

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2023**
- 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 July 28, 2023  
26,648,566

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## FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains “forward-looking statements” within the meaning of 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 the current knowledge and belief of the management (“Management”) of Westamerica Bancorporation (the “Company”) 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 and monetary policy; (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, particularly the impact of rising interest rates on the Company’s securities portfolio; (11) asset/liability management risks; (12) liquidity risks including the impact of recent adverse developments in the banking industry; (13) the effect of climate change, 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; (14) changes in the securities markets; (15) the duration and severity of the COVID-19 pandemic and governmental and customer responses to the pandemic; (16) inflation and (17) 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, 2022 and Item 1A of this report 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 June 30, 2023	At December 31, 2022
	(In thousands)	
<b>Assets:</b>		
Cash and due from banks	\$266,187	\$294,236
Debt securities available for sale	4,046,458	4,331,743
Debt securities held to maturity, net of allowance for credit losses of \$1 at June 30, 2023 and December 31, 2022 (Fair value of \$853,472 at June 30, 2023 and \$873,511 at December 31, 2022)	900,356	915,913
Loans	919,583	958,488
Allowance for credit losses on loans	(18,480)	(20,284)
Loans, net of allowance for credit losses on loans	901,103	938,204
Premises and equipment, net	27,908	28,819
Identifiable intangibles, net	463	583
Goodwill	121,673	121,673
Other assets	318,592	319,146
<b>Total Assets</b>	<b>\$6,582,740</b>	<b>\$6,950,317</b>
<b>Liabilities:</b>		
Noninterest-bearing deposits	\$2,721,046	\$2,947,277
Interest-bearing deposits	2,984,881	3,278,013
Total deposits	5,705,927	6,225,290
Short-term borrowed funds	138,005	57,792
Other liabilities	86,946	65,125
<b>Total Liabilities</b>	<b>5,930,878</b>	<b>6,348,207</b>
<b>Contingencies (Note 10)</b>		
<b>Shareholders' Equity:</b>		
Common stock (no par value), authorized: 150,000 shares issued and outstanding: 26,648 at June 30, 2023 and 26,913 at December 31, 2022	471,475	475,086
Deferred compensation	35	35
Accumulated other comprehensive loss	(252,043)	(256,105)
Retained earnings	432,395	383,094
<b>Total Shareholders' Equity</b>	<b>651,862</b>	<b>602,110</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$6,582,740</b>	<b>\$6,950,317</b>

See accompanying notes to unaudited consolidated financial statements.

**WESTAMERICA BANCORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	For the Three Months		For the Six Months	
	2023	2022	Ended June 30,	
	2023	2022	2023	2022
	(In thousands, except per share data)			
<b>Interest and Loan Fee Income:</b>				
Loans	\$11,845	\$12,331	\$23,585	\$25,273
Equity securities	152	129	304	257
Debt securities available for sale	47,452	31,764	94,262	60,330
Debt securities held to maturity	8,930	1,771	17,910	3,415
Interest-bearing cash	2,110	2,002	4,052	2,481
<b>Total Interest and Loan Fee Income</b>	<u>70,489</u>	<u>47,997</u>	<u>140,113</u>	<u>91,756</u>
<b>Interest Expense:</b>				
Deposits	582	461	1,040	913
Short-term borrowed funds	25	22	38	50
<b>Total Interest Expense</b>	<u>607</u>	<u>483</u>	<u>1,078</u>	<u>963</u>
<b>Net Interest and Loan Fee Income</b>	<u>69,882</u>	<u>47,514</u>	<u>139,035</u>	<u>90,793</u>
<b>Reversal of Provision for Credit Losses</b>	-	-	(1,550)	-
<b>Net Interest and Loan Fee Income After Reversal of Provision for Credit Losses</b>	<u>69,882</u>	<u>47,514</u>	<u>140,585</u>	<u>90,793</u>
<b>Noninterest Income:</b>				
Service charges on deposit accounts	3,459	3,687	6,924	7,269
Merchant processing services	2,869	3,374	5,506	5,997
Debit card fees	1,759	1,709	3,401	4,581
Trust fees	810	809	1,575	1,652
ATM processing fees	702	469	1,356	920
Other service fees	458	480	857	929
Financial services commissions	103	118	192	235
Securities losses	(125)	-	(125)	-
Other noninterest income	665	618	1,563	1,257
<b>Total Noninterest Income</b>	<u>10,700</u>	<u>11,264</u>	<u>21,249</u>	<u>22,840</u>
<b>Noninterest Expense:</b>				
Salaries and related benefits	11,828	11,412	23,895	23,332
Occupancy and equipment	5,012	4,856	10,497	9,602
Outsourced data processing services	2,488	2,423	4,932	4,860
Limited partnership operating losses	1,440	1,431	2,874	2,862
Courier service	611	661	1,226	1,243
Professional fees	485	736	961	1,472
Other noninterest expense	3,975	3,110	7,664	6,133
<b>Total Noninterest Expense</b>	<u>25,839</u>	<u>24,629</u>	<u>52,049</u>	<u>49,504</u>
<b>Income Before Income Taxes</b>	<u>54,743</u>	<u>34,149</u>	<u>109,785</u>	<u>64,129</u>
Provision for income taxes	14,495	8,835	29,086	16,199
<b>Net Income</b>	<u>\$40,248</u>	<u>\$25,314</u>	<u>\$80,699</u>	<u>\$47,930</u>
<b>Average Common Shares Outstanding</b>	26,648	26,889	26,753	26,880
<b>Average Diluted Common Shares Outstanding</b>	26,648	26,901	26,756	26,893
<b>Per Common Share Data:</b>				
Basic earnings	\$1.51	\$0.94	\$3.02	\$1.78
Diluted earnings	1.51	0.94	3.02	1.78
Dividends paid	0.42	0.42	0.84	0.84

See accompanying notes to unaudited consolidated financial statements.

**WESTAMERICA BANCORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited)

	For the Three Months		For the Six Months	
	2023	2022	2023	2022
	Ended June 30,			
	(In thousands)			
<b>Net income</b>	\$40,248	\$25,314	\$80,699	\$47,930
Other comprehensive (loss) income:				
Changes in net unrealized losses/gains on debt securities available for sale	(29,063)	(141,581)	5,767	(337,452)
Deferred tax benefit (expense)	8,593	41,856	(1,705)	99,763
Changes in net unrealized losses/gains on debt securities available for sale, net of tax	(20,470)	(99,725)	4,062	(237,689)
<b>Total comprehensive income (loss)</b>	<u>\$19,778</u>	<u>(\$74,411)</u>	<u>\$84,761</u>	<u>(\$189,759)</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 (Loss) Income	Retained Earnings	Total
	(In thousands except dividend per share)					
<b>Balance, March 31, 2023</b>	26,648	\$471,124	\$35	(\$231,573)	\$403,339	\$642,925
Net income for the period					40,248	40,248
Other comprehensive loss				(20,470)		(20,470)
Stock based compensation	-	339				339
Stock awarded to employees	-	12				12
Dividends (\$0.42 per share)					(11,192)	(11,192)
<b>Balance, June 30, 2023</b>	<u>26,648</u>	<u>\$471,475</u>	<u>\$35</u>	<u>(\$252,043)</u>	<u>\$432,395</u>	<u>\$651,862</u>
<b>Balance, December 31, 2022</b>	26,913	\$475,086	\$35	(\$256,105)	\$383,094	\$602,110
Net income for the period					80,699	80,699
Other comprehensive income				4,062		4,062
Restricted stock activity	9	508				508
Stock based compensation	-	678				678
Stock awarded to employees	-	47				47
Retirement of common stock	(274)	(4,844)			(8,903)	(13,747)
Dividends (\$0.84 per share)					(22,495)	(22,495)
<b>Balance, June 30, 2023</b>	<u>26,648</u>	<u>\$471,475</u>	<u>\$35</u>	<u>(\$252,043)</u>	<u>\$432,395</u>	<u>\$651,862</u>
<b>Balance, March 31, 2022</b>	26,883	\$472,435	\$35	(\$88,300)	\$317,574	\$701,744
Net income for the period					25,314	25,314
Other comprehensive loss				(99,725)		(99,725)
Exercise of stock options	13	731				731
Stock based compensation	-	339				339
Stock awarded to employees	-	15				15
Dividends (\$0.42 per share)					(11,292)	(11,292)
<b>Balance, June 30, 2022</b>	<u>26,896</u>	<u>\$473,520</u>	<u>\$35</u>	<u>(\$188,025)</u>	<u>\$331,596</u>	<u>\$617,126</u>
<b>Balance, December 31, 2021</b>	26,866	\$471,008	\$35	\$49,664	\$306,395	\$827,102
Net income for the period					47,930	47,930
Other comprehensive loss				(237,689)		(237,689)
Exercise of stock options	24	1,355				1,355
Restricted stock activity	8	492				492
Stock based compensation	-	678				678
Stock awarded to employees	1	52				52
Retirement of common stock	(3)	(65)			(153)	(218)
Dividends (\$0.84 per share)					(22,576)	(22,576)
<b>Balance, June 30, 2022</b>	<u>26,896</u>	<u>\$473,520</u>	<u>\$35</u>	<u>(\$188,025)</u>	<u>\$331,596</u>	<u>\$617,126</u>

See accompanying notes to unaudited consolidated financial statements.

**WESTAMERICA BANCORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	For the Six Months Ended June 30,	
	2023	2022
	(In thousands)	
<b>Operating Activities:</b>		
Net income	\$80,699	\$47,930
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization/accretion	5,752	10,508
Stock option compensation expense	678	678
Amortization of deferred loan fees	(269)	(1,078)
Securities losses	125	-
Net change in:		
Interest income receivable	(222)	(4,740)
Income taxes payable	28,144	(442)
Deferred income taxes	942	401
Other assets	(1,377)	(2,614)
Interest expense payable	38	31
Other liabilities	(6,848)	(8,251)
<b>Net Cash Provided by Operating Activities</b>	<u>107,662</u>	<u>42,423</u>
<b>Investing Activities:</b>		
Net repayments of loans	37,370	68,235
Purchases of debt securities available for sale	-	(619,601)
Proceeds from sale/maturity/calls of debt securities available for sale	286,702	308,546
Purchases of debt securities held to maturity	-	(174,493)
Proceeds from maturity/calls of debt securities held to maturity	18,525	44,573
Purchases of Federal Reserve Bank stock	(2,326)	-
Purchases of premises and equipment	(590)	(592)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>339,681</u>	<u>(373,332)</u>
<b>Financing Activities:</b>		
Net change in:		
Deposits	(519,363)	1,635
Short-term borrowings	80,213	(28,079)
Exercise of stock options	-	1,355
Retirement of common stock	(13,747)	(218)
Common stock dividends paid	(22,495)	(22,576)
<b>Net Cash Used in Financing Activities</b>	<u>(475,392)</u>	<u>(47,883)</u>
<b>Net Change in Cash and Due from Banks</b>	<u>(28,049)</u>	<u>(378,792)</u>
<b>Cash and Due from Banks at Beginning of Period</b>	<u>294,236</u>	<u>1,132,085</u>
<b>Cash and Due from Banks at End of Period</b>	<u>\$266,187</u>	<u>\$753,293</u>
<b>Supplemental Cash Flow Disclosures:</b>		
Supplemental disclosure of non cash activities:		
Right-of-use assets acquired in exchange for operating lease liabilities	\$3,934	\$2,462
Securities purchases pending settlement	-	6,774
Supplemental disclosure of cash flow activities:		
Cash paid for amounts included in operating lease liabilities	3,052	3,038
Interest paid for the period	1,040	932
Income tax payments for the period	-	16,240

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 six months ended June 30, 2023 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, 2022.

### 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, 2022. 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 "Risk Factors" in Part I – Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2022 may cause actual future results to differ materially from the results discussed in this report on Form 10-Q. Management continues to evaluate the impacts of the inflation and the Federal Reserve's monetary policy, climate changes, COVID-19 pandemic and the war in Ukraine 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. However, the effects could have a material impact on the Company's results of operations and heighten many of the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. During the first quarter 2023, the banking industry experienced significant volatility with multiple bank failures. Industrywide concerns have developed related to liquidity, deposit outflows and unrealized losses on investment debt securities. These recent events could adversely affect the Company's ability to effectively fund the Company's operations. Any one or a combination of such risk factors, or other factors, could materially adversely affect the Company's business, financial condition, results of operations and prospects.

