

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

**FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 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 October 30, 2023  
26,649,036

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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 pandemics and governmental and customer responses; (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 September 30, 2023	At December 31, 2022
	(In thousands)	
<b>Assets:</b>		
Cash and due from banks	\$420,550	\$294,236
Debt securities available for sale	3,906,233	4,331,743
Debt securities held to maturity, net of allowance for credit losses of \$1 at September 30, 2023 and December 31, 2022 (Fair value of \$818,395 at September 30, 2023 and \$873,511 at December 31, 2022)	888,856	915,913
Loans	885,850	958,488
Allowance for credit losses on loans	(17,744)	(20,284)
Loans, net of allowance for credit losses on loans	868,106	938,204
Premises and equipment, net	27,490	28,819
Identifiable intangibles, net	404	583
Goodwill	121,673	121,673
Other assets	333,976	319,146
<b>Total Assets</b>	<b>\$6,567,288</b>	<b>\$6,950,317</b>
<b>Liabilities:</b>		
Noninterest-bearing deposits	\$2,723,403	\$2,947,277
Interest-bearing deposits	2,975,610	3,278,013
Total deposits	5,699,013	6,225,290
Short-term borrowed funds	115,341	57,792
Other liabilities	104,511	65,125
<b>Total Liabilities</b>	<b>5,918,865</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: 26,649 at September 30, 2023 and 26,913 at December 31, 2022	471,827	475,086
Deferred compensation	35	35
Accumulated other comprehensive loss	(285,709)	(256,105)
Retained earnings	462,270	383,094
<b>Total Shareholders' Equity</b>	<b>648,423</b>	<b>602,110</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$6,567,288</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 Nine Months	
	2023	2022	2023	2022
Ended September 30,				
(In thousands, except per share data)				
<b>Interest and Loan Fee Income:</b>				
Loans	\$11,925	\$12,208	\$35,510	\$37,481
Equity securities	152	127	456	384
Debt securities available for sale	47,994	39,100	142,256	99,430
Debt securities held to maturity	8,848	6,625	26,758	10,040
Interest-bearing cash	3,929	2,742	7,981	5,223
<b>Total Interest and Loan Fee Income</b>	<b>72,848</b>	<b>60,802</b>	<b>212,961</b>	<b>152,558</b>
<b>Interest Expense:</b>				
Deposits	1,095	470	2,135	1,383
Short-term borrowed funds	38	17	76	67
<b>Total Interest Expense</b>	<b>1,133</b>	<b>487</b>	<b>2,211</b>	<b>1,450</b>
<b>Net Interest and Loan Fee Income</b>	<b>71,715</b>	<b>60,315</b>	<b>210,750</b>	<b>151,108</b>
<b>Provision (Reversal of Provision) for Credit Losses</b>	<b>400</b>	<b>-</b>	<b>(1,150)</b>	<b>-</b>
<b>Net Interest and Loan Fee Income After Provision (Reversal of Provision) for Credit Losses</b>	<b>71,315</b>	<b>60,315</b>	<b>211,900</b>	<b>151,108</b>
<b>Noninterest Income:</b>				
Service charges on deposit accounts	3,705	3,737	10,629	11,006
Merchant processing services	2,911	2,925	8,417	8,922
Debit card fees	1,717	1,594	5,118	6,175
Trust fees	783	810	2,358	2,462
ATM processing fees	640	594	1,996	1,514
Other service fees	463	463	1,320	1,392
Financial services commissions	78	79	270	314
Life insurance gains	278	923	278	923
Securities losses	-	-	(125)	-
Other noninterest income	706	693	2,269	1,950
<b>Total Noninterest Income</b>	<b>11,281</b>	<b>11,818</b>	<b>32,530</b>	<b>34,658</b>
<b>Noninterest Expense:</b>				
Salaries and related benefits	11,820	11,311	35,715	34,643
Occupancy and equipment	5,065	5,064	15,562	14,666
Outsourced data processing services	2,473	2,434	7,405	7,294
Limited partnership operating losses	1,440	1,431	4,314	4,293
Courier service	745	671	1,971	1,914
Professional fees	401	582	1,362	2,054
Other noninterest expense	3,706	3,274	11,370	9,407
<b>Total Noninterest Expense</b>	<b>25,650</b>	<b>24,767</b>	<b>77,699</b>	<b>74,271</b>
<b>Income Before Income Taxes</b>	<b>56,946</b>	<b>47,366</b>	<b>166,731</b>	<b>111,495</b>
Provision for income taxes	15,345	12,606	44,431	28,805
<b>Net Income</b>	<b>\$41,601</b>	<b>\$34,760</b>	<b>\$122,300</b>	<b>\$82,690</b>
<b>Average Common Shares Outstanding</b>	<b>26,648</b>	<b>26,906</b>	<b>26,718</b>	<b>26,889</b>
<b>Average Diluted Common Shares Outstanding</b>	<b>26,650</b>	<b>26,916</b>	<b>26,721</b>	<b>26,901</b>
<b>Per Common Share Data:</b>				
Basic earnings	\$1.56	\$1.29	\$4.58	\$3.08
Diluted earnings	1.56	1.29	4.58	3.07
Dividends paid	0.44	0.42	1.28	1.26

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months		For the Nine Months	
	2023	2022	2023	2022
	Ended September 30,			
	(In thousands)			
<b>Net income</b>	\$41,601	\$34,760	\$122,300	\$82,690
<b>Other comprehensive (loss) income:</b>				
Changes in net unrealized losses/gains on debt securities available for sale	(47,797)	(145,907)	(42,030)	(483,359)
Deferred tax benefit	14,131	43,135	12,426	142,898
Changes in net unrealized losses/gains on debt securities available for sale, net of tax	(33,666)	(102,772)	(29,604)	(340,461)
<b>Total comprehensive income (loss)</b>	<u>\$7,935</u>	<u>(\$68,012)</u>	<u>\$92,696</u>	<u>(\$257,771)</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, June 30, 2023</b>	26,648	\$471,475	\$35	(\$252,043)	\$432,395	\$651,862
Net income for the period					41,601	41,601
Other comprehensive loss				(33,666)		(33,666)
Stock based compensation	-	339				339
Stock awarded to employees	1	13				13
Dividends (\$0.44 per share)					(11,726)	(11,726)
<b>Balance, September 30, 2023</b>	<u>26,649</u>	<u>\$471,827</u>	<u>\$35</u>	<u>(\$285,709)</u>	<u>\$462,270</u>	<u>\$648,423</u>
<b>Balance, December 31, 2022</b>	26,913	\$475,086	\$35	(\$256,105)	\$383,094	\$602,110
Net income for the period					122,300	122,300
Other comprehensive loss				(29,604)		(29,604)
Restricted stock activity	9	508				508
Stock based compensation	-	1,017				1,017
Stock awarded to employees	1	60				60
Retirement of common stock	(274)	(4,844)			(8,903)	(13,747)
Dividends (\$1.28 per share)					(34,221)	(34,221)
<b>Balance, September 30, 2023</b>	<u>26,649</u>	<u>\$471,827</u>	<u>\$35</u>	<u>(\$285,709)</u>	<u>\$462,270</u>	<u>\$648,423</u>
<b>Balance, June 30, 2022</b>	26,896	\$473,520	\$35	(\$188,025)	\$331,596	\$617,126
Net income for the period					34,760	34,760
Other comprehensive loss				(102,772)		(102,772)
Exercise of stock options	15	816				816
Stock based compensation	-	339				339
Stock awarded to employees	-	22				22
Dividends (\$0.42 per share)					(11,303)	(11,303)
<b>Balance, September 30, 2022</b>	<u>26,911</u>	<u>\$474,697</u>	<u>\$35</u>	<u>(\$290,797)</u>	<u>\$355,053</u>	<u>\$538,988</u>
<b>Balance, December 31, 2021</b>	26,866	\$471,008	\$35	\$49,664	\$306,395	\$827,102
Net income for the period					82,690	82,690
Other comprehensive loss				(340,461)		(340,461)
Exercise of stock options	39	2,171				2,171
Restricted stock activity	8	492				492
Stock based compensation	-	1,017				1,017
Stock awarded to employees	1	74				74
Retirement of common stock	(3)	(65)			(153)	(218)
Dividends (\$1.26 per share)					(33,879)	(33,879)
<b>Balance, September 30, 2022</b>	<u>26,911</u>	<u>\$474,697</u>	<u>\$35</u>	<u>(\$290,797)</u>	<u>\$355,053</u>	<u>\$538,988</u>

