

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 March 31, 2024**
- 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 April 30, 2024  
26,678,401

## TABLE OF CONTENTS

	Page
Forward Looking Statements .....	3
<b>PART I - FINANCIAL INFORMATION</b>	
Item 1 Financial Statements .....	4
Notes to Unaudited Consolidated Financial Statements .....	9
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations .....	29
Item 3 Quantitative and Qualitative Disclosures about Market Risk .....	52
Item 4 Controls and Procedures .....	52
<b>PART II - OTHER INFORMATION</b>	
Item 1 Legal Proceedings .....	53
Item 1A Risk Factors .....	53
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds .....	53
Item 3 Defaults upon Senior Securities .....	53
Item 4 Mine Safety Disclosures .....	53
Item 5 Other Information .....	53
Item 6 Exhibits .....	54
Signatures .....	55

## 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 values 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 civil unrest, 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 Part II – Item 1A “Risk Factors” of this report and other risk factors discussed elsewhere in the Company’s annual report on Form 10-K for the year ended December 31, 2023, 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 March 31, 2024	At December 31, 2023
	(In thousands)	
<b>Assets:</b>		
Cash and due from banks	\$434,250	\$190,314
Debt securities available for sale	3,889,177	3,999,801
Debt securities held to maturity, net of allowance for credit losses of \$1 at March 31, 2024 and December 31, 2023 (Fair value of \$829,455 at March 31, 2024 and \$849,562 at December 31, 2023)	868,725	878,396
Loans	844,677	866,602
Allowance for credit losses on loans	(15,879)	(16,867)
Loans, net of allowance for credit losses on loans	828,798	849,735
Premises and equipment, net	26,458	27,016
Identifiable intangibles, net	291	347
Goodwill	121,673	121,673
Other assets	295,313	297,310
<b>Total Assets</b>	<b>\$6,464,685</b>	<b>\$6,364,592</b>
<b>Liabilities:</b>		
Noninterest-bearing deposits	\$2,514,161	\$2,605,844
Interest-bearing deposits	2,840,764	2,868,423
Total deposits	5,354,925	5,474,267
Bank Term Funding Program borrowings	200,000	-
Securities sold under repurchase agreements	50,334	58,162
Other liabilities	67,735	59,269
<b>Total Liabilities</b>	<b>5,672,994</b>	<b>5,591,698</b>
<b>Contingencies (Note 10)</b>		
<b>Shareholders' Equity:</b>		
Common stock (no par value), authorized: 150,000 shares issued and outstanding: 26,678 at March 31, 2024 and 26,671 at December 31, 2023	473,954	473,136
Deferred compensation	35	35
Accumulated other comprehensive loss	(196,857)	(190,282)
Retained earnings	514,559	490,005
<b>Total Shareholders' Equity</b>	791,691	772,894
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$6,464,685</b>	<b>\$6,364,592</b>

See accompanying notes to unaudited consolidated financial statements.

**WESTAMERICA BANCORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

For the  
Three Months Ended  
March 31,

**2024**      **2023**

(In thousands,  
except per share data)

<b>Interest and Fee Income:</b>		
Loans	\$11,324	\$11,740
Equity securities	174	152
Debt securities available for sale	46,243	46,810
Debt securities held to maturity	8,722	8,980
Interest-bearing cash	2,283	1,942
<b>Total Interest and Fee Income</b>	<b>68,746</b>	<b>69,624</b>
<b>Interest Expense:</b>		
Deposits	2,106	458
Bank Term Funding Program borrowings	843	-
Securities sold under repurchase agreements	52	13
<b>Total Interest Expense</b>	<b>3,001</b>	<b>471</b>
<b>Net Interest and Fee Income</b>	<b>65,745</b>	<b>69,153</b>
<b>Provision (Reversal of Provision) for Credit Losses</b>	<b>300</b>	<b>(1,550)</b>
<b>Net Interest and Fee Income After Provision (Reversal of Provision) for Credit Losses</b>	<b>65,445</b>	<b>70,703</b>
<b>Noninterest Income:</b>		
Service charges on deposit accounts	3,470	3,465
Merchant processing services	2,507	2,637
Debit card fees	1,543	1,642
Trust fees	794	765
ATM processing fees	591	654
Other service fees	438	399
Other noninterest income	754	987
<b>Total Noninterest Income</b>	<b>10,097</b>	<b>10,549</b>
<b>Noninterest Expense:</b>		
Salaries and related benefits	12,586	12,067
Occupancy and equipment	5,040	5,485
Outsourced data processing services	2,536	2,444
Limited partnership operating losses	1,440	1,434
Courier service	649	615
Professional fees	402	476
Other noninterest expense	3,446	3,689
<b>Total Noninterest Expense</b>	<b>26,099</b>	<b>26,210</b>
<b>Income Before Income Taxes</b>	<b>49,443</b>	<b>55,042</b>
Provision for income taxes	13,026	14,591
<b>Net Income</b>	<b>\$36,417</b>	<b>\$40,451</b>
<b>Average Common Shares Outstanding</b>	<b>26,674</b>	<b>26,859</b>
<b>Average Diluted Common Shares Outstanding</b>	<b>26,675</b>	<b>26,866</b>
<b>Per Common Share Data:</b>		
Basic earnings	\$1.37	\$1.51
Diluted earnings	1.37	1.51
Dividends paid	0.44	0.42

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Net income	\$36,417	\$40,451
Other comprehensive income (loss):		
Changes in net unrealized losses on debt securities available for sale	(9,335)	34,830
Deferred tax benefit (expense)	2,760	(10,298)
Changes in net unrealized losses on debt securities available for sale, net of tax	(6,575)	24,532
Total comprehensive income	\$29,842	\$64,983

See accompanying notes to unaudited consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	(In thousands except per share data)					
<b>Balance, December 31, 2022</b>	26,913	\$475,086	\$35	(\$256,105)	\$383,094	\$602,110
Net income for the period					40,451	40,451
Other comprehensive income				24,532		24,532
Restricted stock activity	9	508				508
Stock based compensation	-	339				339
Stock awarded to employees	-	35				35
Retirement of common stock	(274)	(4,844)			(8,903)	(13,747)
Dividends (\$0.42 per share)					(11,303)	(11,303)
<b>Balance, March 31, 2023</b>	<u>26,648</u>	<u>\$471,124</u>	<u>\$35</u>	<u>(\$231,573)</u>	<u>\$403,339</u>	<u>\$642,925</u>
<b>Balance, December 31, 2023</b>	26,671	\$473,136	\$35	(\$190,282)	\$490,005	\$772,894
Net income for the period					36,417	36,417
Other comprehensive loss				(6,575)		(6,575)
Restricted stock activity	11	505				505
Stock based compensation	-	364				364
Stock awarded to employees	-	31				31
Retirement of common stock	(4)	(82)			(128)	(210)
Dividends (\$0.44 per share)					(11,735)	(11,735)
<b>Balance, March 31, 2024</b>	<u>26,678</u>	<u>\$473,954</u>	<u>\$35</u>	<u>(\$196,857)</u>	<u>\$514,559</u>	<u>\$791,691</u>

See accompanying notes to unaudited consolidated financial statements.

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

For the Three Months  
Ended March 31,  
**2024**      **2023**  
(In thousands)

**Operating Activities:**

Net income	\$36,417	\$40,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization/accretion	2,962	3,044
Provision (reversal of provision) for credit losses	300	(1,550)
Net amortization of deferred net loan fees	(150)	(128)
Stock option compensation expense	364	339
Net changes in:		
Interest income receivable	568	(118)
Income taxes payable	9,742	14,336
Deferred tax asset	3,285	254
Other assets	596	1,930
Interest expense payable	1,009	32
Other liabilities	(2,881)	(3,508)

**Net Cash Provided by Operating Activities**

<u>52,212</u>	<u>55,082</u>
---------------	---------------

**Investing Activities:**

Net repayments of loans	20,787	19,213
Purchases of Federal Reserve Bank stock	-	(2,192)
Proceeds from maturity/calls of debt securities available for sale	98,966	147,030
Proceeds from maturity/calls of debt securities held to maturity	11,208	8,073
Purchases of premises and equipment	(122)	(511)

**Net Cash Provided by Investing Activities**

<u>130,839</u>	<u>171,613</u>
----------------	----------------

**Financing Activities:**

Net change in deposits	(119,342)	(325,975)
Net change in borrowings	192,172	25,296
Retirement of common stock	(210)	(13,747)
Common stock dividends paid	(11,735)	(11,303)

**Net Cash Provided by (Used in) Financing Activities**

<u>60,885</u>	<u>(325,729)</u>
---------------	------------------

**Net Change In Cash and Due from Banks**

243,936	(99,034)
---------	----------

**Cash and Due from Banks at Beginning of Period**

190,314	294,236
---------	---------

**Cash and Due from Banks at End of Period**

<u>\$434,250</u>	<u>\$195,202</u>
------------------	------------------

**Supplemental Cash Flow Disclosures:**

Supplemental disclosure of noncash activities:		
Right-of-use assets acquired in exchange for operating lease liabilities	\$2,641	\$1,144
Supplemental disclosure of cash flow activities:		
Cash paid for amounts included in operating lease liabilities	1,632	1,519
Interest paid for the period	1,992	439

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 months ended March 31, 2024 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, 2023.

### 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, 2023. 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, 2023 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 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 several regional bank failures. Industrywide concerns developed related to liquidity, deposit outflows and unrealized losses on investment debt securities. These recent events and concerns 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, 2023.

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-1 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. See Note 6 to the unaudited consolidated financial statements for additional information related to nonmarketable equity securities.