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. Fair value is generally determined based on an exit price at which an asset or liability could be exchanged in a current transaction, other than in a forced or liquidation sale. 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. Certain amounts in previous periods have been reclassified to conform to current presentation.

Debt Securities. Debt securities consist of securities of government sponsored entities, states, counties, municipalities, corporations, agency mortgage-backed securities and collateralized loan obligations. 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 does not share common risk characteristics with any of the pools of debt securities is individually evaluated and a reserve for credit losses is established based on the Company’s consideration of 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 loss at least quarterly. For available for sale debt securities, a decline in fair value due to credit loss 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 to not 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 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.

**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 loan losses. 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 the financial statements requires Management to estimate the amount of expected losses over the expected contractual life of the Bank's 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 modification to be made to loans to borrowers experiencing financial difficulty is included in the allowance for credit losses when management determines such 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

FASB ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, issued March 2022, eliminates the recognition and measurement guidance for troubled debt restructurings and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. This ASU also requires enhanced disclosure for loans that have been charged off. The ASU became effective January 1, 2023 under a prospective approach. The Company adopted the provisions to remove the recognition and measurement guidance for troubled debt restructurings and/or modify relevant disclosures in the "Loans" note to the unaudited consolidated financial statements. The requirement to include additional disclosures was adopted by the Company January 1, 2023. The additional disclosures did not affect the financial results upon adoption.

#### 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. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848.* The ASU 2022-06 deferred the sunset date of ASU 2020-04 to December 2024. 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.

FASB ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, was issued June 2022. The ASU clarifies the guidance in Topic 820 when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security. Additionally, the ASU requires specific disclosures related to equity securities that are subject to contractual sale restrictions. The required disclosures include (1) the fair value of such equity securities reflected in the balance sheet, (2) the nature and remaining duration of the corresponding restrictions, and (3) any circumstances that could cause a lapse in the restrictions. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

FASB ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, was issued March 2023. The ASU expands the use of the proportional amortization method of accounting, currently only available to investments in low-income housing tax credit structures, to equity investments in other tax credit structures that meet certain criteria. The ASU also requires additional disclosures for any tax credit program where the proportional amortization method is elected. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

### Note 3: Investment Securities

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 accumulated other comprehensive income, and debt securities held to maturity, which are carried at amortized cost, before allowance for credit losses of \$1 thousand at June 30, 2023 and December 31, 2022, follows:

	At June 30, 2023			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities available for sale:				
Agency residential mortgage-backed securities ("MBS")	\$283,668	\$2	(\$24,480)	\$259,190
Securities of U.S. Government sponsored entities	307,552	-	(16,150)	291,402
Obligations of states and political subdivisions	81,466	30	(2,096)	79,400
Corporate securities	2,184,863	695	(284,054)	1,901,504
Collateralized loan obligations	1,546,740	316	(32,094)	1,514,962
Total debt securities available for sale	4,404,289	1,043	(358,874)	4,046,458
Debt securities held to maturity:				
Agency residential MBS	91,141	11	(7,075)	84,077
Obligations of states and political subdivisions	83,964	34	(870)	83,128
Corporate securities	725,252	-	(38,985)	686,267
Total debt securities held to maturity	900,357	45	(46,930)	853,472
Total	\$5,304,646	\$1,088	(\$405,804)	\$4,899,930

  

	At December 31, 2022			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities available for sale:				
Agency residential MBS	\$311,089	\$4	(\$25,045)	\$286,048
Securities of U.S. Government sponsored entities	306,336	3	(15,486)	290,853
Obligations of states and political subdivisions	84,024	59	(2,079)	82,004
Corporate securities	2,406,566	1,032	(307,643)	2,099,955
Collateralized loan obligations	1,587,326	527	(14,970)	1,572,883
Total debt securities available for sale	4,695,341	1,625	(365,223)	4,331,743
Debt securities held to maturity:				
Agency residential MBS	104,852	13	(7,503)	97,362
Obligations of states and political subdivisions	89,208	73	(538)	88,743
Corporate securities	721,854	-	(34,448)	687,406
Total debt securities held to maturity	915,914	86	(42,489)	873,511
Total	\$5,611,255	\$1,711	(\$407,712)	\$5,205,254

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

	At June 30, 2023			
	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	\$83,992	\$83,593	\$16,688	\$16,639
Over 1 to 5 years	745,413	694,961	243,146	234,642
Over 5 to 10 years	2,677,788	2,411,188	549,382	518,114
Over 10 years	613,428	597,526	-	-
Subtotal	4,120,621	3,787,268	809,216	769,395
MBS	283,668	259,190	91,141	84,077
Total	\$4,404,289	\$4,046,458	\$900,357	\$853,472

	At December 31, 2022			
	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	\$251,578	\$250,317	\$12,676	\$12,659
Over 1 to 5 years	584,707	554,596	161,653	158,409
Over 5 to 10 years	2,869,559	2,570,159	636,733	605,081
Over 10 years	678,408	670,623	-	-
Subtotal	4,384,252	4,045,695	811,062	776,149
MBS	311,089	286,048	104,852	97,362
Total	\$4,695,341	\$4,331,743	\$915,914	\$873,511

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.

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

	Debt Securities Available for Sale								
	At June 30, 2023								
	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.	15	\$993	(\$21)	101	\$257,605	(\$24,459)	116	\$258,598	(\$24,480)
Government sponsored entities	23	215,237	(10,730)	6	76,165	(5,420)	29	291,402	(16,150)
Obligations of states and political subdivisions	6	6,325	(96)	57	60,659	(2,000)	63	66,984	(2,096)
Corporate securities	7	53,125	(938)	151	1,833,390	(283,116)	158	1,886,515	(284,054)
Collateralized loan obligations	43	478,108	(21,039)	57	503,659	(11,055)	100	981,767	(32,094)
Total	94	\$753,788	(\$32,824)	372	\$2,731,478	(\$326,050)	466	\$3,485,266	(\$358,874)

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

	Debt Securities Held to Maturity								
	At June 30, 2023								
	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
Agency residential MBS	7	\$1,258	(\$65)	90	\$82,018	(\$7,010)	97	\$83,276	(\$7,075)
Obligations of states and political subdivisions	62	49,981	(522)	10	12,746	(348)	72	62,727	(870)
Corporate securities	48	664,773	(37,595)	5	21,494	(1,390)	53	686,267	(38,985)
Total	117	\$716,012	(\$38,182)	105	\$116,258	(\$8,748)	222	\$832,270	(\$46,930)

Based upon the Company's June 30, 2023 evaluation, the unrealized losses on debt securities were caused by market conditions for these types of securities. Increasing risk-free interest rates have caused large declines in bond values generally. Additionally, market rates for non-Treasury bonds are determined by the risk-free interest rate plus a risk premium spread; such spreads for investment grade, fixed rate, taxable corporate bonds have increased, also broadly reducing corporate bond values. The Company continually monitors interest rate changes, risk premium spread changes, credit rating changes for issuers of bonds owned, collateralized loan obligations' collateral levels, and corporate bond issuers' common stock price changes. All collateralized loan obligations and corporate securities were investment grade rated at June 30, 2023.

The Company does not intend to sell any debt securities available for sale with an unrealized loss 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.

The Company evaluates held to maturity corporate securities individually, monitoring each issuer's financial condition, profitability, cash flows and credit rating agency conclusions. The Company has an expectation that nonpayment of the amortized cost basis continues to be zero.

The fair values of debt securities could decline in the future if interest rates increase, 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 may occur in the future.

As of June 30, 2023 and December 31, 2022, the Company's debt securities pledged to secure public deposits, Federal Reserve Bank borrowings and short-term borrowed funds had a carrying amount of \$2,041,757 thousand and \$1,180,010 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, 2022								
	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
Agency residential MBS	107	\$279,139	(\$24,222)	9	\$6,110	(\$823)	116	\$285,249	(\$25,045)
Securities of U.S. Government sponsored entities	22	289,067	(15,486)	-	-	-	22	289,067	(15,486)
Obligations of states and political subdivisions	56	65,633	(1,902)	8	3,265	(177)	64	68,898	(2,079)
Corporate securities	133	1,521,294	(170,453)	56	555,727	(137,190)	189	2,077,021	(307,643)
Collateralized loan obligations	58	518,074	(13,772)	20	192,692	(1,198)	78	710,766	(14,970)
Total	376	\$2,673,207	(\$225,835)	93	\$757,794	(\$139,388)	469	\$3,431,001	(\$365,223)

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

Debt Securities Held to Maturity									
At December 31, 2022									
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	97	\$95,814	(\$7,404)	2	\$682	(\$99)	99	\$96,496	(\$7,503)
Obligations of states and political subdivisions	54	53,536	(538)	-	-	-	54	53,536	(538)
Corporate securities	49	672,406	(34,448)	-	-	-	49	672,406	(34,448)
<b>Total</b>	<b>200</b>	<b>\$821,756</b>	<b>(\$42,390)</b>	<b>2</b>	<b>\$682</b>	<b>(\$99)</b>	<b>202</b>	<b>\$822,438</b>	<b>(\$42,489)</b>

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. 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 Six Months Ended June 30,	
	2023	2022
(In thousands)		
Allowance for credit losses:		
Beginning balance	\$1	\$7
Provision	-	-
Chargeoffs	-	-
Recoveries	-	-
<b>Total ending balance</b>	<b>\$1</b>	<b>\$7</b>

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. Corporate securities held to maturity were individually evaluated for expected credit loss by evaluating the issuer's financial condition, profitability, cash flows, and credit ratings. At June 30, 2023, no credit loss allowance was assigned to corporate securities held to maturity.

The following table summarizes the amortized cost of debt securities held to maturity at June 30, 2023, aggregated by credit rating:

Credit Risk Profile by Credit Rating				
At June 30, 2023				
AAA/AA/A	BBB+	Not Rated	Total	
(In thousands)				
Agency residential MBS	\$90,629	\$ -	\$512	\$91,141
Obligations of states and political subdivisions	82,859	-	1,105	83,964
Corporate securities	470,072	255,180	-	725,252
<b>Total</b>	<b>\$643,560</b>	<b>\$255,180</b>	<b>\$1,617</b>	<b>\$900,357</b>

There were no debt securities held to maturity on nonaccrual status or past due 30 days or more as of June 30, 2023.

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2023	2022	2023	2022
	(In thousands)			
Taxable	\$55,371	\$32,092	\$110,120	\$60,825
Tax-exempt from regular federal income tax	1,163	1,572	2,356	3,177
Total interest income from investment securities	<u>\$56,534</u>	<u>\$33,664</u>	<u>\$112,476</u>	<u>\$64,002</u>

#### 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 June 30,	At December 31,
	2023	2022
	(In thousands)	
Commercial	\$151,043	\$169,617
Commercial real estate	496,011	491,107
Construction	4,158	3,088
Residential real estate	12,086	13,834
Consumer installment & other	256,285	280,842
Total	<u>\$919,583</u>	<u>\$958,488</u>

	Allowance for Credit Losses					Total
	For the Three Months Ended June 30, 2023					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$5,746	\$6,258	\$200	\$38	\$7,267	\$19,509
(Reversal) provision	(1,001)	(190)	2	(6)	1,195	-
Chargeoffs	-	-	-	-	(1,661)	(1,661)
Recoveries	19	15	-	-	598	632
Total allowance for credit losses	<u>\$4,764</u>	<u>\$6,083</u>	<u>\$202</u>	<u>\$32</u>	<u>\$7,399</u>	<u>\$18,480</u>

	Allowance for Credit Losses					Total
	For the Six Months Ended June 30, 2023					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$6,138	\$5,888	\$150	\$32	\$8,076	\$20,284
(Reversal) provision	(3,410)	165	52	-	1,643	(1,550)
Chargeoffs	(148)	-	-	-	(3,552)	(3,700)
Recoveries	2,184	30	-	-	1,232	3,446
Total allowance for credit losses	<u>\$4,764</u>	<u>\$6,083</u>	<u>\$202</u>	<u>\$32</u>	<u>\$7,399</u>	<u>\$18,480</u>

	Allowance for Credit Losses					Total
	For the Three Months Ended June 30, 2022					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$6,315	\$6,475	\$-	\$48	\$10,087	\$22,925
Provision (reversal)	202	(576)	96	(13)	291	-
Chargeoffs	(20)	-	-	-	(1,393)	(1,413)
Recoveries	39	17	-	-	745	801
Total allowance for credit losses	<u>\$6,536</u>	<u>\$5,916</u>	<u>\$96</u>	<u>\$35</u>	<u>\$9,730</u>	<u>\$22,313</u>

