

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Yes

No

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

Title of Class
Common Stock,
No Par Value

Shares outstanding as of July 30, 2024
26,685,789

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on the current knowledge and belief of the management (“Management”) of Westamerica Bancorporation (the “Company”) and include information concerning the Company’s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company’s ability to predict or control, could cause future results to differ materially from those contemplated.

These factors include but are not limited to (1) the length and severity of any difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset 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 June 30, 2024	At December 31, 2023
	(In thousands)	
Assets:		
Cash and due from banks	\$486,124	\$190,314
Debt securities available for sale	3,699,318	3,999,801
Debt securities held to maturity, net of allowance for credit losses of \$1 at June 30, 2024 and December 31, 2023 (Fair value of \$817,071 at June 30, 2024 and \$849,562 at December 31, 2023)	860,868	878,396
Loans	831,842	866,602
Allowance for credit losses on loans	(15,952)	(16,867)
Loans, net of allowance for credit losses on loans	815,890	849,735
Premises and equipment, net	26,275	27,016
Identifiable intangibles, net	234	347
Goodwill	121,673	121,673
Other assets	301,763	297,310
Total Assets	\$6,312,145	\$6,364,592
Liabilities:		
Noninterest-bearing deposits	\$2,459,467	\$2,605,844
Interest-bearing deposits	2,671,973	2,868,423
Total deposits	5,131,440	5,474,267
Bank Term Funding Program borrowings	200,000	-
Securities sold under repurchase agreements	100,167	58,162
Other liabilities	64,938	59,269
Total Liabilities	5,496,545	5,591,698
Contingencies (Note 10)		
Shareholders' Equity:		
Common stock (no par value), authorized: 150,000 shares issued and outstanding: 26,683 at June 30, 2024 and 26,671 at December 31, 2023	474,583	473,136
Deferred compensation	35	35
Accumulated other comprehensive loss	(197,300)	(190,282)
Retained earnings	538,282	490,005
Total Shareholders' Equity	815,600	772,894
Total Liabilities and Shareholders' Equity	\$6,312,145	\$6,364,592

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months		For the Six Months	
	2024	2023	Ended June 30,	
	2024	2023	2024	2023
	(In thousands, except per share data)			
Interest and Loan Fee Income:				
Loans	\$11,354	\$11,845	\$22,678	\$23,585
Equity securities	175	152	349	304
Debt securities available for sale	43,927	47,452	90,170	94,262
Debt securities held to maturity	8,655	8,930	17,377	17,910
Interest-bearing cash	4,961	2,110	7,244	4,052
Total Interest and Loan Fee Income	69,072	70,489	137,818	140,113
Interest Expense:				
Deposits	2,460	582	4,566	1,040
Bank Term Funding Program borrowings	2,692	-	3,535	-
Securities sold under repurchase agreements	155	25	207	38
Total Interest Expense	5,307	607	8,308	1,078
Net Interest and Loan Fee Income	63,765	69,882	129,510	139,035
Provision (Reversal of Provision) for Credit Losses	-	-	300	(1,550)
Net Interest and Loan Fee Income After Provision (Reversal of Provision) for Credit Losses	63,765	69,882	129,210	140,585
Noninterest Income:				
Service charges on deposit accounts	3,469	3,459	6,939	6,924
Merchant processing services	2,733	2,869	5,240	5,506
Debit card fees	1,706	1,759	3,249	3,401
Trust fees	811	810	1,605	1,575
ATM processing fees	540	702	1,131	1,356
Other service fees	450	458	888	857
Securities losses	-	(125)	-	(125)
Other noninterest income	791	768	1,545	1,755
Total Noninterest Income	10,500	10,700	20,597	21,249
Noninterest Expense:				
Salaries and related benefits	12,483	11,828	25,069	23,895
Occupancy and equipment	5,158	5,012	10,198	10,497
Outsourced data processing services	2,511	2,488	5,047	4,932
Limited partnership operating losses	1,440	1,440	2,880	2,874
Courier service	686	611	1,335	1,226
Professional fees	362	485	764	961
Other noninterest expense	3,490	3,975	6,936	7,664
Total Noninterest Expense	26,130	25,839	52,229	52,049
Income Before Income Taxes	48,135	54,743	97,578	109,785
Provision for income taxes	12,673	14,495	25,699	29,086
Net Income	\$35,462	\$40,248	\$71,879	\$80,699
Average Common Shares Outstanding	26,680	26,648	26,677	26,753
Average Diluted Common Shares Outstanding	26,681	26,648	26,678	26,756
Per Common Share Data:				
Basic earnings	\$1.33	\$1.51	\$2.69	\$3.02
Diluted earnings	1.33	1.51	2.69	3.02
Dividends paid	0.44	0.42	0.88	0.84

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the Three Months		For the Six Months	
	2024	2023	2024	2023
	Ended June 30,			
	(In thousands)			
Net income	\$35,462	\$40,248	\$71,879	\$80,699
Other comprehensive (loss) income:				
Changes in net unrealized losses/gains on debt securities available for sale	(629)	(29,063)	(9,964)	5,767
Deferred tax benefit (expense)	186	8,593	2,946	(1,705)
Changes in net unrealized losses/gains on debt securities available for sale, net of tax	(443)	(20,470)	(7,018)	4,062
Total comprehensive income	<u>\$35,019</u>	<u>\$19,778</u>	<u>\$64,861</u>	<u>\$84,761</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Deferred Compensation	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	(In thousands except dividend per share)					
Balance, March 31, 2024	26,678	\$473,954	\$35	(\$196,857)	\$514,559	\$791,691
Net income for the period					35,462	35,462
Other comprehensive loss				(443)		(443)
Exercise of stock options	5	203				203
Stock based compensation	-	409				409
Stock awarded to employees	-	17				17
Dividends (\$0.44 per share)					(11,739)	(11,739)
Balance, June 30, 2024	<u>26,683</u>	<u>\$474,583</u>	<u>\$35</u>	<u>(\$197,300)</u>	<u>\$538,282</u>	<u>\$815,600</u>
Balance, December 31, 2023	26,671	\$473,136	\$35	(\$190,282)	\$490,005	\$772,894
Net income for the period					71,879	71,879
Other comprehensive loss				(7,018)		(7,018)
Exercise of stock options	5	203				203
Restricted stock activity	11	505				505
Stock based compensation	-	773				773
Stock awarded to employees	-	48				48
Retirement of common stock	(4)	(82)			(128)	(210)
Dividends (\$0.88 per share)					(23,474)	(23,474)
Balance, June 30, 2023	<u>26,683</u>	<u>\$474,583</u>	<u>\$35</u>	<u>(\$197,300)</u>	<u>\$538,282</u>	<u>\$815,600</u>
Balance, March 31, 2023	26,648	\$471,124	\$35	(\$231,573)	\$403,339	\$642,925
Net income for the period					40,248	40,248
Other comprehensive loss				(20,470)		(20,470)
Stock based compensation	-	339				339
Stock awarded to employees	-	12				12
Dividends (\$0.42 per share)					(11,192)	(11,192)
Balance, June 30, 2023	<u>26,648</u>	<u>\$471,475</u>	<u>\$35</u>	<u>(\$252,043)</u>	<u>\$432,395</u>	<u>\$651,862</u>
Balance, December 31, 2022	26,913	\$475,086	\$35	(\$256,105)	\$383,094	\$602,110
Net income for the period					80,699	80,699
Other comprehensive income				4,062		4,062
Restricted stock activity	9	508				508
Stock based compensation	-	678				678
Stock awarded to employees	-	47				47
Retirement of common stock	(274)	(4,844)			(8,903)	(13,747)
Dividends (\$0.84 per share)					(22,495)	(22,495)
Balance, June 30, 2023	<u>26,648</u>	<u>\$471,475</u>	<u>\$35</u>	<u>(\$252,043)</u>	<u>\$432,395</u>	<u>\$651,862</u>