See accompanying notes to unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	<u>2023</u>	<u>2022</u>
	(In thousands)	
<b>Operating Activities:</b>		
Net income	\$122,300	\$82,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,760	13,736
Reversal of credit provision for credit losses	(1,150)	-
Net amortization of deferred loan fees	(424)	(1,445)
Stock option compensation expense	1,017	1,017
Life insurance gains	(278)	(923)
Securities losses	125	-
Net changes in:		
Interest income receivable	(2,039)	(13,985)
Other assets	(336)	(5,317)
Income taxes payable	43,323	3,055
Net deferred tax asset	1,107	510
Interest expense payable	53	21
Other liabilities	(6,269)	(7,476)
<b>Net Cash Provided by Operating Activities</b>	<u>166,189</u>	<u>71,883</u>
<b>Investing Activities:</b>		
Net repayments of loans	71,672	88,242
Purchases of debt securities available for sale	-	(619,601)
Proceeds from sale/maturity/calls of debt securities available for sale	376,842	391,548
Purchases of debt securities held to maturity	-	(718,940)
Proceeds from maturity/calls of debt securities held to maturity	31,530	89,246
Purchases of Federal Reserve Bank stock	(2,326)	-
Purchases of premises and equipment	(897)	(812)
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>476,821</u>	<u>(770,317)</u>
<b>Financing Activities:</b>		
Net change in deposits	(526,277)	81,300
Net change in short-term borrowings	57,549	(69,360)
Exercise of stock options	-	2,171
Retirement of common stock	(13,747)	(218)
Common stock dividends paid	(34,221)	(33,879)
<b>Net Cash Used in Financing Activities</b>	<u>(516,696)</u>	<u>(19,986)</u>
<b>Net Change In Cash and Due from Banks</b>	126,314	(718,420)
<b>Cash and Due from Banks at Beginning of Period</b>	294,236	1,132,085
<b>Cash and Due from Banks at End of Period</b>	<u>\$420,550</u>	<u>\$413,665</u>
<b>Supplemental Cash Flow Disclosures:</b>		
Supplemental disclosure of non cash activities:		
Right-of-use assets acquired in exchange for operating lease liabilities	\$7,160	\$2,925
Supplemental disclosure of cash flow activities:		
Cash paid for amounts included in operating lease liabilities	4,604	4,553
Interest paid for the period	2,158	1,429
Income tax payments for the period	-	25,240

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 nine months ended September 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, the Federal Reserve's monetary policy and climate changes on the Company's business. During the first half of 2023, the banking industry experienced significant volatility with recent bank failures. Industrywide concerns 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 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 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. Furthermore, 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.

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 September 30, 2023 and December 31, 2022, follows. In accordance with GAAP, unrealized gains and losses on held to maturity securities have not been recognized in the Company's financial statements.

	At September 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")	\$269,883	\$ -	(\$30,155)	\$239,728
Securities of U.S. Government sponsored entities	308,160	-	(28,796)	279,364
Obligations of states and political subdivisions	73,614	4	(3,979)	69,639
Corporate securities	2,134,535	625	(320,736)	1,814,424
Collateralized loan obligations	1,525,669	702	(23,293)	1,503,078
Total debt securities available for sale	4,311,861	1,331	(406,959)	3,906,233
Debt securities held to maturity:				
Agency residential MBS	84,347	9	(8,116)	76,240
Obligations of states and political subdivisions	77,559	4	(1,957)	75,606
Corporate securities	726,951	-	(60,402)	666,549
Total debt securities held to maturity	888,857	13	(70,475)	818,395
Total	\$5,200,718	\$1,344	(\$477,434)	\$4,724,628

	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 September 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	\$45,005	\$44,479	\$17,851	\$17,714
Over 1 to 5 years	773,732	715,554	273,548	259,494
Over 5 to 10 years	2,667,773	2,362,742	513,111	464,947
Over 10 years	555,468	543,730	-	-
Subtotal	4,041,978	3,666,505	804,510	742,155
MBS	269,883	239,728	84,347	76,240
Total	\$4,311,861	\$3,906,233	\$888,857	\$818,395

	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 September 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. Government sponsored entities	5	\$803	(\$26)	108	\$238,914	(\$30,129)	113	\$239,717	(\$30,155)
Obligations of states and political subdivisions	4	16,293	(365)	19	263,071	(28,431)	23	279,364	(28,796)
Corporate securities	8	8,887	(227)	51	55,722	(3,752)	59	64,609	(3,979)
Collateralized loan obligations	-	-	-	152	1,799,419	(320,736)	152	1,799,419	(320,736)
Total	36	441,715	(12,234)	67	594,769	(11,059)	103	1,036,484	(23,293)
	53	\$467,698	(\$12,852)	397	\$2,951,895	(\$394,107)	450	\$3,419,593	(\$406,959)

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

Debt Securities Held to Maturity									
At September 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	5	\$3	\$ -	93	\$75,493	(\$8,116)	98	\$75,496	(\$8,116)
Obligations of states and political subdivisions	64	40,812	(1,109)	28	27,638	(848)	92	68,450	(1,957)
Corporate securities	3	25,930	(1,792)	48	640,619	(58,610)	51	666,549	(60,402)
Total	72	\$66,745	(\$2,901)	169	\$743,750	(\$67,574)	241	\$810,495	(\$70,475)

Based upon the Company's September 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 September 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 September 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 \$1,962,357 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
Agency residential MBS Obligations of states and political subdivisions	97	\$95,814	(\$7,404)	2	\$682	(\$99)	99	\$96,496	(\$7,503)
Corporate securities	54	53,536	(538)	-	-	-	54	53,536	(538)
Total	49	672,406	(34,448)	-	-	-	49	672,406	(34,448)
	200	\$821,756	(\$42,390)	2	\$682	(\$99)	202	\$822,438	(\$42,489)

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 Nine Months Ended September 30,	
	2023	2022
	(In thousands)	
Allowance for credit losses:		
Beginning balance	\$1	\$7
Provision	-	-
Chargeoffs	-	-
Recoveries	-	-
Total ending balance	\$1	\$7

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 September 30, 2023, no credit loss allowance was assigned to corporate securities held to maturity.

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

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

	For the Three Months		For the Nine Months	
	2023	2022	2023	2022
	Ended September 30,			
	(In thousands)			
Taxable	\$55,911	\$44,461	\$166,031	\$105,286
Tax-exempt from federal income tax	1,083	1,391	3,439	4,568
Total interest income from investment securities	\$56,994	\$45,852	\$169,470	\$109,854

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

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

	At September 30, 2023	At December 31, 2022
	(In thousands)	
Commercial	\$135,575	\$169,617
Commercial real estate	494,282	491,107
Construction	5,043	3,088
Residential real estate	11,283	13,834
Consumer installment & other	239,667	280,842
Total	<u>\$885,850</u>	<u>\$958,488</u>

Allowance for Credit Losses For the Three Months Ended September 30, 2023						
Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total	
(In thousands)						
Allowance for credit losses:						
Balance at beginning of period	\$4,764	\$6,083	\$202	\$32	\$7,399	\$18,480
(Reversal) provision	(345)	(194)	40	(6)	905	400
Chargeoffs	(262)	-	-	-	(1,827)	(2,089)
Recoveries	10	15	-	-	928	953
Total allowance for credit losses	<u>\$4,167</u>	<u>\$5,904</u>	<u>\$242</u>	<u>\$26</u>	<u>\$7,405</u>	<u>\$17,744</u>

Allowance for Credit Losses For the Nine Months Ended September 30, 2023						
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	(3,755)	(29)	92	(6)	2,548	(1,150)
Chargeoffs	(410)	-	-	-	(5,379)	(5,789)
Recoveries	2,194	45	-	-	2,160	4,399
Total allowance for credit losses	<u>\$4,167</u>	<u>\$5,904</u>	<u>\$242</u>	<u>\$26</u>	<u>\$7,405</u>	<u>\$17,744</u>

Allowance for Credit Losses For the Three Months Ended September 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	\$6,536	\$5,916	\$96	\$35	\$9,730	\$22,313
(Reversal) provision	(164)	14	32	-	118	-
Chargeoffs	-	-	-	-	(1,917)	(1,917)
Recoveries	72	14	-	-	736	822
Total allowance for credit losses	<u>\$6,444</u>	<u>\$5,944</u>	<u>\$128</u>	<u>\$35</u>	<u>\$8,667</u>	<u>\$21,218</u>

Allowance for Credit Losses For the Nine Months Ended September 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	(837)	(631)	126	(10)	1,352	-
Chargeoffs	(20)	-	-	-	(4,522)	(4,542)
Recoveries	335	46	-	-	1,865	2,246
Total allowance for credit losses	<u>\$6,444</u>	<u>\$5,944</u>	<u>\$128</u>	<u>\$35</u>	<u>\$8,667</u>	<u>\$21,218</u>

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 September 30, 2023						
Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total	
(In thousands)						
Grade:						
Pass	\$128,392	\$482,539	\$5,043	\$10,943	\$236,232	\$863,149
Substandard	7,183	11,743	-	340	863	20,129
Doubtful	-	-	-	-	1,422	1,422
Loss	-	-	-	-	1,150	1,150
Total	\$135,575	\$494,282	\$5,043	\$11,283	\$239,667	\$885,850

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

The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status						
At September 30, 2023						
	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	\$135,477	\$-	\$25	\$73	\$-	\$135,575
Commercial real estate	493,537	443	110	-	192	494,282
Construction	5,043	-	-	-	-	5,043
Residential real estate	11,280	-	-	-	3	11,283
Consumer installment and other	232,558	5,014	1,125	956	14	239,667
Total	\$877,895	\$5,457	\$1,260	\$1,029	\$209	\$885,850

Summary of Loans by Delinquency and Nonaccrual Status						
At December 31, 2022						
	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 September 30, 2023 or December 31, 2022. There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at September 30, 2023 or December 31, 2022.