**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 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. As of March 31, 2024, all contracts and transactions within the scope of ASU 2020-04 have transitioned to alternative reference rates. The accounting effects of the transition to alternative reference rates were applied prospectively as an adjustment to the effective interest rate and did not have a material impact on the Company's 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 adopted the ASU on January 1, 2024 on a prospective basis. The adoption did not have a material impact on the Company's consolidated financial statements.

#### Recently Issued Accounting Standards

FASB ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, was issued December 14, 2023. The ASU enhances the transparency and decision usefulness of income tax disclosures, primarily related to the rate reconciliation and income taxes paid information. The ASU primarily requires additional disclosures as part of the reconciliation of the effective tax rate to statutory tax rate, the amount of income taxes paid, net of refunds received, and income tax expense disaggregated between federal and state jurisdictions. The ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted, and is to be applied prospectively, with retrospective application permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

FASB ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, was issued November 27, 2023. The ASU requires disclosure of certain significant segment expenses and other items, the title and position of the chief operating decision maker and information about how the reported measures of segment profit or loss are used in assessing segment performance. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The adoption of this ASU is not expected to have a material impact on the Company's 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 March 31, 2024 and December 31, 2023, 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 March 31, 2024			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Debt securities available for sale:				
Agency residential mortgage-backed securities ("MBS")	\$246,519	\$3	(\$20,958)	\$225,564
Securities of U.S. Government sponsored entities	309,376	-	(16,793)	292,583
Obligations of states and political subdivisions	72,436	11	(1,981)	70,466
Corporate securities	2,107,512	454	(227,986)	1,879,980
Collateralized loan obligations	1,432,816	934	(13,166)	1,420,584
Total debt securities available for sale	4,168,659	1,402	(280,884)	3,889,177
Debt securities held to maturity:				
Agency residential MBS	73,023	15	(5,512)	67,526
Obligations of states and political subdivisions	65,353	12	(780)	64,585
Corporate securities	730,350	-	(33,006)	697,344
Total debt securities held to maturity	868,726	27	(39,298)	829,455
Total	\$5,037,385	\$1,429	(\$320,182)	\$4,718,632

	At December 31, 2023			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Debt securities available for sale:				
Agency residential MBS	\$258,150	\$6	(\$18,702)	\$239,454
Securities of U.S. Government sponsored entities	308,768	2	(13,851)	294,919
Obligations of states and political subdivisions	72,679	42	(1,438)	71,283
Corporate securities	2,129,103	480	(220,035)	1,909,548
Collateralized loan obligations	1,501,248	830	(17,481)	1,484,597
Total debt securities available for sale	4,269,948	1,360	(271,507)	3,999,801
Debt securities held to maturity:				
Agency residential MBS	78,565	17	(5,270)	73,312
Obligations of states and political subdivisions	71,182	47	(335)	70,894
Corporate securities	728,650	84	(23,378)	705,356
Total debt securities held to maturity	878,397	148	(28,983)	849,562
Total	\$5,148,345	\$1,508	(\$300,490)	\$4,849,363

[The remainder of this page intentionally left blank]

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

	At March 31, 2024			
	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	\$89,869	\$88,874	\$11,839	\$11,787
Over 1 to 5 years	772,465	731,203	314,968	307,527
Over 5 to 10 years	1,626,990	1,422,952	468,896	442,615
Subtotal	2,489,324	2,243,029	795,703	761,929
Collateralized loan obligations	1,432,816	1,420,584	-	-
Agency residential MBS	246,519	225,564	73,023	67,526
Total	\$4,168,659	\$3,889,177	\$868,726	\$829,455

	At December 31, 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	\$52,703	\$52,357	\$15,117	\$15,095
Over 1 to 5 years	756,658	721,179	312,847	307,557
Over 5 to 10 years	1,701,189	1,502,214	471,868	453,598
Subtotal	2,510,550	2,275,750	799,832	776,250
Collateralized loan obligations	1,501,248	1,484,597	-	-
Agency residential MBS	258,150	239,454	78,565	73,312
Total	\$4,269,948	\$3,999,801	\$878,397	\$849,562

Expected amortizing principal payments of collateralized loan obligations can differ from actual cash flows because the securities can be called and paid-off. 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 March 31, 2024								
	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	2	\$626	(\$5)	105	\$224,789	(\$20,953)	107	\$225,415	(\$20,958)
Obligations of states and political subdivisions	4	16,487	(189)	19	276,096	(16,604)	23	292,583	(16,793)
Corporate securities	3	4,385	(64)	50	56,909	(1,917)	53	61,294	(1,981)
Collateralized loan obligations	-	-	-	146	1,859,222	(227,986)	146	1,859,222	(227,986)
Total	22	257,880	(4,314)	59	589,010	(8,852)	81	846,890	(13,166)
	31	\$279,378	(\$4,572)	379	\$3,006,026	(\$276,312)	410	\$3,285,404	(\$280,884)

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

	Debt Securities Held to Maturity								
	At March 31, 2024								
	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	-	\$ -	\$ -	89	\$66,528	(\$5,512)	89	\$66,528	(\$5,512)
Obligations of states and political subdivisions	43	32,547	(393)	23	22,767	(387)	66	55,314	(780)
Corporate securities	7	58,391	(1,110)	47	638,953	(31,896)	54	697,344	(33,006)
Total	50	\$90,938	(\$1,503)	159	\$728,248	(\$37,795)	209	\$819,186	(\$39,298)

Based upon the Company's March 31, 2024 evaluation, the unrealized losses on debt securities were caused by market conditions for these types of securities. Higher levels of 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. 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 March 31, 2024.

The Company does not intend to sell any debt securities available for sale with a material 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 evaluated each issuer's historical financial performance and ability to service debt payments, including throughout and following the 2008-2009 recession. 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 March 31, 2024 and December 31, 2023, the Company's debt securities pledged to secure public deposits, Bank Term Funding program borrowings and securities sold under repurchase agreements had a carrying amount of \$1,900,842 thousand and \$2,034,706 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, 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
Agency residential MBS	1	\$115	(\$2)	107	\$238,642	(\$18,700)	108	\$238,757	(\$18,702)
Securities of U.S. Government sponsored entities	2	9,746	(15)	19	278,265	(13,836)	21	288,011	(13,851)
Obligations of states and political subdivisions	2	2,280	(15)	50	57,614	(1,423)	52	59,894	(1,438)
Corporate securities	-	-	-	151	1,894,602	(220,035)	151	1,894,602	(220,035)
Collateralized loan obligations	34	428,363	(8,914)	67	578,643	(8,567)	101	1,007,006	(17,481)
Total	39	\$440,504	(\$8,946)	394	\$3,047,766	(\$262,561)	433	\$3,488,270	(\$271,507)

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

Debt Securities Held to Maturity									
At December 31, 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	1	\$ -	\$ -	93	\$72,376	(\$5,270)	94	\$72,376	(\$5,270)
Obligations of states and political subdivisions	23	18,599	(90)	26	25,466	(245)	49	44,065	(335)
Corporate securities	3	26,567	(1,184)	46	641,598	(22,194)	49	668,165	(23,378)
Total	27	\$45,166	(\$1,274)	165	\$739,440	(\$27,709)	192	\$784,606	(\$28,983)

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, collateral levels and, for mortgage-backed and asset-backed securities, 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 Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Allowance for credit losses:		
Beginning balance	\$1	\$1
Provision	-	-
Chargeoffs	-	-
Recoveries	-	-
Total ending balance	\$1	\$1

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 March 31, 2024, no credit loss allowance was assigned to corporate securities held to maturity.

The following table summarizes the amortized cost of debt securities held to maturity at March 31, 2024, aggregated by credit rating:

	Credit Risk Profile by Credit Rating			
	At March 31, 2024			
	AAA/AA/A	BBB+	Not Rated	Total
	(In thousands)			
Agency residential MBS	\$72,556	\$ -	\$467	\$73,023
Obligations of states and political subdivisions	65,173	-	180	65,353
Corporate securities	525,907	204,443	-	730,350
Total	\$663,636	\$204,443	\$647	\$868,726

There were no debt securities held to maturity on nonaccrual status or past due 30 days or more as of March 31, 2024.

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 Ended March 31,	
	2024	2023
	(In thousands)	
Taxable	\$54,145	\$54,749
Tax-exempt from regular federal income tax	994	1,193
Total interest income from investment securities	<u>\$55,139</u>	<u>\$55,942</u>

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

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

	At March 31,	At December 31,
	2024	2023
	(In thousands)	
Commercial	\$125,614	\$136,550
Commercial real estate	488,479	487,523
Construction	5,064	5,063
Residential real estate	9,697	9,935
Consumer installment & other	215,823	227,531
Total	<u>\$844,677</u>	<u>\$866,602</u>

The following summarizes activity in the allowance for credit losses:

	Allowance for Credit Losses For the Three Months Ended March 31, 2024					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$4,216	\$5,925	\$245	\$26	\$6,455	\$16,867
(Reversal) provision	(463)	(212)	(3)	(4)	982	300
Chargeoffs	-	-	-	-	(2,003)	(2,003)
Recoveries	12	45	-	-	658	715
Total allowance for credit losses	<u>\$3,765</u>	<u>\$5,758</u>	<u>\$242</u>	<u>\$22</u>	<u>\$6,092</u>	<u>\$15,879</u>

