

WESTAMERICA BANCORPORATION

Form 10-Q

May 05, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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                | Shares outstanding as of April 27, 2015 |
|-------------------------------|-----------------------------------------|
| Common Stock,<br>No Par Value | 25,550,676                              |

---

## TABLE OF CONTENTS

|                                                                                                                             | Page      |
|-----------------------------------------------------------------------------------------------------------------------------|-----------|
| <u>Forward Looking Statements</u>                                                                                           | <u>3</u>  |
| PART I - FINANCIAL INFORMATION                                                                                              |           |
| <u>Item 1 Financial Statements</u>                                                                                          | <u>4</u>  |
| <u>Notes to Unaudited Consolidated Financial Statements</u>                                                                 | <u>9</u>  |
| <u>Financial Summary</u>                                                                                                    | <u>29</u> |
| <u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                         | <u>30</u> |
| <u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>                                                    | <u>51</u> |
| <u>Item 4 Controls and Procedures</u>                                                                                       | <u>51</u> |
| PART II - OTHER INFORMATION                                                                                                 |           |
| <u>Item 1 Legal Proceedings</u>                                                                                             | <u>51</u> |
| <u>Item 1A Risk Factors</u>                                                                                                 | <u>51</u> |
| <u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>                                                   | <u>52</u> |
| <u>Item 3 Defaults upon Senior Securities</u>                                                                               | <u>52</u> |
| <u>Item 4 Mine Safety Disclosures</u>                                                                                       | <u>52</u> |
| <u>Item 5 Other Information</u>                                                                                             | <u>53</u> |
| <u>Item 6 Exhibits</u>                                                                                                      | <u>53</u> |
| <u>Signatures</u>                                                                                                           | <u>54</u> |
| <u>Exhibit Index</u>                                                                                                        | <u>55</u> |
| <u>Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)</u> | <u>56</u> |
| <u>Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)</u> | <u>57</u> |
| <u>Exhibit 32.1 - Certification of Chief Executive Officer Required by 18 U.S.C. Section 1350</u>                           | <u>58</u> |
| <u>Exhibit 32.2 - Certification of Chief Financial Officer Required by 18 U.S.C. Section 1350</u>                           | <u>59</u> |

## FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, 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", "intends", "targeted", "projected", "continue", "remain", "will", "should", "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including a failure or breach in data processing systems or those of third party vendors and other service providers, including as a result of cyber attacks or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, fire, flood, drought, and other disasters, on the uninsured value 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, and (13) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2014, 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. The Company undertakes no obligation to update any forward-looking statements in this report.

## PART I - FINANCIAL INFORMATION

## Item 1 Financial Statements

WESTAMERICA BANCORPORATION  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

|                                                                                                                                 | At March 31,<br>2015 | At December 31,<br>2014 |
|---------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------|
| (In thousands)                                                                                                                  |                      |                         |
| <b>Assets:</b>                                                                                                                  |                      |                         |
| Cash and due from banks                                                                                                         | \$247,450            | \$ 380,836              |
| Investment securities available for sale                                                                                        | 1,777,320            | 1,600,781               |
| Investment securities held to maturity, with fair values of: \$1,030,865 at March 31, 2015 and \$1,048,562 at December 31, 2014 | 1,015,231            | 1,038,658               |
| Loans                                                                                                                           | 1,683,884            | 1,700,290               |
| Allowance for loan losses                                                                                                       | (31,187 )            | (31,485 )               |
| Loans, net of allowance for loan losses                                                                                         | 1,652,697            | 1,668,805               |
| Other real estate owned                                                                                                         | 9,233                | 6,374                   |
| Premises and equipment, net                                                                                                     | 38,313               | 37,852                  |
| Identifiable intangibles, net                                                                                                   | 13,286               | 14,287                  |
| Goodwill                                                                                                                        | 121,673              | 121,673                 |
| Other assets                                                                                                                    | 160,574              | 166,458                 |
| <b>Total Assets</b>                                                                                                             | <b>\$5,035,777</b>   | <b>\$ 5,035,724</b>     |
| <b>Liabilities:</b>                                                                                                             |                      |                         |
| <b>Deposits:</b>                                                                                                                |                      |                         |
| Noninterest bearing deposits                                                                                                    | \$1,902,904          | \$ 1,910,781            |
| Interest bearing deposits                                                                                                       | 2,477,172            | 2,438,410               |
| Total deposits                                                                                                                  | 4,380,076            | 4,349,191               |
| Short-term borrowed funds                                                                                                       | 82,960               | 89,784                  |
| Federal Home Loan Bank advances                                                                                                 | -                    | 20,015                  |
| Other liabilities                                                                                                               | 45,361               | 50,131                  |
| <b>Total Liabilities</b>                                                                                                        | <b>4,508,397</b>     | <b>4,509,121</b>        |
| <b>Shareholders' Equity:</b>                                                                                                    |                      |                         |
| Common stock (no par value), authorized - 150,000 shares                                                                        |                      |                         |
| Issued and outstanding - 25,563 at March 31, 2015 and 25,745 at December 31, 2014                                               | 374,958              | 378,132                 |
| Deferred compensation                                                                                                           | 2,711                | 2,711                   |
| Accumulated other comprehensive income                                                                                          | 9,600                | 5,292                   |
| Retained earnings                                                                                                               | 140,111              | 140,468                 |
| <b>Total Shareholders' Equity</b>                                                                                               | <b>527,380</b>       | <b>526,603</b>          |
| <b>Total Liabilities and Shareholders' Equity</b>                                                                               | <b>\$5,035,777</b>   | <b>\$ 5,035,724</b>     |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

|                                                            | For the<br>Three Months Ended<br>March 31, |                 |
|------------------------------------------------------------|--------------------------------------------|-----------------|
|                                                            | 2015                                       | 2014            |
|                                                            | (In thousands,<br>except per share data)   |                 |
| <b>Interest and Fee Income:</b>                            |                                            |                 |
| Loans                                                      | \$20,230                                   | \$22,901        |
| Investment securities available for sale                   | 7,469                                      | 5,630           |
| Investment securities held to maturity                     | 6,218                                      | 7,033           |
| <b>Total Interest and Fee Income</b>                       | <b>33,917</b>                              | <b>35,564</b>   |
| <b>Interest Expense:</b>                                   |                                            |                 |
| Deposits                                                   | 642                                        | 754             |
| Short-term borrowed funds                                  | 16                                         | 20              |
| Federal Home Loan Bank advances                            | 1                                          | 99              |
| Term repurchase agreement                                  | -                                          | 25              |
| <b>Total Interest Expense</b>                              | <b>659</b>                                 | <b>898</b>      |
| <b>Net Interest Income</b>                                 | <b>33,258</b>                              | <b>34,666</b>   |
| Provision for Loan Losses                                  | -                                          | 1,000           |
| <b>Net Interest Income After Provision For Loan Losses</b> | <b>33,258</b>                              | <b>33,666</b>   |
| <b>Noninterest Income:</b>                                 |                                            |                 |
| Service charges on deposit accounts                        | 5,707                                      | 6,010           |
| Merchant processing services                               | 1,703                                      | 1,924           |
| Debit card fees                                            | 1,456                                      | 1,405           |
| Trust fees                                                 | 706                                        | 654             |
| Other service fees                                         | 665                                        | 661             |
| ATM processing fees                                        | 585                                        | 620             |
| Financial services commissions                             | 153                                        | 171             |
| Other                                                      | 1,325                                      | 1,545           |
| <b>Total Noninterest Income</b>                            | <b>12,300</b>                              | <b>12,990</b>   |
| <b>Noninterest Expense:</b>                                |                                            |                 |
| Salaries and related benefits                              | 13,338                                     | 14,126          |
| Occupancy                                                  | 3,727                                      | 3,727           |
| Outsourced data processing services                        | 2,108                                      | 2,105           |
| Furniture and equipment                                    | 1,119                                      | 1,005           |
| Amortization of identifiable intangibles                   | 1,001                                      | 1,105           |
| Professional fees                                          | 548                                        | 430             |
| Courier service                                            | 543                                        | 610             |
| Other real estate owned                                    | 315                                        | (350)           |
| Other                                                      | 4,028                                      | 4,115           |
| <b>Total Noninterest Expense</b>                           | <b>26,727</b>                              | <b>26,873</b>   |
| <b>Income Before Income Taxes</b>                          | <b>18,831</b>                              | <b>19,783</b>   |
| Provision for income taxes                                 | 4,274                                      | 4,476           |
| <b>Net Income</b>                                          | <b>\$14,557</b>                            | <b>\$15,307</b> |
| <b>Average Common Shares Outstanding</b>                   | <b>25,651</b>                              | <b>26,433</b>   |

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

|                                           |        |        |
|-------------------------------------------|--------|--------|
| Diluted Average Common Shares Outstanding | 25,655 | 26,537 |
| Per Common Share Data:                    |        |        |
| Basic earnings                            | \$0.57 | \$0.58 |
| Diluted earnings                          | 0.57   | 0.58   |
| Dividends paid                            | 0.38   | 0.38   |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

|                                                                               | For the Three Months Ended<br>March 31, |          |
|-------------------------------------------------------------------------------|-----------------------------------------|----------|
|                                                                               | 2015                                    | 2014     |
|                                                                               | (In thousands)                          |          |
| Net income                                                                    | \$14,557                                | \$15,307 |
| Other comprehensive income:                                                   |                                         |          |
| Increase in net unrealized gains on securities available for sale             | 7,418                                   | 7,823    |
| Deferred tax expense                                                          | (3,119 )                                | (3,289 ) |
| Increase in net unrealized gains on securities available for sale, net of tax | 4,299                                   | 4,534    |
| Post-retirement benefit transition obligation amortization                    | 15                                      | 15       |
| Deferred tax expense                                                          | (6 )                                    | (6 )     |
| Post-retirement benefit transition obligation amortization, net of tax        | 9                                       | 9        |
| Total other comprehensive income                                              | 4,308                                   | 4,543    |
| Total comprehensive income                                                    | \$18,865                                | \$19,850 |

See accompanying notes to unaudited consolidated financial statements.



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

|                                                                    | Common<br>Shares<br>Outstanding | Common<br>Stock | Accumulated<br>Deferred<br>Compensation | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total     |
|--------------------------------------------------------------------|---------------------------------|-----------------|-----------------------------------------|-------------------------------------------------|----------------------|-----------|
|                                                                    | (In thousands)                  |                 |                                         |                                                 |                      |           |
| Balance, December 31, 2013                                         | 26,510                          | \$378,946       | \$ 2,711                                | \$ 4,313                                        | \$156,964            | \$542,934 |
| Net income for the period                                          |                                 |                 |                                         |                                                 | 15,307               | 15,307    |
| Other comprehensive income                                         |                                 |                 |                                         | 4,543                                           |                      | 4,543     |
| Exercise of stock options                                          | 225                             | 10,853          |                                         |                                                 |                      | 10,853    |
| Tax benefit decrease upon expiration/<br>exercise of stock options |                                 | (369 )          |                                         |                                                 |                      | (369 )    |
| Stock based compensation                                           |                                 | 359             |                                         |                                                 |                      | 359       |
| Stock awarded to employees                                         | 1                               | 52              |                                         |                                                 |                      | 52        |
| Retirement of common stock including<br>repurchases                | (437 )                          | (6,351 )        |                                         |                                                 | (16,359 )            | (22,710 ) |
| Dividends                                                          |                                 |                 |                                         |                                                 | (10,086 )            | (10,086 ) |
| Balance, March 31, 2014                                            | 26,299                          | \$383,490       | \$ 2,711                                | \$ 8,856                                        | \$145,826            | \$540,883 |
| Balance, December 31, 2014                                         | 25,745                          | \$378,132       | \$ 2,711                                | \$ 5,292                                        | \$140,468            | \$526,603 |
| Net income for the period                                          |                                 |                 |                                         |                                                 | 14,557               | 14,557    |
| Other comprehensive income                                         |                                 |                 |                                         | 4,308                                           |                      | 4,308     |
| Exercise of stock options                                          | -                               | -               |                                         |                                                 |                      | -         |
| Tax benefit decrease upon expiration<br>of stock options           |                                 | (865 )          |                                         |                                                 |                      | (865 )    |
| Stock based compensation                                           |                                 | 354             |                                         |                                                 |                      | 354       |
| Stock awarded to employees                                         | 1                               | 45              |                                         |                                                 |                      | 45        |
| Retirement of common stock including<br>repurchases                | (183 )                          | (2,708 )        |                                         |                                                 | (5,159 )             | (7,867 )  |
| Dividends                                                          |                                 |                 |                                         |                                                 | (9,755 )             | (9,755 )  |
| Balance, March 31, 2015                                            | 25,563                          | \$374,958       | \$ 2,711                                | \$ 9,600                                        | \$140,111            | \$527,380 |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