Allowance for Credit Losses  
For the Six Months Ended June 30, 2022

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$6,966	\$6,529	\$2	\$45	\$9,972	\$23,514
(Reversal) provision	(673)	(645)	94	(10)	1,234	-
Chargeoffs	(20)	-	-	-	(2,605)	(2,625)
Recoveries	263	32	-	-	1,129	1,424
Total allowance for credit losses	\$6,536	\$5,916	\$96	\$35	\$9,730	\$22,313

The Company's customers are primarily small businesses, professionals and consumers. Given the scale of these borrowers, corporate credit rating agencies do not evaluate the borrowers' financial condition. 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." The 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 June 30, 2023					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Grade:						
Pass	\$149,643	\$485,363	\$4,158	\$11,728	\$253,536	\$904,428
Substandard	1,400	10,648	-	358	905	13,311
Doubtful	-	-	-	-	1,116	1,116
Loss	-	-	-	-	728	728
Total	\$151,043	\$496,011	\$4,158	\$12,086	\$256,285	\$919,583

	Credit Risk Profile by Internally Assigned Grade					
	At December 31, 2022					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Grade:						
Pass	\$169,040	\$477,842	\$3,088	\$13,457	\$278,223	\$941,650
Substandard	577	13,265	-	377	1,079	15,298
Doubtful	-	-	-	-	752	752
Loss	-	-	-	-	788	788
Total	\$169,617	\$491,107	\$3,088	\$13,834	\$280,842	\$958,488

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The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status						
At June 30, 2023						
	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	\$150,396	\$313	\$210	\$124	\$ -	\$151,043
Commercial real estate	495,646	173	-	-	192	496,011
Construction	4,158	-	-	-	-	4,158
Residential real estate	11,954	-	127	-	5	12,086
Consumer installment and other	250,173	4,124	1,456	532	-	256,285
Total	\$912,327	\$4,610	\$1,793	\$656	\$197	\$919,583

Summary of Loans by Delinquency and Nonaccrual Status						
At December 31, 2022						
	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	\$169,337	\$172	\$58	\$ -	\$50	\$169,617
Commercial real estate	490,354	508	192	-	53	491,107
Construction	3,088	-	-	-	-	3,088
Residential real estate	13,430	377	-	-	27	13,834
Consumer installment and other	273,247	5,101	1,850	628	16	280,842
Total	\$949,456	\$6,158	\$2,100	\$628	\$146	\$958,488

There was no allowance for credit losses allocated to loans on nonaccrual status as of June 30, 2023 or December 31, 2022. There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2023 or December 31, 2022.

There were no loan modifications made to borrowers experiencing financial difficulty during the first six months of 2023 and 2022.

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. Loans that were considered collateral dependent at June 30, 2023 included the following: four commercial real estate loans totaling \$5.6 million secured by real property, and \$511 thousand of indirect consumer installment loans secured by personal property. There were no other collateral dependent loans at June 30, 2023. Loans that were considered collateral dependent at December 31, 2022 included the following: five commercial real estate loans totaling \$8.1 million secured by real property, and \$625 thousand of indirect consumer installment loans secured by personal property. There were no other collateral dependent loans at December 31, 2022.

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

At June 30, 2023									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2019	2020	2021	2022	2023			
(In thousands)									
Commercial loans by grade:									
Pass	\$26,720	\$8,334	\$15,032	\$40,358	\$27,981	\$5,958	\$124,383	\$25,260	\$149,643
Substandard	13	-	-	136	-	700	849	551	1,400
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$26,733	\$8,334	\$15,032	\$40,494	\$27,981	\$6,658	\$125,232	\$25,811	\$151,043
Current gross chargeoffs on commercial loans:									
Three months ended									
June 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Six months ended									
June 30, 2023	-	-	-	-	-	-	-	148	148

At December 31, 2022

	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2018	2019	2020	2021	2022			
(In thousands)									
Commercial loans by grade:									
Pass	\$23,891	\$5,549	\$12,557	\$17,293	\$53,928	\$23,966	\$137,184	\$31,856	\$169,040
Substandard	12	-	-	-	-	-	12	565	577
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$23,903	\$5,549	\$12,557	\$17,293	\$53,928	\$23,966	\$137,196	\$32,421	\$169,617

At June 30, 2023

	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans	Line of Credit Amortized Cost Basis	Total	
	Prior	2019	2020	2021	2022				2023
(In thousands)									
Commercial real estate loans by grade:									
Pass	\$193,160	\$69,933	\$72,489	\$70,261	\$51,880	\$27,640	\$485,363	\$ -	\$485,363
Substandard	7,764	2,088	796	-	-	-	10,648	-	10,648
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$200,924	\$72,021	\$73,285	\$70,261	\$51,880	\$27,640	\$496,011	\$ -	\$496,011

Current gross chargeoffs on commercial real estate loans:

Three months ended									
June 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Six months ended									
June 30, 2023	-	-	-	-	-	-	-	-	-

At December 31, 2022

	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans	Line of Credit Amortized Cost Basis	Total	
	Prior	2018	2019	2020	2021				2022
(In thousands)									
Commercial real estate loans by grade:									
Pass	\$146,588	\$58,473	\$71,440	\$74,016	\$71,618	\$55,707	\$477,842	\$ -	\$477,842
Substandard	8,083	-	2,112	806	-	2,264	13,265	-	13,265
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$154,671	\$58,473	\$73,552	\$74,822	\$71,618	\$57,971	\$491,107	\$ -	\$491,107

At June 30, 2023

	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans	Line of Credit Amortized Cost Basis	Total	
	Prior	2019	2020	2021	2022				2023
(In thousands)									
Residential real estate loans by grade:									
Pass	\$11,728	\$ -	\$ -	\$ -	\$ -	\$ -	\$11,728	\$ -	\$11,728
Substandard	358	-	-	-	-	-	358	-	358
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$12,086	\$ -	\$ -	\$ -	\$ -	\$ -	\$12,086	\$ -	\$12,086

Current gross chargeoffs on residential real estate loans:

Three months ended									
June 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Six months ended									
June 30, 2023	-	-	-	-	-	-	-	-	-

At December 31, 2022

	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans	Line of Credit Amortized Cost Basis	Total	
	Prior	2018	2019	2020	2021				2022
(In thousands)									
Residential real estate loans by grade:									
Pass	\$13,457	\$ -	\$ -	\$ -	\$ -	\$ -	\$13,457	\$ -	\$13,457
Substandard	377	-	-	-	-	-	377	-	377
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$13,834	\$ -	\$ -	\$ -	\$ -	\$ -	\$13,834	\$ -	\$13,834

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At June 30, 2023									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2019	2020	2021	2022	2023			
(In thousands)									
Construction loans by grade:									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$4,158	\$4,158
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$4,158	\$4,158
Current gross chargeoffs on construction loans:									
Three months ended									
June 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Six months ended									
June 30, 2023	-	-	-	-	-	-	-	-	-

At December 31, 2022									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2018	2019	2020	2021	2022			
(In thousands)									
Construction loans by grade:									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,088	\$3,088
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,088	\$3,088

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 June 30, 2023									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2019	2020	2021	2022	2023			
(In thousands)									
Consumer installment and other loans by delinquency and nonaccrual status:									
Current	\$11,709	\$16,828	\$28,664	\$62,971	\$84,356	\$27,388	\$231,916	\$18,257	\$250,173
30-59 days past due	292	260	554	1,797	958	135	3,996	128	4,124
60-89 days past due	32	51	205	479	540	132	1,439	17	1,456
Past due 90 days or more	26	20	85	318	62	-	511	21	532
Nonaccrual	-	-	-	-	-	-	-	-	-
Total	\$12,059	\$17,159	\$29,508	\$65,565	\$85,916	\$27,655	\$237,862	\$18,423	\$256,285
Current gross chargeoffs on consumer installment and other loans:									
Three months ended									
June 30, 2023	\$43	\$103	\$230	\$410	\$808	\$ -	\$1,594	\$67	\$1,661
Six months ended									
June 30, 2023	165	117	508	911	1,742	-	3,443	109	3,552

At December 31, 2022									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2018	2019	2020	2021	2022			
(In thousands)									
Consumer installment and other loans by delinquency and nonaccrual status:									
Current	\$6,017	\$13,147	\$22,330	\$35,783	\$76,126	\$99,414	\$252,817	\$20,430	\$273,247
30-59 days past due	117	268	572	1,014	1,709	1,359	5,039	62	5,101
60-89 days past due	42	65	67	275	635	750	1,834	16	1,850
Past due 90 days or more	3	20	16	61	284	241	625	3	628
Nonaccrual	-	-	-	-	-	-	-	16	16
Total	\$6,179	\$13,500	\$22,985	\$37,133	\$78,754	\$101,764	\$260,315	\$20,527	\$280,842

There were no loans held for sale at June 30, 2023 and December 31, 2022.

The Company held no other real estate owned (OREO) at June 30, 2023 and December 31, 2022. The amount of consumer mortgage loans outstanding secured by residential real estate properties for which formal foreclosure proceedings were in process was \$-0- thousand at June 30, 2023 and December 31, 2022.

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## Note 5: Concentration of Credit Risk

Under the California Financial Code, credit extended to any one person at any one time shall not exceed the following limitations: (a) unsecured credits shall not exceed 15 percent of the sum of the Bank's shareholders' equity, allowance for loan losses, capital notes, and debentures, or (b) secured and unsecured credits in all shall not exceed 25 percent of the sum of the Bank's shareholders' equity, allowance for loan losses, capital notes, and debentures. At June 30, 2023, the Bank did not have credit extended to any one entity exceeding these limits. At June 30, 2023, the Bank had 27 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 \$32,933 thousand and \$34,790 thousand at June 30, 2023 and December 31, 2022, 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 June 30, 2023, the Bank held corporate bonds in 109 issuing entities that exceeded \$5 million for each issuer.

## Note 6: Other Assets and Other Liabilities

Other assets consisted of the following:

	At June 30, 2023	At December 31, 2022
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock <sup>(1)</sup>	\$14,069	\$11,743
Other investments	158	158
Total cost method equity investments	14,227	11,901
Life insurance cash surrender value	65,226	63,816
Net deferred tax asset	122,493	125,140
Right-of-use asset	16,788	15,746
Limited partnership investments	31,547	34,421
Interest receivable	53,780	53,558
Prepaid assets	4,686	4,894
Other assets	9,845	9,670
Total other assets	<u>\$318,592</u>	<u>\$319,146</u>

<sup>(1)</sup> 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. Visa Inc. disclosed a revised conversion rate applicable to its class B common stock in its Form 8-K dated June 29, 2023. 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, was reduced from 1.5991 to 1.5902 per share, effective as of June 28, 2023. Visa Inc. class A common stock had a closing price of \$237.48 per share on June 30, 2023, the last day of stock market trading for the second quarter 2023. 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 June 30, 2023, these investments totaled \$31,547 thousand and \$17,250 thousand of this amount represents outstanding equity capital commitments that are included in other liabilities. At December 31, 2022, these investments totaled \$34,421 thousand and \$22,647 thousand of this amount represents outstanding equity capital commitments that are included in other liabilities. At June 30, 2023, the \$17,250 thousand of outstanding equity capital commitments are expected to be paid as follows: \$5,595 thousand in the remainder of 2023, \$10,499 thousand in 2024, \$359 thousand in 2025, \$59 thousand in 2026, \$190 thousand in 2027, and \$548 thousand in 2028 or thereafter.

The amounts recognized in net income for these investments include:

	For the Three Months Ended		For the Six Months Ended	
	June 30,			
	2023	2022	2023	2022
	(In thousands)			
Investment loss included in pre-tax income	\$1,440	\$1,431	\$2,874	\$2,862
Tax credits recognized in provision for income taxes	1,035	804	2,055	1,608

Other liabilities consisted of the following:

	At June 30,	At December 31,
	2023	2022
	(In thousands)	
Operating lease liability	\$16,788	\$15,746
Other liabilities	70,158	49,379
Total other liabilities	<u>\$86,946</u>	<u>\$65,125</u>

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 June 30, 2023.

As of June 30, 2023, the Company's lease liability and right-of-use asset were \$16,788 thousand. The weighted average remaining life of operating leases and weighted average discount rate used to determine operating lease liabilities were 3.4 years and 2.40%, respectively, at June 30, 2023. The Company did not have any material lease incentives, unamortized initial direct costs, prepaid lease expense, or accrued lease expense as of June 30, 2023.