	Allowance for Credit Losses For the Three Months Ended March 31, 2023					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$6,138	\$5,888	\$150	\$32	\$8,076	\$20,284
(Reversal) provision	(2,409)	355	50	6	448	(1,550)
Chargeoffs	(148)	-	-	-	(1,891)	(2,039)
Recoveries	2,165	15	-	-	634	2,814
Total allowance for credit losses	<u>\$5,746</u>	<u>\$6,258</u>	<u>\$200</u>	<u>\$38</u>	<u>\$7,267</u>	<u>\$19,509</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 March 31, 2024						
Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total	
(In thousands)						
Grade:						
Pass	\$119,005	\$476,438	\$5,064	\$9,377	\$213,089	\$822,973
Substandard	6,609	12,041	-	320	692	19,662
Doubtful	-	-	-	-	1,438	1,438
Loss	-	-	-	-	604	604
Total	\$125,614	\$488,479	\$5,064	\$9,697	\$215,823	\$844,677

Credit Risk Profile by Internally Assigned Grade						
At December 31, 2023						
Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total	
(In thousands)						
Grade:						
Pass	\$130,001	\$475,870	\$5,063	\$9,606	\$225,089	\$845,629
Substandard	6,549	11,653	-	329	377	18,908
Doubtful	-	-	-	-	1,479	1,479
Loss	-	-	-	-	586	586
Total	\$136,550	\$487,523	\$5,063	\$9,935	\$227,531	\$866,602

The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status						
At March 31, 2024						
	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	\$125,381	\$176	\$57	\$-	\$-	\$125,614
Commercial real estate	486,737	785	-	-	957	488,479
Construction	5,064	-	-	-	-	5,064
Residential real estate	9,690	6	-	-	1	9,697
Consumer installment and other	209,510	4,591	1,197	525	-	215,823
Total	\$836,382	\$5,558	\$1,254	\$525	\$958	\$844,677

Summary of Loans by Delinquency and Nonaccrual Status						
At December 31, 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	\$136,421	\$58	\$-	\$-	\$71	\$136,550
Commercial real estate	485,476	951	766	-	330	487,523
Construction	5,063	-	-	-	-	5,063
Residential real estate	9,933	-	-	-	2	9,935
Consumer installment and other	220,357	5,544	1,242	388	-	227,531
Total	\$857,250	\$6,553	\$2,008	\$388	\$403	\$866,602

There was no allowance for credit losses allocated to loans on nonaccrual status as of March 31, 2024 or December 31, 2023. There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at March 31, 2024 or December 31, 2023.

There were no loan modifications made to borrowers experiencing financial difficulty during the first quarters 2024 and 2023.

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 March 31, 2024 included the following: ten commercial real estate loans totaling \$11.4 million secured by real property and \$458 thousand of indirect consumer installment loans secured by personal property. There were no other collateral dependent loans at March 31, 2024. Loans that were considered collateral dependent at December 31, 2023 included the following: nine commercial real estate loans totaling \$10.9 million secured by real property and \$377 thousand of indirect consumer installment loans secured by personal property. There were no other collateral dependent loans at December 31, 2023.

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

At March 31, 2024									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2020	2021	2022	2023	2024			
(In thousands)									
Commercial loans by grade:									
Pass	\$23,563	\$11,735	\$29,189	\$16,199	\$16,901	\$1,688	\$99,275	\$19,730	\$119,005
Substandard	2,470	-	2,835	-	-	-	5,305	1,304	6,609
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	<u>\$26,033</u>	<u>\$11,735</u>	<u>\$32,024</u>	<u>\$16,199</u>	<u>\$16,901</u>	<u>\$1,688</u>	<u>\$104,580</u>	<u>\$21,034</u>	<u>\$125,614</u>
Current gross chargeoffs on commercial loans: For the three months ended March 31, 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

At December 31, 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	\$20,554	\$4,471	\$12,601	\$31,770	\$22,146	\$13,112	\$104,654	\$25,347	\$130,001
Substandard	12	2,492	-	2,835	-	-	5,339	1,210	6,549
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	<u>\$20,566</u>	<u>\$6,963</u>	<u>\$12,601</u>	<u>\$34,605</u>	<u>\$22,146</u>	<u>\$13,112</u>	<u>\$109,993</u>	<u>\$26,557</u>	<u>\$136,550</u>
Current gross chargeoffs on commercial loans: For the year ended December 31, 2023	\$ -	\$ -	\$3	\$135	\$ -	\$ -	\$138	\$272	\$410

At March 31, 2024									
	Term Loans Amortized Cost Basis by Origination Year						Total Term Loans	Line of Credit Amortized Cost Basis	Total
	Prior	2020	2021	2022	2023	2024			
(In thousands)									
Commercial real estate loans by grade:									
Pass	\$232,470	\$68,600	\$68,201	\$50,489	\$45,380	\$11,298	\$476,438	\$ -	\$476,438
Substandard	11,259	782	-	-	-	-	12,041	-	12,041
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	<u>\$243,729</u>	<u>\$69,382</u>	<u>\$68,201</u>	<u>\$50,489</u>	<u>\$45,380</u>	<u>\$11,298</u>	<u>\$488,479</u>	<u>\$ -</u>	<u>\$488,479</u>
Current gross chargeoffs on commercial real estate loans: For the three months ended March 31, 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**[The remainder of this page intentionally left blank]**

At December 31, 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	\$172,925	\$68,156	\$69,324	\$68,891	\$50,899	\$45,675	\$475,870	\$ -	\$475,870
Substandard	10,056	811	786	-	-	-	11,653	-	11,653
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$182,981	\$68,967	\$70,110	\$68,891	\$50,899	\$45,675	\$487,523	\$ -	\$487,523

Current gross chargeoffs on commercial real estate loans:

For the year ended December 31, 2023

\$45	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$45	\$ -	\$45
------	------	------	------	------	------	------	------	------	------

At March 31, 2024

	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans	Line of Credit Amortized Cost Basis	Total	
	Prior	2020	2021	2022	2023				2024
(In thousands)									
Residential real estate loans by grade:									
Pass	\$9,377	\$ -	\$ -	\$ -	\$ -	\$ -	\$9,377	\$ -	\$9,377
Substandard	320	-	-	-	-	-	320	-	320
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$9,697	\$ -	\$ -	\$ -	\$ -	\$ -	\$9,697	\$ -	\$9,697

Current gross chargeoffs on residential real estate loans:

For the three months ended March 31, 2024

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------	------	------	------	------	------

At December 31, 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	\$9,606	\$ -	\$ -	\$ -	\$ -	\$ -	\$9,606	\$ -	\$9,606
Substandard	329	-	-	-	-	-	329	-	329
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$9,935	\$ -	\$ -	\$ -	\$ -	\$ -	\$9,935	\$ -	\$9,935

Current gross chargeoffs on residential real estate loans:

For the year ended December 31, 2023

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------	------	------	------	------	------

At March 31, 2024

	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans	Line of Credit Amortized Cost Basis	Total	
	Prior	2020	2021	2022	2023				2024
(In thousands)									
Construction loans by grade:									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,064	\$5,064
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,064	\$5,064

Current gross chargeoffs on construction loans:

For the three months ended March 31, 2024

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------	------	------	------	------	------

At December 31, 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,063	\$5,063
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,063	\$5,063

Current gross chargeoffs on construction loans:

For the year ended December 31, 2023

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------	------	------	------	------	------

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 March 31, 2024									
	Term Loans Amortized Cost Basis by Origination Year					Total Term Loans	Line of Credit Amortized Cost Basis	Total	
	Prior	2020	2021	2022	2023				2024
(In thousands)									
Consumer installment and other loans by delinquency and nonaccrual status:									
Current	\$14,580	\$20,211	\$46,273	\$65,556	\$35,863	\$9,651	\$192,134	\$17,376	\$209,510
30-59 days past due	437	336	1,741	1,718	318	-	4,550	41	4,591
60-89 days past due	61	173	562	205	196	-	1,197	-	1,197
Past due 90 days or more	-	67	215	106	92	-	480	45	525
Nonaccrual	-	-	-	-	-	-	-	-	-
Total	\$15,078	\$20,787	\$48,791	\$67,585	\$36,469	\$9,651	\$198,361	\$17,462	\$215,823
Current gross chargeoffs on consumer installment and other loans:									
For the three months ended March 31, 2024									
	\$80	\$162	\$675	\$757	\$254	\$-	\$1,928	\$75	\$2,003

At December 31, 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	\$6,545	\$12,144	\$22,700	\$51,055	\$71,388	\$38,699	\$202,531	\$17,826	\$220,357
30-59 days past due	160	277	600	2,345	1,733	332	5,447	97	5,544
60-89 days past due	31	51	153	410	430	122	1,197	45	1,242
Past due 90 days or more	-	8	88	143	138	-	377	11	388
Nonaccrual	-	-	-	-	-	-	-	-	-
Total	\$6,736	\$12,480	\$23,541	\$53,953	\$73,689	\$39,153	\$209,552	\$17,979	\$227,531
Current gross chargeoffs on consumer installment and other loans:									
For the year ended December 31, 2023									
	\$246	\$161	\$843	\$2,329	\$3,191	\$453	\$7,223	\$276	\$7,499

There were no loans held for sale at March 31, 2024 and December 31, 2023.

The Company held no other real estate owned (OREO) at March 31, 2024 and December 31, 2023. At March 31, 2024 and December 31, 2023, there were no consumer mortgage loans outstanding secured by residential real estate properties for which formal foreclosure proceedings were in process.

## 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 March 31, 2024, the Bank did not have credit extended to any one entity exceeding these limits. At March 31, 2024, the Bank had 25 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 \$30,565 thousand and \$30,888 thousand at March 31, 2024 and December 31, 2023, 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 March 31, 2024, the Bank held corporate bonds in 107 issuing entities that exceeded \$5 million for each issuer.