|                                                                                   | For the Three Months<br>Ended March 31, |                  |
|-----------------------------------------------------------------------------------|-----------------------------------------|------------------|
|                                                                                   | 2015                                    | 2014             |
|                                                                                   | (In thousands)                          |                  |
| <b>Operating Activities:</b>                                                      |                                         |                  |
| Net income                                                                        | \$14,557                                | \$15,307         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                         |                  |
| Depreciation and amortization                                                     | 3,930                                   | 4,103            |
| Loan loss provision                                                               | -                                       | 1,000            |
| Net amortization of deferred loan fees                                            | (78)                                    | (30)             |
| Decrease in interest income receivable                                            | 812                                     | 643              |
| Increase in deferred tax asset                                                    | (421)                                   | (756)            |
| Increase in other assets                                                          | (822)                                   | (185)            |
| Stock option compensation expense                                                 | 354                                     | 359              |
| Tax benefit decrease upon expiration/exercise of stock options                    | 865                                     | 369              |
| Increase in income taxes payable                                                  | 4,695                                   | 5,232            |
| Increase in interest expense payable                                              | 21                                      | 5                |
| (Decrease) increase in other liabilities                                          | (6,850)                                 | 8,507            |
| Gain on sale of other assets                                                      | -                                       | (400)            |
| Writedown/loss on sale of premises and equipment                                  | 4                                       | 16               |
| Net gain on sale of foreclosed assets                                             | -                                       | (493)            |
| Writedown of foreclosed assets                                                    | 243                                     | 69               |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>17,310</b>                           | <b>33,746</b>    |
| <b>Investing Activities:</b>                                                      |                                         |                  |
| Net repayments of loans                                                           | 13,805                                  | 9,598            |
| Proceeds from FDIC1 loss-sharing agreement                                        | -                                       | 44               |
| Purchases of investment securities available for sale                             | (354,527)                               | (237,948)        |
| Proceeds from sale/maturity/calls of securities available for sale                | 185,073                                 | 99,350           |
| Purchases of investment securities held to maturity                               | (10,359)                                | (17,993)         |
| Proceeds from maturity/calls of securities held to maturity                       | 30,468                                  | 34,403           |
| Purchases of premises and equipment                                               | (1,326)                                 | (166)            |
| Proceeds from sale of FRB2/FHLB3 stock                                            | 490                                     | 3,248            |
| Proceeds from sale of foreclosed assets                                           | 100                                     | 2,159            |
| <b>Net Cash Used in Investing Activities</b>                                      | <b>(136,276)</b>                        | <b>(107,305)</b> |
| <b>Financing Activities:</b>                                                      |                                         |                  |
| Net change in deposits                                                            | 30,891                                  | 51,063           |
| Net change in short-term borrowings and FHLB3 advances                            | (26,824)                                | 1,620            |
| Exercise of stock options/issuance of shares                                      | -                                       | 10,853           |
| Tax benefit decrease upon expiration/exercise of stock options                    | (865)                                   | (369)            |
| Retirement of common stock including repurchases                                  | (7,867)                                 | (22,710)         |
| Common stock dividends paid                                                       | (9,755)                                 | (10,086)         |
| <b>Net Cash (Used in) Provided by Financing Activities</b>                        | <b>(14,420)</b>                         | <b>30,371</b>    |
| <b>Net Change In Cash and Due from Banks</b>                                      | <b>(133,386)</b>                        | <b>(43,188)</b>  |
| Cash and Due from Banks at Beginning of Period                                    | 380,836                                 | 472,028          |

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

|                                                        |           |           |
|--------------------------------------------------------|-----------|-----------|
| Cash and Due from Banks at End of Period               | \$247,450 | \$428,840 |
| Supplemental Cash Flow Disclosures:                    |           |           |
| Supplemental disclosure of noncash activities:         |           |           |
| Loan collateral transferred to other real estate owned | \$3,202   | \$968     |
| Securities purchases pending settlement                | 1,478     | (11,231 ) |
| Supplemental disclosure of cash flow activities:       |           |           |
| Interest paid for the period                           | 775       | 987       |
| Income tax payments for the period                     | -         | -         |

See accompanying notes to unaudited consolidated financial statements.

1 Federal Deposit Insurance Corporation ("FDIC")

2 Federal Reserve Bank ("FRB")

3 Federal Home Loan Bank ("FHLB")

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission and follow general practices within the banking industry. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three months ended March 31, 2015 and 2014 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, 2014.

### 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, 2014. 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, Management has identified the allowance for loan losses accounting to be the accounting area requiring the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. A discussion of the factors affecting accounting for the allowance for loan losses and purchased loans is included in the "Loan Portfolio Credit Risk" discussion below. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Application of these 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 an impairment writedown or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

### Recently Adopted Accounting Standards

FASB ASU 2014-01, Investments- Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects, was issued January 2014 to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment in accordance with

GAAP. The policy election must be applied consistently to all qualified affordable housing project investments.

The update also requires a reporting entity to disclose information regarding its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations.

The adoption of the update was limited to additional disclosures only and did not have a material effect on the Company's financial statements at January 1, 2015, the date adopted.

FASB ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralizes Consumer Mortgage Loans upon Foreclosure, was issued on January 17, 2014, providing clarification that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction.

The adoption of the update was limited to additional disclosures only and did not have a material effect on the Company's financial statements at January 1, 2015, the date adopted.

### Recently Issued Accounting Standards

FASB ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, was issued on June 12, 2014. The Update improves the financial reporting of repurchase agreements and other similar transactions through a change in accounting for repurchase-to-maturity transactions and repurchase financings, and the introduction of two new disclosure requirements. New disclosures are required for (1) transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction and (2) repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings about the nature of collateral pledged and the time to maturity of those transactions.

The Company will be required to adhere to new disclosure requirements when the Update is adopted April 1, 2015 for the interim period ending June 30, 2015.

### Note 3: Investment Securities

An analysis of the amortized cost, gross unrealized gains and losses accumulated in other comprehensive income, and fair value of the available for sale investment securities portfolio follows:

|                                                  | Investment Securities Available for Sale |            |            |         |
|--------------------------------------------------|------------------------------------------|------------|------------|---------|
|                                                  | At March 31, 2015                        |            |            |         |
|                                                  | Amortized                                | Gross      | Gross      | Fair    |
|                                                  | Cost                                     | Unrealized | Unrealized | Value   |
|                                                  |                                          | Gains      | Losses     |         |
|                                                  | (In thousands)                           |            |            |         |
| U.S. Treasury securities                         | \$3,500                                  | \$4        | \$-        | \$3,504 |
| Securities of U.S. Government sponsored entities | 631,974                                  | 1,637      | (3 )       | 633,608 |
| Residential mortgage-backed securities           | 22,625                                   | 1,682      | (9 )       | 24,298  |
| Commercial mortgage-backed securities            | 2,826                                    | 5          | (11 )      | 2,820   |
| Obligations of states and political subdivisions | 165,063                                  | 10,756     | (125 )     | 175,694 |
| Residential collateralized mortgage obligations  | 220,397                                  | 644        | (5,142 )   | 215,899 |
| Asset-backed securities                          | 3,015                                    | -          | (23 )      | 2,992   |
| FHLMC1 and FNMA2 stock                           | 775                                      | 5,685      | -          | 6,460   |

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

|                      |             |          |          |   |             |
|----------------------|-------------|----------|----------|---|-------------|
| Corporate securities | 708,371     | 2,911    | (2,025   | ) | 709,257     |
| Other securities     | 2,039       | 867      | (118     | ) | 2,788       |
| Total                | \$1,760,585 | \$24,191 | \$(7,456 | ) | \$1,777,320 |

1 Federal Home Loan Mortgage Corporation

2 Federal National Mortgage Association

-10-

---

An analysis of the amortized cost, gross unrecognized gains and losses, and fair value of the held to maturity investment securities portfolio follows:

|                                                  | Investment Securities Held to Maturity |                                |                                 |                    |
|--------------------------------------------------|----------------------------------------|--------------------------------|---------------------------------|--------------------|
|                                                  | At March 31, 2015                      |                                |                                 |                    |
|                                                  | Amortized<br>Cost                      | Gross<br>Unrecognized<br>Gains | Gross<br>Unrecognized<br>Losses | Fair<br>Value      |
|                                                  | (In thousands)                         |                                |                                 |                    |
| Securities of U.S. government sponsored entities | \$995                                  | \$12                           | \$-                             | \$1,007            |
| Residential mortgage-backed securities           | 57,259                                 | 1,319                          | (64)                            | 58,514             |
| Obligations of states and political subdivisions | 712,374                                | 13,478                         | (1,062)                         | 724,790            |
| Residential collateralized mortgage obligations  | 244,603                                | 2,811                          | (860)                           | 246,554            |
| <b>Total</b>                                     | <b>\$1,015,231</b>                     | <b>\$17,620</b>                | <b>\$(1,986)</b>                | <b>\$1,030,865</b> |

An analysis of the amortized cost, gross unrealized gains and losses accumulated in other comprehensive income, and fair value of the available for sale investment securities portfolio follows:

|                                                  | Investment Securities Available for Sale |                              |                               |                    |
|--------------------------------------------------|------------------------------------------|------------------------------|-------------------------------|--------------------|
|                                                  | At December 31, 2014                     |                              |                               |                    |
|                                                  | Amortized<br>Cost                        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value      |
|                                                  | (In thousands)                           |                              |                               |                    |
| U.S. Treasury securities                         | \$3,500                                  | \$5                          | \$-                           | \$3,505            |
| Securities of U.S. Government sponsored entities | 635,278                                  | 937                          | (1,027)                       | 635,188            |
| Residential mortgage-backed securities           | 24,647                                   | 1,776                        | (16)                          | 26,407             |
| Commercial mortgage-backed securities            | 2,923                                    | 6                            | (10)                          | 2,919              |
| Obligations of states and political subdivisions | 171,907                                  | 10,015                       | (123)                         | 181,799            |
| Residential collateralized mortgage obligations  | 230,347                                  | 634                          | (8,524)                       | 222,457            |
| Asset-backed securities                          | 8,349                                    | -                            | (36)                          | 8,313              |
| FHLMC1 and FNMA2 stock                           | 775                                      | 4,393                        | -                             | 5,168              |
| Corporate securities                             | 511,699                                  | 2,169                        | (1,629)                       | 512,239            |
| Other securities                                 | 2,039                                    | 871                          | (124)                         | 2,786              |
| <b>Total</b>                                     | <b>\$1,591,464</b>                       | <b>\$20,806</b>              | <b>\$(11,489)</b>             | <b>\$1,600,781</b> |

1 Federal Home Loan Mortgage Corporation

2 Federal National Mortgage Association

An analysis of the amortized cost, gross unrecognized gains and losses, and fair value of the held to maturity investment securities portfolio follows:

|  | Investment Securities Held to Maturity |                       |                       |               |
|--|----------------------------------------|-----------------------|-----------------------|---------------|
|  | At December 31, 2014                   |                       |                       |               |
|  | Amortized<br>Cost                      | Gross<br>Unrecognized | Gross<br>Unrecognized | Fair<br>Value |
|  | (In thousands)                         |                       |                       |               |



Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Gains                      Losses  
(In thousands)

|                                                  |              |           |            |              |
|--------------------------------------------------|--------------|-----------|------------|--------------|
| Securities of U.S. government sponsored entities | \$ 1,066     | \$ 11     | \$-        | \$ 1,077     |
| Residential mortgage-backed securities           | 59,078       | 1,183     | (137 )     | 60,124       |
| Obligations of states and political subdivisions | 720,189      | 11,350    | (2,358 )   | 729,181      |
| Residential collateralized mortgage obligations  | 258,325      | 2,236     | (2,381 )   | 258,180      |
| Total                                            | \$ 1,038,658 | \$ 14,780 | \$(4,876 ) | \$ 1,048,562 |

-11-

---

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

|                                                                                | At March 31, 2015                |                    |                                |                    |
|--------------------------------------------------------------------------------|----------------------------------|--------------------|--------------------------------|--------------------|
|                                                                                | Securities Available<br>for Sale |                    | Securities Held<br>to Maturity |                    |
|                                                                                | Amortized<br>Cost                | Fair<br>Value      | Amortized<br>Cost              | Fair<br>Value      |
|                                                                                | (In thousands)                   |                    |                                |                    |
| <b>Maturity in years:</b>                                                      |                                  |                    |                                |                    |
| 1 year or less                                                                 | \$80,420                         | \$80,658           | \$15,322                       | \$15,829           |
| Over 1 to 5 years                                                              | 973,932                          | 976,816            | 247,297                        | 249,867            |
| Over 5 to 10 years                                                             | 409,874                          | 416,005            | 270,191                        | 275,665            |
| Over 10 years                                                                  | 47,697                           | 51,576             | 180,559                        | 184,436            |
| Subtotal                                                                       | 1,511,923                        | 1,525,055          | 713,369                        | 725,797            |
| Mortgage-backed securities and residential collateralized mortgage obligations | 245,848                          | 243,017            | 301,862                        | 305,068            |
| Other securities                                                               | 2,814                            | 9,248              | -                              | -                  |
| <b>Total</b>                                                                   | <b>\$1,760,585</b>               | <b>\$1,777,320</b> | <b>\$1,015,231</b>             | <b>\$1,030,865</b> |

Securities available for sale at March 31, 2015 with maturity dates over one year but less than five years include \$351,761 thousand (fair value) of securities of U.S. Government sponsored entities with call options on dates within one year or less, of which \$71,129 thousand have interest coupons which will increase if the issuer does not exercise the call option.

|                                                                                | At December 31, 2014             |                    |                                |                    |
|--------------------------------------------------------------------------------|----------------------------------|--------------------|--------------------------------|--------------------|
|                                                                                | Securities Available<br>for Sale |                    | Securities Held<br>to Maturity |                    |
|                                                                                | Amortized<br>Cost                | Fair<br>Value      | Amortized<br>Cost              | Fair<br>Value      |
|                                                                                | (In thousands)                   |                    |                                |                    |
| <b>Maturity in years:</b>                                                      |                                  |                    |                                |                    |
| 1 year or less                                                                 | \$57,891                         | \$57,991           | \$15,355                       | \$15,855           |
| Over 1 to 5 years                                                              | 629,200                          | 630,797            | 228,380                        | 230,248            |
| Over 5 to 10 years                                                             | 584,872                          | 589,250            | 285,219                        | 288,631            |
| Over 10 years                                                                  | 58,770                           | 63,006             | 192,301                        | 195,524            |
| Subtotal                                                                       | 1,330,733                        | 1,341,044          | 721,255                        | 730,258            |
| Mortgage-backed securities and residential collateralized mortgage obligations | 257,917                          | 251,783            | 317,403                        | 318,304            |
| Other securities                                                               | 2,814                            | 7,954              | -                              | -                  |
| <b>Total</b>                                                                   | <b>\$1,591,464</b>               | <b>\$1,600,781</b> | <b>\$1,038,658</b>             | <b>\$1,048,562</b> |

Expected maturities of mortgage-backed 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-backed securities. At March 31, 2015 and December 31, 2014, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

[The remainder of this page intentionally left blank]



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

Investment Securities Available for Sale  
At March 31, 2015

|                                                  | No.<br>of<br>Investment<br>Positions | Less than<br>12 months<br>Unrealized<br>Fair<br>Value | 12 months<br>or longer<br>Unrealized<br>Losses | No. of<br>Investment<br>Positions | 12 months or longer<br>Unrealized<br>Fair<br>Value | 12 months or longer<br>Unrealized<br>Losses | No. of<br>Investment<br>Positions | Total<br>Unrealized<br>Fair<br>Value | Total<br>Unrealized<br>Losses |
|--------------------------------------------------|--------------------------------------|-------------------------------------------------------|------------------------------------------------|-----------------------------------|----------------------------------------------------|---------------------------------------------|-----------------------------------|--------------------------------------|-------------------------------|
| (\$ in thousands)                                |                                      |                                                       |                                                |                                   |                                                    |                                             |                                   |                                      |                               |
| Securities of U.S. Government sponsored entities | -                                    | \$-                                                   | \$ -                                           | 1                                 | \$9,997                                            | \$ (3 )                                     | 1                                 | \$9,997                              | \$ (3 )                       |
| Residential mortgage-backed securities           | -                                    | -                                                     | -                                              | 1                                 | 803                                                | (9 )                                        | 1                                 | 803                                  | (9 )                          |
| Commercial mortgage-backed securities            | 1                                    | 921                                                   | (6 )                                           | 1                                 | 751                                                | (5 )                                        | 2                                 | 1,672                                | (11 )                         |
| Obligations of states and political subdivisions | 5                                    | 2,380                                                 | (20 )                                          | 11                                | 3,842                                              | (105 )                                      | 16                                | 6,222                                | (125 )                        |
| Residential collateralized mortgage obligations  | -                                    | -                                                     | -                                              | 29                                | 184,632                                            | (5,142 )                                    | 29                                | 184,632                              | (5,142 )                      |
| Asset-backed securities                          | -                                    | -                                                     | -                                              | 1                                 | 2,992                                              | (23 )                                       | 1                                 | 2,992                                | (23 )                         |
| Corporate securities                             | 59                                   | 232,085                                               | (1,769 )                                       | 6                                 | 33,078                                             | (256 )                                      | 65                                | 265,163                              | (2,025 )                      |
| Other securities                                 | -                                    | -                                                     | -                                              | 1                                 | 1,882                                              | (118 )                                      | 1                                 | 1,882                                | (118 )                        |
| <b>Total</b>                                     | <b>65</b>                            | <b>\$235,386</b>                                      | <b>\$ (1,795 )</b>                             | <b>51</b>                         | <b>\$237,977</b>                                   | <b>\$ (5,661 )</b>                          | <b>116</b>                        | <b>\$473,363</b>                     | <b>\$ (7,456 )</b>            |

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

Investment Securities Held to Maturity  
At March 31, 2015

|                                                  | No.<br>of<br>Investment<br>Positions | Less than 12<br>months<br>Unrecognized<br>Fair<br>Value | 12 months<br>or longer<br>Unrecognized<br>Losses | No. of<br>Investment<br>Positions | 12 months or longer<br>Unrecognized<br>Fair<br>Value | 12 months or longer<br>Unrecognized<br>Losses | No. of<br>Investment<br>Positions | Total<br>Unrecognized<br>Fair<br>Value | Total<br>Unrecognized<br>Losses |
|--------------------------------------------------|--------------------------------------|---------------------------------------------------------|--------------------------------------------------|-----------------------------------|------------------------------------------------------|-----------------------------------------------|-----------------------------------|----------------------------------------|---------------------------------|
| (\$ in thousands)                                |                                      |                                                         |                                                  |                                   |                                                      |                                               |                                   |                                        |                                 |
| Residential mortgage-backed securities           | 2                                    | \$14,483                                                | \$ (60 )                                         | 1                                 | \$163                                                | \$ (4 )                                       | 3                                 | \$14,646                               | \$ (64 )                        |
| Obligations of states and political subdivisions | 45                                   | 32,117                                                  | (177 )                                           | 83                                | 70,639                                               | (885 )                                        | 128                               | 102,756                                | (1,062 )                        |
|                                                  | 4                                    | 13,767                                                  | (134 )                                           | 16                                | 83,929                                               | (726 )                                        | 20                                | 97,696                                 | (860 )                          |

## Residential collateralized mortgage obligations

|       |    |          |           |     |           |             |     |           |             |
|-------|----|----------|-----------|-----|-----------|-------------|-----|-----------|-------------|
| Total | 51 | \$60,367 | \$ (371 ) | 100 | \$154,731 | \$ (1,615 ) | 151 | \$215,098 | \$ (1,986 ) |
|-------|----|----------|-----------|-----|-----------|-------------|-----|-----------|-------------|

The unrealized losses on the Company's investment securities were caused by market conditions for these types of investments, particularly changes in risk-free interest rates. The Company evaluates securities on a quarterly basis including changes in security ratings issued by ratings agencies, changes in the financial condition of the issuer, and, for mortgage-related 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. Substantially all of these securities continue to be investment grade rated by a major rating agency. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset backed securities.

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of March 31, 2015.

The fair values of the investment securities could decline in the future if the general economy deteriorates, inflation increases, credit ratings decline, the issuer's financial condition deteriorates, or the liquidity for securities declines. As a result, other than temporary impairments may occur in the future.

As of March 31, 2015, \$720,036 thousand of investment securities were pledged to secure public deposits and short-term borrowed funds. As of December 31, 2014, \$757,623 thousand of investment securities were pledged to secure public deposits, short-term borrowed funds and FHLB advances.

An analysis of gross unrealized losses of investment securities available for sale follows:

| Investment Securities Available for Sale         |                             |                                |                             |                             |                                |                                       |                             |                  |                         |
|--------------------------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------------------|---------------------------------------|-----------------------------|------------------|-------------------------|
| At December 31, 2014                             |                             |                                |                             |                             |                                |                                       |                             |                  |                         |
|                                                  | No. of Investment Positions | Less than 12 months Fair Value | 12 months Unrealized Losses | No. of Investment Positions | 12 months or longer Fair Value | 12 months or longer Unrealized Losses | No. of Investment Positions | Total Fair Value | Total Unrealized Losses |
|                                                  |                             |                                |                             |                             |                                |                                       |                             |                  |                         |
| (\$ in thousands)                                |                             |                                |                             |                             |                                |                                       |                             |                  |                         |
| Securities of U.S. Government sponsored entities | 15                          | \$253,632                      | \$ (989 )                   | 1                           | \$9,963                        | \$ (38 )                              | 16                          | \$263,595        | \$ (1,027 )             |
| Residential mortgage-backed securities           | -                           | -                              | -                           | 2                           | 822                            | (16 )                                 | 2                           | 822              | (16 )                   |
| Commercial mortgage-backed securities            | 1                           | 942                            | (7 )                        | 1                           | 803                            | (3 )                                  | 2                           | 1,745            | (10 )                   |
| Obligations of states and political subdivisions | 7                           | 2,548                          | (18 )                       | 17                          | 5,518                          | (105 )                                | 24                          | 8,066            | (123 )                  |
| Residential collateralized mortgage obligations  | -                           | -                              | -                           | 32                          | 205,074                        | (8,524 )                              | 32                          | 205,074          | (8,524 )                |
| Asset-backed securities                          | 1                           | 5,008                          | (7 )                        | 1                           | 3,305                          | (29 )                                 | 2                           | 8,313            | (36 )                   |
| Corporate securities                             | 53                          | 165,026                        | (1,304 )                    | 5                           | 34,222                         | (325 )                                | 58                          | 199,248          | (1,629 )                |
| Other securities                                 | -                           | -                              | -                           | 1                           | 1,876                          | (124 )                                | 1                           | 1,876            | (124 )                  |
| <b>Total</b>                                     | <b>77</b>                   | <b>\$427,156</b>               | <b>\$ (2,325 )</b>          | <b>60</b>                   | <b>\$261,583</b>               | <b>\$ (9,164 )</b>                    | <b>137</b>                  | <b>\$688,739</b> | <b>\$ (11,489 )</b>     |