There were no loan modifications made to borrowers experiencing financial difficulty during the nine months ended September 30, 2023 and September 30, 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 September 30, 2023 included the following: seven commercial real estate loans totaling \$8.8 million secured by real property, one commercial loan with a balance of \$600 thousand secured by business assets and \$891 thousand of indirect consumer installment loans secured by personal property. There were no other collateral dependent loans at September 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 September 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	\$21,499	\$5,086	\$13,435	\$34,779	\$23,546	\$11,429	\$109,774	\$18,618	\$128,392
Substandard	12	2,525	-	2,835	-	600	5,972	1,211	7,183
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$21,511	\$7,611	\$13,435	\$37,614	\$23,546	\$12,029	\$115,746	\$19,829	\$135,575

Current gross chargeoffs on commercial loans:									
Three months ended									
	September 30, 2023	September 30, 2022	September 30, 2021	September 30, 2020	September 30, 2019	September 30, 2018	September 30, 2017	September 30, 2016	September 30, 2015
September 30, 2023	\$ -	\$ -	\$3	\$135	\$ -	\$ -	\$138	\$124	\$262
September 30, 2022	-	-	3	135	-	-	138	272	410

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 September 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	\$183,073	\$69,055	\$70,037	\$69,569	\$51,476	\$39,329	\$482,539	\$ -	\$482,539
Substandard	10,137	815	791	-	-	-	11,743	-	11,743
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$193,210	\$69,870	\$70,828	\$69,569	\$51,476	\$39,329	\$494,282	\$ -	\$494,282

Current gross chargeoffs on commercial real estate loans:									
Three months ended									
	September 30, 2023	September 30, 2022	September 30, 2021	September 30, 2020	September 30, 2019	September 30, 2018	September 30, 2017	September 30, 2016	September 30, 2015
September 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
September 30, 2022	-	-	-	-	-	-	-	-	-

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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 September 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	\$10,943	\$ -	\$ -	\$ -	\$ -	\$ -	\$10,943	\$ -	\$10,943
Substandard	340	-	-	-	-	-	340	-	340
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$11,283	\$ -	\$ -	\$ -	\$ -	\$ -	\$11,283	\$ -	\$11,283

Current gross chargeoffs on residential real estate loans:

Three months ended September 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nine months ended September 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

At September 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,043	\$5,043
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,043	\$5,043

Current gross chargeoffs on construction loans:

Three months ended September 30, 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nine months ended September 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

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

At September 30, 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	\$8,841	\$14,395	\$25,746	\$56,758	\$77,347	\$31,708	\$214,795	\$17,763	\$232,558
30-59 days past due	235	280	331	2,006	1,736	399	4,987	27	5,014
60-89 days past due	14	12	114	512	382	84	1,118	7	1,125
Past due 90 days or more	27	39	76	423	175	172	912	44	956
Nonaccrual	-	-	-	-	-	-	-	14	14
Total	\$9,117	\$14,726	\$26,267	\$59,699	\$79,640	\$32,363	\$221,812	\$17,855	\$239,667
Current gross chargeoffs on consumer installment and other loans:									
Three months ended September 30, 2023	\$43	\$18	\$209	\$618	\$672	\$177	1,737	\$90	\$1,827
Nine months ended September 30, 2023	208	135	717	1,529	2,414	177	5,180	199	5,379

  

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 September 30, 2023 and December 31, 2022.

The Company held no other real estate owned (OREO) at September 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 September 30, 2023 and December 31, 2022.

#### 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 September 30, 2023, the Bank did not have credit extended to any one entity exceeding these limits. At September 30, 2023, the Bank had 26 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 \$31,145 thousand and \$34,790 thousand at September 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 September 30, 2023, the Bank held corporate bonds in 107 issuing entities that exceeded \$5 million for each issuer.

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## Note 6: Other Assets and Other Liabilities

Other assets consisted of the following:

	At September 30, 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	65,606	63,816
Net deferred tax asset	136,458	125,140
Right-of-use asset	18,593	15,746
Limited partnership investments	30,107	34,421
Interest receivable	55,597	53,558
Prepaid assets	4,447	4,894
Other assets	8,941	9,670
Total other assets	<u>\$333,976</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 October 2, 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 1.5902 to 1.5875 per share, effective as of September 28, 2023. Visa Inc. class A common stock had a closing price of \$230.01 per share on September 29, 2023, the last day of stock market trading for the third 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 September 30, 2023, these investments totaled \$30,107 thousand and \$16,138 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 September 30, 2023, the \$16,138 thousand of outstanding equity capital commitments are expected to be paid as follows: \$4,483 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 September 30,		For the Nine Months Ended	
	2023	2022	2023	2022
	(In thousands)			
Investment loss included in pre-tax income	\$1,440	\$1,431	\$4,314	\$4,293
Tax credits recognized in provision for income taxes	765	804	2,820	2,412

Other liabilities consisted of the following:

	At September 30, 2023	At December 31, 2022
	(In thousands)	
Operating lease liability	\$18,593	\$15,746
Other liabilities	85,918	49,379
Total other liabilities	<u>\$104,511</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 September 30, 2023.

As of September 30, 2023, the Company's lease liability and right-of-use asset were \$18,593 thousand. The weighted average remaining life of operating leases and weighted average discount rate used to determine operating lease liabilities were 3.6 years and 2.78%, respectively, at September 30, 2023. The Company did not have any material lease incentives, unamortized initial direct costs, prepaid lease expense, or accrued lease expense as of September 30, 2023.

Total lease costs were \$1,633 thousand and \$4,949 thousand in the three and nine months ended September 30, 2023, respectively, and were recorded within occupancy and equipment expense. During the three and nine months ended September 30, 2022, total lease costs of \$1,664 thousand and \$4,934 thousand, respectively, 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 nine months ended September 30, 2023 and September 30, 2022.

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

	Minimum future lease payments At September 30, 2023
	(In thousands)
The remainder of 2023	\$1,612
2024	5,914
2025	4,765
2026	3,095
2027	2,200
Thereafter	<u>2,154</u>
Total minimum lease payments	19,740
Less: discount	<u>(1,147)</u>
Present value of lease liability	<u><u>\$18,593</u></u>

#### **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 nine months ended September 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 nine months ended September 30, 2023 and the year ended December 31, 2022, no such adjustments were recorded.

The carrying values of goodwill were:

	<u>At September 30, 2023</u>	<u>At December 31, 2022</u>
	(In thousands)	
Goodwill	\$121,673	\$121,673

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

	At September 30, 2023		At December 31, 2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core deposit intangibles	\$56,808	(\$56,404)	\$56,808	(\$56,225)

As of September 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 nine months ended September 30, 2023 (actual)	\$179
The remainder of 2023	57
2024	222
2025	125

#### Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

	Deposits	
	At September 30, 2023	At December 31, 2022
	(In thousands)	
Noninterest-bearing	\$2,723,403	\$2,947,277
Interest-bearing:		
Transaction	1,138,220	1,273,143
Savings	1,732,849	1,874,115
Time deposits less than \$100 thousand	59,505	65,962
Time deposits \$100 thousand through \$250 thousand	33,400	42,733
Time deposits more than \$250 thousand	11,636	22,060
Total deposits	\$5,699,013	\$6,225,290

Demand deposit overdrafts of \$699 thousand and \$995 thousand were included as loan balances at September 30, 2023 and December 31, 2022, respectively. Interest expense for aggregate time deposits with individual account balances in excess of \$100 thousand was \$26 thousand and \$91 thousand for the three and nine months ended September 30, 2023, respectively, and \$39 thousand and \$120 thousand for the three and nine months ended September 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 September 30, 2023	At December 31, 2022
	(In thousands)	
Repurchase agreements:		
Collateral securing borrowings:		
Agency residential MBS	\$25,725	\$30,108
Corporate securities	203,553	203,774
Total collateral carrying value	\$229,278	\$233,882
Total short-term borrowed funds	\$115,341	\$57,792