[The remainder of this page intentionally left blank]

## Note 6: Other Assets and Other Liabilities

Other assets consisted of the following:

	At March 31, 2024	At December 31, 2023
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock <sup>(1)</sup>	\$14,069	\$14,069
Other investments	158	158
Total cost method equity investments	14,227	14,227
Life insurance cash surrender value	67,366	66,611
Net deferred tax asset	100,357	99,507
Right-of-use asset	19,975	18,814
Limited partnership investments	27,227	28,667
Interest receivable	54,000	54,568
Prepaid assets	4,454	5,200
Other assets	7,707	9,716
Total other assets	\$295,313	\$297,310

<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. ("Visa") class B common stock which have transfer restrictions; the carrying value is \$-0- thousand. Visa 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 class A common stock had a closing price of \$279.08 per share on March 28, 2024, the last day of stock market trading for the first quarter 2024. The ultimate value of the Company's Visa class B shares is subject to the extent of Visa'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. At its Annual Meeting held January 23, 2024, Visa proposed a Class B Exchange Offer Program authorizing Visa to conduct one or more exchange offers that would allow Class B stockholders to exchange portions of their Class B common stock into freely tradable shares. The proposal was approved by Visa stockholders. Under an initial exchange offer, the Company's Class B shares were exchanged into Class B-1 shares. A Class B-1 stockholder can elect to exchange a portion of its Class B-1 shares for Class C common stock which is transferable and convertible to Class A common stock. Any exchange of Class B-1 shares into Class C common stock requires the stockholder to execute an indemnification agreement with Visa for Visa's related unresolved litigation. At March 31, 2024, the Company did not record an adjustment to the carrying value of the Visa Class B shares.

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 March 31, 2024, these investments totaled \$27,227 thousand and \$14,215 thousand of this amount represents outstanding equity capital commitments that are included in other liabilities. At December 31, 2023, these investments totaled \$28,667 thousand and \$15,561 thousand of this amount represents outstanding equity capital commitments that are included in other liabilities. At March 31, 2024, the \$14,215 thousand of outstanding equity capital commitments are expected to be paid as follows: \$12,731 thousand in the remainder of 2024, \$600 thousand in 2025, \$145 thousand in 2026, \$189 thousand in 2027, and \$550 thousand in 2028 or thereafter.

The amounts recognized in net income for these investments include:

	For the Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Investment loss included in pre-tax income	\$1,440	\$1,434
Tax credits recognized in provision for income taxes	975	1,020

Other liabilities consisted of the following:

	At March 31, 2024	At December 31, 2023
	(In thousands)	
Operating lease liability	\$19,975	\$18,814
Other liabilities	47,760	40,455
Total other liabilities	<u>\$67,735</u>	<u>\$59,269</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 March 31, 2024.

As of March 31, 2024, the Company's lease liability and right-of-use asset were \$19,975 thousand. The weighted average remaining life of operating leases and weighted average discount rate used to determine operating lease liabilities were 3.3 years and 3.11%, respectively, at March 31, 2024. The Company did not have any material lease incentives, unamortized initial direct costs, prepaid lease expense, or accrued lease expense as of March 31, 2024.

Total lease costs were \$1,678 thousand and \$1,656 thousand in the three months ended March 31, 2024 and March 31, 2023, respectively, and were recorded within occupancy and equipment expense. The Company did not have any material short-term or variable leases costs or sublease income during the three months ended March 31, 2024 and March 31, 2023.

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

	Minimum future lease payments At March 31, 2024 (In thousands)
2024	\$4,752
2025	5,681
2026	4,035
2027	3,152
2028	2,412
Thereafter	<u>1,407</u>
Total minimum lease payments	21,439
Less: discount	<u>(1,464)</u>
Present value of lease liability	<u>\$19,975</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 three months ended March 31, 2024 and year ended December 31, 2023, 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 three months ended March 31, 2024 and year ended December 31, 2023, no such adjustments were recorded.

The carrying values of goodwill were:

	At March 31, 2024	At December 31, 2023
	(In thousands)	
Goodwill	\$121,673	\$121,673

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

	At March 31, 2024		At December 31, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core deposit intangibles	\$56,808	(\$56,517)	\$56,808	(\$56,461)

As of March 31, 2024, 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 three months ended March 31, 2024 (actual)	\$56
The remainder of 2024	166
2025	125

#### Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

	Deposits	
	At March 31, 2024	At December 31, 2023
	(In thousands)	
Noninterest-bearing	\$2,514,161	\$2,605,844
Interest-bearing:		
Transaction	1,066,038	1,072,233
Savings	1,681,921	1,699,388
Time deposits less than \$100 thousand	54,249	56,100
Time deposits \$100 thousand through \$250 thousand	29,020	31,107
Time deposits more than \$250 thousand	9,536	9,595
Total deposits	\$5,354,925	\$5,474,267

Demand deposit overdrafts of \$553 thousand and \$620 thousand were included as loan balances at March 31, 2024 and December 31, 2023, respectively. Interest expense for aggregate time deposits with individual account balances in excess of \$100 thousand was \$21 thousand in the three months ended March 31, 2024 and \$34 thousand in the three months ended March 31, 2023.

The following table provides additional detail regarding securities sold under repurchase agreements:

	Repurchase Agreements (Sweep) Accounted for as Secured Borrowings	
	Remaining Contractual Maturity of the Agreements Overnight and Continuous	
	At March 31, 2024	At December 31, 2023
	(In thousands)	
Repurchase agreements:		
Collateral securing borrowings:		
Agency residential MBS	\$24,367	\$25,669
Corporate securities	233,569	233,947
Total collateral carrying value	\$257,936	\$259,616
Securities sold under repurchase agreements	\$50,334	\$58,162

At March 31, 2024, the Company had access to borrowing from the Federal Reserve up to \$663,987 thousand based on the collateral pledged at March 31, 2024. Federal Reserve Bank Term Funding Program borrowings were \$200,000 thousand at March 31, 2024. For the three months ended March 31, 2024, the average balances of Federal Reserve Bank Term Funding Program borrowings were \$62,582 thousand. At March 31, 2024, the Company's estimated unpledged debt securities collateral qualifying for Federal Reserve borrowing totaled \$1,995,076 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 March 31, 2024			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) <sup>(1)</sup>
Debt securities available for sale:				
Agency residential MBS	\$225,564	\$ -	\$225,564	\$ -
Securities of U.S. Government sponsored entities	292,583	-	292,583	-
Obligations of states and political subdivisions	70,466	-	70,466	-
Corporate securities	1,879,980	-	1,879,980	-
Collateralized loan obligations	1,420,584	-	1,420,584	-
Total debt securities available for sale	<u>\$3,889,177</u>	<u>\$ -</u>	<u>\$3,889,177</u>	<u>\$ -</u>

<sup>(1)</sup> There were no transfers in to or out of level 3 during the three months ended March 31, 2024.

	At December 31, 2023			
	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) <sup>(1)</sup>
Debt securities available for sale:				
Agency residential MBS	\$239,454	\$ -	\$239,454	\$ -
Securities of U.S. Government sponsored entities	294,919	-	294,919	-
Obligations of states and political subdivisions	71,283	-	71,283	-
Corporate securities	1,909,548	-	1,909,548	-
Collateralized loan obligations	1,484,597	-	1,484,597	-
Total debt securities available for sale	<u>\$3,999,801</u>	<u>\$ -</u>	<u>\$3,999,801</u>	<u>\$ -</u>

<sup>(1)</sup> There were no transfers in to or out of level 3 during the year ended December 31, 2023.

## 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 March 31, 2024 and December 31, 2023, 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 March 31, 2024				For the Three Months Ended March 31, 2024
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
Loans:					
Commercial real estate	\$14	\$ -	\$ -	\$14	\$ -
Total assets measured at fair value on a nonrecurring basis	<u>\$14</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14</u>	<u>\$ -</u>

	At December 31, 2023			For the
	Carrying Value	Level 1	Level 2	Year Ended December 31, 2023
			Level 3	Total Losses
		(In thousands)		
Loans:				
Commercial real estate	\$110	\$ -	\$ -	\$110
Total assets measured at fair value on a nonrecurring basis	\$110	\$ -	\$ -	\$110

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 March 31, 2024				
	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	\$434,250	\$434,250	\$434,250	\$ -	\$ -
Debt securities held to maturity	868,725	829,455	-	829,455	-
Loans	828,798	819,616	-	-	819,616
<b>Financial Liabilities:</b>					
Deposits	\$5,354,925	\$5,354,518	\$ -	\$5,262,120	\$92,398
Bank Term Funding Program borrowings	200,000	200,596	-	200,596	-
Securities sold under repurchase agreements	50,334	50,334	-	50,334	-

	At December 31, 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	\$190,314	\$190,314	\$190,314	\$ -	\$ -
Debt securities held to maturity	878,396	849,562	-	849,562	-
Loans	849,735	847,031	-	-	847,031
<b>Financial Liabilities:</b>					
Deposits	\$5,474,267	\$5,474,012	\$ -	\$5,377,465	\$96,547
Securities sold under repurchase agreements	58,162	58,162	-	58,162	-