An analysis of gross unrecognized losses of investment securities held to maturity follows:

| Investment Securities Held to Maturity |                             |                                |                               |                             |                                |                                         |                             |                  |                           |
|----------------------------------------|-----------------------------|--------------------------------|-------------------------------|-----------------------------|--------------------------------|-----------------------------------------|-----------------------------|------------------|---------------------------|
| At December 31, 2014                   |                             |                                |                               |                             |                                |                                         |                             |                  |                           |
|                                        | No. of Investment Positions | Less than 12 months Fair Value | 12 months Unrecognized Losses | No. of Investment Positions | 12 months or longer Fair Value | 12 months or longer Unrecognized Losses | No. of Investment Positions | Total Fair Value | Total Unrecognized Losses |
|                                        |                             |                                |                               |                             |                                |                                         |                             |                  |                           |
| (\$ in thousands)                      |                             |                                |                               |                             |                                |                                         |                             |                  |                           |
| Residential mortgage-backed securities | 4                           | \$19,467                       | \$ (132 )                     | 1                           | \$201                          | \$ (5 )                                 | 5                           | \$19,668         | \$ (137 )                 |

|                                                  |     |           |           |     |           |             |     |           |             |
|--------------------------------------------------|-----|-----------|-----------|-----|-----------|-------------|-----|-----------|-------------|
| Obligations of states and political subdivisions | 103 | 76,202    | (439 )    | 138 | 123,370   | (1,919 )    | 241 | 199,572   | (2,358 )    |
| Residential collateralized mortgage obligations  | 5   | 13,932    | (166 )    | 22  | 119,513   | (2,215 )    | 27  | 133,445   | (2,381 )    |
| Total                                            | 112 | \$109,601 | \$ (737 ) | 161 | \$243,084 | \$ (4,139 ) | 273 | \$352,685 | \$ (4,876 ) |

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

|                                                  | For the Three Months<br>Ended March 31, |          |
|--------------------------------------------------|-----------------------------------------|----------|
|                                                  | 2015                                    | 2014     |
|                                                  | (In thousands)                          |          |
| Taxable                                          | \$7,554                                 | \$5,683  |
| Tax-exempt                                       | 6,133                                   | 6,980    |
| Total interest income from investment securities | \$13,687                                | \$12,663 |

## Note 4: Loans and Allowance for Credit Losses

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

|                                   | At March 31, 2015 |             |              |             |                     |              |
|-----------------------------------|-------------------|-------------|--------------|-------------|---------------------|--------------|
|                                   | Commercial        |             | Construction | Residential | Consumer            | Total        |
|                                   | Commercial        | Real Estate |              | Real Estate | Installment & Other |              |
|                                   | (In thousands)    |             |              |             |                     |              |
| Originated loans                  | \$ 391,863        | \$ 548,936  | \$ 12,438    | \$ 140,334  | \$ 371,975          | \$ 1,465,546 |
| Purchased covered loans:          |                   |             |              |             |                     |              |
| Gross purchased covered loans     | -                 | -           | -            | 2,574       | 13,955              | 16,529       |
| Credit risk discount              | -                 | -           | -            | (133 )      | (67 )               | (200 )       |
| Purchased non-covered loans:      |                   |             |              |             |                     |              |
| Gross purchased non-covered loans | 17,367            | 152,167     | 1,021        | 1,206       | 38,953              | 210,714      |
| Credit risk discount              | (1,255 )          | (5,904 )    | -            | (262 )      | (1,284 )            | (8,705 )     |
| Total                             | \$ 407,975        | \$ 695,199  | \$ 13,459    | \$ 143,719  | \$ 423,532          | \$ 1,683,884 |

|                                   | At December 31, 2014 |             |              |             |                     |              |
|-----------------------------------|----------------------|-------------|--------------|-------------|---------------------|--------------|
|                                   | Commercial           |             | Construction | Residential | Consumer            | Total        |
|                                   | Commercial           | Real Estate |              | Real Estate | Installment & Other |              |
|                                   | (In thousands)       |             |              |             |                     |              |
| Originated loans                  | \$ 374,005           | \$ 567,594  | \$ 11,003    | \$ 146,925  | \$ 370,842          | \$ 1,470,369 |
| Purchased covered loans:          |                      |             |              |             |                     |              |
| Gross purchased covered loans     | -                    | -           | -            | 2,626       | 14,920              | 17,546       |
| Credit risk discount              | -                    | -           | -            | (434 )      | (34 )               | (468 )       |
| Purchased non-covered loans:      |                      |             |              |             |                     |              |
| Gross purchased non-covered loans | 19,166               | 157,502     | 2,919        | 972         | 41,656              | 222,215      |
| Credit risk discount              | (1,356 )             | (6,492 )    | (50 )        | (262 )      | (1,212 )            | (9,372 )     |
| Total                             | \$ 391,815           | \$ 718,604  | \$ 13,872    | \$ 149,827  | \$ 426,172          | \$ 1,700,290 |

Changes in the carrying amount of impaired purchased loans were as follows:

|                                                | For the<br>Three Months<br>Ended<br>March 31, 2015 | For the Year<br>Ended<br>December 31,<br>2014 |
|------------------------------------------------|----------------------------------------------------|-----------------------------------------------|
|                                                | (In thousands)                                     |                                               |
| Impaired purchased loans                       |                                                    |                                               |
| Carrying amount at the beginning of the period | \$ 4,672                                           | \$ 4,936                                      |
| Reductions during the period                   | (16 )                                              | (264 )                                        |
| Carrying amount at the end of the period       | \$ 4,656                                           | \$ 4,672                                      |

[The remainder of this page intentionally left blank]



Changes in the accretable yield for purchased loans were as follows:

|                                                | For the<br>Three Months<br>Ended<br>March 31, 2015 | For the<br>Year Ended<br>December 31,<br>2014 |
|------------------------------------------------|----------------------------------------------------|-----------------------------------------------|
| (In thousands)                                 |                                                    |                                               |
| Accretable yield:                              |                                                    |                                               |
| Balance at the beginning of the period         | \$ 2,261                                           | \$ 2,505                                      |
| Reclassification from nonaccretable difference | 739                                                | 5,016                                         |
| Accretion                                      | (973 )                                             | (5,260 )                                      |
| Balance at the end of the period               | \$ 2,027                                           | \$ 2,261                                      |
| Accretion                                      | \$ (973 )                                          | \$ (5,260 )                                   |
| Change in FDIC indemnification                 | 141                                                | 1,110                                         |
| (Increase) in interest income                  | \$ (832 )                                          | \$ (4,150 )                                   |

The following summarizes activity in the allowance for credit losses:

|                                 | Allowance for Loan Losses                 |                        |                               |                             |                                   |                               |             |          | Total    |
|---------------------------------|-------------------------------------------|------------------------|-------------------------------|-----------------------------|-----------------------------------|-------------------------------|-------------|----------|----------|
|                                 | For the Three Months Ended March 31, 2015 |                        |                               |                             |                                   |                               |             |          |          |
|                                 | Consumer                                  |                        |                               |                             |                                   |                               |             |          |          |
|                                 | Commercial<br>Real<br>Commercial          | Estate<br>Construction | Residential<br>Real<br>Estate | Installment<br>and<br>Other | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans | Unallocated |          |          |
| (In thousands)                  |                                           |                        |                               |                             |                                   |                               |             |          |          |
| Allowance for loan losses:      |                                           |                        |                               |                             |                                   |                               |             |          |          |
| Balance at beginning of period  | \$5,460                                   | \$ 4,245               | \$ 644                        | \$ 2,241                    | \$ 7,717                          | \$ 2,120                      | \$ -        | \$ 9,058 | \$31,485 |
| Additions:                      |                                           |                        |                               |                             |                                   |                               |             |          |          |
| Provision                       | (110 )                                    | (137 )                 | 86                            | (101 )                      | (281 )                            | 247                           | -           | 296      | -        |
| Deductions:                     |                                           |                        |                               |                             |                                   |                               |             |          |          |
| Chargeoffs                      | (60 )                                     | -                      | -                             | -                           | (995 )                            | (35 )                         | -           | -        | (1,090 ) |
| Recoveries                      | 180                                       | 15                     | -                             | -                           | 590                               | 7                             | -           | -        | 792      |
| Net loan recoveries (losses)    | 120                                       | 15                     | -                             | -                           | (405 )                            | (28 )                         | -           | -        | (298 )   |
| Total allowance for loan losses | \$5,470                                   | \$ 4,123               | \$ 730                        | \$ 2,140                    | \$ 7,031                          | \$ 2,339                      | \$ 0        | \$ 9,354 | \$31,187 |

FDIC indemnification expired February 6, 2014 for County Bank non-single-family residential collateralized purchased loans; accordingly, such loans have been reclassified from purchased covered loans to purchased non-covered loans as well as the related allowance for credit losses.

|                            | Allowance for Credit Losses               |                        |                               |                             |                                   |                               |             |  | Total |
|----------------------------|-------------------------------------------|------------------------|-------------------------------|-----------------------------|-----------------------------------|-------------------------------|-------------|--|-------|
|                            | For the Three Months Ended March 31, 2014 |                        |                               |                             |                                   |                               |             |  |       |
|                            | Consumer                                  |                        |                               |                             |                                   |                               |             |  |       |
|                            | Commercial<br>Real<br>Commercial          | Estate<br>Construction | Residential<br>Real<br>Estate | Installment<br>and<br>Other | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans | Unallocated |  |       |
| (In thousands)             |                                           |                        |                               |                             |                                   |                               |             |  |       |
| Allowance for loan losses: |                                           |                        |                               |                             |                                   |                               |             |  |       |

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

|                                                 |         |           |        |        |          |          |          |           |           |
|-------------------------------------------------|---------|-----------|--------|--------|----------|----------|----------|-----------|-----------|
| Balance at beginning of period                  | \$4,005 | \$ 12,070 | \$ 602 | \$ 405 | \$ 3,198 | \$ -     | \$ 1,561 | \$ 9,852  | \$ 31,693 |
| Additions:                                      |         |           |        |        |          |          |          |           |           |
| Provision                                       | 130     | (974 )    | (160 ) | 86     | 214      | 1,272    | -        | 432       | 1,000     |
| Deductions:                                     |         |           |        |        |          |          |          |           |           |
| Chargeoffs                                      | (60 )   | -         | -      | -      | (999 )   | (260 )   | -        | -         | (1,319 )  |
| Recoveries                                      | 168     | 163       | 3      | -      | 400      | 1        | -        | -         | 735       |
| Net loan recoveries (losses)                    | 108     | 163       | 3      | -      | (599 )   | (259 )   | -        | -         | (584 )    |
| Indemnification expiration                      | -       | -         | -      | -      | -        | 1,561    | (1,561 ) | -         | -         |
| Balance at end of period                        | 4,243   | 11,259    | 445    | 491    | 2,813    | 2,574    | -        | 10,284    | 32,109    |
| Liability for off-balance sheet credit exposure | 1,672   | -         | 185    | -      | 440      | 251      | -        | 145       | 2,693     |
| Total allowance for credit losses               | \$5,915 | \$ 11,259 | \$ 630 | \$ 491 | \$ 3,253 | \$ 2,825 | \$ -     | \$ 10,429 | \$ 34,802 |

[The remainder of this page intentionally left blank]

The allowance for credit losses and recorded investment in loans were evaluated for impairment as follows:

Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment  
At March 31, 2015

|                                                       | Consumer                 |                |              |                |                             |                      |                                   |                               | Total       |
|-------------------------------------------------------|--------------------------|----------------|--------------|----------------|-----------------------------|----------------------|-----------------------------------|-------------------------------|-------------|
|                                                       | Commercial<br>Commercial | Real<br>Estate | Construction | Real<br>Estate | Residential<br>and<br>Other | Installment<br>Loans | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans |             |
| (In thousands)                                        |                          |                |              |                |                             |                      |                                   |                               |             |
| Allowance for loan losses:                            |                          |                |              |                |                             |                      |                                   |                               |             |
| Individually evaluated for impairment                 | \$493                    | \$-            | \$-          | \$-            | \$-                         | \$-                  | \$-                               | \$-                           | \$493       |
| Collectively evaluated for impairment                 | 4,977                    | 4,123          | 730          | 2,140          | 7,031                       | 2,339                | -                                 | 9,354                         | 30,694      |
| Purchased loans with evidence of credit deterioration | -                        | -              | -            | -              | -                           | -                    | -                                 | -                             | -           |
| Total                                                 | \$5,470                  | \$4,123        | \$730        | \$2,140        | \$7,031                     | \$2,339              | \$-                               | \$9,354                       | \$31,187    |
| Carrying value of loans:                              |                          |                |              |                |                             |                      |                                   |                               |             |
| Individually evaluated for impairment                 | \$12,459                 | \$597          | \$-          | \$574          | \$599                       | \$10,740             | \$-                               | \$-                           | \$24,969    |
| Collectively evaluated for impairment                 | 379,404                  | 548,339        | 12,438       | 139,760        | 371,376                     | 186,835              | 16,107                            | -                             | 1,654,259   |
| Purchased loans with evidence of credit deterioration | -                        | -              | -            | -              | -                           | 4,434                | 222                               | -                             | 4,656       |
| Total                                                 | \$391,863                | \$548,936      | \$12,438     | \$140,334      | \$371,975                   | \$202,009            | \$16,329                          | \$-                           | \$1,683,884 |

Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment  
At December 31, 2014

|                                                       | Consumer                 |                |              |                |                             |                      |                                   |                               | Total     |
|-------------------------------------------------------|--------------------------|----------------|--------------|----------------|-----------------------------|----------------------|-----------------------------------|-------------------------------|-----------|
|                                                       | Commercial<br>Commercial | Real<br>Estate | Construction | Real<br>Estate | Residential<br>and<br>Other | Installment<br>Loans | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans |           |
| (In thousands)                                        |                          |                |              |                |                             |                      |                                   |                               |           |
| Allowance for credit losses:                          |                          |                |              |                |                             |                      |                                   |                               |           |
| Individually evaluated for impairment                 | \$496                    | \$-            | \$-          | \$-            | \$-                         | \$-                  | \$-                               | \$-                           | \$496     |
| Collectively evaluated for impairment                 | 7,372                    | 4,245          | 988          | 2,241          | 8,154                       | 2,120                | -                                 | 8,562                         | 33,682    |
| Purchased loans with evidence of credit deterioration | -                        | -              | -            | -              | -                           | -                    | -                                 | -                             | -         |
| Total                                                 | \$7,868                  | \$4,245        | \$988        | \$2,241        | \$8,154                     | \$2,120              | \$-                               | \$8,562                       | \$34,178  |
| Carrying value of loans:                              |                          |                |              |                |                             |                      |                                   |                               |           |
| Individually evaluated for impairment                 | \$11,811                 | \$2,970        | \$-          | \$574          | \$599                       | \$12,364             | \$-                               | \$-                           | \$28,318  |
| Collectively evaluated for impairment                 | 362,194                  | 564,624        | 11,003       | 146,351        | 370,243                     | 196,034              | 16,851                            | -                             | 1,667,300 |
|                                                       | -                        | -              | -            | -              | -                           | 4,445                | 227                               | -                             | 4,672     |

Purchased loans with  
evidence of credit  
deterioration

|       |           |           |          |           |           |           |          |     |            |
|-------|-----------|-----------|----------|-----------|-----------|-----------|----------|-----|------------|
| Total | \$374,005 | \$567,594 | \$11,003 | \$146,925 | \$370,842 | \$212,843 | \$17,078 | \$- | \$1,700,29 |
|-------|-----------|-----------|----------|-----------|-----------|-----------|----------|-----|------------|

The Bank's customers are small businesses, professionals and consumers. Given the scale of these borrowers, corporate credit rating agencies do not evaluate the borrowers' financial condition. The Bank maintains a Loan Review Department which reports directly to the Board of Directors. The Loan Review Department performs independent evaluations of loans and assigns credit risk grades to evaluated loans using grading standards employed by bank regulatory agencies. Loans judged to carry lower-risk attributes are assigned a "pass" grade, with a minimal likelihood of loss. Loans judged to carry higher-risk attributes are referred to as "classified loans," and are further disaggregated, with increasing expectations for loss recognition, as "substandard," "doubtful," and "loss." Loan Review Department evaluations occur every calendar quarter. 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 the Loan Review Department are subject to review by the Bank's regulatory authorities during regulatory examinations.

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

Credit Risk Profile by Internally Assigned Grade  
At March 31, 2015

| Grade:                  | Commercial     |                | Construction | Residential    |           | Consumer<br>Installment<br>and Other | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans<br>(1) | Total |
|-------------------------|----------------|----------------|--------------|----------------|-----------|--------------------------------------|-----------------------------------|--------------------------------------|-------|
|                         | Commercial     | Real<br>Estate |              | Real<br>Estate | Estate    |                                      |                                   |                                      |       |
|                         | (In thousands) |                |              |                |           |                                      |                                   |                                      |       |
| Pass                    | \$384,159      | \$509,428      | \$12,438     | \$137,992      | \$370,845 | \$172,947                            | \$14,938                          | \$1,602,747                          |       |
| Substandard             | 7,692          | 39,508         | -            | 2,342          | 906       | 37,691                               | 1,591                             | 89,730                               |       |
| Doubtful                | 12             | -              | -            | -              | 8         | 76                                   | -                                 | 96                                   |       |
| Loss                    | -              | -              | -            | -              | 216       | -                                    | -                                 | 216                                  |       |
| Credit risk<br>discount | -              | -              | -            | -              | -         | (8,705)                              | (200)                             | (8,905)                              |       |
| Total                   | \$391,863      | \$548,936      | \$12,438     | \$140,334      | \$371,975 | \$202,009                            | \$16,329                          | \$1,683,884                          |       |

(1) Credit risk profile reflects internally assigned grade of purchased covered loans without regard to FDIC indemnification.

Credit Risk Profile by Internally Assigned Grade  
At December 31, 2014

| Grade:                  | Commercial       |                  | Construction    | Residential      |                  | Consumer<br>Installment<br>and Other | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans<br>(1) | Total |
|-------------------------|------------------|------------------|-----------------|------------------|------------------|--------------------------------------|-----------------------------------|--------------------------------------|-------|
|                         | Commercial       | Real<br>Estate   |                 | Real<br>Estate   | Real<br>Estate   |                                      |                                   |                                      |       |
|                         | (In thousands)   |                  |                 |                  |                  |                                      |                                   |                                      |       |
| Pass                    | \$366,487        | \$527,980        | \$11,003        | \$144,902        | \$369,618        | \$182,644                            | \$15,509                          | \$1,618,143                          |       |
| Substandard             | 7,506            | 39,614           | -               | 2,023            | 734              | 39,473                               | 2,037                             | 91,387                               |       |
| Doubtful                | 12               | -                | -               | -                | 12               | 77                                   | -                                 | 101                                  |       |
| Loss                    | -                | -                | -               | -                | 478              | 21                                   | -                                 | 499                                  |       |
| Credit risk<br>discount | -                | -                | -               | -                | -                | (9,372)                              | (468)                             | (9,840)                              |       |
| <b>Total</b>            | <b>\$374,005</b> | <b>\$567,594</b> | <b>\$11,003</b> | <b>\$146,925</b> | <b>\$370,842</b> | <b>\$212,843</b>                     | <b>\$17,078</b>                   | <b>\$1,700,290</b>                   |       |

(1) Credit risk profile reflects internally assigned grade of purchased covered loans without regard to FDIC indemnification.

The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status  
At March 31, 2015

|                                | Current<br>and<br>Accruing | 30-59<br>Days<br>Past Due<br>and<br>Accruing | 60-89<br>Days<br>Past Due<br>and<br>Accruing | Past Due<br>90 days<br>or More<br>and<br>Accruing | Nonaccrual      | Total<br>Loans     |
|--------------------------------|----------------------------|----------------------------------------------|----------------------------------------------|---------------------------------------------------|-----------------|--------------------|
|                                |                            |                                              |                                              |                                                   |                 |                    |
| Commercial                     | \$388,683                  | \$2,355                                      | \$533                                        | \$-                                               | \$292           | \$391,863          |
| Commercial real estate         | 534,341                    | 7,960                                        | 5,109                                        | -                                                 | 1,526           | 548,936            |
| Construction                   | 12,438                     | -                                            | -                                            | -                                                 | -               | 12,438             |
| Residential real estate        | 136,975                    | 1,976                                        | 479                                          | -                                                 | 904             | 140,334            |
| Consumer installment and other | 369,260                    | 1,548                                        | 357                                          | 191                                               | 619             | 371,975            |
| Total originated loans         | 1,441,697                  | 13,839                                       | 6,478                                        | 191                                               | 3,341           | 1,465,546          |
| Purchased non-covered loans    | 187,198                    | 2,945                                        | 1,821                                        | -                                                 | 10,045          | 202,009            |
| Purchased covered loans        | 16,208                     | 121                                          | -                                            | -                                                 | -               | 16,329             |
| <b>Total</b>                   | <b>\$1,645,103</b>         | <b>\$16,905</b>                              | <b>\$8,299</b>                               | <b>\$191</b>                                      | <b>\$13,386</b> | <b>\$1,683,884</b> |

Summary of Loans by Delinquency and Nonaccrual Status  
At December 31, 2014

|                        | Current<br>and<br>Accruing | 30-59<br>Days<br>Past Due<br>and<br>Accruing | 60-89<br>Days<br>Past Due<br>and<br>Accruing | Past Due<br>90 days<br>or More<br>and<br>Accruing | Nonaccrual | Total<br>Loans |
|------------------------|----------------------------|----------------------------------------------|----------------------------------------------|---------------------------------------------------|------------|----------------|
|                        |                            |                                              |                                              |                                                   |            |                |
| Commercial             | \$372,235                  | \$1,704                                      | \$36                                         | \$-                                               | \$30       | \$374,005      |
| Commercial real estate | 557,041                    | 6,500                                        | -                                            | -                                                 | 4,053      | 567,594        |
| Construction           | 11,003                     | -                                            | -                                            | -                                                 | -          | 11,003         |

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

|                                |             |          |         |       |          |             |
|--------------------------------|-------------|----------|---------|-------|----------|-------------|
| Residential real estate        | 144,021     | 1,513    | 817     | -     | 574      | 146,925     |
| Consumer installment and other | 365,753     | 3,310    | 625     | 502   | 652      | 370,842     |
| Total originated loans         | 1,450,053   | 13,027   | 1,478   | 502   | 5,309    | 1,470,369   |
| Purchased non-covered loans    | 196,150     | 4,204    | 491     | -     | 11,998   | 212,843     |
| Purchased covered loans        | 16,389      | 389      | 3       | -     | 297      | 17,078      |
| Total                          | \$1,662,592 | \$17,620 | \$1,972 | \$502 | \$17,604 | \$1,700,290 |

[The remainder of this page intentionally left blank]

The following is a summary of the effect of nonaccrual loans on interest income:

|                                                                                                                 | For the Three Months Ended<br>March 31, |       |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------|
|                                                                                                                 | 2015                                    | 2014  |
|                                                                                                                 | (In thousands)                          |       |
| Interest income that would have been recognized had the loans performed in accordance with their original terms | \$311                                   | \$260 |
| Less: Interest income recognized on nonaccrual loans                                                            | (205)                                   | (44)  |
| Total reduction of interest income                                                                              | \$106                                   | \$216 |

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at March 31, 2015 and December 31, 2014.