Total lease costs were \$1,660 thousand and \$3,316 thousand in the three and six months ended June 30, 2023, respectively, and were recorded within occupancy and equipment expense. Total lease costs were \$1,637 thousand and \$3,270 thousand in the three and six months ended June 30, 2022, respectively, and were recorded within occupancy and equipment expense. The Company did not have any material short-term or variable lease costs or sublease income during the six months ended June 30, 2023 and June 30, 2022.

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

	Minimum future lease payments At June 30, 2023
	(In thousands)
The remainder of 2023	\$3,054
2024	5,211
2025	4,017
2026	2,381
2027	1,490
Thereafter	1,487
Total minimum lease payments	<u>17,640</u>
Less: discount	<u>(852)</u>
Present value of lease liability	<u>\$16,788</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 six months ended June 30, 2023 and year ended December 31, 2022, as no triggering events occurred during such periods. 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 six months ended June 30, 2023 and the year ended December 31, 2022, no such adjustments were recorded.

The carrying values of goodwill were:

	At June 30, 2023	At December 31, 2022
	(In thousands)	
Goodwill	\$121,673	\$121,673

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

	At June 30, 2023		At December 31, 2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core deposit intangibles	\$56,808	(\$56,345)	\$56,808	(\$56,225)

As of June 30, 2023, the current period and estimated future amortization expense for identifiable intangible assets, to be fully amortized in 2025, was:

	Total Core Deposit Intangibles (In thousands)
For the six months ended June 30, 2023 (actual)	\$120
The remainder of 2023	116
2024	222
2025	125

## Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

	Deposits	
	At June 30 2023	At December 31, 2022
	(In thousands)	
Noninterest-bearing	\$2,721,046	\$2,947,277
Interest-bearing:		
Transaction	1,133,006	1,273,143
Savings	1,735,083	1,874,115
Time deposits less than \$100 thousand	61,628	65,962
Time deposits \$100 thousand through \$250 thousand	36,549	42,733
Time deposits more than \$250 thousand	18,615	22,060
Total deposits	<u>\$5,705,927</u>	<u>\$6,225,290</u>

Demand deposit overdrafts of \$950 thousand and \$995 thousand were included as loan balances at June 30, 2023 and December 31, 2022, respectively. Interest expense for aggregate time deposits with individual account balances in excess of \$100 thousand

was \$31 thousand and \$65 thousand for the three and six months ended June 30, 2023, respectively, and \$40 thousand and \$81 thousand for the three and six months ended June 30, 2022, 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 June 30, 2023	At December 31, 2022
Repurchase agreements:	(In thousands)	
Collateral securing borrowings:		
Agency residential MBS	\$27,548	\$30,108
Corporate securities	226,518	203,774
Total collateral carrying value	<u>\$254,066</u>	<u>\$233,882</u>
Total short-term borrowed funds	<u>\$138,005</u>	<u>\$57,792</u>

At June 30, 2023, the Company had uncommitted lines of credit for overnight borrowings from correspondent banks totaling \$100 million. Additionally, the Company had access to borrowing from the Federal Reserve up to \$1,000 million based on the collateral pledged at June 30, 2023. There were no outstanding amounts under the above-mentioned borrowings at June 30, 2023. For the six months ended June 30, 2023, the average balances of the above-mentioned borrowings were \$-0- thousand. At June 30, 2023, the Company's estimated unpledged debt securities collateral qualifying for Federal Reserve borrowing totaled \$2,072,988 thousand.

#### 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 and U.S. government sponsored 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 June 30, 2023		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) <sup>(1)</sup>
Fair Value			
	(In thousands)		
Debt securities available for sale:			
Agency residential MBS	\$259,190	\$ -	\$259,190
Securities of U.S. Government sponsored entities	291,402	-	291,402
Obligations of states and political subdivisions	79,400	-	79,400
Corporate securities	1,901,504	-	1,901,504
Collateralized loan obligations	1,514,962	-	1,514,962
Total debt securities available for sale	<u>\$4,046,458</u>	<u>\$ -</u>	<u>\$4,046,458</u>

<sup>(1)</sup> There were no transfers in to or out of level 3 during the six months ended June 30, 2023.

	At December 31, 2022		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) <sup>(1)</sup>
Fair Value			
	(In thousands)		
Debt securities available for sale:			
Agency residential MBS	\$286,048	\$ -	\$286,048
Securities of U.S. Government sponsored entities	290,853	-	290,853
Obligations of states and political subdivisions	82,004	-	82,004
Corporate securities	2,099,955	-	2,099,955
Collateralized loan obligations	1,572,883	-	1,572,883
Total debt securities available for sale	<u>\$4,331,743</u>	<u>\$ -</u>	<u>\$4,331,743</u>

<sup>(1)</sup> There were no transfers in to or out of level 3 during the year ended December 31, 2022.

## 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 June 30, 2023 and December 31, 2022, 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.

	At June 30, 2023				For the Six Months Ended June 30, 2023
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
	(In thousands)				
Loans:					
Commercial real estate	\$110	\$ -	\$ -	\$110	\$ -
Total assets measured at fair value on a nonrecurring basis	\$110	\$ -	\$ -	\$110	\$ -

	At December 31, 2022				For the Year Ended December 31, 2022
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
	(In thousands)				
Loans:					
Commercial real estate	\$225	\$ -	\$ -	\$225	\$ -
Total assets measured at fair value on a nonrecurring basis	\$225	\$ -	\$ -	\$225	\$ -

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.

## 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 June 30, 2023				
	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)	
<b>Financial Assets:</b>					
Cash and due from banks	\$266,187	\$266,187	\$266,187	\$ -	\$ -
Debt securities held to maturity	900,356	853,472	-	853,472	-
Loans	901,103	884,533	-	-	884,533
<b>Financial Liabilities:</b>					
Deposits	\$5,705,927	\$5,703,700	\$ -	\$5,589,135	\$114,565
Short-term borrowed funds	138,005	138,005	-	138,005	-

At December 31, 2022

	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 )
(In thousands)					
<b>Financial Assets:</b>					
Cash and due from banks	\$294,236	\$294,236	\$294,236	\$ -	\$ -
Debt securities held to maturity	915,913	873,511	-	873,511	-
Loans	938,204	905,720	-	-	905,720
<b>Financial Liabilities:</b>					
Deposits	\$6,225,290	\$6,224,791	\$ -	\$6,094,535	\$130,256
Short-term borrowed funds	57,792	57,792	-	57,792	-

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 unconditionally cancellable by the Company aggregated \$31,098 thousand at June 30, 2023 and \$31,889 thousand at December 31, 2022. 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 \$203,450 thousand at June 30, 2023 and \$202,696 thousand at December 31, 2022. 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 \$2,126 thousand at June 30, 2023 and \$1,948 thousand at December 31, 2022. Commitments for commercial and similar letters of credit totaled \$95 thousand at June 30, 2023 and December 31, 2022. The Company had \$950 thousand in outstanding full recourse guarantees to a third party credit card company at June 30, 2023 and December 31, 2022. At June 30, 2023, the Company had a reserve for unfunded commitments of \$201 thousand for the above-mentioned loan commitments of \$31,098 thousand that are not unconditionally cancellable by the Company. The Company's reserve for unfunded commitments was \$201 thousand at December 31, 2022. The reserve for unfunded commitments is 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.

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## 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		For the Six Months	
	Ended June 30,			
	2023	2022	2023	2022
	(In thousands, except per share data)			
Net income applicable to common equity (numerator)	\$40,248	\$25,314	\$80,699	\$47,930
<b>Basic earnings per common share</b>				
Weighted average number of common shares outstanding - basic (denominator)	26,648	26,889	26,753	26,880
Basic earnings per common share	\$1.51	\$0.94	\$3.02	\$1.78
<b>Diluted earnings per common share</b>				
Weighted average number of common shares outstanding - basic	26,648	26,889	26,753	26,880
Add common stock equivalents for options	-	12	3	13
Weighted average number of common shares outstanding - diluted (denominator)	26,648	26,901	26,756	26,893
Diluted earnings per common share	\$1.51	\$0.94	\$3.02	\$1.78

For the three and six months ended June 30, 2023, options to purchase 1,031 thousand and 1,004 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 stock such that their inclusion would have had an anti-dilutive effect.

For the three and six months ended June 30, 2022, options to purchase 814 thousand and 808 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 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 Six Months	
	2023	2022	2023	2022
	Ended June 30,			
	(In thousands, except per share data)			
<b>Net Interest and Loan Fee Income (FTE) <sup>(1)</sup></b>	\$70,281	\$48,033	\$139,843	\$91,840
<b>Reversal of Provision for Loan Losses</b>	-	-	(1,550)	-
<b>Noninterest Income:</b>				
<b>Securities Losses</b>	(125)	-	(125)	-
<b>Other Noninterest Income</b>	10,825	11,264	21,374	22,840
<b>Total Noninterest Income</b>	10,700	11,264	21,249	22,840
<b>Noninterest Expense</b>	25,839	24,629	52,049	49,504
<b>Income Before Income Taxes (FTE) <sup>(1)</sup></b>	55,142	34,668	110,593	65,176
<b>Income Tax Provision (FTE) <sup>(1)</sup></b>	14,894	9,354	29,894	17,246
<b>Net Income</b>	<u>\$40,248</u>	<u>\$25,314</u>	<u>\$80,699</u>	<u>\$47,930</u>
<b>Average Common Shares Outstanding</b>	26,648	26,889	26,753	26,880
<b>Average Diluted Common Shares Outstanding</b>	26,648	26,901	26,756	26,893
<b>Common Shares Outstanding at Period End</b>	26,648	26,896		
<b>Per Common Share:</b>				
Basic Earnings	\$1.51	\$0.94	\$3.02	\$1.78
Diluted Earnings	1.51	0.94	3.02	1.78
Book Value	24.46	22.94		
<b>Financial Ratios:</b>				
Return on Assets	2.35%	1.37%	2.33%	1.30%
Return on Common Equity	18.39%	12.88%	18.74%	12.36%
Net Interest Margin (FTE) <sup>(1)</sup>	4.34%	2.74%	4.26%	2.63%
Net Loan Losses to Average Loans	0.45%	0.24%	0.05%	0.24%
Efficiency Ratio <sup>(2)</sup>	31.9%	41.5%	32.3%	43.2%
<b>Average Balances:</b>				
Assets	\$6,865,591	\$7,420,069	\$6,988,272	\$7,413,233
Loans	926,795	1,009,633	936,277	1,019,623
Investment Securities	5,365,377	5,008,929	5,456,572	4,978,557
Deposits	5,797,504	6,424,202	5,928,983	6,408,915
Shareholders' Equity	877,964	788,078	868,272	782,184
<b>Period End Balances:</b>				
Assets	\$6,582,740	\$7,222,405		
Loans	919,583	999,768		
Investment Securities	4,946,815	5,049,475		
Deposits	5,705,927	6,415,591		
Shareholders' Equity	651,862	617,126		
<b>Capital Ratios at Period End:</b>				
Total Risk Based Capital	17.56%	15.37%		
Tangible Equity to Tangible Assets	8.20%	6.97%		
<b>Dividends Paid Per Common Share</b>	\$0.42	\$0.42	\$0.84	\$0.84
<b>Common Dividend Payout Ratio</b>	28%	45%	28%	47%

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.

<sup>(1)</sup> Yields on securities and certain loans have been adjusted upward to an FTE basis in order to reflect the effect of income which is exempt from federal income taxation at the current statutory tax rate.

<sup>(2)</sup> 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 \$40.2 million or \$1.51 diluted earnings per common share (“EPS”) in the second quarter 2023 compared with net income of \$25.3 million or \$0.94 EPS for the second quarter of 2022. The Company reported net income of \$80.7 million or \$3.02 EPS for the six months ended June 30, 2023, including a \$1.6 million reversal of provision for credit losses, which increased EPS \$0.04. These results compare with net income of \$47.9 million or \$1.78 diluted earnings per common share (“EPS”) for the six months ended June 30, 2022, including a \$1.2 million reconciling payment from a payments network.

The Federal Open Market Committee of the Federal Reserve Board (“FOMC”) has tightened monetary policy through increases to the overnight federal funds interest rate starting in March 2022. On July 26, 2023, the FOMC decided to raise the target range for the federal funds rate to the new range of 5.25% to 5.50%. The July 26, 2023 Federal Reserve press release stated, “Recent indicators suggest that economic activity has been expanding at a moderate pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks... the Committee decided to raise the target range for the federal funds rate to 5.25% to 5.50%. The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments... the Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals.” The interest rate paid on reserve balances at the Federal Reserve Bank was increased to 5.40% effective July 27, 2023. The Bank maintains reserve balances at the Federal Reserve Bank; the amount that earns interest is identified as “interest-bearing cash”.