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Months Ended June 30,	
	2024	2023
	(In thousands)	
Operating Activities:		
Net income	\$71,879	\$80,699
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization/accretion	5,816	5,752
Provision (reversal of provision) for credit losses	300	(1,550)
Stock option compensation expense	773	678
Amortization of deferred loan fees	(306)	(269)
Securities losses	-	125
Net change in:		
Interest income receivable	4,234	(222)
Income taxes payable	(11,555)	28,144
Deferred income taxes	3,000	942
Other assets	(48)	173
Interest expense payable	3,711	38
Other liabilities	(6,558)	(6,848)
Net Cash Provided by Operating Activities	<u>71,246</u>	<u>107,662</u>
Investing Activities:		
Net repayments of loans	33,851	37,370
Purchases of debt securities available for sale	(4,767)	-
Proceeds from sale/maturity/calls of debt securities available for sale	299,754	286,702
Proceeds from maturity/calls of debt securities held to maturity	20,612	18,525
Purchases of Federal Reserve Bank stock	-	(2,326)
Purchases of premises and equipment	(583)	(590)
Net Cash Provided by Investing Activities	<u>348,867</u>	<u>339,681</u>
Financing Activities:		
Net change in:		
Deposits	(342,827)	(519,363)
Short-term borrowings	242,005	80,213
Exercise of stock options	203	-
Retirement of common stock	(210)	(13,747)
Common stock dividends paid	(23,474)	(22,495)
Net Cash Used in Financing Activities	<u>(124,303)</u>	<u>(475,392)</u>
Net Change in Cash and Due from Banks	295,810	(28,049)
Cash and Due from Banks at Beginning of Period	190,314	294,236
Cash and Due from Banks at End of Period	<u>\$486,124</u>	<u>\$266,187</u>
Supplemental Cash Flow Disclosures:		
Supplemental disclosure of non cash activities:		
Right-of-use assets acquired in exchange for operating lease liabilities	\$2,970	\$3,934
Securities purchases pending settlement	9,051	-
Supplemental disclosure of cash flow activities:		
Cash paid for amounts included in operating lease liabilities	3,269	3,052
Interest paid for the period	4,597	1,040
Income tax payments for the period	34,255	-

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission and follow general practices within the banking industry. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three and six months ended June 30, 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 June 30, 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 June 30, 2024			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(In thousands)			
Debt securities available for sale:				
Agency residential mortgage-backed securities ("MBS")	\$243,230	\$1	(\$20,425)	\$222,806
Securities of U.S. Government sponsored entities	309,985	-	(18,779)	291,206
U.S. Treasury Securities	4,820	-	-	4,820
Obligations of states and political subdivisions	72,192	4	(2,438)	69,758
Corporate securities	2,084,391	356	(229,129)	1,855,618
Collateralized loan obligations	1,264,811	468	(10,169)	1,255,110
Total debt securities available for sale	3,979,429	829	(280,940)	3,699,318
Debt securities held to maturity:				
Agency residential MBS	67,777	17	(5,219)	62,575
Obligations of states and political subdivisions	61,043	7	(802)	60,248
Corporate securities	732,049	-	(37,801)	694,248
Total debt securities held to maturity	860,869	24	(43,822)	817,071
Total	\$4,840,298	\$853	(\$324,762)	\$4,516,389

	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

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

	At June 30, 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	\$122,825	\$121,872	\$12,626	\$12,568
Over 1 to 5 years	869,312	817,287	356,026	346,397
Over 5 to 10 years	1,479,251	1,282,243	424,440	395,531
Subtotal	2,471,388	2,221,402	793,092	754,496
Collateralized loan obligations	1,264,811	1,255,110	-	-
Agency residential MBS	243,230	222,806	67,777	62,575
Total	\$3,979,429	\$3,699,318	\$860,869	\$817,071

	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 June 30, 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	1	\$498	(\$8)	105	\$213,122	(\$20,417)	106	\$213,620	(\$20,425)
U.S. Treasury securities	2	6,842	(89)	21	284,364	(18,690)	23	291,206	(18,779)
Obligations of states and political subdivisions	1	4,820	-	-	-	-	1	4,820	-
Corporate securities	4	4,698	(51)	51	57,076	(2,387)	55	61,774	(2,438)
Collateralized loan obligations	-	-	-	144	1,843,918	(229,129)	144	1,843,918	(229,129)
Total	14	143,567	(1,214)	49	506,511	(8,955)	63	650,078	(10,169)
	22	\$160,425	(\$1,362)	370	\$2,904,991	(\$279,578)	392	\$3,065,416	(\$280,940)

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

	Debt Securities Held to Maturity								
	At June 30, 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	-	\$ -	\$ -	80	\$61,517	(\$5,219)	80	\$61,517	(\$5,219)
Obligations of states and political subdivisions	31	17,928	(164)	38	35,328	(638)	69	53,256	(802)
Corporate securities	4	36,339	(907)	48	657,909	(36,894)	52	694,248	(37,801)
Total	35	\$54,267	(\$1,071)	166	\$754,754	(\$42,751)	201	\$809,021	(\$43,822)

Based upon the Company's June 30, 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 June 30, 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 June 30, 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 \$2,339,848 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 Six Months Ended June 30,	
	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 June 30, 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 June 30, 2024, aggregated by credit rating:

	Credit Risk Profile by Credit Rating			
	At June 30, 2024			
	AAA/AA/A	BBB+	Not Rated	Total
	(In thousands)			
Agency residential MBS	\$67,271	\$ -	\$506	\$67,777
Obligations of states and political subdivisions	60,318	-	725	61,043
Corporate securities	527,065	204,984	-	732,049
Total	\$654,654	\$204,984	\$1,231	\$860,869

There were no debt securities held to maturity on nonaccrual status or past due 30 days or more as of June 30, 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		For the Six Months	
	Ended June 30,			
	2024	2023	2024	2023
	(In thousands)			
Taxable	\$51,804	\$55,371	\$105,949	\$110,120
Tax-exempt from regular federal income tax	953	1,163	1,947	2,356
Total interest income from investment securities	<u>\$52,757</u>	<u>\$56,534</u>	<u>\$107,896</u>	<u>\$112,476</u>

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

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

	At June 30,	At December 31,
	2024	2023
	(In thousands)	
Commercial	\$128,269	\$136,550
Commercial real estate	488,760	487,523
Construction	5,064	5,063
Residential real estate	9,096	9,935
Consumer installment & other	200,653	227,531
Total	<u>\$831,842</u>	<u>\$866,602</u>

The following summarizes activity in the allowance for credit losses:

	Allowance for Credit Losses					Total
	For the Three Months Ended June 30, 2024					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	
	(In thousands)					
Allowance for credit losses:						
Balance at beginning of period	\$3,765	\$5,758	\$242	\$22	\$6,092	\$15,879
Provision (reversal)	148	32	1	2	(183)	-
Chargeoffs	(28)	-	-	-	(1,513)	(1,541)
Recoveries	11	132	-	-	1,471	1,614
Total allowance for credit losses	<u>\$3,896</u>	<u>\$5,922</u>	<u>\$243</u>	<u>\$24</u>	<u>\$5,867</u>	<u>\$15,952</u>

	Allowance for Credit Losses					Total
	For the Six Months Ended June 30, 2024					
	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	(315)	(180)	(2)	(2)	799	300
Chargeoffs	(28)	-	-	-	(3,516)	(3,544)
Recoveries	23	177	-	-	2,129	2,329
Total allowance for credit losses	<u>\$3,896</u>	<u>\$5,922</u>	<u>\$243</u>	<u>\$24</u>	<u>\$5,867</u>	<u>\$15,952</u>

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

Allowance for Credit Losses
For the Six Months Ended June 30, 2023

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

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

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

	Credit Risk Profile by Internally Assigned Grade					
	At June 30, 2024					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Grade:						
Pass	\$121,814	\$476,897	\$ -	\$8,731	\$197,937	\$805,379
Substandard	6,455	11,863	5,064	365	1,381	25,128
Doubtful	-	-	-	-	745	745
Loss	-	-	-	-	590	590
Total	\$128,269	\$488,760	\$5,064	\$9,096	\$200,653	\$831,842

	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

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The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status						
At June 30, 2024						
	30-59 Days	60-89 Days	Past Due 90			
Current and	Past Due and	Past Due and	Days or More			
Accruing	Accruing	Accruing	and Accruing	Nonaccrual		Total Loans
(In thousands)						
Commercial	\$127,590	\$665	\$ -	\$ -	\$14	\$128,269
Commercial real estate	487,803	-	-	-	957	488,760
Construction	5,064	-	-	-	-	5,064
Residential real estate	9,037	3	56	-	-	9,096
Consumer installment and other	194,478	4,090	1,505	580	-	200,653
Total	\$823,972	\$4,758	\$1,561	\$580	\$971	\$831,842

Summary of Loans by Delinquency and Nonaccrual Status						
At December 31, 2023						
	30-59 Days	60-89 Days	Past Due 90			
Current and	Past Due and	Past Due and	Days or More			
Accruing	Accruing	Accruing	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 June 30, 2024 or December 31, 2023. There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2024 or December 31, 2023.