At September 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 \$964 million based on the collateral pledged at September 30, 2023. There were no outstanding amounts under the above-mentioned borrowings at September 30, 2023. For the nine months ended September 30, 2023, the average balances of the above-mentioned borrowings were \$-0- thousand. At September 30, 2023, the Company's estimated unpledged debt securities collateral qualifying for Federal Reserve borrowing totaled \$1,930,927 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 September 30, 2023			
	Fair Value	Quoted Prices		
		in Active	Significant	Significant
		Markets for	Other	Unobservable
	Identical	Observable	Inputs	
	Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3) <sup>(1)</sup>	
(In thousands)				
Debt securities available for sale:				
Agency residential MBS	\$239,728	\$ -	\$239,728	\$ -
Securities of U.S. Government sponsored entities	279,364	-	279,364	-
Obligations of states and political subdivisions	69,639	-	69,639	-
Corporate securities	1,814,424	-	1,814,424	-
Collateralized loan obligations	1,503,078	-	1,503,078	-
Total debt securities available for sale	<u>\$3,906,233</u>	<u>\$ -</u>	<u>\$3,906,233</u>	<u>\$ -</u>

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

	At December 31, 2022			
	Fair Value	Quoted Prices		
		in Active	Significant	Significant
		Markets for	Other	Unobservable
	Identical	Observable	Inputs	
	Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3) <sup>(1)</sup>	
(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>	<u>\$ -</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 September 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 September 30, 2023				For the Nine
	Carrying Value	Level 1	Level 2	Level 3	Months Ended
					September 30, 2023
					Total Losses
(In thousands)					
Loans:					
Commercial real estate	\$110	\$ -	\$ -	\$110	\$ -
Total assets measured at fair value on a nonrecurring basis	<u>\$110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$110</u>	<u>\$ -</u>

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	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 September 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>			(In thousands)		
Cash and due from banks	\$420,550	\$420,550	\$420,550	\$ -	\$ -
Debt securities held to maturity	888,856	818,395	-	818,395	-
Loans	868,106	851,354	-	-	851,354
<b>Financial Liabilities:</b>					
Deposits	\$5,699,013	\$5,698,126	\$ -	\$5,594,472	\$103,654
Short-term borrowed funds	115,341	115,341	-	115,341	-
	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)
<b>Financial Assets:</b>			(In thousands)		
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 \$30,195 thousand at September 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 \$201,468 thousand at September 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 \$2,106 thousand at September 30, 2023 and \$1,948 thousand at December 31, 2022. Commitments for commercial and similar letters of credit totaled \$95 thousand at September 30, 2023 and at December 31, 2022. The Company had \$950 thousand in outstanding full recourse guarantees to a third party credit card company at September 30, 2023 and at December 31, 2022. At September 30, 2023, the Company had a reserve for unfunded commitments of \$201 thousand for the above-mentioned loan commitments of \$30,195 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.

## 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 Nine Months	
	2023	Ended September 30, 2022	2023	2022
	(In thousands, except per share data)			
Net income applicable to common equity (numerator)	\$41,601	\$34,760	\$122,300	\$82,690
<b>Basic earnings per common share</b>				
Weighted average number of common shares outstanding - basic (denominator)	26,648	26,906	26,718	26,889
Basic earnings per common share	\$1.56	\$1.29	\$4.58	\$3.08
<b>Diluted earnings per common share</b>				
Weighted average number of common shares outstanding - basic	26,648	26,906	26,718	26,889
Add common stock equivalents for options	2	10	3	12
Weighted average number of common shares outstanding - diluted (denominator)	26,650	26,916	26,721	26,901
Diluted earnings per common share	\$1.56	\$1.29	\$4.58	\$3.07

For the three and nine months ended September 30, 2023, options to purchase 964 thousand and 991 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 nine months ended September 30, 2022, options to purchase 812 thousand and 809 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.

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

### WESTAMERICA BANCORPORATION FINANCIAL SUMMARY

	For the Three Months		For the Nine Months	
	2023	2022	2023	2022
	Ended September 30, (In thousands, except per share data)			
<b>Net Interest and Loan Fee Income (FTE)<sup>(1)</sup></b>	\$72,092	\$60,780	\$211,935	\$152,620
<b>Provision (Reversal of Provision) for Credit Losses</b>	400	-	(1,150)	-
<b>Noninterest Income:</b>				
Life Insurance Gains	278	923	278	923
Securities Losses	-	-	(125)	-
Other Noninterest Income	11,003	10,895	32,377	33,735
<b>Total Noninterest Income</b>	11,281	11,818	32,530	34,658
<b>Noninterest Expense</b>	25,650	24,767	77,699	74,271
<b>Income Before Income Taxes (FTE)<sup>(1)</sup></b>	57,323	47,831	167,916	113,007
<b>Income Tax Provision (FTE)<sup>(1)</sup></b>	15,722	13,071	45,616	30,317
<b>Net Income</b>	<u>\$41,601</u>	<u>\$34,760</u>	<u>\$122,300</u>	<u>\$82,690</u>
<b>Average Common Shares Outstanding</b>	26,648	26,906	26,718	26,889
<b>Average Diluted Common Shares Outstanding</b>	26,650	26,916	26,721	26,901
<b>Common Shares Outstanding at Period End</b>	26,649	26,911		
<b>Per Common Share:</b>				
Basic Earnings	\$1.56	\$1.29	\$4.58	\$3.08
Diluted Earnings	1.56	1.29	4.58	3.07
Book Value	24.33	20.03		
<b>Financial Ratios:</b>				
Return on Assets	2.41%	1.85%	2.36%	1.49%
Return on Common Equity	18.29%	17.08%	18.59%	13.98%
Net Interest Margin (FTE) <sup>(1)</sup>	4.43%	3.44%	4.32%	2.90%
Net Loan Losses to Average Loans	0.50%	0.44%	0.20%	0.30%
Efficiency Ratio <sup>(2)</sup>	30.8%	34.1%	31.8%	39.7%
<b>Average Balances:</b>				
Assets	\$6,847,691	\$7,472,304	\$6,940,897	\$7,433,140
Loans	903,854	989,033	925,351	1,009,314
Investment Securities	5,247,118	5,552,588	5,385,986	5,172,003
Deposits	5,722,817	6,495,051	5,859,506	6,437,943
Shareholders' Equity	902,300	807,428	879,740	790,691
<b>Period End Balances:</b>				
Assets	\$6,567,288	\$7,177,025		
Loans	885,850	979,033		
Investment Securities	4,795,090	5,312,605		
Deposits	5,699,013	6,495,256		
Shareholders' Equity	648,423	538,988		
<b>Capital Ratios at Period End:</b>				
Total Risk Based Capital	18.60%	14.67%		
Tangible Equity to Tangible Assets	8.17%	5.91%		
<b>Dividends Paid Per Common Share</b>	\$0.44	\$0.42	\$1.28	\$1.26
<b>Common Dividend Payout Ratio</b>	28%	33%	28%	41%

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

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

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

## Financial Overview

Westamerica Bancorporation and subsidiaries (collectively, the “Company”) reported net income of \$41.6 million or \$1.56 diluted earnings per common share (“EPS”) in the third quarter 2023 compared with net income of \$34.8 million or \$1.29 EPS for the third quarter of 2022. The Company reported net income of \$122.3 million or \$4.58 EPS for the nine months ended September 30, 2023, including a \$1.2 million reversal of provision for credit losses, net of a \$400 thousand provision for credit losses in the third quarter 2023. Third quarter 2023 results also include a \$278 thousand life insurance gain compared with a \$923 thousand life insurance gain in the third quarter 2022. The Company reported net income of \$82.7 million or \$3.07 EPS for the nine months ended September 30, 2022, including a \$1.2 million reconciling payment from a payments network and a \$923 thousand life insurance gain.

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 November 1, 2023, the FOMC decided to maintain the target range for the federal funds rate at the range of 5.25% to 5.50%. The November 1, 2023 Federal Reserve press release stated, “Recent indicators suggest that economic activity expanded at a strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter financial and 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 maintain 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 remained at 5.40%. 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 and climate changes on the Company’s business and its customers. Recently, the banking industry experienced significant volatility with several regional bank failures in the first half of 2023. Industrywide concerns developed related to liquidity, deposit outflows and unrealized losses on debt securities. These recent events could adversely 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 Nine Months	
	2023	2022	2023	2022
	Ended September 30,			
	(In thousands, except per share data)			
Net interest and loan fee income (FTE)	\$72,092	\$60,780	\$211,935	\$152,620
Provision (Reversal of provision) for credit losses	400	-	(1,150)	-
Noninterest income	11,281	11,818	32,530	34,658
Noninterest expense	25,650	24,767	77,699	74,271
Income before taxes (FTE)	57,323	47,831	167,916	113,007
Income tax provision (FTE)	15,722	13,071	45,616	30,317
Net income	\$41,601	\$34,760	\$122,300	\$82,690
Average diluted common shares	26,650	26,916	26,721	26,901
Diluted earnings per common share	\$1.56	\$1.29	\$4.58	\$3.07
Average total assets	\$6,847,691	\$7,472,304	\$6,940,897	\$7,433,140
Net income to average total assets (annualized)	2.41%	1.85%	2.36%	1.49%
Net income to average common shareholders' equity (annualized)	18.29%	17.08%	18.59%	13.98%

Net income for the third quarter 2023 increased \$6.8 million compared with the third quarter 2022. Net interest and loan fee income (FTE) increased \$11.3 million in the third quarter 2023 compared with the third quarter 2022 due to higher yield on interest-earning assets, partially offset by lower average balances of interest-earning assets and higher rate on interest-bearing liabilities. The Company provided a \$400 thousand provision for credit losses in the third quarter of 2023 and no provision for credit losses in the third quarter of 2022, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. Third quarter 2023 noninterest income decreased \$537 thousand compared with the third quarter 2022 primarily due to lower gains on life insurance. Third quarter 2023 noninterest expense increased \$883 thousand compared with the third 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 27.4% for the third quarter 2023 and 27.3% for the third quarter 2022.