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 \$29,635 thousand at March 31, 2024 and \$29,958 thousand at December 31, 2023. 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 \$212,521 thousand at March 31, 2024 and \$206,028 thousand at December 31, 2023. 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 \$1,756 thousand at March 31, 2024 and \$2,044 thousand at December 31, 2023. Commitments for commercial and similar letters of credit totaled \$95 thousand at March 31, 2024 and December 31, 2023, respectively. The Company had \$1,000 thousand in outstanding full recourse guarantees to a third party credit card company at March 31, 2024 and December 31, 2023, respectively. At March 31, 2024, the Company had a reserve for unfunded commitments of \$201 thousand for the above-mentioned loan commitments of \$29,635 thousand that are not unconditionally cancellable by the Company. The Company's reserve for unfunded commitments was \$201 thousand at December 31, 2023. 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 Ended March 31,	
	2024	2023
	(In thousands, except per share data)	
Net income (numerator)	\$36,417	\$40,451
<b>Basic earnings per common share</b>		
Weighted average number of common shares outstanding - basic (denominator)	26,674	26,859
Basic earnings per common share	\$1.37	\$1.51
<b>Diluted earnings per common share</b>		
Weighted average number of common shares outstanding - basic	26,674	26,859
Add common stock equivalents for options	1	7
Weighted average number of common shares outstanding - diluted (denominator)	26,675	26,866
Diluted earnings per common share	\$1.37	\$1.51

For the three months ended March 31, 2024 and March 31, 2023, options to purchase 1,109 thousand and 977 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per 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 Ended		
	March 31,		December 31,
	2024	2023	2023
	(In thousands, except per share data)		
<b>Net Interest and Fee Income (FTE)<sup>(1)</sup></b>	\$66,094	\$69,562	\$69,738
<b>Provision (Reversal of Provision) for Credit Losses</b>	300	(1,550)	-
<b>Noninterest Income</b>	10,097	10,549	10,992
<b>Noninterest Expense</b>	26,099	26,210	25,517
<b>Income Before Income Taxes (FTE)<sup>(1)</sup></b>	49,792	55,451	55,213
<b>Provision for Income Taxes (FTE)<sup>(1)</sup></b>	13,375	15,000	15,745
<b>Net Income</b>	<u>\$36,417</u>	<u>\$40,451</u>	<u>\$39,468</u>
<b>Average Common Shares Outstanding</b>	26,674	26,859	26,662
<b>Average Diluted Common Shares Outstanding</b>	26,675	26,866	26,664
<b>Common Shares Outstanding at Period End</b>	26,678	26,648	26,671
<b>Per Common Share:</b>			
Basic Earnings	\$1.37	\$1.51	\$1.48
Diluted Earnings	1.37	1.51	1.48
Book Value Per Common Share	29.68	24.13	28.98
<b>Financial Ratios:</b>			
Return On Assets	2.24%	2.31%	2.35%
Return On Common Equity	15.17%	19.11%	16.68%
Net Interest Margin (FTE) <sup>(1)</sup>	4.30%	4.18%	4.41%
Net Loan Chargeoffs (Recoveries) to Average Loans	0.61%	(0.33)%	0.40%
Efficiency Ratio <sup>(2)</sup>	34.3%	32.7%	31.6%
<b>Average Balances:</b>			
Assets	\$6,525,921	\$7,112,317	\$6,665,040
Loans	853,553	945,864	873,635
Investment securities	5,098,539	5,548,780	5,182,557
Deposits	5,379,060	6,061,923	5,573,281
Shareholders' Equity	965,840	858,473	938,738
<b>Period End Balances:</b>			
Assets	\$6,464,685	\$6,700,471	\$6,364,592
Loans	844,677	938,628	866,602
Investment securities	4,757,903	5,126,833	4,878,198
Deposits	5,354,925	5,899,315	5,474,267
Shareholders' Equity	791,691	642,925	772,894
<b>Capital Ratios at Period End:</b>			
Total Risk Based Capital	20.21%	16.47%	19.15%
Tangible Equity to Tangible Assets	10.56%	7.92%	10.43%
<b>Dividends Paid Per Common Share</b>			
	\$0.44	\$0.42	\$0.44
<b>Common Dividend Payout Ratio</b>			
	32%	28%	30%

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

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

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

## Financial Overview

Westamerica Bancorporation and subsidiaries (collectively, the “Company”) reported net income of \$36.4 million or \$1.37 diluted earnings per common share (“EPS”) in the first quarter 2024. First quarter 2023 results compare with net income of \$40.5 million or \$1.51 EPS for the first quarter 2023 and \$39.5 million or \$1.48 EPS for the fourth quarter 2023. First quarter 2023 results included a \$1.6 million reversal of provision for credit losses, which increased EPS \$0.04.

The Federal Open Market Committee of the Federal Reserve Board (“FOMC”) has tightened monetary policy through increases to the overnight federal funds interest rate since March 2022. On May 1, 2024, the FOMC announced that it would maintain the target range for the federal funds rate at the range of 5.25% to 5.50%. The May 1, 2024 Federal Reserve press release stated, “Recent indicators suggest that economic activity has continued to expand at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. In recent months, there has been a lack of further progress toward the Committee’s 2 percent inflation objective. The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals have moved toward better balance over the past year. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks. In support of its goals, the Committee decided to maintain the target range for the federal funds rate at 5.25% to 5.50%. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent... 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% as of March 31, 2024. 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. The banking industry experienced significant volatility with several regional bank failures in the first half of 2023. Industrywide concerns remained related to liquidity, deposit outflows and unrealized losses on debt securities. These 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 2023 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 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. As of March 31, 2024, all contracts and transactions within the scope of ASU 2020-04 have transitioned to alternative reference rates. The accounting effects of the transition to alternative reference rates were applied prospectively as

an adjustment to the effective interest rate and did not have a material impact on the Company's 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 became effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the ASU on January 1, 2024 on a prospective basis. The adoption did not have a material impact on the Company's consolidated financial statements.

## Net Income

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

	For the Three Months Ended		
	March 31, <b>2024</b>	March 31, <b>2023</b>	December 31, <b>2023</b>
	(In thousands, except per share data)		
Net interest and loan fee income (FTE)	\$66,094	\$69,562	\$69,738
Provision (Reversal of provision) for credit losses	300	(1,550)	-
Noninterest income	10,097	10,549	10,992
Noninterest expense	26,099	26,210	25,517
Income before taxes (FTE)	49,792	55,451	55,213
Income tax provision (FTE)	13,375	15,000	15,745
Net income	<u>\$36,417</u>	<u>\$40,451</u>	<u>\$39,468</u>
Average diluted common shares	26,675	26,866	26,664
Diluted earnings per common share	\$1.37	\$1.51	\$1.48
Average total assets	\$6,525,921	\$7,112,317	\$6,665,040
Net income to average total assets (annualized)	2.24%	2.31%	2.35%
Net income to average common shareholders' equity (annualized)	15.17%	19.11%	16.68%

Net income for the first quarter 2024 decreased \$4.0 million compared with the first quarter 2023. Net interest and loan fee income (FTE) decreased \$3.5 million in the first quarter 2024 compared with the first quarter 2023 due to lower average balances of interest-earning assets, higher rate on savings and interest-bearing transaction deposit accounts and Bank Term Funding Program borrowings, partially offset by higher yield on interest-earning assets. The Company recorded a \$300 thousand provision for credit losses in the first quarter of 2024, based on the results of its current expected credit losses ("CECL") model and Management's estimate of credit losses over the remaining life of its loans. The Company recorded a \$1.6 million reversal of provision for credit losses in the first quarter of 2023 as a result of a \$2.2 million recovery on a previously charged off loan. First quarter 2024 noninterest income decreased compared with the first quarter 2023 primarily due to lower income from merchant processing services fee and lower recoveries of interest and fees on previously charged off loans. First quarter 2024 noninterest expense decreased compared with the first quarter 2023 primarily due to lower occupancy and equipment expenses, partially offset by higher salaries and benefits. The tax rate (FTE) was 26.9% for the first quarter 2024 and 27.1% for the first quarter 2023.

Net income for the first quarter 2024 decreased \$3.1 million compared with the fourth quarter 2023. Net interest and loan fee income (FTE) decreased \$3.6 million in the first quarter 2024 compared with the fourth quarter 2023 due to lower average balances of interest-earning assets, higher rate on savings and interest-bearing transaction deposit accounts and Bank Term Funding Program borrowings. The Company recorded a \$300 thousand provision for credit losses in the first quarter of 2024, based on the results of the CECL model and Management's estimate of credit losses over the remaining life of its loans. The Company provided no provision for credit losses in the fourth quarter 2023, 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 first quarter 2024 decreased compared with the fourth quarter 2023 due to lower income from merchant processing services and debit card fees. Debit card

fees in the fourth quarter 2023 included recognition of an annual volume-based incentive. Noninterest expense for the first quarter 2024 increased compared with the fourth quarter 2023. Salaries and benefits increased from the fourth quarter 2023 to the first quarter 2024 primarily due to seasonally higher payroll taxes, annual merit increases and higher group health insurance costs for the employees. The tax rate (FTE) was 26.9% for the first quarter 2024 and 28.5% for the fourth quarter 2023. The fourth quarter 2023 includes a \$492 thousand increase to reconcile the 2022 income tax provision to the filed 2022 tax returns.

### 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 Ended		
	2024	March 31, 2023	December 31, 2023
	(In thousands)		
Interest and loan fee income	\$68,746	\$69,624	\$71,052
Interest expense	3,001	471	1,679
FTE adjustment	349	409	365
Net interest and loan fee income (FTE)	<u>\$66,094</u>	<u>\$69,562</u>	<u>\$69,738</u>
Average earning assets	\$6,119,368	\$6,665,156	\$6,251,143
Net interest margin (FTE) (annualized)	4.30%	4.18%	4.41%

Net interest and loan fee income (FTE) decreased \$3.5 million in the first quarter 2024 compared with the first quarter 2023 due to lower average balances of interest-earning assets (down \$546 million), higher rate on savings and interest-bearing transaction deposit accounts (up 0.25%) and an increase in Bank Term Funding Program borrowings (up \$63 million), partially offset by higher yield on interest-earning assets (up 0.29%).