Management continues to evaluate the impacts of inflation, the Federal Reserve’s monetary policy, climate changes, the COVID-19 pandemic and the tensions in Ukraine on the Company’s business and its customers. During the first quarter 2023, the banking industry experienced significant volatility with multiple bank failures. Industrywide concerns have developed related to liquidity, deposit outflows and unrealized losses on debt securities. These recent events could affect the Company’s funding of its operations. 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 uncertain and cannot be reasonably predicted.

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 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 2022 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. The Company adopted the following new accounting guidance:

FASB ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, issued March 2022, eliminates the recognition and measurement guidance for troubled debt restructurings and requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty. This ASU also requires enhanced disclosure for loans that have been charged off. The ASU became effective January 1, 2023 under a prospective approach. The Company adopted the provisions to remove the recognition and measurement guidance for troubled debt restructurings and/or modify relevant disclosures in the “Loans” note to the unaudited consolidated financial statements. The requirement to include additional disclosures was adopted by the Company January 1, 2023. The additional disclosures did not affect the financial results upon adoption.

## Net Income

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

	For the Three Months		For the Six Months	
	2023	2022	2023	2022
	Ended June 30,			
	(In thousands, except per share data)			
Net interest and loan fee income (FTE)	\$70,281	\$48,033	\$139,843	\$91,840
Reversal of provision for loan losses	-	-	(1,550)	-
Noninterest income	10,700	11,264	21,249	22,840
Noninterest expense	25,839	24,629	52,049	49,504
Income before taxes (FTE)	55,142	34,668	110,593	65,176
Income tax provision (FTE)	14,894	9,354	29,894	17,246
Net income	\$40,248	\$25,314	\$80,699	\$47,930
Average diluted common shares	26,648	26,901	26,756	26,893
Diluted earnings per common share	\$1.51	\$0.94	\$3.02	\$1.78
Average total assets	\$6,865,591	\$7,420,069	\$6,988,272	\$7,413,233
Net income to average total assets (annualized)	2.35%	1.37%	2.33%	1.30%
Net income to average common shareholders' equity (annualized)	18.39%	12.88%	18.74%	12.36%

Net income for the second quarter 2023 increased \$14.9 million compared with the second quarter 2022. Net interest and loan fee income (FTE) increased \$22.2 million in the second quarter 2023 compared with the second quarter 2022 due to higher average balances of investment debt securities and higher yield on interest-earning assets, partially offset by lower average balances of loans and interest-bearing cash. The Company provided no provision for credit losses in the second quarter of 2023 and the second quarter of 2022, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. Second quarter 2023 noninterest income decreased \$564 thousand compared with the second quarter 2022 primarily due to lower fees on merchant processing services. Second quarter 2023 noninterest expense increased \$1.2 million compared with the second quarter 2022 primarily due to an increase in salaries and benefits and increased FDIC insurance assessments for all insured depository institutions. The tax rate (FTE) was 27.0% for the second quarters 2023 and 2022.

Net income for the six months ended June 30, 2023 increased \$32.8 million compared with the six months ended June 30, 2022. Net interest and loan fee income (FTE) increased \$48.0 million in the six months ended June 30, 2023 compared with six months ended June 30, 2022 due to higher yield on interest-bearing assets and higher average balances of investment debt securities, partially offset by lower average balances of loans. The Company recorded a \$1.6 million reversal of provision for credit losses in the six months ended June 30, 2023 as a result of a \$2.2 million recovery on a previously charged off loan. The Company provided no provision for credit losses in the six months ended June 30, 2022, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. Noninterest income for the six months ended June 30, 2023 decreased \$1.6 million compared with the six months ended June 30, 2022 primarily because the six months ended June 30, 2022 included a \$1.2 million reconciling payment from a payments network. Noninterest expense in the six months ended June 30, 2023 increased \$2.5 million compared with the six months ended June 30, 2022 primarily due to an increase in occupancy and equipment expenses and increased FDIC insurance assessments for all insured depository institutions. The tax rate (FTE) was 27.0% for the six months ended June 30, 2023 and 26.5% for the six months ended June 30, 2022.

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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 Six Months	
	Ended June 30,			
	2023	2022	2023	2022
	(\$ in thousands)			
Interest and loan fee income	\$70,489	\$47,997	\$140,113	\$91,756
Interest expense	607	483	1,078	963
FTE adjustment	399	519	808	1,047
Net interest and loan fee income (FTE)	<u>\$70,281</u>	<u>\$48,033</u>	<u>\$139,843</u>	<u>\$91,840</u>
Average earning assets	\$6,457,270	\$7,000,862	\$6,560,639	\$6,999,556
Net interest margin (FTE) (annualized)	4.34%	2.74%	4.26%	2.63%

Net interest and loan fee income (FTE) increased \$22.2 million in the second quarter 2023 compared with the second quarter 2022 due to higher average balances of investment debt securities (up \$356 million) and higher yield on interest-earning assets (up 1.61%), partially offset by lower average balances of loans (down \$83 million) and interest-bearing cash (down \$817 million).

Net interest and loan fee income (FTE) increased \$48.0 million in the six months ended June 30, 2023 compared with six months ended June 30, 2022 due to higher yield on interest-bearing assets (up 1.63%) and higher average balances of investment debt securities (up \$478 million), partially offset by lower average balances of loans (down \$83 million).

The annualized net interest margin (FTE) was 4.34% in the second quarter 2023 and 4.26% in the six months ended June 30, 2023 compared with 2.74% in the second quarter 2022 and 2.63% in the first six months of 2022.

The Company's funding costs were 0.04% in the second quarter 2023 compared with 0.03% in the second quarter 2022, and 0.03% in the six months ended June 30, 2023 and June 30, 2022, respectively. Noninterest bearing deposits represented 47% of average deposits in the six months ended June 30, 2023 and June 30, 2022, respectively, while higher-cost time deposits represented 2% for both periods. Average balances of time deposits in the six months ended June 30, 2023 declined \$16 million from the six months ended June 30, 2022. Average balances of checking and saving deposits accounted for 97.9% of average total deposits in the six months ended June 30, 2023 compared with 97.8% of average total deposits in the six months ended June 30, 2022. The customer deposits and shareholders' equity fully funded the Company's interest earning assets for the six month ended June 30, 2023 and June 30, 2022: there was no borrowing from the Federal Reserve Bank or correspondent banks.

## 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 Six Months	
	Ended June 30,			
	2023	2022	2023	2022
Yield on earning assets (FTE)	4.38%	2.77%	4.29%	2.66%
Rate paid on interest-bearing liabilities	0.08%	0.05%	0.07%	0.05%
Net interest spread (FTE)	4.30%	2.72%	4.22%	2.61%
Impact of noninterest-bearing demand deposits	0.04%	0.02%	0.04%	0.02%
Net interest margin (FTE)	<u>4.34%</u>	<u>2.74%</u>	<u>4.26%</u>	<u>2.63%</u>

The increase in the Company's yield on earning assets has been generated primarily by collateralized loan obligations (CLOs), held in debt securities available for sale portfolio, and interest-bearing cash. The CLOs have interest coupons that change once every three months by the amount of change in the three-month LIBOR and SOFR base rates. The average balances and yields of CLOs for the three months ended June 30, 2023 was \$1,555 million yielding 6.81% and \$1,566 million yielding 6.57% for the six months ended June 30, 2023. The average balances and yields of CLOs for the three months ended June 30, 2022 was \$1,611 million yielding 2.60% and \$1,538 million yielding 2.28% for the six months ended June 30, 2022. The interest-bearing

cash yield changes by the amount of change in the overnight federal funds rate on the effective date declared by the FOMC. The average balance and yields of interest-bearing cash for the second quarter 2023 and six months ended June 30, 2023 were \$165 million yielding 5.06% and \$168 million yielding 4.80%, respectively. The average balance and yields of interest-bearing cash for the second quarter 2022 and six months ended June 30, 2022 were \$982 million yielding 0.81% and \$1,001 million yielding 0.49%, respectively. The Company has other earning assets with variable yields such as commercial loans and lines of credit, consumer lines of credit and adjustable rate residential real estate loans, which are included in “other taxable loans” in the following “Summary of Average Balances, Yields/Rates and Interest Differential.”

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## 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 nonaccrual 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. Yields on tax-exempt securities and loans have been adjusted upward to reflect the effect of income exempt from federal income taxation at the federal statutory tax rate of 21 percent.

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

	For the Three Months Ended June 30, 2023		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$5,200,105	\$55,371	4.26%
Tax-exempt <sup>(1)</sup>	165,272	1,470	3.56%
Total investments <sup>(1)</sup>	5,365,377	56,841	4.22%
Loans:			
Taxable	882,015	11,500	5.23%
Tax-exempt <sup>(1)</sup>	44,780	437	3.91%
Total loans <sup>(1)</sup>	926,795	11,937	5.17%
Total interest-bearing cash	165,098	2,110	5.06%
Total interest-earning assets <sup>(1)</sup>	6,457,270	70,888	4.38%
Other assets	408,321		
Total assets	\$6,865,591		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,751,319	\$-	- %
Savings and interest-bearing transaction	2,923,063	500	0.07%
Time less than \$100,000	69,221	51	0.30%
Time \$100,000 or more	53,901	31	0.23%
Total interest-bearing deposits	3,046,185	582	0.08%
Short-term borrowed funds	98,079	25	0.10%
Total interest-bearing liabilities	3,144,264	607	0.08%
Other liabilities	92,044		
Shareholders' equity	877,964		
Total liabilities and shareholders' equity	\$6,865,591		
Net interest spread <sup>(1) (2)</sup>			4.30%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$70,281	4.34%

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

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

<sup>(3)</sup> 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 June 30, 2022		
	Average	Interest	Yields/
	Balance	Income/ Expense	Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$4,781,158	\$32,092	2.68%
Tax-exempt <sup>(1)</sup>	227,771	1,996	3.51%
Total investments <sup>(1)</sup>	5,008,929	34,088	2.72%
Loans:			
Taxable	962,277	11,972	4.99%
Tax-exempt <sup>(1)</sup>	47,356	454	3.85%
Total loans <sup>(1)</sup>	1,009,633	12,426	4.94%
Total interest-bearing cash	982,300	2,002	0.81%
Total interest-earning assets <sup>(1)</sup>	7,000,862	48,516	2.77%
Other assets	419,207		
Total assets	\$7,420,069		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,998,360	\$-	-
Savings and interest-bearing transaction	3,283,990	379	0.05%
Time less than \$100,000	78,062	42	0.22%
Time \$100,000 or more	63,790	40	0.25%
Total interest-bearing deposits	3,425,842	461	0.05%
Short-term borrowed funds	123,298	22	0.07%
Total interest-bearing liabilities	3,549,140	483	0.05%
Other liabilities	84,491		
Shareholders' equity	788,078		
Total liabilities and shareholders' equity	\$7,420,069		
Net interest spread <sup>(1) (2)</sup>			2.72%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$48,033	2.74%

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

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

<sup>(3)</sup> 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 Six Months Ended June 30, 2023		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$5,289,195	\$110,120	4.16%
Tax-exempt <sup>(1)</sup>	167,377	2,978	3.56%
Total investments <sup>(1)</sup>	5,456,572	113,098	4.13%
Loans:			
Taxable	891,049	22,890	5.18%
Tax-exempt <sup>(1)</sup>	45,228	881	3.93%
Total loans <sup>(1)</sup>	936,277	23,771	5.12%
Total interest-bearing cash	167,790	4,052	4.80%
Total interest-earning assets <sup>(1)</sup>	6,560,639	140,921	4.29%
Other assets	427,633		
Total assets	\$6,988,272		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,801,183	\$-	-
Savings and interest-bearing transaction	3,001,529	874	0.06%
Time less than \$100,000	70,516	101	0.29%
Time \$100,000 or more	55,755	65	0.23%
Total interest-bearing deposits	3,127,800	1,040	0.07%
Short-term borrowed funds	87,516	38	0.09%
Total interest-bearing liabilities	3,215,316	1,078	0.07%
Other liabilities	103,501		
Shareholders' equity	868,272		
Total liabilities and shareholders' equity	\$6,988,272		
Net interest spread <sup>(1) (2)</sup>			4.22%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$139,843	4.26%