The following summarizes impaired loans:

|                                                    | Impaired Loans<br>At March 31, 2015 |                                |                      |
|----------------------------------------------------|-------------------------------------|--------------------------------|----------------------|
|                                                    | Recorded<br>Investment              | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|                                                    | (In thousands)                      |                                |                      |
| Impaired loans with no related allowance recorded: |                                     |                                |                      |
| Commercial                                         | \$2,651                             | \$2,715                        | \$-                  |
| Commercial real estate                             | 17,159                              | 23,100                         | -                    |
| Construction                                       | -                                   | -                              | -                    |
| Residential real estate                            | 1,145                               | 1,175                          | -                    |
| Consumer installment and other                     | 990                                 | 1,097                          | -                    |
| Impaired loans with an allowance recorded:         |                                     |                                |                      |
| Commercial                                         | 9,860                               | 9,860                          | 493                  |
| Commercial real estate                             | -                                   | -                              | -                    |
| Construction                                       | -                                   | -                              | -                    |
| Residential real estate                            | -                                   | -                              | -                    |
| Consumer installment and other                     | -                                   | -                              | -                    |
| Total:                                             |                                     |                                |                      |
| Commercial                                         | \$12,511                            | \$12,575                       | \$493                |
| Commercial real estate                             | 17,159                              | 23,100                         | -                    |
| Construction                                       | -                                   | -                              | -                    |
| Residential real estate                            | 1,145                               | 1,175                          | -                    |
| Consumer installment and other                     | 990                                 | 1,097                          | -                    |

[The remainder of this page intentionally left blank]

|                                                    | Impaired Loans<br>At December 31, 2014 |                                |                      |
|----------------------------------------------------|----------------------------------------|--------------------------------|----------------------|
|                                                    | Recorded<br>Investment                 | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|                                                    |                                        | (In thousands)                 |                      |
| Impaired loans with no related allowance recorded: |                                        |                                |                      |
| Commercial                                         | \$2,031                                | \$2,095                        | \$-                  |
| Commercial real estate                             | 19,478                                 | 25,519                         | -                    |
| Construction                                       | 1,834                                  | 1,884                          | -                    |
| Residential real estate                            | 574                                    | 574                            | -                    |
| Consumer installment and other                     | 1,518                                  | 1,628                          | -                    |
| Impaired loans with an allowance recorded:         |                                        |                                |                      |
| Commercial                                         | 9,910                                  | 9,910                          | 496                  |
| Commercial real estate                             | -                                      | -                              | -                    |
| Construction                                       | -                                      | -                              | -                    |
| Residential real estate                            | -                                      | -                              | -                    |
| Consumer installment and other                     | -                                      | -                              | -                    |
| Total:                                             |                                        |                                |                      |
| Commercial                                         | \$11,941                               | \$12,005                       | \$496                |
| Commercial real estate                             | 19,478                                 | 25,519                         | -                    |
| Construction                                       | 1,834                                  | 1,884                          | -                    |
| Residential real estate                            | 574                                    | 574                            | -                    |
| Consumer installment and other                     | 1,518                                  | 1,628                          | -                    |

Impaired loans include troubled debt restructured loans. Impaired loans at March 31, 2015, included \$6,537 thousand of restructured loans, including \$998 thousand that were on nonaccrual status. Impaired loans at December 31, 2014, included \$4,837 thousand of restructured loans, none of which were on nonaccrual status.

|                                | Impaired Loans<br>For the Three Months Ended March 31, |                                  |                                   |                                  |
|--------------------------------|--------------------------------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                                | 2015                                                   |                                  | 2014                              |                                  |
|                                | Average<br>Recorded<br>Investment                      | Recognized<br>Interest<br>Income | Average<br>Recorded<br>Investment | Recognized<br>Interest<br>Income |
| (In thousands)                 |                                                        |                                  |                                   |                                  |
| Commercial                     | \$12,226                                               | \$146                            | \$4,842                           | \$67                             |
| Commercial real estate         | 18,318                                                 | 257                              | 19,298                            | 117                              |
| Construction                   | 917                                                    | -                                | 2,259                             | -                                |
| Residential real estate        | 860                                                    | 6                                | 162                               | -                                |
| Consumer installment and other | 1,254                                                  | 6                                | 1,716                             | 8                                |
| Total                          | \$33,575                                               | \$415                            | \$28,277                          | \$192                            |

[The remainder of this page intentionally left blank]





The following table provides information on troubled debt restructurings:

|                                | Troubled Debt Restructurings<br>At March 31, 2015 |                                                      |                                                |                                                     |
|--------------------------------|---------------------------------------------------|------------------------------------------------------|------------------------------------------------|-----------------------------------------------------|
|                                | Number of<br>Contracts                            | Pre-Modification<br>Carrying Value<br>(In thousands) | Period-End<br>Carrying Value<br>(In thousands) | Period-End<br>Individual<br>Impairment<br>Allowance |
| Commercial                     | 6                                                 | \$ 2,813                                             | \$2,599                                        | \$-                                                 |
| Commercial real estate         | 5                                                 | 3,875                                                | 3,693                                          | -                                                   |
| Residential real estate        | 1                                                 | 18                                                   | 5                                              | -                                                   |
| Consumer installment and other | 1                                                 | 241                                                  | 240                                            | -                                                   |
| Total                          | 13                                                | \$ 6,947                                             | \$6,537                                        | \$-                                                 |

|                                | Troubled Debt Restructurings<br>At March 31, 2014 |                                                      |                                                |                                                     |
|--------------------------------|---------------------------------------------------|------------------------------------------------------|------------------------------------------------|-----------------------------------------------------|
|                                | Number of<br>Contracts                            | Pre-Modification<br>Carrying Value<br>(In thousands) | Period-End<br>Carrying Value<br>(In thousands) | Period-End<br>Individual<br>Impairment<br>Allowance |
| Commercial                     | 3                                                 | \$ 3,201                                             | \$2,938                                        | \$262                                               |
| Commercial real estate         | 2                                                 | 2,291                                                | 2,316                                          | -                                                   |
| Consumer installment and other | 1                                                 | 18                                                   | 17                                             | -                                                   |
| Total                          | 6                                                 | \$ 5,510                                             | \$5,271                                        | \$262                                               |

During the three months ended March 31, 2015, the Company modified five loans with a carrying value of \$1,736 thousand that were considered troubled debt restructurings. The concessions granted in the first quarter 2015 consisted of modification of payment terms to extend the maturity date to allow for deferred principal repayment and under-market terms. During the three months ended March 31, 2014, the Company modified one loan with a carrying value of \$17 thousand that was considered a troubled debt restructuring. The concession granted in the first quarter 2014 consisted of modification of payment terms to extend the maturity date to allow for deferred principal repayment. During the three months ended March 31, 2015 and 2014, no troubled debt restructured loans defaulted. A troubled debt restructuring is considered to be in default when payments are ninety days or more past due.

At December 31, 2014, the Company pledged loans to secure borrowings with a carrying value of \$20,015 thousand from the Federal Home Loan Bank ("FHLB"). The loans restricted due to collateral requirements approximated \$18,366 thousand at December 31, 2014. The FHLB advances matured and were repaid in full in January 2015.

There were no loans held for sale at March 31, 2015 and December 31, 2014.

At March 31, 2015 and March 31, 2014, the Company held total other real estate owned (OREO) of \$9,233 thousand and \$12,186 thousand, respectively, of which \$486 thousand and \$967 thousand, respectively, were foreclosed residential real estate properties. The amount of consumer mortgage loans outstanding secured by residential real estate properties for which formal foreclosure proceedings were in process totaled \$599 thousand and \$902 thousand at March 31, 2015 and March 31, 2014, respectively.

Note 5: Concentration of Credit Risk

The Company's business activity is with customers in Northern and Central California. The loan portfolio is well diversified within the Company's geographic market, although 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 and standby letters of credit related to real estate loans of \$68,724 thousand and \$66,086 thousand at March 31, 2015 and December 31, 2014, 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. Under the California Financial Code, loans to any one person owing to a commercial bank at any one time shall not exceed the following limitations: (a) unsecured loans shall not exceed 15 percent of the sum of the shareholders' equity, allowance for loan losses, capital notes, and debentures of the bank, or (b) secured and unsecured loans in all shall not exceed 25 percent of the sum of the shareholders' equity, allowance for loan losses, capital notes, and debentures of the bank. At March 31, 2015, Westamerica Bank did not have loans to any one customer exceeding these limits; Westamerica Bank had 40 borrower relationships with aggregate loans exceeding \$5 million.

## Note 6: Other Assets

Other assets consisted of the following:

|                                      | At March 31,<br>2015 | At December<br>31,<br>2014 |
|--------------------------------------|----------------------|----------------------------|
|                                      | (In thousands)       |                            |
| Cost method equity investments:      |                      |                            |
| Federal Reserve Bank stock (1)       | \$ 14,069            | \$ 14,069                  |
| Federal Home Loan Bank stock (2)     | 450                  | 940                        |
| Other investments                    | 201                  | 241                        |
| Total cost method equity investments | 14,720               | 15,250                     |
| Life insurance cash surrender value  | 47,098               | 46,479                     |
| Net deferred tax asset               | 47,138               | 50,903                     |
| Limited partnership investments      | 17,445               | 18,673                     |
| Interest receivable                  | 18,582               | 19,394                     |
| Prepaid assets                       | 5,719                | 5,609                      |
| Other assets                         | 9,872                | 10,150                     |
| Total other assets                   | \$ 160,574           | \$ 166,458                 |

(1) A bank applying for membership in the Federal Reserve System is required to subscribe to stock in the Federal Reserve Bank of San Francisco (FRB) 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.

(2) Borrowings from the FHLB must be supported by capital stock holdings. The minimum activity-based requirement is 4.7% of the outstanding advances. The requirement may be adjusted from time to time by the FHLB within limits established in the FHLB's Capital Plan.

The Company invests in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credits. At March 31, 2015, this investment totaled \$17,445 thousand and \$2,460 thousand of this amount represents outstanding equity capital commitments. These commitments are expected to be paid as follows, \$614 thousand in 2015, \$763 thousand in 2016, and \$1,083 thousand in 2017 or thereafter.

The amounts recognized in net income for these investments include:

|                                                      | For the Three Months Ended<br>March 31, |        |
|------------------------------------------------------|-----------------------------------------|--------|
|                                                      | 2015                                    | 2014   |
|                                                      | (In thousands)                          |        |
| Investment loss included in pre-tax income           | \$ 675                                  | \$ 700 |
| Tax credits recognized in provision for income taxes | 658                                     | 771    |

## 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 periodically evaluated for impairment. The Company did not recognize impairment during the three months ended March 31, 2015 and year ended December 31, 2014. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual

values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the three months ended March 31, 2015 and year ended December 31, 2014, no such adjustments were recorded.

-22-

---

The carrying values of goodwill were:

|          | At March 31,<br>2015 | At December<br>31,<br>2014 |
|----------|----------------------|----------------------------|
|          | (In thousands)       |                            |
| Goodwill | \$121,673            | \$121,673                  |

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

|                                      | At March 31, 2015           |                             | At December 31, 2014        |                             |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                      | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
|                                      | (In thousands)              |                             |                             |                             |
| Core Deposit Intangibles             | \$56,808                    | \$(44,116 )                 | \$56,808                    | \$(43,188 )                 |
| Merchant Draft Processing Intangible | 10,300                      | (9,706 )                    | 10,300                      | (9,633 )                    |
| Total Identifiable Intangible Assets | \$67,108                    | \$(53,822 )                 | \$67,108                    | \$(52,821 )                 |

As of March 31, 2015, the current year and estimated future amortization expense for identifiable intangible assets was:

|                                            | Core<br>Deposit<br>Intangibles | Merchant<br>Draft<br>Processing<br>Intangible | Total   |
|--------------------------------------------|--------------------------------|-----------------------------------------------|---------|
|                                            | (In thousands)                 |                                               |         |
| Three months ended March 31, 2015 (actual) | \$928                          | \$73                                          | \$1,001 |
| Estimate for year ended December 31, 2015  | 3,594                          | 262                                           | 3,856   |
| 2016                                       | 3,292                          | 212                                           | 3,504   |
| 2017                                       | 2,913                          | 164                                           | 3,077   |
| 2018                                       | 1,892                          | 29                                            | 1,921   |
| 2019                                       | 538                            | -                                             | 538     |
| 2020                                       | 287                            | -                                             | 287     |

#### Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

|                                                     | Deposits             |                         |
|-----------------------------------------------------|----------------------|-------------------------|
|                                                     | At March 31,<br>2015 | At December<br>31, 2014 |
|                                                     | (In thousands)       |                         |
| Noninterest-bearing                                 | \$1,902,904          | \$1,910,781             |
| Interest-bearing:                                   |                      |                         |
| Transaction                                         | 787,633              | 792,448                 |
| Savings                                             | 1,313,007            | 1,260,819               |
| Time deposits less than \$100 thousand              | 165,412              | 169,959                 |
| Time deposits \$100 thousand through \$250 thousand | 109,909              | 113,023                 |
| Time deposits more than \$250 thousand              | 101,211              | 102,161                 |

|                |             |             |
|----------------|-------------|-------------|
| Total deposits | \$4,380,076 | \$4,349,191 |
|----------------|-------------|-------------|

Demand deposit overdrafts of \$3,073 thousand and \$3,173 thousand were included as loan balances at March 31, 2015 and December 31, 2014, respectively. Interest expense for aggregate time deposits with individual account balances in excess of \$100 thousand was \$197 thousand in the first quarter 2015 and \$232 thousand in the first quarter 2014.