Net income for the nine months ended September 30, 2023 increased \$39.6 million compared with the nine months ended September 30, 2022. Net interest and loan fee income (FTE) increased \$59.3 million in the nine months ended September 30, 2023 compared with nine months ended September 30, 2022 due to higher yield on interest-earning assets and higher average balances of investment debt securities, partially offset by lower average balances of loans and interest-bearing cash and higher rate on interest-bearing liabilities. The Company recorded a \$1.2 million reversal of provision for credit losses in the nine months ended September 30, 2023, reflecting a \$2.2 million recovery on a previously charged off loan in the first quarter 2023. The Company provided no provision for credit losses in the nine months ended September 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 nine months ended September 30, 2023 decreased \$2.1 million compared with the nine months ended September 30, 2022 primarily because the nine months ended September 30, 2022 included a \$1.2 million reconciling payment from a payments network and higher gains on life insurance. Noninterest expense in the nine months ended September 30, 2023 increased \$3.4 million compared with the nine months ended September 30, 2022 primarily due to increases in salaries and benefits, occupancy and equipment expenses, and increased FDIC insurance assessments for all insured depository institutions. Lower professional fees partially offset the increases in noninterest expense in the nine months ended September 30, 2023 compared with the same period in 2022. The tax rate (FTE) was 27.2% for the nine months ended September 30, 2023 and 26.8% for the nine months ended September 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 Nine Months	
	2023	2022	2023	2022
	Ended September 30, (\$ in thousands)			
Interest and loan fee income	\$72,848	\$60,802	\$212,961	\$152,558
FTE adjustment	377	465	1,185	1,512
Interest expense	1,133	487	2,211	1,450
Net interest and loan fee income (FTE)	<u>\$72,092</u>	<u>\$60,780</u>	<u>\$211,935</u>	<u>\$152,620</u>
Average earning assets	\$6,438,411	\$7,041,313	\$6,519,448	\$7,013,627
Net interest margin (FTE) (annualized)	4.43%	3.44%	4.32%	2.90%

Net interest and loan fee income (FTE) increased \$11.3 million in the third quarter 2023 compared with the third quarter 2022 due to higher yield on interest-earning assets (up 1.03%), partially offset by lower average balances of interest-earning assets (down \$603 million) and higher rate on interest-bearing liabilities (up 0.09%).

Net interest and loan fee income (FTE) increased \$59.3 million in the nine months ended September 30, 2023 compared with nine months ended September 30, 2022 due to higher yield on interest-earning assets (up 1.43%) and higher average balances of investment debt securities (up \$214 million), partially offset by lower average balances of loans (down \$84 million) and interest-bearing cash (down \$624 million) and higher rate on interest-bearing liabilities (up 0.04%).

The annualized net interest margin (FTE) was 4.43% in the third quarter 2023 and 4.32% in the nine months ended September 30, 2023 compared with 3.44% in the third quarter 2022 and 2.90% in the first nine months of 2022.

The Company's annualized funding costs were 0.07% in the third quarter 2023 compared with 0.03% in the third quarter 2022, and 0.04% in the nine months ended September 30, 2023 and 0.03% in the nine months ended September 30, 2022. Noninterest bearing deposits represented 47% of average deposits in the nine months ended September 30, 2023 and 47% in the nine months ended September 30, 2022, while higher-cost time deposits represented 2% for both periods. Average balances of time deposits in the nine months ended September 30, 2023 declined \$20 million from the nine months ended September 30, 2022. Average balances of checking and saving deposits accounted for 97.9% of average total deposits in the nine months ended September 30, 2023 compared with 97.8% of average total deposits in the first nine months of 2022. The customer deposits and shareholders' equity fully funded the Company's interest earning assets for the nine months ended September 30, 2023 and September 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 Nine Months	
	2023	2022	2023	2022
Yield on earning assets (FTE)	4.50%	3.47%	4.36%	2.93%
Rate paid on interest-bearing liabilities	0.14%	0.05%	0.09%	0.05%
Net interest spread (FTE)	4.36%	3.42%	4.27%	2.88%
Impact of noninterest-bearing demand deposits	0.07%	0.02%	0.05%	0.02%
Net interest margin (FTE)	<u>4.43%</u>	<u>3.44%</u>	<u>4.32%</u>	<u>2.90%</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 SOFR base rate. The average balances and yields of CLOs for the three months ended September 30, 2023 was \$1,531 million yielding 7.16% and \$1,554 million yielding 6.77% for the nine

months ended September 30, 2023. The average balances and yields of CLOs for the three months ended September 30, 2022 was \$1,601 million yielding 4.00% and \$1,559 million yielding 2.87% for the nine months ended September 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 third quarter 2023 and nine months ended September 30, 2023 were \$287 million yielding 5.35% and \$208 million yielding 5.06%, respectively. The average balance and yields of interest-bearing cash for the third quarter 2022 and nine months ended September 30, 2022 were \$500 million yielding 2.15% and \$832 million yielding 0.83%, 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 September 30, 2023		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$5,093,715	\$55,911	4.39%
Tax-exempt <sup>(1)</sup>	153,403	1,369	3.57%
Total investments <sup>(1)</sup>	5,247,118	57,280	4.32%
Loans:			
Taxable	860,371	11,580	5.34%
Tax-exempt <sup>(1)</sup>	43,483	436	3.98%
Total loans <sup>(1)</sup>	903,854	12,016	5.27%
Total interest-bearing cash	287,439	3,929	5.35%
Total interest-earning assets <sup>(1)</sup>	6,438,411	73,225	4.50%
Other assets	409,280		
Total assets	\$6,847,691		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,721,358	\$-	- %
Savings and interest-bearing transaction	2,891,477	1,017	0.14%
Time less than \$100,000	66,909	52	0.31%
Time \$100,000 or more	43,073	26	0.24%
Total interest-bearing deposits	3,001,459	1,095	0.14%
Short-term borrowed funds	117,173	38	0.13%
Total interest-bearing liabilities	3,118,632	1,133	0.14%
Other liabilities	105,401		
Shareholders' equity	902,300		
Total liabilities and shareholders' equity	\$6,847,691		
Net interest spread <sup>(1) (2)</sup>			4.36%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$72,092	4.43%

<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 September 30, 2022		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$5,356,955	\$44,461	3.32%
Tax-exempt <sup>(1)</sup>	195,633	1,766	3.61%
Total investments <sup>(1)</sup>	5,552,588	46,227	3.33%
Loans:			
Taxable	943,293	11,865	4.99%
Tax-exempt <sup>(1)</sup>	45,740	433	3.76%
Total loans <sup>(1)</sup>	989,033	12,298	4.93%
Total interest-bearing cash	499,692	2,742	2.15%
Total Interest-earning assets <sup>(1)</sup>	7,041,313	61,267	3.47%
Other assets	430,991		
Total assets	\$7,472,304		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$3,058,662	\$-	- %
Savings and interest-bearing transaction	3,297,585	384	0.05%
Time less than \$100,000	76,790	47	0.24%
Time \$100,000 or more	62,014	39	0.25%
Total interest-bearing deposits	3,436,389	470	0.05%
Short-term borrowed funds	83,694	17	0.08%
Total interest-bearing liabilities	3,520,083	487	0.05%
Other liabilities	86,131		
Shareholders' equity	807,428		
Total liabilities and shareholders' equity	\$7,472,304		
Net interest spread <sup>(1) (2)</sup>			3.42%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$60,780	3.44%