Net interest and loan fee income (FTE) decreased \$3.6 million in the first quarter 2024 compared with the fourth quarter 2023 due to lower average balances of interest-earning assets (down \$132 million), higher rate on savings and interest-bearing transaction deposit accounts (up 0.08%) and an increase in Bank Term Funding Program borrowings (up \$63 million).

The annualized net interest margin (FTE) was 4.30% in the first quarter 2024, 4.18% in the first quarter 2023 and 4.41% in the fourth quarter 2023.

The Company's funding costs were 0.20% in the first quarter 2024, 0.03% in the first quarter 2023 and 0.11% in the fourth quarter 2023. Noninterest bearing deposits represented 47% of average deposits in the first quarter 2024 while higher-cost time deposits represented 2%. Average balances of time deposits in the first quarter 2024 declined \$33 million from the first quarter 2023. Average balances of checking and saving deposits accounted for 98.2% of average total deposits in the first quarter 2024, 97.9% in the first quarter 2023 and 98.2% in the fourth quarter 2023.

**[The remainder of this page intentionally left blank]**

## 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 Ended		
	March 31, 2024	2023	December 31, 2023
Yield on earning assets (FTE)	4.50%	4.21%	4.52%
Rate paid on interest-bearing liabilities	0.41%	0.06%	0.22%
Net interest spread (FTE)	4.09%	4.15%	4.30%
Impact of noninterest-bearing funds	0.21%	0.03%	0.11%
Net interest margin (FTE)	4.30%	4.18%	4.41%

The Company's yield on earning assets during the first quarter 2024 increased compared with the first quarter 2023 but decreased compared with the fourth quarter 2023. The Company's yield on earning assets has been primarily affected 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 March 31, 2024 was \$1,461 million yielding 7.23%. The average balances and yields of CLOs for the three months ended March 31, 2023 and December 31, 2023 were \$1,577 million yielding 6.34% and \$1,508 million yielding 7.27%, respectively. 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 three months ended March 31, 2024 were \$167 million yielding 5.40%. The average balance and yields of interest-bearing cash for the three months ended March 31, 2023 and December 31, 2023 were \$171 million yielding 4.56% and \$195 million yielding 5.40%, 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." The rate paid on interest-bearing liabilities increased in the first quarter 2024 compared with the first quarter and fourth quarter 2023 primarily due to competitive pricing.

**[The remainder of this page intentionally left blank]**

## 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 March 31, 2024		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$4,959,352	\$54,145	4.37%
Tax-exempt <sup>(1)</sup>	139,187	1,254	3.60%
Total investments <sup>(1)</sup>	5,098,539	55,399	4.32%
Loans:			
Taxable	811,418	10,984	5.44%
Tax-exempt <sup>(1)</sup>	42,135	429	4.10%
Total loans <sup>(1)</sup>	853,553	11,413	5.38%
Total interest-bearing cash	167,276	2,283	5.40%
Total interest-earning assets <sup>(1)</sup>	6,119,368	69,095	4.50%
Other assets	406,553		
Total assets	\$6,525,921		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,532,381	\$-	- %
Savings and interest-bearing transaction	2,750,008	2,036	0.30%
Time less than \$100,000	60,536	49	0.33%
Time \$100,000 or more	36,135	21	0.23%
Total interest-bearing deposits	2,846,679	2,106	0.30%
Bank term funding program borrowings	62,582	843	5.40%
Securities sold under repurchase agreements	46,304	52	0.45%
Total interest-bearing liabilities	2,955,565	3,001	0.41%
Other liabilities	72,135		
Shareholders' equity	965,840		
Total liabilities and shareholders' equity	\$6,525,921		
Net interest spread <sup>(1) (2)</sup>			4.09%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$66,094	4.30%

<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 March 31, 2023		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$5,379,275	\$54,749	4.07%
Tax-exempt <sup>(1)</sup>	169,505	1,508	3.56%
Total investments <sup>(1)</sup>	<u>5,548,780</u>	<u>56,257</u>	4.06%
Loans:			
Taxable	900,183	11,390	5.13%
Tax-exempt <sup>(1)</sup>	45,681	444	3.94%
Total loans <sup>(1)</sup>	<u>945,864</u>	<u>11,834</u>	5.07%
Total interest-bearing cash	<u>170,512</u>	<u>1,942</u>	4.56%
Total Interest-earning assets <sup>(1)</sup>	<u>6,665,156</u>	<u>70,033</u>	4.21%
Other assets	<u>447,161</u>		
Total assets	<u><u>\$7,112,317</u></u>		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,851,600	\$-	-
Savings and interest-bearing transaction	3,080,867	374	0.05%
Time less than \$100,000	71,826	50	0.28%
Time \$100,000 or more	57,630	34	0.24%
Total interest-bearing deposits	<u>3,210,323</u>	<u>458</u>	0.06%
Securities sold under repurchase agreements	<u>76,835</u>	<u>13</u>	0.07%
Total interest-bearing liabilities	<u>3,287,158</u>	<u>471</u>	0.06%
Other liabilities	115,086		
Shareholders' equity	<u>858,473</u>		
Total liabilities and shareholders' equity	<u><u>\$7,112,317</u></u>		
Net interest spread <sup>(1) (2)</sup>			4.15%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		<u><u>\$69,562</u></u>	4.18%

<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.

**[The remainder of this page intentionally left blank]**

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

	For the Three Months Ended December 31, 2023		
	Average Balance	Interest Income/ Expense (\$ in thousands)	Yields/ Rates
<b>Assets</b>			
<b>Investment securities:</b>			
Taxable	\$5,036,689	\$55,711	4.42%
Tax-exempt <sup>(1)</sup>	145,868	1,321	3.62%
Total investments <sup>(1)</sup>	<u>5,182,557</u>	<u>57,032</u>	4.35%
<b>Loans:</b>			
Taxable	831,292	11,269	5.38%
Tax-exempt <sup>(1)</sup>	42,343	426	3.99%
Total loans <sup>(1)</sup>	<u>873,635</u>	<u>11,695</u>	5.31%
Total interest-bearing cash	<u>194,951</u>	<u>2,690</u>	5.40%
Total Interest-earning assets <sup>(1)</sup>	<u>6,251,143</u>	<u>71,417</u>	4.52%
Other assets	<u>413,897</u>		
Total assets	<u><u>\$6,665,040</u></u>		
<b>Liabilities and shareholders' equity</b>			
Noninterest-bearing demand	\$2,672,170	\$-	-
Savings and interest-bearing transaction	2,799,667	1,559	0.22%
Time less than \$100,000	63,474	51	0.32%
Time \$100,000 or more	<u>37,970</u>	<u>25</u>	0.26%
Total interest-bearing deposits	2,901,111	1,635	0.22%
Securities sold under repurchase agreements	<u>64,927</u>	<u>44</u>	0.26%
Total interest-bearing liabilities	2,966,038	1,679	0.22%
Other liabilities	88,094		
Shareholders' equity	<u>938,738</u>		
Total liabilities and shareholders' equity	<u><u>\$6,665,040</u></u>		
Net interest spread <sup>(1) (2)</sup>			4.30%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		<u><u>\$69,738</u></u>	4.41%

<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.

**[The remainder of this page intentionally left blank]**

## 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 March 31, 2024		
	Compared with		
	For the Three Months Ended March 31, 2023		
	Volume	Yield/Rate	Total
	(In thousands)		
(Decrease) increase in interest and loan fee income:			
Investment securities:			
Taxable	(\$4,274)	\$3,670	(\$604)
Tax-exempt <sup>(1)</sup>	(270)	16	(254)
Total investments <sup>(1)</sup>	(4,544)	3,686	(858)
Loans:			
Taxable	(1,126)	720	(406)
Tax-exempt <sup>(1)</sup>	(32)	17	(15)
Total loans <sup>(1)</sup>	(1,158)	737	(421)
Total interest-bearing cash	(35)	376	341
Total (decrease) increase in interest and loan fee income <sup>(1)</sup>	(5,737)	4,799	(938)
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(40)	1,702	1,662
Time less than \$100,000	(8)	7	(1)
Time \$100,000 or more	(12)	(1)	(13)
Total interest-bearing deposits	(60)	1,708	1,648
Bank term funding program borrowings	843	-	843
Securities sold under repurchase agreements	(5)	44	39
Total increase in interest expense	778	1,752	2,530
(Decrease) increase in net interest and loan fee income <sup>(1)</sup>	(\$6,515)	\$3,047	(\$3,468)

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

**[The remainder of this page intentionally left blank]**

## Summary of Changes in Interest Income and Expense

	For the Three Months Ended March 31, 2024		
	Compared with		
	For the Three Months Ended December 31, 2023		
	Volume	Yield/Rate	Total
	(In thousands)		
(Decrease) increase in interest and loan fee income:			
Investment securities:			
Taxable	(\$855)	(\$711)	(\$1,566)
Tax-exempt <sup>(1)</sup>	(61)	(6)	(67)
Total investments <sup>(1)</sup>	(916)	(717)	(1,633)
Loans:			
Taxable	(383)	98	(285)
Tax-exempt <sup>(1)</sup>	(3)	6	3
Total loans <sup>(1)</sup>	(386)	104	(282)
Total interest-bearing cash	(407)	-	(407)
Total decrease in interest and loan fee income <sup>(1)</sup>	(1,709)	(613)	(2,322)
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(29)	506	477
Time less than \$100,000	(3)	1	(2)
Time \$100,000 or more	(1)	(3)	(4)
Total interest-bearing deposits	(33)	504	471
Bank term funding program borrowings	843	-	843
Securities sold under repurchase agreements	(13)	21	8
Total increase in interest expense	797	525	1,322
Decrease in net interest and loan fee income <sup>(1)</sup>	(\$2,506)	(\$1,138)	(\$3,644)

<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 recorded a \$300 thousand provision for credit losses in the first quarter of 2024, 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 provided no provision for credit losses in the fourth quarter of 2023, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. The Company recorded a \$1.6 million reversal of provision for credit losses in the first quarter of 2023 as a result of a \$2.2 million recovery on a previously charged off loan. 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.