There were no loan modifications made to borrowers experiencing financial difficulty during the six months ended June 30, 2024 and June 30, 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 June 30, 2024 included the following: ten commercial real estate loans totaling \$11.3 million secured by real property and \$470 thousand of indirect consumer installment loans secured by personal property. There were no other collateral dependent loans at June 30, 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 June 30, 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	\$21,863	\$10,647	\$22,682	\$14,678	\$16,720	\$15,496	\$102,086	\$19,728	\$121,814
Substandard	2,442	-	2,835	-	-	-	5,277	1,178	6,455
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$24,305	\$10,647	\$25,517	\$14,678	\$16,720	\$15,496	\$107,363	\$20,906	\$128,269
Current gross chargeoffs on commercial loans:									
For the three months ended June 30, 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$28	\$28
For the six months ended June 30, 2024	-	-	-	-	-	-	-	28	28

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	\$20,566	\$6,963	\$12,601	\$34,605	\$22,146	\$13,112	\$109,993	\$26,557	\$136,550

Current gross chargeoffs on commercial loans:

For the year ended December 31, 2023

\$ -	\$ -	\$3	\$135	\$ -	\$ -	\$138	\$272	\$410
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At June 30, 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	\$226,096	\$67,855	\$65,389	\$50,012	\$43,965	\$23,580	\$476,897	\$ -	\$476,897
Substandard	11,086	777	-	-	-	-	11,863	-	11,863
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$237,182	\$68,632	\$65,389	\$50,012	\$43,965	\$23,580	\$488,760	\$ -	\$488,760

Current gross chargeoffs on commercial real estate loans:

For the three months ended June 30, 2024

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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For the six months ended June 30, 2024

-	-	-	-	-	-	-	-	-
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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
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At June 30, 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	\$8,731	\$ -	\$ -	\$ -	\$ -	\$ -	\$8,731	\$ -	\$8,731
Substandard	365	-	-	-	-	-	365	-	365
Doubtful	-	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-	-
Total	\$9,096	\$ -	\$ -	\$ -	\$ -	\$ -	\$9,096	\$ -	\$9,096

Current gross chargeoffs on residential real estate loans:

For the three months ended June 30, 2024

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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For the six months ended June 30, 2024

-	-	-	-	-	-	-	-	-
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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

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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At June 30, 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Substandard	-	-	-	-	-	-	-	5,064	
Doubtful	-	-	-	-	-	-	-	-	
Loss	-	-	-	-	-	-	-	-	
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,064	

Current gross chargeoffs on construction loans:

For the three months ended June 30, 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
For the six months ended June 30, 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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The Company considers the delinquency and nonaccrual status of the consumer loan portfolio and its impact on the allowance for credit losses. The following table presents the amortized cost in consumer installment and other loans based on delinquency and nonaccrual status:

At June 30, 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	\$11,183	\$17,401	\$40,994	\$59,913	\$32,580	\$16,039	\$178,110	\$16,368	\$194,478
30-59 days past due	281	427	1,529	1,357	422	38	4,054	36	4,090
60-89 days past due	76	100	661	327	198	32	1,394	111	1,505
Past due 90 days or more	45	20	225	111	69	-	470	110	580
Nonaccrual	-	-	-	-	-	-	-	-	-
Total	\$11,585	\$17,948	\$43,409	\$61,708	\$33,269	\$16,109	\$184,028	\$16,625	\$200,653

Current gross chargeoffs on consumer installment and other loans:

For the three months ended June 30, 2024	\$99	\$104	\$707	\$350	\$198	\$ -	\$1,458	\$55	\$1,513
For the six months ended June 30, 2024	179	266	1,382	1,107	452	-	3,386	130	3,516

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
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There were no loans held for sale at June 30, 2024 and December 31, 2023.

The Company held no other real estate owned (OREO) at June 30, 2024 and December 31, 2023. At June 30, 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 June 30, 2024, the Bank did not have credit extended to any one entity exceeding these limits. At June 30, 2024, the Bank had 24 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 \$30,171 thousand and \$30,888 thousand at June 30, 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 June 30, 2024, the Bank held corporate bonds in 106 issuing entities that exceeded \$5 million for each issuer.

Note 6: Other Assets and Other Liabilities

Other assets consisted of the following:

	At June 30, 2024	At December 31, 2023
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock ⁽¹⁾	\$14,069	\$14,069
Other investments	158	158
Total cost method equity investments	14,227	14,227
Life insurance cash surrender value	68,056	66,611
Net deferred tax asset	100,828	99,507
Right-of-use asset	18,832	18,814
Limited partnership investments	25,787	28,667
Interest receivable	50,334	54,568
Prepaid assets	4,496	5,200
Other assets	19,203	9,716
Total other assets	<u>\$301,763</u>	<u>\$297,310</u>

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

The Company owns 211 thousand shares of Visa Inc. ("Visa") Class B-1 common stock, which have transfer restrictions; the carrying value is \$-0- thousand. Following the resolution of certain litigation at Visa, shares of Visa's Class B-1 stock will convert to shares of Visa Class A common stock based on a conversion factor (1.5875 as of September 28, 2023), which is periodically adjusted to reflect Visa's ongoing litigation costs. Given the trading restrictions and continuing uncertainty regarding the likelihood, ultimate timing and eventual conversion of Visa Class B-1 common stock for shares of Visa Class A common stock or other marketable classes of Visa common stock, these shares are not considered to have a readily determinable fair value and have no carrying value. Visa Class A common stock trades on the New York Stock Exchange and had a closing price of \$262.47 per share on June 28, 2024, the last trading day for the second quarter 2024. The ultimate value of the Company's Visa Class B-1 shares is subject to the extent of Visa's future litigation escrow fundings, the resulting conversion rate to Visa Class A common stock, and current and future trading restrictions on the Visa Class B-1 common stock. Effective January 24, 2024, all outstanding shares of Visa Class B common stock, including the 211 thousand shares then held by the Company, were redenominated as Visa Class B-1 common stock. During the quarter ended June 30, 2024, Visa conducted an exchange offer under which Visa Class B-1 stockholders could elect to exchange a portion of their Visa Class B-1 shares for a combination of Visa Class C common stock, which is convertible into publicly traded Visa Class A common stock, and Visa Class B-2 common stock, which remains restricted. As a condition to the exchange, Visa Class B-1 stockholders were required to execute an indemnification agreement with Visa related to Visa's unresolved litigation. The Company did not exchange any Visa Class B-1 shares in the exchange offer, which expired on May 3, 2024. At June 30, 2024, the Company did not record an adjustment to the carrying value of the Visa Class B-1 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 June 30, 2024, these investments totaled \$25,787 thousand and \$12,614 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 June 30, 2024, the \$12,614 thousand of outstanding equity capital commitments are expected to be paid as follows: \$11,130 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		For the Six Months Ended	
	2024	2023	2024	2023
	June 30,			
	(In thousands)			
Investment loss included in pre-tax income	\$1,440	\$1,440	\$2,880	\$2,874
Tax credits recognized in provision for income taxes	975	1,035	1,950	2,055

Other liabilities consisted of the following:

	At June 30,	At December 31,
	2024	2023
	(In thousands)	
Operating lease liability	\$18,832	\$18,814
Securities payable	9,051	-
Other liabilities	37,055	40,455
Total other liabilities	<u>\$64,938</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 June 30, 2024.

As of June 30, 2024, the Company's lease liability and right-of-use asset were \$18,832 thousand. The weighted average remaining life of operating leases and weighted average discount rate used to determine operating lease liabilities were 3.8 years and 3.18%, respectively, at June 30, 2024. The Company did not have any material lease incentives, unamortized initial direct costs, prepaid lease expense, or accrued lease expense as of June 30, 2024.

Total lease costs were \$1,679 thousand and \$3,357 thousand in the three and six months ended June 30, 2024, respectively, and were recorded within occupancy and equipment expense. Total lease costs were \$1,660 thousand and \$3,316 thousand in the three and six months ended June 30, 2023, respectively, and were recorded within occupancy and equipment expense. The Company did not have any material short-term or variable leases costs or sublease income during the six months ended June 30, 2024 and June 30, 2023.