<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 Nine Months Ended September 30, 2023		
	Average Balance	Interest Income/ Expense	Yields/ Rates
		(\$ in thousands)	
Assets			
Investment securities:			
Taxable	\$5,223,319	\$166,031	4.24%
Tax-exempt <sup>(1)</sup>	162,667	4,347	3.56%
Total investments <sup>(1)</sup>	5,385,986	170,378	4.20%
Loans:			
Taxable	880,711	34,470	5.23%
Tax-exempt <sup>(1)</sup>	44,640	1,317	3.94%
Total loans <sup>(1)</sup>	925,351	35,787	5.17%
Total interest-bearing cash	208,111	7,981	5.06%
Total interest-earning assets <sup>(1)</sup>	6,519,448	214,146	4.36%
Other assets	421,449		
Total assets	\$6,940,897		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,774,282	\$-	- %
Savings and interest-bearing transaction	2,964,442	1,891	0.09%
Time less than \$100,000	69,301	153	0.30%
Time \$100,000 or more	51,481	91	0.24%
Total interest-bearing deposits	3,085,224	2,135	0.09%
Short-term borrowed funds	97,510	76	0.10%
Total interest-bearing liabilities	3,182,734	2,211	0.09%
Other liabilities	104,141		
Shareholders' equity	879,740		
Total liabilities and shareholders' equity	\$6,940,897		
Net interest spread <sup>(1) (2)</sup>			4.27%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$211,935	4.32%

<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 Nine Months Ended September 30, 2022		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$4,951,926	\$105,286	2.83%
Tax-exempt <sup>(1)</sup>	220,077	5,799	3.51%
Total investments <sup>(1)</sup>	5,172,003	111,085	2.86%
Loans:			
Taxable	962,556	36,419	5.06%
Tax-exempt <sup>(1)</sup>	46,758	1,343	3.84%
Total loans <sup>(1)</sup>	1,009,314	37,762	5.00%
Total interest-bearing cash	832,310	5,223	0.83%
Total Interest-earning assets <sup>(1)</sup>	7,013,627	154,070	2.93%
Other assets	419,513		
Total assets	\$7,433,140		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$3,020,892	\$-	-
Savings and interest-bearing transaction	3,275,781	1,134	0.05%
Time less than \$100,000	77,952	129	0.22%
Time \$100,000 or more	63,318	120	0.25%
Total interest-bearing deposits	3,417,051	1,383	0.05%
Short-term borrowed funds	121,310	67	0.07%
Total interest-bearing liabilities	3,538,361	1,450	0.05%
Other liabilities	83,196		
Shareholders' equity	790,691		
Total liabilities and shareholders' equity	\$7,433,140		
Net interest spread <sup>(1) (2)</sup>			2.88%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$152,620	2.90%

<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 September 30, 2023		
	Compared with		
	For the Three Months Ended September 30, 2022		
	Volume	Yield/Rate	Total
	(In thousands)		
(Decrease) increase in interest and loan fee income:			
Investment securities:			
Taxable	(\$2,185)	\$13,635	\$11,450
Tax-exempt <sup>(1)</sup>	(381)	(16)	(397)
Total investments <sup>(1)</sup>	(2,566)	13,619	11,053
Loans:			
Taxable	(1,043)	758	(285)
Tax-exempt <sup>(1)</sup>	(21)	24	3
Total loans <sup>(1)</sup>	(1,064)	782	(282)
Total interest-bearing cash	(1,165)	2,352	1,187
Total (decrease) increase in interest and loan fee income <sup>(1)</sup>	(4,795)	16,753	11,958
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(47)	680	633
Time less than \$100,000	(6)	11	5
Time \$100,000 or more	(12)	(1)	(13)
Total interest-bearing deposits	(65)	690	625
Short-term borrowed funds	7	14	21
Total (decrease) increase in interest expense	(58)	704	646
(Decrease) increase in net interest and loan fee income <sup>(1)</sup>	(\$4,737)	\$16,049	\$11,312

<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 Nine Months Ended September 30, 2023		
	Compared with		
	For the Nine Months Ended September 30, 2022		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	\$5,770	\$54,975	\$60,745
Tax-exempt <sup>(1)</sup>	(1,513)	61	(1,452)
Total investments <sup>(1)</sup>	4,257	55,036	59,293
Loans:			
Taxable	(3,097)	1,148	(1,949)
Tax-exempt <sup>(1)</sup>	(61)	35	(26)
Total loans <sup>(1)</sup>	(3,158)	1,183	(1,975)
Total interest-bearing cash	(3,917)	6,675	2,758
Total (decrease) increase in interest and loan fee income <sup>(1)</sup>	(2,818)	62,894	60,076
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(108)	865	757
Time less than \$100,000	(14)	38	24
Time \$100,000 or more	(22)	(7)	(29)
Total interest-bearing deposits	(144)	896	752
Short-term borrowed funds	(13)	22	9
Total (decrease) increase in interest expense	(157)	918	761
(Decrease) increase in net interest and loan fee income <sup>(1)</sup>	(\$2,661)	\$61,976	\$59,315

<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 a \$400 thousand provision for credit losses in the third quarter of 2023, based on the results of the CECL model and Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. The Company recorded a \$1.2 million reversal of provision for credit losses in the nine months ended September 30, 2023 which reflected a \$2.2 million recovery on a previously charged off loan in the first quarter 2023. The Company provided no provision for credit losses in the third quarter of 2022 and nine months ended September 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 Nine Months	
	2023	2022	2023	2022
	Ended September 30,			
	(In thousands)			
Service charges on deposit accounts	\$3,705	\$3,737	\$10,629	\$11,006
Merchant processing services	2,911	2,925	8,417	8,922
Debit card fees	1,717	1,594	5,118	6,175
Trust fees	783	810	2,358	2,462
ATM processing fees	640	594	1,996	1,514
Other service fees	463	463	1,320	1,392
Financial services commissions	78	79	270	314
Life insurance gains	278	923	278	923
Securities losses	-	-	(125)	-
Other noninterest income	706	693	2,269	1,950
Total	<u>\$11,281</u>	<u>\$11,818</u>	<u>\$32,530</u>	<u>\$34,658</u>

Third quarter 2023 noninterest income decreased \$537 thousand compared with the third quarter 2022 primarily due to lower gains on life insurance. Debit card fees increased in the third quarter 2023 compared with the third quarter 2022 primarily due to higher transaction volumes.

Noninterest income for the nine months ended September 30, 2023 decreased \$2.1 million compared with the nine months ended September 30, 2022 primarily due to lower gains on life insurance and because debit card fees in the nine months ended September 30, 2022 included a \$1.2 million reconciling payment from a payments network. Merchant processing service fees decreased in the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022 primarily due to lower transaction volumes and increased lower-margin transactions. Service charges on deposit accounts decreased in the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022 primarily due to lower fee income on analyzed deposit accounts. ATM processing fee income increased in the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022 and partially offset the decreases in the other components of noninterest income. Other noninterest income in the nine months ended September 30, 2023 included higher recoveries of interest and fees on previously charged off loans compared with nine months ended September 30, 2022.

## Noninterest Expense

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

	For the Three Months		For the Nine Months	
	2023	2022	2023	2022
	Ended September 30,			
	(In thousands)			
Salaries and related benefits	\$11,820	\$11,311	\$35,715	\$34,643
Occupancy and equipment	5,065	5,064	15,562	14,666
Outsourced data processing services	2,473	2,434	7,405	7,294
Limited partnership operating losses	1,440	1,431	4,314	4,293
Professional fees	401	582	1,362	2,054
Courier service	745	671	1,971	1,914
Other noninterest expense	3,706	3,274	11,370	9,407
Total	<u>\$25,650</u>	<u>\$24,767</u>	<u>\$77,699</u>	<u>\$74,271</u>

Third quarter 2023 noninterest expense increased \$883 thousand compared with the third quarter 2022. Salaries and benefits increased in the third quarter 2023 compared with the third quarter 2022 due to increased staff, annual merit increases and higher group health insurance costs for the employees. Other noninterest expense increased in the third quarter 2023 compared with third quarter 2022 primarily due to higher FDIC insurance assessments for all insured depository institutions. Professional fees decreased in the third quarter 2023 compared with the third quarter 2022 primarily due to lower legal fees.

Noninterest expense in the nine months ended September 30, 2023 increased \$3.4 million compared with the nine months ended September 30, 2022. Salaries and benefits increased in the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022 due to increased staff, annual merit increases and higher group health insurance costs for the employees. Occupancy and equipment expenses increased in the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022 primarily due to increases in repair and maintenance. Other noninterest expense increased in the nine months ended September 30, 2023 compared with the nine months ended September 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 nine months ended September 30, 2023 compared with the nine months ended September 30, 2022 primarily due to lower legal fees.

### Provision for Income Tax

The Company's income tax provision (FTE) was \$15.7 million for the third quarter 2023 and \$45.6 million for the nine months ended September 30, 2023 compared with \$13.1 million for the third quarter 2022 and \$30.3 million for the nine months ended September 30, 2022. The effective tax rates (FTE) were 27.4% for the third quarter 2023 and 27.2% for the nine months ended September 30, 2023 compared with 27.3% for the third quarter 2022 and 26.8% for the nine months ended September 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. The Company had no marketable equity securities at September 30, 2023 and December 31, 2022.