**[The remainder of this page intentionally left blank]**

## Noninterest Income

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

	For the Three Months Ended		
	March 31, 2024	2023	December 31, 2023
	(In thousands)		
Service charges on deposit accounts	\$3,470	\$3,465	\$3,540
Merchant processing services	2,507	2,637	2,863
Debit card fees	1,543	1,642	2,067
Trust fees	794	765	764
ATM processing fees	591	654	622
Other service fees	438	399	445
Other noninterest income	754	987	691
Total	<u>\$10,097</u>	<u>\$10,549</u>	<u>\$10,992</u>

First quarter 2024 noninterest income decreased \$452 thousand compared with the first quarter 2023. Merchant processing services fee income decreased in the first quarter 2024 compared with the first quarter 2023 primarily due to lower processing volumes. Other noninterest income decreased in the first quarter 2024 compared with the first quarter 2023 primarily due to lower recoveries of interest and fees on previously charged off loans.

Noninterest income for the first quarter 2024 decreased \$895 thousand compared with the fourth quarter 2023. Debit card fees declined from the fourth quarter 2023 to the first quarter 2024 primarily due to recognition of an annual volume-based incentive in the fourth quarter 2023. Merchant processing services fees declined from the fourth quarter 2023 to the first quarter 2024 due to reduced processing volumes.

## Noninterest Expense

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

	For the Three Months Ended		
	March 31, 2024	2023	December 31, 2023
	(In thousands)		
Salaries and related benefits	\$12,586	\$12,067	\$12,156
Occupancy and equipment	5,040	5,485	4,958
Outsourced data processing services	2,536	2,444	2,441
Limited partnership operating losses	1,440	1,434	1,440
Professional fees	402	476	389
Courier service	649	615	681
Other noninterest expense	3,446	3,689	3,452
Total	<u>\$26,099</u>	<u>\$26,210</u>	<u>\$25,517</u>

First quarter 2024 noninterest expense decreased \$111 thousand compared with the first quarter 2023. Occupancy and equipment expense decreased in the first quarter 2024 compared with the first quarter 2023 primarily due to decreases in repair and maintenance. Salaries and benefits increased in the first quarter 2024 compared with the first quarter 2023 primarily due to annual merit increases and higher group health insurance costs for employees.

Noninterest expense for the first quarter 2024 increased \$582 thousand compared with the fourth quarter 2023. Salaries and benefits increased from the fourth quarter 2023 to the first quarter 2024 primarily due to seasonally higher payroll taxes, annual merit increases and higher group health insurance costs for employees.

## Provision for Income Tax

The Company's income tax provision (FTE) was \$13.4 million for the first quarter 2024 compared with \$15.0 million for the first quarter 2023 and \$15.7 million for the fourth quarter 2023, representing effective tax rates (FTE) of 26.9%, 27.1% and 28.5%, respectively. The fourth quarter 2023 effective tax rates (FTE) was higher than the first quarter 2023 and the first quarter 2024 primarily due to a \$492 thousand increase to reconcile the 2022 income tax provision to the filed 2022 tax returns.

## 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 March 31, 2024 and December 31, 2023.

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 March 31, 2024 and \$4.9 billion at December 31, 2023. 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 March 31, 2024 and December 31, 2023. Debt securities available for sale are listed at fair value.

	At March 31, 2024		At December 31, 2023	
	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	\$292,583	6%	\$294,919	6%
Agency residential mortgage-backed securities ("MBS")	298,587	6%	318,019	7%
Obligations of states and political subdivisions	135,819	3%	142,465	3%
Corporate securities	2,610,330	55%	2,638,198	54%
Collateralized loan obligations	1,420,584	30%	1,484,597	30%
Total	<u>\$4,757,903</u>	<u>100%</u>	<u>\$4,878,198</u>	<u>100%</u>
Debt securities available for sale	\$3,889,177		\$3,999,801	
Debt securities held to maturity	868,726		878,397	
Total	<u>\$4,757,903</u>		<u>\$4,878,198</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 March 31, 2024, substantially all of the Company's investment securities were investment grade as rated by one or more major rating agencies. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset-backed securities. The Company's procedures for evaluating investments in securities are in accordance with guidance issued by the Board of Governors of the Federal Reserve System, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies" (SR 12-15) and other regulatory guidance.

**[The remainder of this page intentionally left blank]**

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

	Corporate securities			
	At March 31, 2024		At December 31, 2023	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
	(In thousands)			
Debt securities available for sale	\$2,107,512	\$1,879,980	\$2,129,103	\$1,909,548
Debt securities held to maturity	730,350	697,344	728,650	705,356
Total corporate securities	\$2,837,862	\$2,577,324	\$2,857,753	\$2,614,904

The following table summarizes total corporate securities by credit rating:

	At March 31, 2024		At December 31, 2023	
	Fair value	As a percent of	Fair value	As a percent of
		total corporate securities		total corporate securities
	(\$ in thousands)			
AA-	\$71,874	3%	\$73,016	3%
A+	242,122	9%	250,322	9%
A	354,383	14%	380,257	14%
A-	830,945	32%	825,882	32%
BBB+	641,486	25%	723,767	28%
BBB	436,514	17%	361,660	14%
Total corporate securities	\$2,577,324	100%	\$2,614,904	100%

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

	At March 31, 2024		At December 31, 2023	
	Fair value	As a percent of	Fair value	As a percent of
		total corporate securities		total corporate securities
	(\$ in thousands)			
Financial	\$1,492,087	58%	\$1,516,147	58%
Utilities	271,551	11%	274,929	10%
Industrial	211,716	8%	215,428	8%
Consumer, Non-cyclical	167,548	6%	170,423	7%
Communications	157,034	6%	158,495	6%
Basic Materials	99,808	4%	100,693	4%
Energy	69,023	3%	69,331	3%
Technology	62,651	2%	63,185	2%
Consumer, Cyclical	45,906	2%	46,273	2%
Total corporate securities	\$2,577,324	100%	\$2,614,904	100%

[The remainder of this page intentionally left blank]

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

	At March 31, 2024		At December 31, 2023	
	Fair value	As a percent of total corporate securities	Fair value	As a percent of total corporate securities
	(\$ in thousands)			
United States of America	\$1,785,322	69%	\$1,811,463	69%
Canada	193,203	7%	195,979	7%
Japan	165,056	6%	164,948	6%
United Kingdom	155,902	6%	162,794	6%
Switzerland	93,953	4%	93,898	4%
France	91,642	4%	91,726	4%
Netherlands	35,047	1%	35,381	1%
Australia	24,455	1%	24,800	1%
Belgium	19,814	1%	20,894	1%
Germany	12,930	1%	13,021	1%
Total corporate securities	\$2,577,324	100%	\$2,614,904	100%

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 corporate securities are denominated in United States dollars:

	At March 31, 2024		At December 31, 2023	
	Fair value	As a percent of total foreign corporate securities	Fair value	As a percent of total foreign corporate securities
	(\$ in thousands)			
Financial	\$693,150	87%	\$702,892	87%
Energy	31,968	4%	31,970	4%
Basic materials	24,455	3%	24,800	3%
Consumer, Non-cyclical	19,814	3%	20,895	3%
Consumer, Cyclical	12,930	2%	13,021	2%
Utilities	9,685	1%	9,863	1%
Total foreign corporate securities	\$792,002	100%	\$803,441	100%

The Company's \$1.4 billion (fair value) in collateralized loan obligations at March 31, 2024, consist of investments in 136 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 March 31, 2024	
	Amortized Cost	Fair Value
	(In thousands)	
AAA	\$499,727	\$496,419
AA	933,089	924,165
Total	\$1,432,816	\$1,420,584

[The remainder of this page intentionally left blank]

The Company's \$1.5 billion (fair value) in collateralized loan obligations at December 31, 2023, consist of investments in 142 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, 2023	
	Amortized Cost	Fair Value
	(In thousands)	
AAA	\$536,185	\$532,729
AA	965,063	951,868
Total	<u>\$1,501,248</u>	<u>\$1,484,597</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 March 31, 2024	At March 31, 2023	At December 31, 2023
	(In thousands)		
Nonperforming nonaccrual loans	\$957	\$207	\$401
Performing nonaccrual loans	1	7	2
Total nonaccrual loans	<u>958</u>	<u>214</u>	<u>403</u>
Accruing loans 90 or more days past due	525	571	388
Total nonperforming loans	<u>\$1,483</u>	<u>\$785</u>	<u>\$791</u>

At March 31, 2024, nonaccrual loans consisted of three loans with a commercial real estate loan of a carrying value of \$766 thousand. Its collateral value exceeds the loan balance.

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 March 31, 2024	At December 31, 2023
	(In thousands)	
Allowance for credit losses on loans	\$15,879	\$16,867
Allowance for credit losses on held to maturity debt securities	<u>1</u>	<u>1</u>
Total allowance for credit losses	<u>\$15,880</u>	<u>\$16,868</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. The Company has evaluated each issuer’s historical financial performance and ability to service debt payments, including throughout and following the 2008-2009 recession. The Company has an expectation that nonpayment of the amortized cost basis continues to be zero. At March 31, 2024, no credit loss allowance was assigned to corporate securities held to maturity based on evaluation of each individual issuer’s historical 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 March 31, 2024 and December 31, 2023, respectively, 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.