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

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

<sup>(3)</sup> 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 Six Months Ended June 30, 2022		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$4,746,055	\$60,825	2.56%
Tax-exempt <sup>(1)</sup>	232,502	4,033	3.47%
Total investments <sup>(1)</sup>	4,978,557	64,858	2.60%
Loans:			
Taxable	972,348	24,554	5.09%
Tax-exempt <sup>(1)</sup>	47,275	910	3.88%
Total loans <sup>(1)</sup>	1,019,623	25,464	5.04%
Total interest-bearing cash	1,001,376	2,481	0.49%
Total interest-earning assets <sup>(1)</sup>	6,999,556	92,803	2.66%
Other assets	413,677		
Total assets	\$7,413,233		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$3,001,694	\$-	-
Savings and interest-bearing transaction	3,264,698	750	0.05%
Time less than \$100,000	78,543	82	0.21%
Time \$100,000 or more	63,980	81	0.26%
Total interest-bearing deposits	3,407,221	913	0.05%
Short-term borrowed funds	140,430	50	0.07%
Total interest-bearing liabilities	3,547,651	963	0.05%
Other liabilities	81,704		
Shareholders' equity	782,184		
Total liabilities and shareholders' equity	\$7,413,233		
Net interest spread <sup>(1) (2)</sup>			2.61%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$91,840	2.63%

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

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

<sup>(3)</sup> 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 June 30, 2023		
	Compared with		
	For the Three Months Ended June 30, 2022		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	\$2,812	\$20,467	\$23,279
Tax-exempt <sup>(1)</sup>	(548)	22	(526)
Total investments <sup>(1)</sup>	2,264	20,489	22,753
Loans:			
Taxable	(999)	527	(472)
Tax-exempt <sup>(1)</sup>	(25)	8	(17)
Total loans <sup>(1)</sup>	(1,024)	535	(489)
Total interest-bearing cash	(1,666)	1,774	108
Total (decrease) increase in interest and loan fee income <sup>(1)</sup>	(426)	22,798	22,372
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(42)	163	121
Time less than \$100,000	(5)	14	9
Time \$100,000 or more	(6)	(3)	(9)
Total interest-bearing deposits	(53)	174	121
Short-term borrowed funds	(4)	7	3
Total (decrease) increase in interest expense	(57)	181	124
(Decrease) increase in net interest and loan fee income <sup>(1)</sup>	(\$369)	\$22,617	\$22,248

<sup>(1)</sup> 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 Six Months Ended June 30, 2023		
	Compared with		
	For the Six Months Ended June 30, 2022		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	\$6,961	\$42,334	\$49,295
Tax-exempt <sup>(1)</sup>	(1,130)	75	(1,055)
Total investments <sup>(1)</sup>	5,831	42,409	48,240
Loans:			
Taxable	(2,053)	389	(1,664)
Tax-exempt <sup>(1)</sup>	(39)	10	(29)
Total loans <sup>(1)</sup>	(2,092)	399	(1,693)
Total interest-bearing cash	(2,065)	3,636	1,571
Total increase in interest and loan fee income <sup>(1)</sup>	1,674	46,444	48,118
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(60)	184	124
Time less than \$100,000	(8)	27	19
Time \$100,000 or more	(10)	(6)	(16)
Total interest-bearing deposits	(78)	205	127
Short-term borrowed funds	(19)	7	(12)
Total (decrease) increase in interest expense	(97)	212	115
Increase in net interest and loan fee income <sup>(1)</sup>	\$1,771	\$46,232	\$48,003

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

### Provision for Credit Losses

The Company manages credit risk by 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 portfolio during each of the periods presented.

The Company provided no provision for credit losses in the second quarter of 2023, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. The Company recorded a \$1.6 million reversal of provision for credit losses in the six months ended June 30, 2023 as a result of a \$2.2 million recovery on a previously charged off loan. The Company provided no provision for credit losses in the second quarter of 2022 and six months ended June 30, 2022, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. 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 Six Months	
	2023	2022	2023	2022
	Ended June 30,			
	(In thousands)			
Service charges on deposit accounts	\$3,459	\$3,687	\$6,924	\$7,269
Merchant processing services	2,869	3,374	5,506	5,997
Debit card fees	1,759	1,709	3,401	4,581
Trust fees	810	809	1,575	1,652
ATM processing fees	702	469	1,356	920
Other service fees	458	480	857	929
Financial services commissions	103	118	192	235
Securities losses	(125)	-	(125)	-
Other noninterest income	665	618	1,563	1,257
Total	<u>\$10,700</u>	<u>\$11,264</u>	<u>\$21,249</u>	<u>\$22,840</u>

Second quarter 2023 noninterest income decreased \$564 thousand compared with the second quarter 2022. Merchant processing service fees decreased in the second quarter 2023 compared with the second quarter 2022 primarily due to lower transaction volumes and increased lower-margin transactions. Service charges on deposit accounts decreased in the second quarter 2023 compared with the second quarter 2022 primarily due to lower fee income on analyzed deposit accounts. ATM processing fee income increased in the second quarter 2023 compared with second quarter 2022 and partially offset the decreases in the other components of noninterest income.

Noninterest income for the six months ended June 30, 2023 decreased \$1.6 million compared with the six months ended June 30, 2022 primarily because the six months ended June 30, 2022 included a \$1.2 million reconciling payment from a payments network. Merchant processing service fees decreased in the six months ended June 30, 2023 compared with the six months ended June 30, 2022 primarily due to lower transaction volumes and increased lower-margin transactions. Service charges on deposit accounts decreased in the six months ended June 30, 2023 compared with the six months ended June 30, 2022 primarily due to lower fee income on analyzed deposit accounts. ATM processing fee income increased in the six months ended June 30, 2023 compared with the six months ended June 30, 2022 and partially offset the decreases in the other components of noninterest income. Other noninterest income in the six months ended June 30, 2023 included higher recoveries of interest and fees on previously charged off loans compared with six months ended June 30, 2022.

## Noninterest Expense

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

	For the Three Months		For the Six Months	
	2023	2022	2023	2022
	Ended June 30,			
	(In thousands)			
Salaries and related benefits	\$11,828	\$11,412	\$23,895	\$23,332
Occupancy and equipment	5,012	4,856	10,497	9,602
Outsourced data processing services	2,488	2,423	4,932	4,860
Limited partnership operating losses	1,440	1,431	2,874	2,862
Professional fees	485	736	961	1,472
Courier service	611	661	1,226	1,243
Other noninterest expense	3,975	3,110	7,664	6,133
Total	<u>\$25,839</u>	<u>\$24,629</u>	<u>\$52,049</u>	<u>\$49,504</u>

Second quarter 2023 noninterest expense increased \$1.2 million compared with the second quarter 2022. Salaries and benefits increased in the second quarter 2023 compared with the second quarter 2022 due to increased staff, annual merit increases and higher group health insurance costs for the employees. Other noninterest expense increased in the second quarter 2023 compared with second quarter 2022 primarily due to higher FDIC insurance assessments for all insured depository institutions and losses on unauthorized transactions of customer debit and ATM cards. Occupancy and equipment expense in the second quarter 2023 increased compared with the second quarter 2022 primarily due to increases in repair and maintenance. Professional fees decreased in the second quarter 2023 compared with the second quarter 2022 primarily due to lower legal fees.

Noninterest expense in the six months ended June 30, 2023 increased \$2.5 million compared with the six months ended June 30, 2022. Occupancy and equipment expenses increased in the six months ended June 30, 2023 compared with the six months ended June 30, 2022 primarily due to increases in repair and maintenance. Salaries and benefits increased in the six months ended June 30, 2023 compared with the six months ended June 30, 2022 due to increased staff, annual merit increases and higher group health insurance costs for the employees. Other noninterest expense increased in the six months ended June 30, 2023 compared with the six months ended June 30, 2022 primarily due to higher FDIC insurance assessments for all insured depository institutions and losses on unauthorized transactions of customer debit and ATM cards. Professional fees decreased in the six months ended June 30, 2023 compared with the six months ended June 30, 2022 primarily due to lower legal fees.

### Provision for Income Tax

The Company's income tax provision (FTE) was \$14.9 million for the second quarter 2023 and \$29.9 million for the six months ended June 30, 2023 compared with \$9.4 million for the second quarter 2022 and \$17.2 million for the six months ended June 30, 2022. The effective tax rates (FTE) were 27.0% for the second quarter 2023 and 27.0% for the six months ended June 30, 2023 compared with 27.0% for the second quarter 2022 and 26.5% for the six months ended June 30, 2022.

### Investment Securities Portfolio

The Company maintains an investment securities portfolio consisting of securities issued by U.S. Government sponsored entities, state and political subdivisions, corporations, collateralized loan obligations and agency mortgage-backed securities.

Management manages the investment securities portfolio in response to anticipated changes in interest rates, and changes in deposit and loan volumes. The carrying value of the Company's investment securities portfolio was \$4.9 billion at June 30, 2023 and \$5.2 billion at December 31, 2022. The following table lists debt securities in the Company's portfolio by type as of the dates indicated. Debt securities held to maturity are listed at amortized cost before related reserve for expected credit losses of \$1 thousand at June 30, 2023 and December 31, 2022. Debt securities available for sale are listed at fair value.

	At June 30, 2023		At December 31, 2022	
	Carrying Value	As a percent of total investment securities	Carrying Value	As a percent of total investment securities
	(\$ in thousands)			
Securities of U.S. Government sponsored entities	\$291,402	6%	\$290,853	6%
Agency residential mortgage-backed securities ("MBS")	350,331	7%	390,900	7%
Obligations of states and political subdivisions	163,364	3%	171,212	3%
Corporate securities	2,626,756	54%	2,821,809	54%
Collateralized loan obligations	1,514,962	30%	1,572,883	30%
Total	<u>\$4,946,815</u>	<u>100%</u>	<u>\$5,247,657</u>	<u>100%</u>
Debt securities available for sale	\$4,046,458		\$4,331,743	
Debt securities held to maturity	<u>900,357</u>		<u>915,914</u>	
Total	<u>\$4,946,815</u>		<u>\$5,247,657</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 June 30, 2023, substantially all of the Company's investment securities were investment grade as rated by one or more major rating agency. 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.

The Company had no marketable equity securities at June 30, 2023 and December 31, 2022.

The Company had corporate securities as shown below at the dates indicated:

	Corporate securities			
	At June 30, 2023		At December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Debt securities available for sale	\$2,184,863	\$1,901,504	\$2,406,566	\$2,099,955
Debt securities held to maturity	725,252	686,267	721,854	687,406
Total corporate securities	<u>\$2,910,115</u>	<u>\$2,587,771</u>	<u>\$3,128,420</u>	<u>\$2,787,361</u>

The following table summarizes total corporate securities by credit rating:

	At June 30, 2023		At December 31, 2022	
	Fair value	As a percent of total corporate securities	Fair value	As a percent of total corporate securities
	(\$ in thousands)			
AAA	\$20,938	1%	\$20,667	1%
AA+	-	- %	19,840	1%
AA	-	- %	19,234	1%
AA-	70,955	3%	110,552	4%
A+	244,793	9%	255,381	9%
A	389,493	15%	503,437	18%
A-	820,870	32%	695,865	25%
BBB+	711,806	27%	821,102	29%
BBB	328,916	13%	304,957	11%
BBB-	-	-%	36,326	1%
Total corporate securities	<u>\$2,587,771</u>	<u>100%</u>	<u>\$2,787,361</u>	<u>100%</u>

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

	At June 30, 2023		At December 31, 2022	
	Fair value	As a percent of total corporate securities	Fair value	As a percent of total corporate securities
	(\$ in thousands)			
Financial	\$1,468,891	57%	\$1,539,361	55%
Utilities	286,228	11%	285,016	10%
Industrial	219,181	8%	237,554	9%
Consumer, Non-cyclical	166,125	6%	173,736	6%
Communications	154,459	6%	162,270	6%
Basic materials	98,332	4%	98,072	3%
Technology	82,156	3%	101,255	4%
Energy	67,062	3%	86,431	3%
Consumer, Cyclical	45,337	2%	103,666	4%
Total corporate securities	<u>\$2,587,771</u>	<u>100%</u>	<u>\$2,787,361</u>	<u>100%</u>

The following table summarizes total corporate securities by the location of the issuers' headquarters; all the bonds are denominated in United States dollars:

	At June 30, 2023		At December 31, 2022	
	Fair value	As a percent of total corporate securities	Fair value	As a percent of total corporate securities
	(\$ in thousands)			
United States of America	\$1,807,999	70%	\$1,997,328	72%
Canada	192,276	7%	192,475	7%
Japan	159,014	6%	161,804	6%
United Kingdom	158,282	6%	171,819	6%
Switzerland	90,212	4%	86,396	3%
France	88,814	3%	87,781	3%
Netherlands	34,058	1%	33,216	1%
Australia	23,934	1%	23,870	1%
Belgium	20,432	1%	20,243	1%
Germany	12,750	1%	12,429	- %
Total corporate securities	<u>\$2,587,771</u>	<u>100%</u>	<u>\$2,787,361</u>	<u>100%</u>

The following table summarizes the above corporate securities with issuer's headquarters located outside of the United States of America by the industry sector in which the issuing companies operate; all the bonds are denominated in United States dollars:

	At June 30, 2023		At December 31, 2022	
	Fair value	As a percent of total foreign corporate securities	Fair value	As a percent of total foreign corporate securities
	(\$ in thousands)			
Financial	\$682,229	87%	\$680,956	86%
Energy	30,891	4%	30,600	4%
Basic materials	23,934	3%	23,870	3%
Consumer, Non-cyclical	20,432	3%	32,684	4%
Consumer, Cyclical	12,750	2%	12,429	2%
Utilities	9,536	1%	9,494	1%
Total foreign corporate securities	<u>\$779,772</u>	<u>100%</u>	<u>\$790,033</u>	<u>100%</u>

The Company's \$1.5 billion (fair value) in collateralized loan obligations at June 30, 2023, consist of investments in 146 issues that are within the senior tranches of their respective fund securitization structures. The following table summarizes total collateralized loan obligations by credit rating:

	At June 30, 2023	
	Amortized Cost	Fair Value
	(In thousands)	
AAA	\$513,857	\$505,914
AA	1,032,883	1,009,048
Total	<u>\$1,546,740</u>	<u>\$1,514,962</u>

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The Company's \$1.6 billion (fair value) in collateralized loan obligations at December 31, 2022, consist of investments in 169 issues that are within the senior tranches of their respective fund securitization structures. The following table summarizes total collateralized loan obligations by credit rating:

	At December 31, 2022	
	Amortized Cost	Fair Value
	(In thousands)	
AAA	\$559,239	\$553,673
AA	1,028,087	1,019,210
Total	<u>\$1,587,326</u>	<u>\$1,572,883</u>

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 June 30, 2023, the Company's investment securities portfolios included securities issued by 137 state and local government municipalities and agencies located within 32 states. The largest exposure to any one municipality or agency was \$4.8 million (fair value) represented by three general obligation bonds.

	At June 30, 2023	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	\$34,336	\$33,967
Washington	11,390	11,237
Texas	8,195	8,035
Massachusetts	8,153	8,028
Michigan	7,087	6,923
Minnesota	6,629	6,494
Other (22 states)	55,394	54,125
Total general obligation bonds	<u>\$131,184</u>	<u>\$128,809</u>
Revenue bonds:		
California	\$11,900	\$11,613
Kentucky	5,063	5,016
Virginia	3,668	3,578
Colorado	3,156	3,115
Washington	2,070	2,065
Utah	1,930	1,928
Other (7 states)	6,459	6,404
Total revenue bonds	<u>\$34,246</u>	<u>\$33,719</u>
Total obligations of states and political subdivisions	<u>\$165,430</u>	<u>\$162,528</u>

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At December 31, 2022, the Company's investment securities portfolios included securities issued by 142 state and local government municipalities and agencies located within 32 states. The largest exposure to any one municipality or agency was \$4.8 million (fair value) represented by three general obligation bonds.

	At December 31, 2022	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	\$34,621	\$34,252
Washington	11,445	11,332
Texas	8,561	8,405
Massachusetts	8,214	8,073
Michigan	7,126	7,017
Other (23 states)	63,818	62,679
Total general obligation bonds	<u>\$133,785</u>	<u>\$131,758</u>
Revenue bonds:		
California	\$13,917	\$13,620
Kentucky	7,605	7,556
Virginia	3,684	3,618
Colorado	3,155	3,124
Washington	2,070	2,068
Other (8 states)	9,016	9,003
Total revenue bonds	<u>\$39,447</u>	<u>\$38,989</u>
Total obligations of states and political subdivisions	<u><u>\$173,232</u></u>	<u><u>\$170,747</u></u>

At June 30, 2023 and December 31, 2022, 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 utility, sewer utility, recreational and school facilities, and general public and economic improvements. The revenue bonds were payable from 11 revenue sources at June 30, 2023 and December 31, 2022. The revenue sources that represent 5% or more individually of the total revenue bonds are summarized in the following tables.

	At June 30, 2023	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	\$5,107	\$5,111
Sewer	4,868	4,806
Lease (appropriation)	4,554	4,505
Special Assessment	4,080	3,800
Lease (abatment)	3,693	3,682
Lease (renewal)	3,048	2,999
Sales tax	2,185	2,171
Appropriations	1,980	1,921
Lease (non-terminable)	1,930	1,920
Other (2 sources)	2,801	2,804
Total revenue bonds by revenue source	<u><u>\$34,246</u></u>	<u><u>\$33,719</u></u>

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	At December 31, 2022	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	\$6,105	\$6,115
Lease (renewal)	5,590	5,536
Sewer	5,523	5,480
Lease (appropriation)	4,556	4,518
Special Assessment	4,080	3,788
Lease (abatement)	3,702	3,694
Sales tax	3,185	3,187
Other (4 sources)	6,706	6,671
Total revenue bonds by revenue source	<u>\$39,447</u>	<u>\$38,989</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.

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 organizational 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 Loans

	At June 30, 2023	At June 30, 2022	At December 31, 2022
	(In thousands)		
Nonperforming nonaccrual loans	\$192	\$12	\$146
Performing nonaccrual loans	5	235	-
Total nonaccrual loans	<u>197</u>	<u>247</u>	<u>146</u>
Accruing loans 90 or more days past due	656	614	628
Total nonperforming loans	<u>\$853</u>	<u>\$861</u>	<u>\$774</u>

At June 30, 2023, nonaccrual loans consisted of three loans with an average carrying value of \$66 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

The following table summarizes allowance for credit losses at the dates indicated:

	At June 30, 2023	At December 31, 2022
	(In thousands)	
Allowance for credit losses on loans	\$18,480	\$20,284
Allowance for credit losses on held to maturity debt securities	1	1
Total allowance for credit losses	<u>\$18,481</u>	<u>\$20,285</u>
Allowance for unfunded credit commitments	\$201	\$201

### 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. Corporate securities held to maturity were individually evaluated for expected credit loss by evaluating the issuer’s financial condition, profitability, cash flows, and credit ratings. At June 30, 2023, no credit loss allowance was assigned to corporate securities held to maturity based on evaluation of each individual issuer’s financial performance throughout full business cycles. 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. Allowance for credit losses related to debt securities held to maturity was \$1 thousand related to municipal securities at June 30, 2023 and December 31, 2022, reflecting the expected credit losses on debt securities held to maturity.

### 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 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 preparation of the financial statements requires Management to estimate the amount of expected losses over the expected contractual life of the Bank's 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 modification to be made to loans to borrowers experiencing financial difficulty is included in the allowance for credit losses when management determines such 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.

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2023	2022	2023	2022
	(\$ in thousands)			
Analysis of the allowance for loan losses/credit losses				
Balance, beginning of period	\$19,509	\$22,925	\$20,284	\$23,514
Reversal of provision for credit losses	-	-	(1,550)	-
Loans charged off				
Commercial	-	(20)	(148)	(20)
Consumer installment and other	(1,661)	(1,393)	(3,552)	(2,605)
Total chargeoffs	(1,661)	(1,413)	(3,700)	(2,625)
Recoveries of loans previously charged off				
Commercial	19	39	2,184	263
Commercial real estate	15	17	30	32
Consumer installment and other	598	745	1,232	1,129
Total recoveries	632	801	3,446	1,424
Net loan losses	(1,029)	(612)	(254)	(1,201)
Balance, end of period	\$18,480	\$22,313	\$18,480	\$22,313
Net loan losses as a percentage of average total loans (annualized)	0.45%	0.24%	0.05%	0.24%

Selected financial data (\$ in thousands): (At the dates indicated)

	At June 30,		At December 31,
	2023	2022	2022
Loans	\$919,583	\$999,768	\$958,488
Nonaccrual loans	197	247	146
Allowance for credit losses as a percentage of loans	2.01%	2.23%	2.12%
Nonaccrual loans as a percentage of loans	0.02%	0.02%	0.02%
Allowance for credit losses to nonaccrual loans	9380.71%	9033.60%	13893.15%

The following table summarizes net (chargeoffs) recoveries and the ratio of net charge-offs (recoveries) to average loans for the periods indicated:

	For the Three Months Ended			For the Six Months Ended		
	June 30, 2023					
	Net (chargeoffs) Recoveries	Average Loan Balance	As a percentage of Net chargeoffs (recoveries) to Average loans	Net (chargeoffs) Recoveries	Average Loan Balance	As a percentage of Net chargeoffs (recoveries) to Average loans
	(\$ in thousands)					
Commercial	\$19	\$153,852	(0.01)%	\$2,036	\$157,941	(1.29)%
Commercial real estate	15	491,902	- %	30	492,514	(0.01)%
Construction	-	4,123	- %	-	3,706	- %
Residential real estate	-	12,455	- %	-	13,046	- %
Consumer and other installment	(1,063)	264,463	0.40%	(2,320)	269,070	0.86%
Total	(\$1,029)	\$926,795	0.11%	(\$254)	\$936,277	0.03%

	For the Three Months Ended			For the Six Months Ended		
	June 30, 2022					
	Net (chargeoffs) Recoveries	Average Loan Balance	As a percentage of Net chargeoffs (recoveries) to Average loans	Net (chargeoffs) Recoveries	Average Loan Balance	As a percentage of Net chargeoffs (recoveries) to Average loans
	(\$ in thousands)					
Commercial	\$19	\$201,246	(0.01)%	\$243	\$204,546	(0.12)%
Commercial real estate	17	508,003	- %	32	515,977	(0.01)%
Construction	-	1,339	- %	-	682	- %
Residential real estate	-	16,170	- %	-	16,672	- %
Consumer and other installment	(648)	282,875	0.23%	(1,476)	281,746	0.52%
Total	(\$612)	\$1,009,633	0.06%	(\$1,201)	\$1,019,623	0.12%

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 loan 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 are 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.

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
(In thousands)						
Allowance for credit losses:						
Balance at beginning of period	\$5,746	\$6,258	\$200	\$38	\$7,267	\$19,509
(Reversal) provision	(1,001)	(190)	2	(6)	1,195	-
Chargeoffs	-	-	-	-	(1,661)	(1,661)
Recoveries	19	15	-	-	598	632
Total allowance for credit losses	\$4,764	\$6,083	\$202	\$32	\$7,399	\$18,480

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
(In thousands)						
Allowance for credit losses:						
Balance at beginning of period	\$6,138	\$5,888	\$150	\$32	\$8,076	\$20,284
(Reversal) provision	(3,410)	165	52	-	1,643	(1,550)
Chargeoffs	(148)	-	-	-	(3,552)	(3,700)
Recoveries	2,184	30	-	-	1,232	3,446
Total allowance for credit losses	\$4,764	\$6,083	\$202	\$32	\$7,399	\$18,480

Management considers the \$18.5 million allowance for credit losses on loans to be adequate as a reserve against current expected credit losses in the loan portfolio as of June 30, 2023.

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.

### Climate-Related Financial Risk

Climate change presents risk to the Company, our critical vendors and our customers. Our risk management practices incorporate the challenges brought about by climate change. The operations conducted in our centralized facilities and branch locations can be disrupted by acute physical risks such as flooding and windstorms, and by chronic physical risks such as rising sea levels, sustained higher temperatures, drought, and increased wildfires. Over the intermediate and longer-term, the Company can be subject to transition risks such as market demand, and policy and law changes.

None of the Company's physical locations are located near sea level, and only a limited number of branches are located in flood zones. Our principal electricity supplier reports a Power Content Label of 100% greenhouse gas free using the California Energy Commission's methodology. Our principal information technology vendor's goal is to achieve 100 percent carbon neutrality for Scope 1 and 2 greenhouse gas emissions by 2025. The Company and its critical vendors maintain property and casualty insurance, and maintain and regularly test disaster recovery plans, which include redundant operational locations and power sources. The Company's operations do not use a significant amount of water in producing our products and services.