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 \$4.8 billion at September 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 September 30, 2023 and December 31, 2022. Debt securities available for sale are listed at fair value.

	At September 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	\$279,364	6%	\$290,853	6%
Agency residential mortgage-backed securities ("MBS")	324,075	7%	390,900	7%
Obligations of states and political subdivisions	147,198	3%	171,212	3%
Corporate securities	2,541,375	53%	2,821,809	54%
Collateralized loan obligations	1,503,078	31%	1,572,883	30%
Total	<u>\$4,795,090</u>	<u>100%</u>	<u>\$5,247,657</u>	<u>100%</u>
Debt securities available for sale	\$3,906,233		\$4,331,743	
Debt securities held to maturity	<u>888,857</u>		<u>915,914</u>	
Total	<u>\$4,795,090</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 September 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 following table summarizes the amortized cost of debt securities held to maturity at September 30, 2023, aggregated by credit rating:

	Credit Risk Profile by Credit Rating			
	At September 30, 2023			
	AAA/AA/A	BBB+	Not Rated	Total
	(In thousands)			
Agency residential MBS	\$83,863	\$ -	\$484	\$84,347
Obligations of states and political subdivisions	77,379	-	180	77,559
Corporate securities	505,421	221,530	-	726,951
Total	\$666,663	\$221,530	\$664	\$888,857

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

	Corporate securities			
	At September 30, 2023		At December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Debt securities available for sale	\$2,134,535	\$1,814,424	\$2,406,566	\$2,099,955
Debt securities held to maturity	726,951	666,549	721,854	687,406
Total corporate securities	\$2,861,486	\$2,480,973	\$3,128,420	\$2,787,361

The following table summarizes total corporate securities by credit rating:

	At September 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	\$ -	- %	\$20,667	1%
AA+	-	- %	19,840	1%
AA	-	- %	19,234	1%
AA-	68,324	3%	110,552	4%
A+	235,646	9%	255,381	9%
A	362,091	14%	503,437	18%
A-	784,259	32%	695,865	25%
BBB+	707,790	29%	821,102	29%
BBB	322,863	13%	304,957	11%
BBB-	-	-%	36,326	1%
Total corporate securities	\$2,480,973	100%	\$2,787,361	100%

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

	At September 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	\$1,436,503	58%	\$1,539,361	55%
Utilities	262,148	11%	285,016	10%
Industrial	202,117	8%	237,554	9%
Consumer, Non-cyclical	160,735	6%	173,736	6%
Communications	151,816	6%	162,270	6%
Basic Materials	97,123	4%	98,072	3%
Energy	65,891	3%	86,431	3%
Technology	60,665	2%	101,255	4%
Consumer, Cyclical	43,975	2%	103,666	4%
Total corporate securities	<u>\$2,480,973</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 September 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	\$1,720,693	69%	\$1,997,328	72%
Canada	184,151	7%	192,475	7%
United Kingdom	157,270	6%	171,819	6%
Japan	153,681	6%	161,804	6%
Switzerland	89,717	4%	86,396	3%
France	87,227	4%	87,781	3%
Netherlands	32,647	1%	33,216	1%
Australia	23,580	1%	23,870	1%
Belgium	19,820	1%	20,243	1%
Germany	12,187	1%	12,429	- %
Total corporate securities	<u>\$2,480,973</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 September 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	\$665,173	87%	\$680,956	86%
Energy	30,174	4%	30,600	4%
Basic materials	23,580	3%	23,870	3%
Consumer, Non-cyclical	19,820	3%	32,684	4%
Consumer, Cyclical	12,187	2%	12,429	2%
Utilities	9,346	1%	9,494	1%
Total foreign corporate securities	<u>\$760,280</u>	<u>100%</u>	<u>\$790,033</u>	<u>100%</u>

The Company's \$1.5 billion (fair value) in collateralized loan obligations at September 30, 2023, consist of investments in 143 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 September 30, 2023	
	Amortized Cost	Fair Value
	(In thousands)	
AAA	\$545,632	\$540,315
AA	980,037	962,763
Total	<u>\$1,525,669</u>	<u>\$1,503,078</u>

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>

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

At September 30, 2023, the Company's investment securities portfolios included securities issued by 129 state and local government municipalities and agencies located within 31 states. The largest exposure to any one municipality or agency was \$4.7 million (fair value) represented by two general obligation bonds.

	At September 30, 2023	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	\$23,806	\$23,191
Washington	11,362	10,989
Texas	8,162	7,777
Massachusetts	8,123	7,752
Michigan	7,067	6,763
Minnesota	6,626	6,468
Other (21 states)	53,353	50,543
Total general obligation bonds	<u>\$118,499</u>	<u>\$113,483</u>
Revenue bonds:		
California	\$10,425	\$10,043
Kentucky	5,059	4,972
Virginia	3,659	3,487
Colorado	3,156	3,085
Washington	2,070	2,041
Utah	1,930	1,922
Other (7 states)	6,375	6,212
Total revenue bonds	<u>\$32,674</u>	<u>\$31,762</u>
Total obligations of states and political subdivisions	<u><u>\$151,173</u></u>	<u><u>\$145,245</u></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 September 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 September 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 September 30, 2023	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	\$5,023	\$4,956
Sewer	4,853	4,698
Lease (appropriation)	4,554	4,469
Special Assessment	3,695	3,359
Lease (renewal)	3,044	2,972
Lease (abatement)	2,863	2,843
Sales tax	2,185	2,150
Lease (non-terminable)	1,930	1,898
Appropriations	1,982	1,880
Other (2 sources)	2,545	2,537
Total revenue bonds by revenue source	<u><u>\$32,674</u></u>	<u><u>\$31,762</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 September 30, 2023	At September 30, 2022	At December 31, 2022
	(In thousands)		
Nonperforming nonaccrual loans	\$205	\$131	\$146
Performing nonaccrual loans	4	66	-
Total nonaccrual loans	<u>209</u>	<u>197</u>	<u>146</u>
Accruing loans 90 or more days past due	1,029	769	628
Total nonperforming loans	<u>\$1,238</u>	<u>\$966</u>	<u>\$774</u>

At September 30, 2023, nonaccrual loans consisted of four loans with an average carrying value of \$52 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 September 30, 2023	At December 31, 2022
	(In thousands)	
Allowance for credit losses on loans	\$17,744	\$20,284
Allowance for credit losses on held to maturity debt securities	<u>1</u>	<u>1</u>
Total allowance for credit losses	<u>\$17,745</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 September 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 September 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 Nine Months	
	2023	2022	2023	2022
	Ended September 30,			
	(\$ in thousands)			
Analysis of the allowance for credit losses				
Balance, beginning of period	\$18,480	\$22,313	\$20,284	\$23,514
Provision (reversal of provision) for credit losses	400	-	(1,150)	-
Loans charged off				
Commercial	(262)	-	(410)	(20)
Consumer installment and other	(1,827)	(1,917)	(5,379)	(4,522)
Total chargeoffs	(2,089)	(1,917)	(5,789)	(4,542)
Recoveries of loans previously charged off				
Commercial	10	72	2,194	335
Commercial real estate	15	14	45	46
Consumer installment and other	928	736	2,160	1,865
Total recoveries	953	822	4,399	2,246
Net loan losses	(1,136)	(1,095)	(1,390)	(2,296)
Balance, end of period	\$17,744	\$21,218	\$17,744	\$21,218
Net loan losses as a percentage of average total loans (annualized)	0.50%	0.44%	0.20%	0.30%

Selected financial data: (At the dates indicated)

	At September 30,		At December 31,
	2023	2022	2022
	(\$ in thousands)		
Loans	\$885,850	\$979,033	\$958,488
Nonaccrual loans	209	197	146
Allowance for credit losses as a percentage of loans	2.00%	2.17%	2.12%
Nonaccrual loans as a percentage of loans	0.02%	0.02%	0.02%
Allowance for credit losses to nonaccrual loans	8489.95%	10770.56%	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 Nine Months Ended		
	September 30, 2023					
Net (Chargeoffs) Recoveries	Average Loan Balances	As a Percentage of Net Chargeoffs (Recoveries) to Average Loans	Net Recoveries (Chargeoffs)	Average Loan Balances	As a Percentage of Net (Recoveries) Chargeoffs to Average Loans	
(\$ in thousands)						
Commercial	(\$252)	\$146,478	0.17%	\$1,784	\$154,078	(1.16)%
Commercial real estate	15	493,072	- %	45	492,702	(0.01)%
Construction	-	4,953	- %	-	4,126	- %
Residential real estate	-	11,703	- %	-	12,593	- %
Consumer and other installment	(899)	247,648	0.36%	(3,219)	261,852	1.23%
Total	(\$1,136)	\$903,854	0.13%	(\$1,390)	\$925,351	0.15%

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	For the Three Months Ended			For the Nine Months Ended		
	Net (chargeoffs) Recoveries	Average Loan Balances	As a percentage of Net chargeoffs (recoveries) to Average loans	Net (chargeoffs) Recoveries	Average Loan Balances	As a percentage of Net chargeoffs (recoveries) to Average loans
	September 30, 2022					
	(\$ in thousands)					
Commercial	\$72	\$187,941	(0.04)%	\$315	\$198,950	(0.16)%
Commercial real estate	14	494,717	- %	46	508,812	(0.01)%
Construction	-	2,384	- %	-	1,256	- %
Residential real estate	-	15,144	- %	-	16,157	- %
Consumer and other installment	(1,181)	288,847	0.41%	(2,657)	284,139	0.94%
Total	<u>(\$1,095)</u>	<u>\$989,033</u>	<u>0.11%</u>	<u>(\$2,296)</u>	<u>\$1,009,314</u>	<u>0.23%</u>

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.