**[The remainder of this page intentionally left blank]**

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

	For the Three Months Ended		
	March 31, 2024	2023	December 31, 2023
	(In thousands)		
Analysis of the Allowance for Credit Losses on Loans			
Balance, beginning of period	\$16,867	\$20,284	\$17,744
Provision (Reversal of provision) for credit losses	300	(1,550)	-
Loans charged off:			
Commercial	-	(148)	-
Commercial real estate	-	-	(45)
Consumer installment and other	(2,003)	(1,891)	(2,120)
Total chargeoffs	(2,003)	(2,039)	(2,165)
Recoveries of loans previously charged off:			
Commercial	12	2,165	165
Commercial real estate	45	15	26
Consumer installment and other	658	634	1,097
Total recoveries	715	2,814	1,288
Net (chargeoffs) recoveries	(1,288)	775	(877)
Balance, end of period	\$15,879	\$19,509	\$16,867

Net chargeoffs (recoveries) as a percentage of average total loans (annualized)	0.61%	(0.33)%	0.40%
---	-------	---------	-------

Selected financial data: (At the dates indicated)

	At March 31,		At December 31,
	2024	2023	2023
Loans	\$844,677	\$938,628	\$866,602
Nonaccrual loans	958	214	403
Allowance for credit losses as a percentage of loans	1.88%	2.08%	1.95%
Nonaccrual loans as a percentage of loans	0.11%	0.02%	0.05%
Allowance for credit losses to nonaccrual loans	1657.52%	9116.36%	4185.36%

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 March 31,						For the Three Months Ended December 31,		
	2024			2023			2023		
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	Net (chargeoffs) Recoveries	Average Loan Balances	As a percentage of Net chargeoffs (recoveries) to Average loans	
(\$ in thousands)									
Commercial	\$12	\$128,358	(0.01)%	\$2,017	\$162,075	(1.24)%	\$165	\$134,473	(0.12)%
Commercial real estate	45	488,989	(0.01)%	15	493,132	- %	(19)	490,645	- %
Construction	-	5,064	- %	-	3,285	- %	-	5,062	- %
Residential real estate	-	9,831	- %	-	13,643	- %	-	10,558	- %
Consumer and other installment	(1,345)	221,311	0.61%	(1,257)	273,729	0.46%	(1,023)	232,897	0.44%
Total	(\$1,288)	\$853,553	0.15%	\$775	\$945,864	(0.08)%	(\$877)	\$873,635	0.10%

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 related to accounting policies.

The following summarizes activity in the allowance for credit losses:

Allowance for Credit Losses					
For the Three Months Ended March 31, 2024					
Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
(In thousands)					
Allowance for credit losses:					
Balance at beginning of period	\$4,216	\$5,925	\$245	\$26	\$6,455
(Reversal) provision	(463)	(212)	(3)	(4)	982
Chargeoffs	-	-	-	-	(2,003)
Recoveries	12	45	-	-	658
Total allowance for credit losses	\$3,765	\$5,758	\$242	\$22	\$6,092

Management considers the \$15.9 million allowance for credit losses on loans to be adequate as a reserve against current expected credit losses in the loan portfolio as of March 31, 2024.

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 March 31, 2024, the Company had \$15 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 and volatile commodity prices 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 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 March 31, 2024, 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 March 31, 2024, 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	-2.2%	-0.4%	-0.8%	+1.8%	+3.2%

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	-11.5%	-5.6%	0.0%	+5.7%	+11.0%

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 low-cost source of funds, along with shareholders' equity, provided 97% of funding for average total assets in the first quarter ended March 31, 2024 and the year ended December 31, 2023, respectively. 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 risk and capital management practices and by maintaining an appropriate level of liquidity.

Total deposits were \$5,355 million at March 31, 2024 and \$5,474 million at December 31, 2023. Total time deposits were \$93 million at March 31, 2024 and \$97 million at December 31, 2023. The Company has no foreign time deposits. The standard FDIC deposit insurance amount is \$250,000 per depositor, for each account ownership category. At March 31, 2024, estimated federally uninsured deposits and time deposits were \$2,491 million and \$4 million, respectively.

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 and keeping 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 was 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. Management believes this deferment of tax payment deadlines impacted deposit totals in the fourth quarter 2023 as customers paid their federal and California tax obligations. Total deposits declined \$119,342 thousand from December 31, 2023 to March 31, 2024 due to competitive pricing of current market rates.

**[The remainder of this page intentionally left blank]**

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

	<u>At March 31, 2024</u>
	(In thousands)
Three months or less	\$2,125
Over three through six months	161
Over six through twelve months	1,798
Over twelve months	202
Total	<u><u>\$4,286</u></u>

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. At March 31, 2024, the Company had \$434,250 thousand in cash balances. During the twelve months ending March 31, 2025, the Company expects to receive \$303,000 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 March 31, 2024, the Company's debt securities which qualify as collateral for borrowing totaled \$3,820,309 thousand. In the ordinary course of business, the Company pledges debt securities as collateral for certain depository customers; at March 31, 2024, the Company had pledged \$697,846 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 March 31, 2024, the Company had pledged \$863,987 thousand in debt securities at the Federal Reserve Bank. During the quarter ended March 31, 2024, the Company's average borrowings from the Federal Reserve Bank and other correspondent banks were \$62,582 thousand and \$-0- thousand, respectively, and at March 31, 2024, the Company's borrowings from the Federal Reserve Bank and other correspondent banks were \$200,000 thousand and \$-0- thousand, respectively. At December 31, 2023, the Company's estimated unpledged collateral qualifying debt securities totaled \$1,995,076 thousand based on the Federal Reserve Bank borrowing programs. The Federal Reserve's Bank Term Funding Program ceased making new loans on March 11, 2024. Debt securities eligible as collateral are shown at market value unless noted otherwise:

	<u>At March 31, 2024</u>
	(in thousands)
Debt Securities Eligible as Collateral:	
Corporate Securities	\$2,577,324
Collateralized Loan Obligations rated AAA	496,419
Obligations of States and Political Subdivisions	135,051
Agency Mortgage Backed Securities	294,480
Securities of U.S. Government Sponsored Entities	117,035
Securities of U.S. Government Sponsored Entities (Par Value)	200,000
Total Debt Securities Eligible as Collateral	<u>\$3,820,309</u>
Debt Securities Pledged as Collateral:	
Deposits by Public Entities	(\$697,846)
Short-term Borrowed Funds (Deposit Sweep)	(257,936)
Other	(5,464)
Total Debt Securities Pledged as Collateral	<u>(\$961,246)</u>
Debt Securities Pledged at the Federal Reserve Bank	<u>(\$863,987)</u>
Estimated Debt Securities Available to Pledge	<u><u>\$1,995,076</u></u>

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, any 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 had no debt as of March 31, 2024. 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 \$12 million in the quarter ended March 31, 2024 and \$46 million in the year ended December 31, 2023 and retire common stock in the amounts of \$14 million in the year ended December 31, 2023. 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 impact Parent Company's ability to meet its ongoing cash obligations. Parent Company's cash balance was \$178 million at March 31, 2024 and \$155 million at December 31, 2023.

### **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 15.2% for the first quarter 2024 and 18.1% for the year ended December 31, 2023. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options was \$950 thousand in the year ended December 31, 2023.

The Company paid common dividends totaling \$12 million in the quarter ended March 31, 2024 and \$46 million in the year ended December 31, 2023, which represent dividends per common share of \$0.44 and \$1.72, 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 year ended December 31, 2023.

The Company's primary capital resource is shareholders' equity, which was \$792 million at March 31, 2024 compared with \$773 million at December 31, 2023. The Company's ratio of equity to total assets was 12.25% at March 31, 2024 and 12.14% at December 31, 2023.

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.

**[The remainder of this page intentionally left blank]**

## 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 March 31, 2024		Required for Capital Adequacy Purposes	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank		
Common Equity Tier I Capital	19.84%	14.88%	7.00%	6.50%
Tier I Capital	19.84%	14.88%	8.50%	8.00%
Total Capital	20.21%	15.39%	10.50%	10.00%
Leverage Ratio	13.54%	10.11%	4.00%	5.00%

	At December 31, 2023		Required for Capital Adequacy Purposes	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank		
Common Equity Tier I Capital	18.76%	14.46%	7.00%	6.50%
Tier I Capital	18.76%	14.46%	8.50%	8.00%
Total Capital	19.15%	14.98%	10.50%	10.00%
Leverage Ratio	12.86%	9.88%	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.

### 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 March 31, 2024.

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 March 31, 2024 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, 2023 includes detailed disclosure about the risks faced by the Company's business.

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

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

No shares were repurchased during the period from January 1, 2024 through March 31, 2024.

The Company may repurchase shares of its common stock in the open market 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 stock option plans, and other ongoing requirements. The Company's most recent repurchase plan was approved on July 28, 2022 and expired on September 1, 2023. There is no stock repurchase plan in place currently.

### **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 March 31, 2024, 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 March 31, 2024, formatted in Inline XBRL (contained in Exhibit 101)

## 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: May 9, 2024

EXHIBIT 31.1

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

I, David L. Payne certify that:

1. I have reviewed this report on Form 10-Q of Westamerica Bancorporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David L. Payne

---

David L. Payne

Chairman, President and Chief Executive Officer

Date: May 9, 2024

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: May 9, 2024

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 March 31, 2024 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: May 9, 2024

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 March 31, 2024 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: May 9, 2024