Short-term borrowed funds of \$82,960 thousand and \$89,784 thousand at March 31, 2015 and December 31, 2014, respectively, represent securities sold under agreements to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. Securities sold under repurchase agreements are held in the custody of independent securities brokers. The carrying amount of the securities approximates \$115,411 thousand and \$148,014 thousand at March 31, 2015 and December 31, 2014, respectively. The short-term borrowed funds mature on an overnight basis.

-23-

---

FHLB advances matured and were repaid in full in January 2015. At December 31, 2014, FHLB advances with a carrying value of \$20,015 thousand were secured by residential real estate loans and securities of approximately \$26,484 thousand.

The Company has a \$35,000 thousand unsecured line of credit which had no outstanding balance at March 31, 2015 and December 31, 2014. The line of credit has a variable interest rate, which was 2.0% per annum at March 31, 2015, with interest payable monthly on outstanding advances. Advances may be made up to the unused credit limit through March 18, 2016.

#### 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. Available for sale investment securities 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, impaired loans, certain loans held for investment, investment 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 Codification, the Company bases its fair values on the price that would be received to sell an asset or paid to transfer a liability in the principal market or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. A fair value measurement reflects all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance.

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

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 includes U.S. Treasury, equity and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 includes mortgage-backed securities, corporate securities, asset-backed securities, municipal bonds and residential collateralized mortgage obligations.

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

The Company relies on independent vendor pricing services to measure fair value for investment securities available for sale and investment securities held to maturity. The Company employs three pricing services. To validate the pricing of these vendors, the Company compares vendors' pricing for each of the securities for consistency; significant pricing differences, if any, are evaluated using all available independent quotes with the quote closely affecting the



market is generally used as the fair value estimate. In addition, the Company conducts “other than temporary impairment (OTTI)” analysis on a quarterly basis; securities selected for OTTI analysis include all securities at a market price below 95 percent of par value and with a market to book ratio below 95:100. As with any valuation technique used to estimate fair value, changes in underlying assumptions used could significantly affect the results of current and future values. Accordingly, these fair value estimates may not be realized in an actual sale of the securities.

When the Company changes its valuation assumptions for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new assumptions used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the three months ended March 31, 2015 and year ended December 31, 2014, there were no transfers in or out of levels 1, 2 or 3.

## Assets Recorded at Fair Value on a Recurring Basis

The table below presents assets measured at fair value on a recurring basis.

|                                                     | Fair Value  | At March 31, 2015                                                             |                                                            |                                                     |
|-----------------------------------------------------|-------------|-------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------|
|                                                     |             | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2 ) | Significant<br>Unobservable<br>Inputs<br>(Level 3 ) |
| (In thousands)                                      |             |                                                                               |                                                            |                                                     |
| U.S. Treasury securities                            | \$3,504     | \$3,504                                                                       | \$-                                                        | \$-                                                 |
| Securities of U.S. Government sponsored<br>entities | 633,608     | 633,608                                                                       | -                                                          | -                                                   |
| Residential mortgage-backed securities              | 24,298      | -                                                                             | 24,298                                                     | -                                                   |
| Commercial mortgage-backed securities               | 2,820       | -                                                                             | 2,820                                                      | -                                                   |
| Obligations of states and political subdivisions    | 175,694     | -                                                                             | 175,694                                                    | -                                                   |
| Residential collateralized mortgage<br>obligations  | 215,899     | -                                                                             | 215,899                                                    | -                                                   |
| Asset-backed securities                             | 2,992       | -                                                                             | 2,992                                                      | -                                                   |
| FHLMC and FNMA stock                                | 6,460       | 6,460                                                                         | -                                                          | -                                                   |
| Corporate securities                                | 709,257     | -                                                                             | 709,257                                                    | -                                                   |
| Other securities                                    | 2,788       | 906                                                                           | 1,882                                                      | -                                                   |
| Total securities available for sale                 | \$1,777,320 | \$644,478                                                                     | \$1,132,842                                                | \$-                                                 |

|                                                     | Fair Value  | At December 31, 2014                                                          |                                                            |                                                     |
|-----------------------------------------------------|-------------|-------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------|
|                                                     |             | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2 ) | Significant<br>Unobservable<br>Inputs<br>(Level 3 ) |
| (In thousands)                                      |             |                                                                               |                                                            |                                                     |
| U.S. Treasury securities                            | \$3,505     | \$3,505                                                                       | \$-                                                        | \$-                                                 |
| Securities of U.S. Government sponsored<br>entities | 635,188     | 635,188                                                                       | -                                                          | -                                                   |
| Residential mortgage-backed securities              | 26,407      | -                                                                             | 26,407                                                     | -                                                   |
| Commercial mortgage-backed securities               | 2,919       | -                                                                             | 2,919                                                      | -                                                   |
| Obligations of states and political subdivisions    | 181,799     | -                                                                             | 181,799                                                    | -                                                   |
| Residential collateralized mortgage<br>obligations  | 222,457     | -                                                                             | 222,457                                                    | -                                                   |
| Asset-backed securities                             | 8,313       | -                                                                             | 8,313                                                      | -                                                   |
| FHLMC and FNMA stock                                | 5,168       | 5,168                                                                         | -                                                          | -                                                   |
| Corporate securities                                | 512,239     | -                                                                             | 512,239                                                    | -                                                   |
| Other securities                                    | 2,786       | 910                                                                           | 1,876                                                      | -                                                   |
| Total securities available for sale                 | \$1,600,781 | \$644,771                                                                     | \$956,010                                                  | \$-                                                 |

[The remainder of this page intentionally left blank]



## 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 application of lower-of-cost or fair-value accounting of individual assets. For assets measured at fair value on a nonrecurring basis that were recorded in the balance sheet at March 31, 2015 and December 31, 2014, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at period end.

|                                                             | At March 31, 2015 |         |          |         | For the Three<br>Months Ended<br>March 31,<br>2015 |
|-------------------------------------------------------------|-------------------|---------|----------|---------|----------------------------------------------------|
|                                                             | Fair<br>Value     | Level 1 | Level 2  | Level 3 | Total Losses                                       |
|                                                             | (In thousands)    |         |          |         |                                                    |
| Other real estate owned                                     | \$9,233           | \$-     | \$9,233  | \$-     | \$ (243 )                                          |
| Impaired loans                                              | 16,120            | -       | 6,753    | 9,367   | -                                                  |
| Total assets measured at fair value on a nonrecurring basis | \$25,353          | \$-     | \$15,986 | \$9,367 | \$ (243 )                                          |

|                                                             | At December 31, 2014 |         |          |         | For the<br>Year Ended<br>December 31,<br>2014 |
|-------------------------------------------------------------|----------------------|---------|----------|---------|-----------------------------------------------|
|                                                             | Fair<br>Value        | Level 1 | Level 2  | Level 3 | Total Losses                                  |
|                                                             | (In thousands)       |         |          |         |                                               |
| Other real estate owned                                     | \$6,374              | \$-     | \$6,374  | \$-     | \$ (358 )                                     |
| Impaired loans                                              | 17,085               | -       | 7,670    | 9,415   | (884 )                                        |
| Total assets measured at fair value on a nonrecurring basis | \$23,459             | \$-     | \$14,044 | \$9,415 | \$ (1,242 )                                   |

Level 2 – Valuation is based upon independent market prices or appraised value of the collateral, less 10% for selling costs, generally. Level 2 includes other real estate owned that has been measured at fair value upon transfer to foreclosed assets and impaired loans collateralized by real property where a specific reserve has been established or a charge-off has been recorded. Losses on other real estate owned represent losses recognized in earnings during the period subsequent to its initial classification as foreclosed assets.

Level 3 – Valuation is based upon estimated liquidation values of loan collateral. The value of level 3 assets can also include a component of real estate, which is valued as described for level 2 inputs, when collateral for the impaired loan includes both business assets and real estate. Level 3 includes impaired loans where a specific reserve has been established or a charge-off has been recorded.

## Disclosures about Fair Value of Financial Instruments

The following section describes the valuation methodologies used by the Company for estimating fair value of financial instruments not recorded at fair value in the balance sheet.

Cash and Due from Banks Cash and due from banks represent U.S. dollar denominated coin and currency, deposits at the Federal Reserve Bank and correspondent banks, and amounts being settled with other banks to complete the

processing of customers' daily transactions. Collectively, the Federal Reserve Bank and financial institutions operate in a market in which cash and due from banks transactions are processed continuously in significant daily volumes honoring the face value of the U.S. dollar.

**Investment Securities Held to Maturity** The fair values of investment securities were estimated using quoted prices as described above for Level 1 and Level 2 valuation.

**Loans** Loans were separated into two groups for valuation. Variable rate loans, except for those described below, which reprice frequently with changes in market rates were valued using historical cost. Fixed rate loans and variable rate loans that have reached their minimum contractual interest rates were valued by discounting the future cash flows expected to be received from the loans using current interest rates charged on loans with similar characteristics. Additionally, the allowance for loan losses of \$31,187 thousand at March 31, 2015 and \$31,485 thousand at December 31, 2014 and the fair value discount due to credit default risk associated with purchased covered and purchased non-covered loans of \$200 thousand and \$8,705 thousand, respectively at March 31, 2015 and purchased covered and purchased non-covered loans of \$468 thousand and \$9,372 thousand, respectively at December 31, 2014 were applied against the estimated fair values to recognize estimated future defaults of contractual cash flows. The Company does not consider these values to be a liquidation price for the loans.

**Deposit Liabilities** Deposits with no stated maturity such as checking accounts, savings accounts and money market accounts can be readily converted to cash or used to settle transactions at face value through the broad financial system operated by the Federal Reserve Bank and financial institutions. The fair value of deposits with no stated maturity is equal to the amount payable on demand. The fair values of time deposits were estimated by discounting estimated future contractual cash flows using current market rates for financial instruments with similar characteristics.

**Short-Term Borrowed Funds** The carrying amount of securities sold under agreement to repurchase and other short-term borrowed funds approximate fair value due to the relatively short period of time between their origination and their expected realization.

**Federal Home Loan Bank Advances** The fair values of FHLB advances were estimated by using redemption amounts quoted by the Federal Home Loan Bank of San Francisco.

The table below is 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 table are recorded in the balance sheet under the indicated captions.