	Allowance for Credit Losses					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	For the Three Months Ended September 30, 2023					
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$4,764	\$6,083	\$202	\$32	\$7,399	\$18,480
(Reversal) provision	(345)	(194)	40	(6)	905	400
Chargeoffs	(262)	-	-	-	(1,827)	(2,089)
Recoveries	10	15	-	-	928	953
Total allowance for credit losses	<u>\$4,167</u>	<u>\$5,904</u>	<u>\$242</u>	<u>\$26</u>	<u>\$7,405</u>	<u>\$17,744</u>

	Allowance for Credit Losses					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	For the Nine Months Ended September 30, 2023					
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$6,138	\$5,888	\$150	\$32	\$8,076	\$20,284
(Reversal) provision	(3,755)	(29)	92	(6)	2,548	(1,150)
Chargeoffs	(410)	-	-	-	(5,379)	(5,789)
Recoveries	2,194	45	-	-	2,160	4,399
Total allowance for credit losses	<u>\$4,167</u>	<u>\$5,904</u>	<u>\$242</u>	<u>\$26</u>	<u>\$7,405</u>	<u>\$17,744</u>

Management considers the \$17.7 million allowance for credit losses on loans to be adequate as a reserve against current expected credit losses in the loan portfolio as of September 30, 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 September 30, 2023, the Company had \$19 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 are not considered to be material risks 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 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 generally "asset sensitive" at September 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. Further, in the dynamic simulation, no change in interest rates is expected to result in a decline in net interest income as asset yields remain stable and deposit costs rise as the Bank negotiates deposit rates with customers in the current environment.

At September 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	-2.00%	-1.00%	0.00%	+1.00%	+2.00%
First year change in net interest income	-1.1%	+1.4%	-0.8%	+1.5%	+2.9%

Static simulation (balance sheet composition unchanged):

Assumed immediate change in interest rates	-2.00%	-1.00%	0.00%	+1.00%	+2.00%
First year change in net interest income	-12.0%	-5.4%	0.0%	+6.3%	+12.2%

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 nine months ended September 30, 2023 and 97% 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 \$5,699 million at September 30, 2023 and \$6,225 million at December 31, 2022. Total time deposits were \$105 million at September 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 September 30,

2023, estimated federally uninsured deposits and time deposits were \$2,671 million and \$12 million, respectively. Estimated federally uninsured time deposits included \$650 thousand in deposits by public entities that are secured by the Company’s debt securities as collateral.

Banking industry deposits, including for Westamerica Bank, grew rapidly in 2020 and 2021 due to the injection of fiscal stimulus into the United States economy, including Paycheck Protection Program loans, and an easing of Federal Reserve monetary policy, both in response to the COVID pandemic. Federal Reserve monetary policy easing included reduction in the federal funds rate to a range of 0.00% to 0.25% and net purchases of Treasury securities and agency mortgage-backed securities, which increase the money supply and aggregate bank deposits. Subsequently, inflation rose considerably while employment conditions remained strong. In 2022 and 2023, the Federal Reserve’s monetary policy reversed to tightening, in an effort to reduce inflation. The monetary policy tightening included increasing the federal funds rate to a range of 5.25% to 5.50% and net reductions of Treasury securities and agency mortgage-backed securities, which reduce the money supply and aggregate bank deposits. Westamerica Bank’s deposit totals are subject to both the fiscal policies of the United States government and monetary policies of the Federal Reserve; the 2023 decline in Westamerica Bank deposits is influenced by these fiscal and monetary policies. In addition, the Internal Revenue Service (“IRS”) declared every county in which Westamerica Bank operates as Natural Disaster Areas due to 2022-2023 winter storms; the IRS and California Franchise Tax Board extended the 2022 tax filing deadline and 2023 tax installment payment due dates to November 16, 2023. Westamerica Bank management expects this deferment of tax payment deadlines will impact deposit totals in the fourth quarter 2023 as customers pay their federal and California tax obligations.

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 September 30, 2023</u>
	(In thousands)
Three months or less	\$7,272
Over three through six months	2,291
Over six through twelve months	1,155
Over twelve months	918
Total	<u><u>\$11,636</u></u>

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. At September 30, 2023, the Company had \$420,550 thousand in cash balances. During the twelve months ending September 30, 2024, the Company expects to receive \$257,000 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 September 30, 2023, the Company’s debt securities which qualify as collateral for borrowing totaled \$3,810,723 thousand. In the ordinary course of business, the Company pledges debt securities as collateral for certain depository customers; at September 30, 2023, the Company had pledged \$680,735 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 September 30, 2023, the Company had pledged \$964,139 thousand in debt securities at the Federal Reserve Bank. During the nine months ended September 30, 2023, the Company’s average borrowings from the Federal Reserve Bank and other correspondent banks were \$-0- thousand, respectively, and at September 30, 2023, the Company’s borrowings from the Federal Reserve Bank and other correspondent banks were \$-0- thousand. At September 30, 2023, the Company’s estimated unpledged collateral qualifying debt securities totaled \$1,930,927 thousand based on the Federal Reserve Bank borrowing programs. Debt securities eligible as collateral are shown at market value unless otherwise noted:

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	<u>At September 30, 2023</u> (in thousands)
Debt Securities Eligible as Collateral:	
Corporate Securities	\$2,480,972
Collateralized Loan Obligations rated AAA	540,315
Obligations of States and Political Subdivisions	145,246
Agency Mortgage Backed Securities	317,357
Securities of U.S. Government Sponsored Entities (Par Value)	<u>326,833</u>
Total Debt Securities Eligible as Collateral	\$3,810,723
Debt Securities Pledged as Collateral:	
Deposits by Public Entities	(\$680,735)
Short-term Borrowed Funds (Deposit Sweep)	(229,278)
Other	<u>(5,644)</u>
Total Debt Securities Pledged as Collateral	(\$915,657)
Debt Securities Pledged at the Federal Reserve Bank	<u>(\$964,139)</u>
Estimated Debt Securities Available to Pledge	\$1,930,927

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 any 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 \$34 million in the nine months ended September 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 \$126 million at September 30, 2023 and \$99 million at December 31, 2022.

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## 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 18.6% for the nine months ended September 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 \$34 million in the nine months ended September 30, 2023 and \$45 million in the year ended December 31, 2022, which represent dividends per common share of \$1.28 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 nine months ended September 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 \$648 million at September 30, 2023 compared with \$602 million at December 31, 2022. The Company's ratio of equity to total assets was 9.9% at September 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 September 30, 2023		Required for Capital Adequacy Purposes	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank		
Common Equity Tier I Capital	18.20%	14.57%	7.00%	6.50%
Tier I Capital	18.20%	14.57%	8.50%	8.00%
Total Capital	18.60%	15.12%	10.50%	10.00%
Leverage Ratio	12.08%	9.63%	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%	7.00%	6.50%
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 implemented data security safeguards with its third party vendors designed to quickly identify and contain improper access to sensitive information. The Company notified the affected customers as required by law. As of September 30, 2023, to the Company's knowledge, 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 September 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 September 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.***

The banking industry continued to experience significant volatility with recent 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.

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

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

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser", as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of common stock during the quarter ended September 30, 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)			
July 1 through July 31	-	\$ -	-	1,750
August 1 through August 31	-	-	-	1,750
September 1 through September 30	-	-	-	1,750
Total	-	\$ -	-	1,750

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

No shares were repurchased during the period from July 1, 2023 through September 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 September 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.

### Item 6. Exhibits

#### Exhibit No.    Description of Exhibit

Exhibit 31.1    Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 31.2    Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 32.1    Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

Exhibit 101.INS    XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

Exhibit 101.SCH    Inline XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL    Inline XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF    Inline XBRL Taxonomy Extension Definitions Linkbase Document

Exhibit 101.LAB    Inline XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE    Inline XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 104.    The Cover page of Westamerica Bancorporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 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: November 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: November 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: November 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 September 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: November 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 September 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: November 8, 2023