The Company monitors the climate risks of our loan customers. Borrowers with real estate loan collateral located in flood zones must carry flood insurance under the loans' terms. At June 30, 2023, the Company had \$21 million in loans to agricultural borrowers; Management continuously monitors these customers' access to adequate water sources as well as their ability to sustain low crop yields without encountering financial hardship. The Company makes automobile loans; changes in consumer demand, or governmental laws or policies, regarding gasoline, electric and hybrid vehicles is not considered a risk to the Company's automobile lending practices.

The Company considers climate risk in its underwriting of corporate bonds, and avoids purchasing bonds of issuers, which, in Management's judgement, have elevated climate risk.

While the Company follows risk management practices related to climate risk, the Company may experience financial losses due to climate risk in the future despite these precautions.

**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 bond portfolio volumes, accumulated other comprehensive (loss) income, 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 demand for loans and growth of deposits and the level of interest rates earned on loans and 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, intermediate, and short-term interest rates.

Management monitors the Company’s interest rate risk using a purchased simulation model, which is periodically assessed 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 a dynamic composition simulation and static simulation. Within the dynamic composition simulation, Management makes assumptions regarding the expected change in the volume of financial instruments given the assumed change in market interest rates. Within the static simulation, cash flows are assumed redeployed into like financial instruments at prevailing rates and yields. 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 June 30, 2023, based on the interest rate assumptions applied to the simulation model. An “asset sensitive” position results in a larger change in interest income than in interest expense resulting from application of assumed interest rate changes. However, in the dynamic simulation, an assumed decline in interest rates is expected to result in improved deposit balances funding higher earning asset levels.

In Management’s judgement, evaluation of interest rate risk for the twelve months ending June 30, 2024 of a one-percent increase or decrease in market rates is appropriate given recent trends in inflation measurements, the June 14, 2023 economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, and market expectations for the federal funds rate. At June 30, 2023, Management’s most recent measurements of estimated changes in net interest income were:

Dynamic simulation (balance sheet composition changes):

Assumed change in interest rates over 1 year	-1.00%	+1.00%
First year change in net interest income	+0.8%	+1.4%

Static simulation (balance sheet composition unchanged):

Assumed immediate change in interest rates	-1.00%	+1.00%
First year change in net interest income	-5.2%	+6.1%

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. Assumptions made in the simulation may not materialize and unanticipated events

and circumstances may occur. In addition, the simulation does not take into account any future actions Management may undertake to mitigate the impact of interest rate changes, loan prepayment estimates and spread relationships, which may change regularly.

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 expected 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 Bank's operations and meet obligations and other commitments on a timely basis and at a reasonable cost. The Bank achieves this objective through the selection of asset and liability maturity mixes that it believes best meet its needs. The Bank's liquidity position is enhanced by its ability to raise additional funds as needed by borrowing from correspondent banks or in the wholesale markets, or by selling debt securities available for sale.

In recent years, the Bank's deposit base has provided the majority of the Bank'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 six months ended June 30, 2023 and in the year ended December 31, 2022. The stability of the Bank's funding from customer deposits is in part reliant on the confidence clients have in the Bank. The Bank places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining an appropriate level of liquidity.

Total deposits were \$5,706 million at June 30, 2023 and \$6,225 million at December 31, 2022. Total time deposits were \$117 million at June 30, 2023 and \$131 million at December 31, 2022. The Company has no foreign time deposits. The standard FDIC deposit insurance amount is \$250,000 per depositor, for each account ownership category. At June 30, 2023, estimated federally uninsured deposits and time deposits were \$2,612 million and \$12 million, respectively. Estimated federally uninsured time deposits included \$6,582 thousand in deposits by public entities that are secured by the Company's debt securities as collateral.

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The following table shows the time remaining to maturity of the Company's estimated federally uninsured time deposits with a balance greater than \$250,000 per depositor per category:

	<u>At June 30, 2023</u>
	(In thousands)
Three months or less	\$3,419
Over three through six months	3,591
Over six through twelve months	336
Over twelve months	<u>4,784</u>
Total	<u><u>\$12,130</u></u>

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. At June 30, 2023, the Company had \$266,187 thousand in cash balances. During the twelve months ending June 30, 2024, the Company expects to receive \$288,000 thousand in principal payments from its debt securities. If additional operational liquidity is required, the Company can pledge debt securities as collateral for borrowing purposes; at June 30, 2023, the Company's debt securities which qualify as collateral for borrowing totaled \$3,924,826 thousand. In the ordinary course of business, the Company pledges debt securities as collateral for certain depository customers; at June 30, 2023, the Company had pledged \$704,822 thousand in debt securities for depository customers. In the ordinary course of business, the Company pledges debt securities as collateral for borrowing from the Federal Reserve Bank; at June 30, 2023, the Company's had pledged \$1,000,132 thousand in debt securities at the Federal Reserve Bank. During the six months ended June 30, 2023, the Company's average borrowings from the Federal Reserve Bank and other correspondent banks were \$-0- thousand, respectively, and at June 30, 2023, the Company's borrowings from the Federal Reserve Bank and other correspondent banks were \$-0- thousand. At June 30, 2023, the Company's estimated unpledged collateral qualifying debt securities totaled \$2,072,988 thousand based on the Federal Reserve Bank borrowing program. Debt securities eligible as collateral are shown in market value unless otherwise noted:

	<u>At June 30, 2023</u>
	(in thousands)
Debt Securities Eligible as Collateral:	
Corporate Securities	\$2,587,771
Collateralized Loan Obligations rated AAA	503,037
Obligations of States and Political Subdivisions	162,528
Agency Mortgage Backed Securities	344,657
Securities of U.S. Government Sponsored Entities (Par Value)	<u>326,833</u>
Total Debt Securities Eligible as Collateral	\$3,924,826
Debt Securities Pledged as Collateral:	
Deposits by Public Entities	(\$704,822)
Short-term Borrowed Funds (Deposit Sweep)	(140,765)
Other	<u>(6,119)</u>
Total Debt Securities Pledged as Collateral	(\$851,706)
Debt Securities Pledged at the Federal Reserve Bank	<u>(\$1,000,132)</u>
Estimated Debt Securities Available to Pledge	\$2,072,988

Liquidity risk can result from the mismatching of asset and liability cash flows, or from disruptions in the financial markets. The Bank performs liquidity stress tests on a periodic basis to evaluate the sustainability of its liquidity. Under the stress testing, the Bank assumes outflows of funds increase beyond expected levels. Measurement of such heightened outflows considers the composition of the Bank's deposit base, including any concentration of deposits, non-deposit funding such as short-term borrowings, and unfunded lending commitments. The composition of the Bank's deposits is considered including the broad industry and geographic diversification in the Bank's market area. The Bank 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. However, no assurance can be given the Bank will not experience a period of reduced liquidity.

Management continually monitors the Bank's cash levels. Loan demand from credit worthy borrowers will be dictated by economic and competitive conditions. The Bank 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 Bank's sales efforts, delivery of superior customer service, new regulations and market conditions. The Bank 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 \$22 million in the six months ended June 30, 2023 and \$45 million in the year ended December 31, 2022 and retire common stock in the amounts of \$14 million and \$218 thousand, 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. The Parent Company's cash balance was \$101 million at June 30, 2023 and \$99 million at December 31, 2022.

### **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") was annualized 18.7% for the six months ended June 30, 2023 and 15.2% for the year ended December 31, 2022. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options was \$2.3 million in the year ended December 31, 2022.

The Company paid common dividends totaling \$22 million in the six months ended June 30, 2023 and \$45 million in the year ended December 31, 2022, which represent dividends per common share of \$0.84 and \$1.68, 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 274 thousand shares valued at \$14 million in the six months ended June 30, 2023 and 3 thousand shares valued at \$218 thousand in the year ended December 31, 2022.

The Company's primary capital resource is shareholders' equity, which was \$652 million at June 30, 2023 compared with \$602 million at December 31, 2022. The Company's ratio of equity to total assets was 9.9% at June 30, 2023 and 8.7% at December 31, 2022.

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 1 Capital and Total Capital, the minimum percentage required for regulatory capital adequacy purposes include a 2.5% "capital conservation buffer."

	At June 30, 2023		Required for Capital Adequacy Purposes	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank		
	Common Equity Tier I Capital	17.15%		14.14%
Tier I Capital	17.15%	14.14%	8.50%	8.00%
Total Capital	17.56%	14.68%	10.50%	10.00%
Leverage Ratio	11.60%	9.52%	4.00%	5.00%

	At December 31, 2022		Required for Capital Adequacy Purposes	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank		
	Common Equity Tier I Capital	15.22%		12.37%
Tier I Capital	15.22%	12.37%	8.50%	8.00%
Total Capital	15.64%	12.93%	10.50%	10.00%
Leverage Ratio	10.18%	8.26%	4.00%	5.00%

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 Bank expects to maintain regulatory capital levels in excess of the minimum required to be considered well-capitalized under the prompt corrective action framework. The Company expects to continue paying 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.

Operational risk is the risk to current or projected financial condition and resilience arising from inadequate or failed internal processes or systems, people (including human errors or misconduct), or adverse external events, including the risk of loss resulting from breaches in data security. Operational risk can also include the risk of loss due to failures by third parties with which the Company does business.

During the second quarter 2023, the Company was notified that there may have been a compromise of a specific set of files processed by a third party vendor that could have affected a limited number of customers. This incident did not occur on a Company system and the Company does not use the software that may have been compromised. The Company has data security safeguards in place with its third party vendors to quickly identify and contain improper access to sensitive information. There is no indication that any information has been subject to misuse as a result of the incident.

### 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 June 30, 2023.

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 June 30, 2023 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, 2022 includes detailed disclosure about the risks faced by the Company's business. The following risk factors supplement, and should be read in conjunction with, the risk factors described in the Company's Annual Report on Form 10-K.

***Recent negative developments affecting the banking industry, such as bank failures, may have a material adverse effect on the Company.***

During the six months ended June 30, 2023, the banking industry continued to experience significant volatility with multiple bank failures. Industrywide concerns have developed related to liquidity, deposit outflows and unrealized losses on investment debt securities. While the Company cannot predict with certainty whether or how these developments may affect the banking industry, the Company faces the risks of increased FDIC deposit insurance premium expenses; increased regulation or supervisory scrutiny; and decreased confidence in banks among depositors and investors, any of which could, adversely affect the trading price of the Company's common stock or its ability to effectively fund its operations. Any one or a combination of such risk factors, or other factors, could materially adversely affect the Company's business, financial condition, results of operations and prospects.

***The Company could realize losses if it were required to sell securities in its held-to-maturity securities portfolio to meet liquidity needs.***

As a result of increases in interest rates over the last year, the market value of previously issued government and other debt securities has declined significantly, resulting in unrealized losses in the held-to-maturity portion of the Company's securities portfolios. While the Company does not currently expect or intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company's capital financial condition and results of operations. Further, while the Company has taken actions to maximize its funding sources, there is no guarantee that such funding sources will be available or sufficient in the event of sudden liquidity needs.

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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 June 30, 2023.

Period	2023			(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)		
April 1 through April 30	-	\$ -	-	1,476
May 1 through May 31	-	-	-	1,476
June 1 through June 30	-	-	-	1,476
Total	-	\$ -	-	1,476

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 April 1, 2023 through June 30, 2023. A share repurchase program was approved by the Board of Directors on July 28, 2022 authorizing the purchase of up to 1,750 thousand shares of the Company’s common stock from time to time prior to September 1, 2023. A replacement program was approved by the Board of Directors on July 27, 2023 authorizing the purchase of up to 1,750 thousand shares of the Company’s common stock from time to time prior to September 1, 2024.

## Item 3. Defaults upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

### Rule 10b5-1 Trading Plans

During the quarter ended June 30, 2023, none of the Company’s directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement” as defined in Item 408 of Regulation S-K.

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## Item 6. Exhibits

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>
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 June 30, 2023, 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/ John "Robert" Thorson

John "Robert" Thorson  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Chief Accounting Officer)

Date: August 8, 2023

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

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David L. Payne

Chairman, President and Chief Executive Officer

Date: August 8, 2023

EXHIBIT 31.2

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

I, John "Robert" Thorson 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/ John "Robert" Thorson

John "Robert" Thorson

Senior Vice President and Chief Financial Officer

Date: August 8, 2023

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 June 30, 2023 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: August 8, 2023

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 June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John "Robert" Thorson, 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/ John "Robert" Thorson  
John "Robert" Thorson  
Senior Vice President and Chief Financial Officer  
Date: August 8, 2023