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

	Minimum future lease payments At June 30, 2024
	(In thousands)
The remainder of 2024	\$3,166
2025	5,759
2026	4,110
2027	3,227
2028	2,487
Thereafter	1,432
Total minimum lease payments	20,181
Less: discount	(1,349)
Present value of lease liability	\$18,832

Note 7: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is evaluated for impairment at least annually. The Company did not recognize impairment during the six months ended June 30, 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 six months ended June 30, 2024 and year ended December 31, 2023, no such adjustments were recorded.

The carrying values of goodwill were:

	At June 30, 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 June 30, 2024		At December 31, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core deposit intangibles	\$56,808	(\$56,574)	\$56,808	(\$56,461)

As of June 30, 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 six months ended June 30, 2024 (actual)	\$113
The remainder of 2024	109
2025	125

Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

	Deposits	
	At June 30, 2024	At December 31, 2023
	(In thousands)	
Noninterest-bearing	\$2,459,467	\$2,605,844
Interest-bearing:		
Transaction	936,186	1,072,233
Savings	1,646,781	1,699,388
Time deposits less than \$100 thousand	51,964	56,100
Time deposits \$100 thousand through \$250 thousand	27,497	31,107
Time deposits more than \$250 thousand	9,545	9,595
Total deposits	<u>\$5,131,440</u>	<u>\$5,474,267</u>

Demand deposit overdrafts of \$1,053 thousand and \$620 thousand were included as loan balances at June 30, 2024 and December 31, 2023, respectively. Interest expense for aggregate time deposits with individual account balances in excess of \$100 thousand was \$20 thousand and \$41 thousand for the three and six months ended June 30, 2024, respectively, and \$31 thousand and \$65 thousand for the three and six months ended June 30, 2023, respectively.

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 June 30, 2024	At December 31, 2023
	(In thousands)	
Repurchase agreements:		
Collateral securing borrowings:		
Agency residential MBS	\$23,270	\$25,669
Corporate securities	371,013	233,947
Total collateral carrying value	<u>\$394,283</u>	<u>\$259,616</u>
Securities sold under repurchase agreements	<u>\$100,167</u>	<u>\$58,162</u>

At June 30, 2024, the Company had access to borrowing from the Federal Reserve up to \$867,510 thousand based on the collateral pledged at June 30, 2024. Federal Reserve Bank Term Funding Program borrowings were \$200,000 thousand at June 30, 2024. For the six months ended June 30, 2024, the average balances of Federal Reserve Bank Term Funding Program borrowings were \$131,291 thousand. Federal Reserve Bank Term Funding Program borrowings consist of multiple advances, \$80,000 thousand of which matures in February 2025, and the remaining \$120,000 thousand matures in March 2025. At June 30, 2024, the Company's estimated unpledged collateral qualifying debt securities totaled \$1,462,966 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

	At December 31, 2023			
	Fair Value	Quoted Prices	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) ⁽¹⁾
		in Active		
		Markets for Identical Assets (Level 1)		
(In thousands)				
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>

⁽¹⁾ There were no transfers into 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 June 30, 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 June 30, 2024				For the Six Months Ended June 30, 2024
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
	(In thousands)				
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 Year Ended December 31, 2023
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
	(In thousands)				
Loans:					
Commercial real estate	\$110	\$ -	\$ -	\$110	\$ -
Total assets measured at fair value on a nonrecurring basis	<u>\$110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$110</u>	<u>\$ -</u>

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

Disclosures about Fair Value of Financial Instruments

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

The Company has not included assets and liabilities that are not financial instruments such as goodwill, long-term relationships with deposit, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes,

and other assets and liabilities. The total estimated fair values do not represent, and should not be construed to represent, the underlying value of the Company.

At June 30, 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)	
(In thousands)					
Financial Assets:					
Cash and due from banks	\$486,124	\$486,124	\$486,124	\$ -	\$ -
Debt securities held to maturity	860,868	817,071	-	817,071	-
Loans	815,890	813,272	-	-	813,272
Financial Liabilities:					
Deposits	\$5,131,440	\$5,129,495	\$ -	\$5,042,434	\$87,061
Bank Term Funding Program borrowings	200,000	200,112	-	200,112	-
Securities sold under repurchase agreements	100,167	100,167	-	100,167	-
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)	
(In thousands)					
Financial Assets:					
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
Financial Liabilities:					
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 \$29,241 thousand at June 30, 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 \$194,702 thousand at June 30, 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 \$1,871 thousand at June 30, 2024 and \$2,044 thousand at December 31, 2023. Commitments for commercial and similar letters of credit totaled \$95 thousand at June 30, 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 June 30, 2024 and December 31, 2023, respectively. At June 30, 2024, the Company had a reserve for unfunded commitments of \$201 thousand for the above-mentioned loan commitments of \$29,241 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		For the Six Months	
	2024	2023	2024	2023
	Ended June 30,			
	(In thousands, except per share data)			
Net income applicable to common equity (numerator)	\$35,462	\$40,248	\$71,879	\$80,699
Basic earnings per common share				
Weighted average number of common shares outstanding - basic (denominator)	26,680	26,648	26,677	26,753
Basic earnings per common share	\$1.33	\$1.51	\$2.69	\$3.02
Diluted earnings per common share				
Weighted average number of common shares outstanding - basic	26,680	26,648	26,677	26,753
Add common stock equivalents for options	1	-	1	3
Weighted average number of common shares outstanding - diluted (denominator)	26,681	26,648	26,678	26,756
Diluted earnings per common share	\$1.33	\$1.51	\$2.69	\$3.02

For the three and six months ended June 30, 2024, options to purchase 1,101 thousand and 1,005 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

For the three and six months ended June 30, 2023, options to purchase 1,031 thousand and 1,004 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

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

FINANCIAL SUMMARY

	For the Three Months		For the Six Months	
	2024	2023	2024	2023
	Ended June 30,			
	(In thousands, except per share data)			
Net Interest and Loan Fee Income (FTE) ⁽¹⁾	\$64,100	\$70,281	\$130,194	\$139,843
Provision (Reversal of Provision) for Credit Losses	-	-	300	(1,550)
Noninterest Income:				
Securities Losses	-	(125)	-	(125)
Other Noninterest Income	10,500	10,825	20,597	21,374
Total Noninterest Income	10,500	10,700	20,597	21,249
Noninterest Expense	26,130	25,839	52,229	52,049
Income Before Income Taxes (FTE) ⁽¹⁾	48,470	55,142	98,262	110,593
Income Tax Provision (FTE) ⁽¹⁾	13,008	14,894	26,383	29,894
Net Income	<u>\$35,462</u>	<u>\$40,248</u>	<u>\$71,879</u>	<u>\$80,699</u>
Average Common Shares Outstanding	26,680	26,648	26,677	26,753
Average Diluted Common Shares Outstanding	26,681	26,648	26,678	26,756
Common Shares Outstanding at Period End	26,683	26,648		
Per Common Share:				
Basic Earnings	\$1.33	\$1.51	\$2.69	\$3.02
Diluted Earnings	1.33	1.51	2.69	3.02
Book Value	30.57	24.46		
Financial Ratios:				
Return on Assets	2.18%	2.35%	2.21%	2.33%
Return on Common Equity	14.39%	18.39%	14.77%	18.74%
Net Interest Margin (FTE) ⁽¹⁾	4.15%	4.34%	4.23%	4.26%
Net Loan (Recoveries) Losses to Average Loans	(0.04)%	0.45%	0.29%	0.05%
Efficiency Ratio ⁽²⁾	35.0%	31.9%	34.6%	32.3%
Average Balances:				
Assets	\$6,549,203	\$6,865,591	\$6,537,562	\$6,988,272
Loans	838,016	926,795	845,785	936,277
Investment Securities	4,944,191	5,365,377	5,021,365	5,456,572
Deposits	5,202,620	5,797,504	5,290,840	5,928,983
Shareholders' Equity	990,927	877,964	978,384	868,272
Period End Balances:				
Assets	\$6,312,145	\$6,582,740		
Loans	831,842	919,583		
Investment Securities	4,560,187	4,946,815		
Deposits	5,131,440	5,705,927		
Shareholders' Equity	815,600	651,862		
Capital Ratios at Period End:				
Total Risk Based Capital	21.07%	17.56%		
Tangible Equity to Tangible Assets	11.21%	8.20%		
Dividends Paid Per Common Share	\$0.44	\$0.42	\$0.88	\$0.84
Common Dividend Payout Ratio	33%	28%	33%	28%

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

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

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

Financial Overview

Westamerica Bancorporation and subsidiaries (collectively, the “Company”) reported net income of \$35.5 million or \$1.33 diluted earnings per common share (“EPS”) in the second quarter 2024 compared with net income of \$40.2 million or \$1.51 EPS in the second quarter 2023. The Company reported net income of \$71.9 million or \$2.69 EPS for the six months ended June 30, 2024. The Company reported net income of \$80.7 million or \$3.02 EPS for the six months ended June 30, 2023, including a \$1.6 million reversal of provision for credit losses, which increased EPS \$0.04.

