.04%	13.00%	7.00%	6.50%
Tier I Capital	16.04%	13.00%	8.50%	8.00%
Total Capital	16.68%	13.80%	10.50%	10.00%
Leverage Ratio	9.40%	7.58%	4.00%	5.00%

In June 2016, the Financial Accounting Standards Board issued an update to the accounting standards for credit losses known as the "Current Expected Credit Losses" (CECL) methodology, which replaced the existing incurred loss methodology for certain financial assets. The Company adopted the CECL methodology effective January 1, 2020, which involved an implementing accounting entry to retained earnings on a net-of-tax basis. The adoption of the CECL methodology did not have a material adverse day-one impact to capital ratios and the Company did not adopt the phase in regulatory capital relief. See Note 1 to consolidated financial statements, "Recently Adopted Accounting Standards" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for more information on the CECL methodology.

PPP loans are zero percent risk weighted for regulatory capital purposes; average PPP loans of \$145 million did not affect regulatory capital ratios. The Leverage ratio would have been approximately 0.2% higher for the Company and the Bank without PPP loans. To the extent funding of PPP loans is through excess cash balances or PPPLF borrowings, the Leverage ratio is unaffected. However, PPP loans funded by increased non-PPPLF borrowings reduces the leverage ratio.

The Company and the Bank routinely project capital levels by analyzing forecasted earnings, credit quality, shareholder dividends, asset volumes, share repurchase activity, stock option exercise proceeds, and other factors. Based on current capital projections, the Company and the Bank expect to maintain regulatory capital levels in excess of the minimum required to be

considered well-capitalized under the prompt corrective action framework while continuing to pay quarterly dividends to shareholders. No assurance can be given that changes in capital management plans will not occur.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

Credit risk and interest rate risk are the most significant market risks affecting the Company, and equity price risk can also affect the Company's financial results. These risks are described in the preceding sections regarding "Loan Portfolio Credit Risk," and "Asset/Liability and Market Risk Management." Other types of market risk, such as foreign currency exchange risk and commodity price risk, are not significant in the normal course of the Company's business activities.

Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of September 30, 2021.

Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company's management, including the principal executive officer and the principal financial officer, to allow for timely decisions regarding required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of its business, the Company is subject to various threatened or filed legal cases. Neither the Company nor any of its subsidiaries is a party to any material pending legal proceeding, nor is their property the subject of any material pending legal proceeding, other than ordinary routine legal proceedings arising in the ordinary course of the Company's business. Based on the advice of legal counsel, the Company does not expect such cases will have a material, adverse effect on its business, financial position or results of operations. Legal liabilities are accrued when obligations become probable and the amount can be reasonably estimated.

Item 1A. Risk Factors

The Company's Annual Report on Form 10-K for the year ended December 31, 2020 includes detailed disclosure about the risks faced by the Company's business; such risks have not materially changed since the Form 10-K was filed.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) None
- (b) None
- (c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any “affiliated purchaser”, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), of common stock during the quarter ended September 30, 2021.

Period	2021			(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Number of Shares Purchased as Part of Publicly Announced Plans or Programs	
	(In thousands, except price paid)			
July 1 through July 31	-	\$ -	-	1,750
August 1 through August 31	-	-	-	1,750
September 1 through September 30	-	-	-	1,750
Total	-	\$ -	-	1,750

The Company repurchases shares of its common stock in the open market on a discretionary basis from time to time to optimize the Company’s use of equity capital and enhance shareholder value and with the intention of lessening the dilutive impact of issuing new shares under equity incentive plans, and other ongoing requirements.

No shares were repurchased during the period from July 1, 2021 through September 30, 2021. A repurchase program was approved by the Board of Directors on July 23, 2020 authorizing the purchase of up to 1,750 thousand shares of the Company’s common stock from time to time prior to September 1, 2021. The Board of Directors approved and adopted a replacement program on July 22, 2021 authorizing the purchase of up to 1,750 thousand shares of the Company’s common stock from time to time prior to September 1, 2022.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101.INS 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.

Exhibit 101.SCH Inline XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF Inline XBRL Taxonomy Extension Definitions Linkbase Document

Exhibit 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 104. The Cover page of Westamerica Bancorporation’s Quarterly Report on Form 10-Q for the quarter ended
September 30, 2021, formatted in Inline XBRL (contained in Exhibit 101)

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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.

WESTAMERICA BANCORPORATION
(Registrant)

/s/ Jesse Leavitt

Jesse Leavitt
Senior Vice President and Chief Financial Officer
(Principal Financial and Chief Accounting Officer)

Date: November 3, 2021

EXHIBIT 31.1

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David L. Payne certify that:

1. I have reviewed this report on Form 10-Q of Westamerica Bancorporation;
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(s) 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 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(s) 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 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.

/s/ David L. Payne

David L. Payne

Chairman, President and Chief Executive Officer

Date: November 3, 2021

EXHIBIT 31.2

CERTIFICATION UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jesse Leavitt certify that:

1. I have reviewed this report on Form 10-Q of Westamerica Bancorporation;
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(s) 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 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(s) 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 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.

/s/ Jesse Leavitt

Jesse Leavitt

Senior Vice President and Chief Financial Officer

Date: November 3, 2021

EXHIBIT 32.1

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 Westamerica Bancorporation (the Company) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Payne, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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.

/s/ David L. Payne

David L. Payne

Chairman, President and Chief Executive Officer

Date: November 3, 2021

EXHIBIT 32.2

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 Westamerica Bancorporation (the Company) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jesse Leavitt, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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.

/s/ Jesse Leavitt

Jesse Leavitt

Senior Vice President and Chief Financial Officer

Date: November 3, 2021