The Federal Open Market Committee of the Federal Reserve Board (“FOMC”) adopted tightening monetary policy, including increasing the federal funds rate, beginning in March 2022 as a means to reduce inflation. Inflation has receded toward the FOMC’s inflation goal of 2 percent, although inflation has not yet reached 2 percent. The unemployment rate has recently increased. These economic conditions have caused market-based expectations for the FOMC to begin loosening monetary policy at some point in the third or fourth quarter of 2024, by reducing the federal funds rate. The interest rate paid on reserve balances at the Federal Reserve Bank was 5.40% as of June 30, 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		For the Six Months	
	2024	2023	2024	2023
	(In thousands, except per share data)			
Net interest and loan fee income (FTE)	\$64,100	\$70,281	\$130,194	\$139,843
Provision (Reversal of provision) for credit losses	-	-	300	(1,550)
Noninterest income	10,500	10,700	20,597	21,249
Noninterest expense	26,130	25,839	52,229	52,049
Income before taxes (FTE)	48,470	55,142	98,262	110,593
Income tax provision (FTE)	13,008	14,894	26,383	29,894
Net income	<u>\$35,462</u>	<u>\$40,248</u>	<u>\$71,879</u>	<u>\$80,699</u>
Average diluted common shares	26,681	26,648	26,678	26,756
Diluted earnings per common share	\$1.33	\$1.51	\$2.69	\$3.02
Average total assets	\$6,549,203	\$6,865,591	\$6,537,562	\$6,988,272
Net income to average total assets (annualized)	2.18%	2.35%	2.21%	2.33%
Net income to average common shareholders' equity (annualized)	14.39%	18.39%	14.77%	18.74%

Net income for the second quarter 2024 decreased \$4.8 million compared with the second quarter 2023 primarily due to decreased net interest and loan fee income. Net interest and loan fee income (FTE) decreased \$6.2 million in the second quarter 2024 compared with the second quarter 2023 due to lower average balances of investment debt securities and loans, higher average balances of Bank Term Funding Program borrowings and higher rate on interest-bearing liabilities, partially offset by higher yield on interest-earning assets and higher average balances of interest-bearing cash. With \$73 thousand of net loan recoveries in the second quarter 2024 and \$1.6 million in nonperforming loans at June 30, 2024, the Company recorded no provision for credit losses 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 provided no provision for credit losses in the second quarter 2023, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. Second quarter 2024 noninterest income decreased compared with the second quarter 2023 primarily due to lower income from merchant processing services and ATM processing fees. Second quarter 2024 noninterest expense increased compared with the second quarter 2023 primarily due to higher salaries and benefits, partially offset by lower losses from unauthorized debit card use. The tax rate (FTE) was 26.8% for the second quarter 2024 and 27.0% for the second quarter 2023.

Net income for the six months ended June 30, 2024 decreased \$8.8 million compared with the six months ended June 30, 2023 primarily due to decreased net interest and loan fee income. Net interest and loan fee income (FTE) decreased \$9.6 million in the six months ended June 30, 2024 compared with the six months ended June 30, 2023 due to lower average balances of investment debt securities and loans, higher average balances of Bank Term Funding Program borrowings and higher rates on interest-bearing liabilities, partially offset by higher yield on interest-earning assets and higher average balances of interest-bearing cash. During the six months ended June 30, 2024, the Company provided \$300 thousand for credit losses, which was recorded in the first quarter, based on the results of the 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 six months ended June 30, 2023 as a result of a \$2.2 million recovery on a previously charged off loan. Noninterest income for the six months ended June 30, 2024 decreased compared with the six months ended June 30, 2023 due to lower income from merchant processing services, ATM processing fees and debit card fees and because the six months ended June 30, 2023 included higher recoveries in excess of principal charged off on loans. Noninterest expense for the six months ended June 30, 2024 increased compared with the six months ended June 30, 2023 primarily due to annual merit increases and higher group health insurance costs for employees, partially offset by lower losses from unauthorized debit card use. The tax rate (FTE) was 26.8% for the six months ended June 30, 2024 and 27.0% for the six months ended June 30, 2023.

Net Interest and Loan Fee Income (FTE)

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

	For the Three Months		For the Six Months	
	2024	2023	2024	2023
	Ended June 30,			
	(\$ in thousands)			
Interest and loan fee income	\$69,072	\$70,489	\$137,818	\$140,113
Interest expense	5,307	607	8,308	1,078
FTE adjustment	335	399	684	808
Net interest and loan fee income (FTE)	<u>\$64,100</u>	<u>\$70,281</u>	<u>\$130,194</u>	<u>\$139,843</u>
Average earning assets	\$6,145,626	\$6,457,270	\$6,132,497	\$6,560,639
Net interest margin (FTE) (annualized)	4.15%	4.34%	4.23%	4.26%

Net interest and loan fee income (FTE) decreased \$6.2 million in the second quarter 2024 compared with the second quarter 2023 due to lower average balances of investment debt securities (down \$421 million) and loans (down \$89 million), higher average balances of Bank Term Funding Program borrowings (up \$200 million) and higher rate on interest-bearing liabilities (up 0.63%), partially offset by higher yield on interest-earning assets (up 0.12%) and higher average balances of interest-bearing cash (up \$198 million).

Net interest and loan fee income (FTE) decreased \$9.6 million in the six months ended June 30, 2024 compared with the six months ended June 30, 2023 due to lower average balances of investment debt securities (down \$435 million) and loans (down \$90 million), higher average balances of Bank Term Funding Program borrowings (up \$131 million) and higher rate on interest-bearing liabilities (up 0.49%), partially offset by higher yield on interest-earning assets (up 0.21%) and higher average balances of interest-bearing cash (up \$98 million).

The annualized net interest margin (FTE) was 4.15% in the second quarter 2024 and 4.23% in the six months ended June 30, 2024 compared with 4.34% in the second quarter 2023 and 4.26% in the six months ended June 30, 2023.

The Company's funding costs were 0.35% in the second quarter 2024 compared with 0.04% in the second quarter 2023, and 0.27% in the six months ended June 30, 2024 and 0.03% in the six months ended June 30, 2023. Noninterest bearing deposits represented 47% of average deposits in the six months ended June 30, 2024 and the six months ended June 30, 2023. Higher-cost time deposits represented 2% of average deposits for both periods. Average balances of time deposits in the six months ended June 30, 2024 declined \$31 million from the six months ended June 30, 2023. Average balances of checking and saving deposits accounted for 98% of average total deposits in the six months ended June 30, 2024 and the six months ended June 30, 2023.

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Net Interest Margin (FTE)

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2024	2023	2024	2023
Yield on earning assets (FTE)	4.50%	4.38%	4.50%	4.29%
Rate paid on interest-bearing liabilities	0.71%	0.08%	0.56%	0.07%
Net interest spread (FTE)	3.79%	4.30%	3.94%	4.22%
Impact of noninterest-bearing demand deposits	0.36%	0.04%	0.29%	0.04%
Net interest margin (FTE)	4.15%	4.34%	4.23%	4.26%

The Company's yield on earning assets during the second quarter 2024 and the six months ended June 30, 2024 increased compared with the second quarter 2023 and the six months ended June 30, 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 June 30, 2024 was \$1,347 million yielding 7.23% and \$1,404 million yielding 7.23% for the six months ended June 30, 2024. The average balances and yields of CLOs for the three months ended June 30, 2023 was \$1,555 million yielding 6.81% and \$1,566 million yielding 6.57% for the six months ended June 30, 2023. The interest-bearing cash yield changes by the amount of change in the overnight federal funds rate on the effective date declared by the FOMC. The average balance and yields of interest-bearing cash for the second quarter 2024 and six months ended June 30, 2024 were \$363 million yielding 5.40% and \$265 million yielding 5.40%, respectively. The average balance and yields of interest-bearing cash for the second quarter 2023 and six months ended June 30, 2023 were \$165 million yielding 5.06% and \$168 million yielding 4.80%, respectively. The 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 six months ended June 30, 2024 compared with the six months ended June 30, 2023 primarily due to competitive deposit pricing and higher volume on Bank Term Funding Program borrowings.

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Summary of Average Balances, Yields/Rates and Interest Differential

The following tables present information regarding the consolidated average assets, liabilities and shareholders' equity, the amounts of interest income earned from average interest earning assets and the resulting yields, and the amounts of interest expense incurred on average interest-bearing liabilities and the resulting rates. Average loan balances include nonperforming loans. Interest income includes the reversal of previously accrued interest on loans placed on nonaccrual status during the period, proceeds from loans on nonaccrual status only to the extent cash payments have been received and applied as interest income, and accretion of purchased loan discounts. Yields, rates and interest margins are annualized. Yields on tax-exempt securities and loans have been adjusted upward to reflect the effect of income exempt from federal income taxation at the federal statutory tax rate of 21 percent.

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

	For the Three Months Ended June 30, 2024		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$4,811,465	\$51,804	4.31%
Tax-exempt ⁽¹⁾	132,726	1,201	3.62%
Total investments ⁽¹⁾	4,944,191	53,005	4.27%
Loans:			
Taxable	796,903	11,021	5.56%
Tax-exempt ⁽¹⁾	41,113	420	4.11%
Total loans ⁽¹⁾	838,016	11,441	5.49%
Total interest-bearing cash	363,419	4,961	5.40%
Total interest-earning assets ⁽¹⁾	6,145,626	69,407	4.50%
Other assets	403,577		
Total assets	\$6,549,203		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,485,023	\$-	- %
Savings and interest-bearing transaction	2,624,509	2,391	0.37%
Time less than \$100,000	58,367	49	0.34%
Time \$100,000 or more	34,721	20	0.23%
Total interest-bearing deposits	2,717,597	2,460	0.36%
Bank term funding program borrowings	200,000	2,692	5.40%
Securities sold under repurchase agreements	84,189	155	0.74%
Total interest-bearing liabilities	3,001,786	5,307	0.71%
Other liabilities	71,467		
Shareholders' equity	990,927		
Total liabilities and shareholders' equity	\$6,549,203		
Net interest spread ^{(1) (2)}			3.79%
Net interest and fee income and interest margin ^{(1) (3)}		\$64,100	4.15%

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

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

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

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

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

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

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

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

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

	For the Six Months Ended June 30, 2024		
	Average	Interest	Yields/
	Balance	Income/ Expense	Rates
	(\$ in thousands)		
Assets			
Investment securities:			
Taxable	\$4,885,409	\$105,949	4.34%
Tax-exempt ⁽¹⁾	135,956	2,455	3.61%
Total investments ⁽¹⁾	5,021,365	108,404	4.30%
Loans:			
Taxable	804,161	22,005	5.50%
Tax-exempt ⁽¹⁾	41,624	849	4.10%
Total loans ⁽¹⁾	845,785	22,854	5.43%
Total interest-bearing cash	265,347	7,244	5.40%
Total interest-earning assets ⁽¹⁾	6,132,497	138,502	4.50%
Other assets	405,065		
Total assets	\$6,537,562		
Liabilities and shareholders' equity			
Noninterest-bearing demand	\$2,508,702	\$-	- %
Savings and interest-bearing transaction	2,687,259	4,427	0.33%
Time less than \$100,000	59,452	98	0.33%
Time \$100,000 or more	35,427	41	0.24%
Total interest-bearing deposits	2,782,138	4,566	0.33%
Bank term funding program borrowings	131,291	3,535	5.40%
Securities sold under repurchase agreements	65,247	207	0.64%
Total interest-bearing liabilities	2,978,676	8,308	0.56%
Other liabilities	71,800		
Shareholders' equity	978,384		
Total liabilities and shareholders' equity	\$6,537,562		
Net interest spread ^{(1) (2)}			3.94%
Net interest and fee income and interest margin ^{(1) (3)}		\$130,194	4.23%

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

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

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

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

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

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

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

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

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

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

Summary of Changes in Interest Income and Expense

	For the Three Months Ended June 30, 2024		
	Compared with		
	For the Three Months Ended June 30, 2023		
	Volume	Yield/Rate	Total
	(In thousands)		
(Decrease) increase in interest and loan fee income:			
Investment securities:			
Taxable	(\$4,138)	\$571	(\$3,567)
Tax-exempt ⁽¹⁾	(289)	20	(269)
Total investments ⁽¹⁾	(4,427)	591	(3,836)
Loans:			
Taxable	(1,135)	656	(479)
Tax-exempt ⁽¹⁾	(37)	20	(17)
Total loans ⁽¹⁾	(1,172)	676	(496)
Total interest-bearing cash	2,541	310	2,851
Total (decrease) increase in interest and loan fee income ⁽¹⁾	(3,058)	1,577	(1,481)
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(52)	1,943	1,891
Time less than \$100,000	(8)	6	(2)
Time \$100,000 or more	(11)	-	(11)
Total interest-bearing deposits	(71)	1,949	1,878
Bank term funding program borrowings	2,692	-	2,692
Securities sold under repurchase agreements	(4)	134	130
Total increase in interest expense	2,617	2,083	4,700
Decrease in net interest and loan fee income ⁽¹⁾	(\$5,675)	(\$506)	(\$6,181)

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

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Summary of Changes in Interest Income and Expense

	For the Six Months Ended June 30, 2024		
	Compared with		
	For the Six Months Ended June 30, 2023		
	Volume	Yield/Rate	Total
	(In thousands)		
(Decrease) increase in interest and loan fee income:			
Investment securities:			
Taxable	(\$8,407)	\$4,236	(\$4,171)
Tax-exempt ⁽¹⁾	(559)	36	(523)
Total investments ⁽¹⁾	(8,966)	4,272	(4,694)
Loans:			
Taxable	(2,196)	1,311	(885)
Tax-exempt ⁽¹⁾	(69)	37	(32)
Total loans ⁽¹⁾	(2,265)	1,348	(917)
Total interest-bearing cash	2,382	810	3,192
Total (decrease) increase in interest and loan fee income ⁽¹⁾	(8,849)	6,430	(2,419)
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(91)	3,644	3,553
Time less than \$100,000	(16)	13	(3)
Time \$100,000 or more	(25)	1	(24)
Total interest-bearing deposits	(132)	3,658	3,526
Bank term funding program borrowings	3,535	-	3,535
Securities sold under repurchase agreements	(10)	179	169
Total increase in interest expense	3,393	3,837	7,230
(Decrease) increase in net interest and loan fee income ⁽¹⁾	(\$12,242)	\$2,593	(\$9,649)

⁽¹⁾ 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.

With \$73 thousand of net loan recoveries in the second quarter 2024 and \$1.6 million in nonperforming loans at June 30, 2024, the Company provided no provision for credit losses in the second quarter of 2024 based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. During the six months ended June 30, 2024, the Company provided \$300 thousand for credit losses, which was recorded in the first quarter, 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 second quarter of 2023, based on Management's estimate of credit losses over the remaining life of its loans and debt securities held to maturity. The Company recorded a \$1.6 million reversal of provision for credit losses in the six months ended June 30, 2023 as a result of a \$2.2 million recovery on a previously charged off loan. For further information regarding credit risk, net credit losses, and the allowance for credit losses, see the "Loan Portfolio Credit Risk" and "Allowance for Credit Losses" sections of this Report.

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Noninterest Income

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

	For the Three Months		For the Six Months	
	2024	2023	2024	2023
	Ended June 30,			
	(In thousands)			
Service charges on deposit accounts	\$3,469	\$3,459	\$6,939	\$6,924
Merchant processing services	2,733	2,869	5,240	5,506
Debit card fees	1,706	1,759	3,249	3,401
Trust fees	811	810	1,605	1,575
ATM processing fees	540	702	1,131	1,356
Other service fees	450	458	888	857
Securities losses	-	(125)	-	(125)
Other noninterest income	791	768	1,545	1,755
Total	<u>\$10,500</u>	<u>\$10,700</u>	<u>\$20,597</u>	<u>\$21,249</u>

Second quarter 2024 noninterest income decreased \$200 thousand compared with the second quarter 2023. Merchant processing services fee income and ATM processing fees decreased in the second quarter 2024 compared with the second quarter 2023 primarily due to lower processing volumes.

Noninterest income for the six months ended June 30, 2024 decreased \$652 thousand compared with the six months ended June 30, 2023. Merchant processing services fees and ATM processing fees declined in the six months ended June 30, 2024 compared with six months ended June 30, 2023 due to reduced processing volumes. Debit card fees declined in the six months ended June 30, 2024 compared with six months ended June 30, 2023 primarily due to lower transaction volumes. Other noninterest income decreased in the six months ended June 30, 2024 compared with six months ended June 30, 2023 primarily because the prior period included higher recoveries in excess of principal charged off on loans.

Noninterest Expense

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

	For the Three Months		For the Six Months	
	2024	2023	2024	2023
	Ended June 30,			
	(In thousands)			
Salaries and related benefits	\$12,483	\$11,828	\$25,069	\$23,895
Occupancy and equipment	5,158	5,012	10,198	10,497
Outsourced data processing services	2,511	2,488	5,047	4,932
Limited partnership operating losses	1,440	1,440	2,880	2,874
Courier service	686	611	1,335	1,226
Professional fees	362	485	764	961
Other noninterest expense	3,490	3,975	6,936	7,664
Total	<u>\$26,130</u>	<u>\$25,839</u>	<u>\$52,229</u>	<u>\$52,049</u>

Second quarter 2024 noninterest expense increased \$291 thousand compared with the second quarter 2023. Salaries and benefits increased in the second quarter 2024 compared with the second quarter 2023 primarily due to annual merit increases and higher group health insurance costs for employees. Other noninterest expense decreased in the second quarter 2024 compared with the second quarter 2023 primarily because the prior period included higher losses from unauthorized debit card use.

Noninterest expense for the six months ended June 30, 2024 increased \$180 thousand compared with the six months ended June 30, 2023. Salaries and benefits increased in the six months ended June 30, 2024 compared with the six months ended June 30, 2023 primarily due to annual merit increases and higher group health insurance costs for employees. Occupancy and

equipment expense decreased in the six months ended June 30, 2024 compared with the six months ended June 30, 2023 primarily due to lower maintenance costs. Professional fees decreased in the six months ended June 30, 2024 compared with the six months ended June 30, 2023 primarily due to lower legal fees. Other noninterest expense decreased in the six months ended June 30, 2024 compared with the six months ended June 30, 2023 primarily because the prior period included higher losses from unauthorized debit card use.

Provision for Income Tax

The Company's income tax provision (FTE) was \$13.0 million for the second quarter 2024 and \$26.4 million for the six months ended June 30, 2024 compared with \$14.9 million for the second quarter 2023 and \$29.9 million for the six months ended June 30, 2023. The effective tax rates (FTE) were 26.8% for the second quarter 2024 and the six months ended June 30, 2024 compared with 27.0% for the second quarter 2023 and the six months ended June 30, 2023.

Investment Securities Portfolio

The Company maintains an investment securities portfolio consisting of securities issued by U.S. Treasury securities, 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 June 30, 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 \$4.6 billion at June 30, 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 June 30, 2024 and December 31, 2023. Debt securities available for sale are listed at fair value.

	At June 30, 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	\$291,206	6%	\$294,919	6%
Agency residential mortgage-backed securities ("MBS")	290,583	6%	318,019	7%
U.S. Treasury securities	4,820	- %	-	- %
Obligations of states and political subdivisions	130,801	3%	142,465	3%
Corporate securities	2,587,667	57%	2,638,198	54%
Collateralized loan obligations	1,255,110	28%	1,484,597	30%
Total	<u>\$4,560,187</u>	<u>100%</u>	<u>\$4,878,198</u>	<u>100%</u>
Debt securities available for sale	\$3,699,318		\$3,999,801	
Debt securities held to maturity	<u>860,869</u>		<u>878,397</u>	
Total	<u>\$4,560,187</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 June 30, 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 Company had corporate securities as shown below at the dates indicated:

	Corporate securities			
	At June 30, 2024		At December 31, 2023	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
	(In thousands)			
Debt securities available for sale	\$2,084,391	\$1,855,618	\$2,129,103	\$1,909,548
Debt securities held to maturity	732,049	694,248	728,650	705,356
Total corporate securities	<u>\$2,816,440</u>	<u>\$2,549,866</u>	<u>\$2,857,753</u>	<u>\$2,614,904</u>

The following table summarizes total corporate securities by credit rating:

	At June 30, 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-	\$71,543	3%	\$73,016	3%
A+	243,082	10%	250,322	9%
A	340,341	13%	380,257	14%
A-	845,489	33%	825,882	32%
BBB+	629,466	25%	723,767	28%
BBB	419,945	16%	361,660	14%
Total corporate securities	<u>\$2,549,866</u>	<u>100%</u>	<u>\$2,614,904</u>	<u>100%</u>

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

	At June 30, 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	\$1,470,499	58%	\$1,516,147	58%
Utilities	270,630	11%	274,929	10%
Industrial	210,921	8%	215,428	8%
Consumer, Non-cyclical	167,196	7%	170,423	7%
Communications	154,054	5%	158,495	6%
Basic Materials	99,727	4%	100,693	4%
Energy	68,350	3%	69,331	3%
Technology	62,907	2%	63,185	2%
Consumer, Cyclical	45,582	2%	46,273	2%
Total corporate securities	<u>\$2,549,866</u>	<u>100%</u>	<u>\$2,614,904</u>	<u>100%</u>

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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 June 30, 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	\$1,766,656	69%	\$1,811,463	69%
Canada	191,155	8%	195,979	7%
Japan	164,369	6%	164,948	6%
United Kingdom	150,925	6%	162,794	6%
Switzerland	93,814	4%	93,898	4%
France	91,028	4%	91,726	4%
Netherlands	34,852	1%	35,381	1%
Australia	24,500	1%	24,800	1%
Belgium	19,719	1%	20,894	1%
Germany	12,848	- %	13,021	1%
Total corporate securities	<u>\$2,549,866</u>	<u>100%</u>	<u>\$2,614,904</u>	<u>100%</u>

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

	At June 30, 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	\$684,871	87%	\$702,892	87%
Energy	31,620	4%	31,970	4%
Basic materials	24,500	3%	24,800	3%
Consumer, Non-cyclical	19,719	3%	20,895	3%
Consumer, Cyclical	12,848	2%	13,021	2%
Utilities	9,652	1%	9,863	1%
Total foreign corporate securities	<u>\$783,210</u>	<u>100%</u>	<u>\$803,441</u>	<u>100%</u>

The Company's \$1.3 billion (fair value) in collateralized loan obligations at June 30, 2024, consist of investments in 120 issues that are within the senior tranches of their respective fund securitization structures. The following table summarizes total collateralized loan obligations by credit rating:

	At June 30, 2024	
	Amortized Cost	Fair Value
	(In thousands)	
AAA	\$410,262	\$408,185
AA	854,549	846,925
Total	<u>\$1,264,811</u>	<u>\$1,255,110</u>

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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 June 30, 2024	At June 30, 2023	At December 31, 2023
	(In thousands)		
Nonperforming nonaccrual loans	\$971	\$192	\$401
Performing nonaccrual loans	-	5	2
Total nonaccrual loans	<u>971</u>	<u>197</u>	<u>403</u>
Accruing loans 90 or more days past due	580	656	388
Total nonperforming loans	<u>\$1,551</u>	<u>\$853</u>	<u>\$791</u>

At June 30, 2024, nonaccrual loans consisted of three loans including the addition of a commercial real estate loan with 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 June 30, 2024	At December 31, 2023
	(In thousands)	
Allowance for credit losses on loans	\$15,952	\$16,867
Allowance for credit losses on debt securities held to maturity	<u>1</u>	<u>1</u>
Total allowance for credit losses	<u>\$15,953</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 June 30, 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 June 30, 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.

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2024	2023	2024	2023
	(\$ in thousands)			
Analysis of the allowance for loan losses/credit losses				
Balance, beginning of period	\$15,879	\$19,509	\$16,867	\$20,284
Reversal of provision for credit losses	-	-	300	(1,550)
Loans charged off				
Commercial	(28)	-	(28)	(148)
Consumer installment and other	(1,513)	(1,661)	(3,516)	(3,552)
Total chargeoffs	(1,541)	(1,661)	(3,544)	(3,700)
Recoveries of loans previously charged off				
Commercial	11	19	23	2,184
Commercial real estate	132	15	177	30
Consumer installment and other	1,471	598	2,129	1,232
Total recoveries	1,614	632	2,329	3,446
Net loan recoveries (losses)	73	(1,029)	(1,215)	(254)
Balance, end of period	\$15,952	\$18,480	\$15,952	\$18,480

Net loan (recoveries) losses as a percentage of average total loans (annualized)	(0.04)%	0.45%	0.29%	0.05%
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Selected financial data (\$ in thousands): (At the dates indicated)

	At June 30,		At December 31,
	2024	2023	2023
Loans	\$831,842	\$919,583	\$866,602
Nonaccrual loans	971	197	403
Allowance for credit losses as a percentage of loans	1.92%	2.01%	1.95%
Nonaccrual loans as a percentage of loans	0.12%	0.02%	0.05%
Allowance for credit losses to nonaccrual loans	1642.84%	9380.71%	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			For the Six Months Ended		
	June 30, 2024					
	Net (Chargeoffs) Recoveries	Average Loan Balance	As a Percentage of Net Chargeoffs (Recoveries) to Average Loans	Net (Chargeoffs) Recoveries	Average Loan Balance	As a Percentage of Net Chargeoffs (Recoveries) to Average Loans
	(\$ in thousands)					
Commercial	(\$17)	\$128,541	0.01%	(\$5)	\$128,450	- %
Commercial real estate	132	487,209	(0.03)%	177	488,099	(0.04)%
Construction	-	5,064	- %	-	5,064	- %
Residential real estate	-	9,448	- %	-	9,640	- %
Consumer and other installment	(42)	207,754	0.02%	(1,387)	214,532	0.65%
Total	\$73	\$838,016	(0.01)%	(\$1,215)	\$845,785	0.14%

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

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 June 30, 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	\$3,765	\$5,758	\$242	\$22	\$6,092	\$15,879
Provision (reversal)	148	32	1	2	(183)	-
Chargeoffs	(28)	-	-	-	(1,513)	(1,541)
Recoveries	11	132	-	-	1,471	1,614
Total allowance for credit losses	\$3,896	\$5,922	\$243	\$24	\$5,867	\$15,952

Allowance for Credit Losses For the Six Months Ended June 30, 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	\$16,867
(Reversal) provision	(315)	(180)	(2)	(2)	799	300
Chargeoffs	(28)	-	-	-	(3,516)	(3,544)
Recoveries	23	177	-	-	2,129	2,329
Total allowance for credit losses	\$3,896	\$5,922	\$243	\$24	\$5,867	\$15,952

Management considers the \$16.0 million allowance for credit losses on loans to be adequate as a reserve against current expected credit losses in the loan portfolio as of June 30, 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 June 30, 2024, the Company had \$6 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 June 30, 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.

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At June 30, 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	-2.0%	-1.0%	0.0%	+1.0%	+2.0%
First year change in net interest income	-2.3%	-0.5%	-0.9%	+1.9%	+3.3%

Static simulation (balance sheet composition unchanged):

Assumed immediate change in interest rates	-2.0%	-1.0%	0.00%	+1.0%	+2.0%
First year change in net interest income	-11.7%	-5.8%	0.00%	+5.9%	+11.2%

Simulation estimates depend on, and will change with, the size and mix of the actual and projected composition of financial instruments at the time of each simulation. Assumptions made in the simulation may not materialize and unanticipated events and circumstances may occur. In addition, the simulation does not take into account any future actions Management may undertake to mitigate the impact of interest rate changes, loan prepayment estimates and spread relationships, which may change regularly.

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

Market Risk - Equity Markets

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

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

Market Risk - Other

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

Liquidity and Funding

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

In recent years, the Bank's deposit base has provided the majority of the Bank's funding requirements. This low-cost source of funds, along with shareholders' equity, provided 96% of funding for average total assets in the six months ended June 30, 2024 and 97% for 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 \$5,131 million at June 30, 2024 and \$5,474 million at December 31, 2023. Total time deposits were \$89 million at June 30, 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 June 30, 2024, estimated federally uninsured total deposits and time deposits were \$2,441 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 decline in Westamerica Bank deposits during 2023 and the six months ended June 30, 2024 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 \$342,827 thousand from December 31, 2023 to June 30, 2024 due to competitive deposit pricing.

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 June 30, 2024</u>
	(In thousands)
Three months or less	\$1,994
Over three through six months	1,802
Over six through twelve months	399
Over twelve months	101
Total	<u><u>\$4,296</u></u>

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, and principal and interest payments from debt securities and loans. At June 30, 2024, the Company had \$486,124 thousand in cash balances. During the twelve months ending June 30, 2025, the Company expects to receive \$309,000 thousand in principal payments from its debt securities. If additional operational liquidity is required, the Company can pledge debt securities as collateral for borrowing purposes; at June 30, 2024, the Company’s debt securities which qualify as collateral for borrowing totaled \$3,693,459 thousand. In the ordinary course of business, the Company pledges debt securities as collateral for certain depository customers; at June 30, 2024, the Company had pledged \$759,338 thousand in debt securities for depository customers. In the ordinary course of business, the Company pledges debt securities as collateral for borrowing from the Federal Reserve Bank; at June 30, 2024, the Company had pledged \$1,067,510 thousand in debt securities at the Federal Reserve Bank. During the six months ended June 30, 2024, the Company’s average borrowings from the Federal Reserve Bank and other correspondent banks were \$131,291 thousand and \$-0- thousand, respectively, and at June 30, 2024, the Company’s borrowings from the Federal Reserve Bank and other correspondent banks were \$200,000 thousand and \$-0- thousand, respectively. At June 30, 2024, the Company had access to borrowing from the Federal Reserve up to \$867,510 thousand based on collateral pledged at June 30, 2024. At June 30, 2024, the Company’s estimated unpledged collateral qualifying debt securities totaled \$1,462,966 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:

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	<u>At June 30, 2024</u>
	(in thousands)
Debt Securities Eligible as Collateral:	
Corporate Securities	\$2,549,866
Collateralized Loan Obligations rated AAA	405,308
Obligations of States and Political Subdivisions	130,006
Agency Mortgage Backed Securities	286,771
Securities of U.S. Government Sponsored Entities	116,688
Securities of U.S. Government Sponsored Entities (Par Value)	200,000
U.S. Treasury Securities	<u>4,820</u>
Total Debt Securities Eligible as Collateral	\$3,693,459
Debt Securities Pledged as Collateral:	
Deposits by Public Entities	(\$759,338)
Short-term Borrowed Funds (Deposit Sweep)	(394,283)
Debt Securities Pledged at the Federal Reserve Bank	(1,067,510)
Other	<u>(9,362)</u>
Total Debt Securities Pledged as Collateral	(\$2,230,493)
Estimated Debt Securities Available to Pledge	<u><u>\$1,462,966</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 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 or elevated 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 June 30, 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 \$23 million in the six months ended June 30, 2024 and \$46 million in the year ended December 31, 2023 and retire common stock in the amounts of \$210 thousand in the six months ended June 30, 2024 and \$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 \$202 million at June 30, 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 14.8%

for the six months ended June 30, 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 \$203 thousand in the six months ended June 30, 2024 and \$950 thousand in the year ended December 31, 2023.

The Company paid common dividends totaling \$23 million in the six months ended June 30, 2024 and \$46 million in the year ended December 31, 2023, which represent dividends per common share of \$0.88 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 4 thousand shares valued at \$210 thousand in the six months ended June 30, 2024 and 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 \$816 million at June 30, 2024 compared with \$773 million at December 31, 2023. The Company's ratio of equity to total assets was 12.92% at June 30, 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.

Capital to Risk-Adjusted Assets

The capital ratios for the Company and the Bank under current regulatory capital standards are presented in the tables below, on the dates indicated. For Common Equity Tier I Capital, Tier 1 Capital and Total Capital, the minimum percentage required for regulatory capital adequacy purposes include a 2.5% "capital conservation buffer."

	At June 30, 2024		Required for Capital Adequacy Purposes	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank		
Common Equity Tier I Capital	20.69%	15.10%	7.00%	6.50%
Tier I Capital	20.69%	15.10%	8.50%	8.00%
Total Capital	21.07%	15.62%	10.50%	10.00%
Leverage Ratio	13.87%	10.08%	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 June 30, 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 June 30, 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 April 1, 2024 through June 30, 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 June 30, 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 June 30, 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/ Anela Jonas

Anela Jonas

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

Date: August 8, 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: August 8, 2024

EXHIBIT 31.2

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

I, Anela Jonas 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/ Anela Jonas

Anela Jonas

Senior Vice President and Chief Financial Officer

Date: August 8, 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 June 30, 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: August 8, 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 June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anela Jonas, 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/ Anela Jonas

Anela Jonas

Senior Vice President and Chief Financial Officer

Date: August 8, 2024