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

|                                        | At March 31, 2015  |                         |                                                                               |                                                            |                                                     |
|----------------------------------------|--------------------|-------------------------|-------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------|
|                                        |                    |                         | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2 ) | Significant<br>Unobservable<br>Inputs<br>(Level 3 ) |
|                                        | Carrying<br>Amount | Estimated Fair<br>Value | (Level 1)                                                                     | (Level 2 )                                                 | (Level 3 )                                          |
| <b>Financial Assets:</b>               |                    |                         |                                                                               |                                                            |                                                     |
| Cash and due from banks                | \$247,450          | \$247,450               | \$247,450                                                                     | \$-                                                        | \$-                                                 |
| Investment securities held to maturity | 1,015,231          | 1,030,865               | 1,007                                                                         | 1,029,858                                                  | -                                                   |
| Loans                                  | 1,652,697          | 1,665,928               | -                                                                             | -                                                          | 1,665,928                                           |
| <b>Financial Liabilities:</b>          |                    |                         |                                                                               |                                                            |                                                     |
| Deposits                               | \$4,380,076        | \$4,379,658             | \$-                                                                           | \$4,003,544                                                | \$376,114                                           |
| Short-term borrowed funds              | 82,960             | 82,960                  | -                                                                             | 82,960                                                     | -                                                   |

At December 31, 2014

|  |                    |                         | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2 ) | Significant<br>Unobservable<br>Inputs<br>(Level 3 ) |
|--|--------------------|-------------------------|-------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------|
|  | Carrying<br>Amount | Estimated Fair<br>Value | (Level 1)                                                                     | (Level 2 )                                                 | (Level 3 )                                          |

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

| Financial Assets:                      |             | (In thousands) |           |             |           |
|----------------------------------------|-------------|----------------|-----------|-------------|-----------|
| Cash and due from banks                | \$380,836   | \$380,836      | \$380,836 | \$-         | \$-       |
| Investment securities held to maturity | 1,038,658   | 1,048,562      | 1,077     | 1,047,485   | -         |
| Loans                                  | 1,668,805   | 1,685,048      | -         | -           | 1,685,048 |
| Financial Liabilities:                 |             |                |           |             |           |
| Deposits                               | \$4,349,191 | \$4,348,958    | \$-       | \$3,964,048 | \$384,910 |
| Short-term borrowed funds              | 89,784      | 89,784         | -         | 89,784      | -         |
| Federal Home Loan Bank advances        | 20,015      | 20,014         | 20,014    | -           | -         |

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. 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 \$320,290 thousand and \$312,694 thousand at March 31, 2015 and December 31, 2014, respectively. 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 \$27,490 thousand and \$29,002 thousand at March 31, 2015 and December 31, 2014, respectively. The Company also had commitments for commercial and similar letters of credit of \$40 thousand at March 31, 2015 and December 31, 2014. At March 31, 2015 and December 31, 2014, the Company had a reserve for unfunded commitments of \$2,693 thousand included in other liabilities.

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

## Note 11: Earnings Per Common Share

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

|                                                                              | For the Three Months Ended<br>March 31, |          |
|------------------------------------------------------------------------------|-----------------------------------------|----------|
|                                                                              | 2015                                    | 2014     |
|                                                                              | (In thousands, except per share data)   |          |
| Net income (numerator)                                                       | \$14,557                                | \$15,307 |
| Basic earnings per common share                                              |                                         |          |
| Weighted average number of common shares outstanding - basic (denominator)   | 25,651                                  | 26,433   |
| Basic earnings per common share                                              | \$0.57                                  | \$0.58   |
| Diluted earnings per common share                                            |                                         |          |
| Weighted average number of common shares outstanding - basic                 | 25,651                                  | 26,433   |
| Add common stock equivalents for options                                     | 4                                       | 104      |
| Weighted average number of common shares outstanding - diluted (denominator) | 25,655                                  | 26,537   |
| Diluted earnings per common share                                            | \$0.57                                  | \$0.58   |

For the three months ended March 31, 2015 and 2014, options to purchase 1,775 thousand and 809 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.



[The remainder of this page intentionally left blank]

WESTAMERICA BANCORPORATION  
FINANCIAL SUMMARY

|                                           | For the Three Months Ended            |                   |                      |   |       |   |
|-------------------------------------------|---------------------------------------|-------------------|----------------------|---|-------|---|
|                                           | March 31,<br>2015                     | March 31,<br>2014 | December 31,<br>2014 |   |       |   |
|                                           | (In thousands, except per share data) |                   |                      |   |       |   |
| Net Interest and Fee Income (FTE)1        | \$36,930                              | \$38,864          | \$37,305             |   |       |   |
| Provision for Loan Losses                 | -                                     | 1,000             | 200                  |   |       |   |
| Noninterest Income                        | 12,300                                | 12,990            | 12,545               |   |       |   |
| Noninterest Expense                       | 26,727                                | 26,873            | 26,353               |   |       |   |
| Income Before Income Taxes (FTE)1         | 22,503                                | 23,981            | 23,297               |   |       |   |
| Provision for Income Taxes (FTE)1         | 7,946                                 | 8,674             | 8,269                |   |       |   |
| Net Income                                | \$14,557                              | \$15,307          | \$15,028             |   |       |   |
| Average Common Shares Outstanding         | 25,651                                | 26,433            | 25,821               |   |       |   |
| Diluted Average Common Shares Outstanding | 25,655                                | 26,537            | 25,858               |   |       |   |
| Common Shares Outstanding at Period End   | 25,563                                | 26,299            | 25,745               |   |       |   |
| Per Common Share:                         |                                       |                   |                      |   |       |   |
| Basic Earnings                            | \$0.57                                | \$0.58            | \$0.58               |   |       |   |
| Diluted Earnings                          | 0.57                                  | 0.58              | 0.58                 |   |       |   |
| Book Value Per Common Share               | \$20.63                               | \$20.57           | \$20.45              |   |       |   |
| Financial Ratios:                         |                                       |                   |                      |   |       |   |
| Return On Assets                          | 1.17                                  | %                 | 1.27                 | % | 1.18  | % |
| Return On Common Equity                   | 11.44                                 | %                 | 11.64                | % | 11.51 | % |
| Net Interest Margin (FTE)1                | 3.43                                  | %                 | 3.83                 | % | 3.53  | % |
| Net Loan Losses to Average Loans          | 0.07                                  | %                 | 0.13                 | % | 0.11  | % |
| Efficiency Ratio2                         | 54.3                                  | %                 | 51.8                 | % | 52.9  | % |
| Average Balances:                         |                                       |                   |                      |   |       |   |
| Assets                                    | \$5,059,537                           | \$4,889,940       | \$5,050,417          |   |       |   |
| Earning Assets                            | 4,342,031                             | 4,093,087         | 4,203,048            |   |       |   |
| Loans                                     | 1,683,748                             | 1,822,065         | 1,709,012            |   |       |   |
| Deposits                                  | 4,402,946                             | 4,209,723         | 4,373,472            |   |       |   |
| Shareholders' Equity                      | 516,086                               | 533,159           | 518,206              |   |       |   |
| Period End Balances:                      |                                       |                   |                      |   |       |   |
| Assets                                    | \$5,035,777                           | \$4,921,042       | \$5,035,724          |   |       |   |
| Earning Assets                            | 4,476,435                             | 4,166,936         | 4,339,729            |   |       |   |
| Loans                                     | 1,683,884                             | 1,816,319         | 1,700,290            |   |       |   |
| Deposits                                  | 4,380,076                             | 4,214,783         | 4,349,191            |   |       |   |
| Shareholders' Equity                      | 527,380                               | 540,883           | 526,603              |   |       |   |
| Capital Ratios at Period End:             |                                       |                   |                      |   |       |   |
| Total Risk Based Capital                  | 13.08                                 | %                 | 15.19                | % | 14.54 | % |
| Tangible Equity to Tangible Assets        | 8.01                                  | %                 | 8.40                 | % | 7.97  | % |
| Dividends Paid Per Common Share           | \$0.38                                | \$0.38            | \$0.38               |   |       |   |

|                              |    |   |    |   |    |   |
|------------------------------|----|---|----|---|----|---|
| Common Dividend Payout Ratio | 67 | % | 66 | % | 66 | % |
|------------------------------|----|---|----|---|----|---|

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

1 Yields on securities and certain loans have been adjusted upward to a "fully taxable equivalent" ("FTE") basis, which is a non-GAAP financial measure, 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, which is a non-GAAP financial measure, and noninterest income).

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

The Federal Reserve's Federal Open Market Committee has maintained highly accommodative monetary policies to influence interest rates to low levels in order to provide stimulus to the economy following the "financial crisis" recession. The Company's principal source of revenue is net interest and fee income, which represents interest earned on loans and investment securities ("earning assets") reduced by interest paid on deposits and other borrowings ("interest-bearing liabilities"). The relatively low level of market interest rates has reduced the spread between interest rates on earning assets and interest bearing liabilities. The Company's net interest margin and net interest income declined as market interest rates on newly originated loans remain below the yields earned on older-dated loans and on the overall loan portfolio. The Company is reducing its exposure to rising interest rates by purchasing shorter-duration investment securities with lower yields than longer-duration securities. The Company's credit quality continued to improve, as nonperforming assets at March 31, 2015 declined twenty four percent compared with March 31, 2014 and net loan losses remained low in the three months ended March 31, 2015. The improvement in credit quality has resulted in Management reducing the provision for loan losses to zero in the first quarter 2015 from \$1 million in the first quarter 2014 and \$200 thousand in the fourth quarter 2014. The credit quality improvement also contributed to reducing noninterest expenses related to nonperforming assets. Management is focused on controlling all noninterest expense levels, particularly due to market interest rate pressure on net interest income.

Westamerica Bancorporation and subsidiaries (the "Company") reported first quarter 2015 net income of \$14.6 million or \$0.57 diluted earnings per common share. These results compare to net income of \$15.3 million or \$0.58 diluted earnings per common share and \$15.0 million or \$0.58 diluted earnings per common share, respectively, for the first and fourth quarters of 2014.

## Net Income

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

|                                                                | For the Three Months Ended            |                   |                      |
|----------------------------------------------------------------|---------------------------------------|-------------------|----------------------|
|                                                                | 2015                                  | March 31,<br>2014 | December 31,<br>2014 |
|                                                                | (In thousands, except per share data) |                   |                      |
| Net interest and fee income (FTE)                              | \$36,930                              | \$38,864          | \$37,305             |
| Provision for loan losses                                      | -                                     | (1,000 )          | (200 )               |
| Noninterest income                                             | 12,300                                | 12,990            | 12,545               |
| Noninterest expense                                            | (26,727 )                             | (26,873 )         | (26,353 )            |
| Income before taxes (FTE)                                      | 22,503                                | 23,981            | 23,297               |
| Income tax provision (FTE)                                     | (7,946 )                              | (8,674 )          | (8,269 )             |
| Net income                                                     | \$14,557                              | \$15,307          | \$15,028             |
| Average diluted common shares                                  | 25,655                                | 26,537            | 25,858               |
| Diluted earnings per common share                              | \$0.57                                | \$0.58            | \$0.58               |
| Average total assets                                           | \$5,059,537                           | \$4,889,940       | \$5,050,417          |
| Net income to average total assets (annualized)                | 1.17                                  | % 1.27            | % 1.18               |
| Net income to average common stockholders' equity (annualized) | 11.44                                 | % 11.64           | % 11.51              |

Net income for the first quarter of 2015 was \$750 thousand less than the same quarter of 2014, the net result of declines in net interest and fee income (fully taxable equivalent or "FTE") and noninterest income, partially offset by decreases in the provision for loan losses and income tax provision (FTE). A decrease in net interest and fee income

(FTE) was mostly attributed to lower average balances of loans and lower yields on interest-earning assets, partially offset by higher average balances of investments and a lower average volume of higher-cost funding sources. The provision for loan losses was reduced, reflecting Management's evaluation of losses inherent in the loan portfolio; net losses and nonperforming loan volumes have declined relative to earlier periods. Noninterest income decreased primarily due to reduced levels of service charges on deposit accounts and lower merchant credit card fees.

Comparing the first quarter of 2015 to the fourth quarter of 2014, net income decreased \$471 thousand due to lower net interest and fee income (FTE), lower noninterest income and higher noninterest expense, partially offset by decreases in the provision for loan losses and income tax provision (FTE). The lower net interest and fee income (FTE) was primarily caused by lower yields on interest earning assets, the effect of two less accrual days and a lower average volume of loans, partially offset by higher average balances of investments and a lower average volume of higher-cost funding sources. The provision for loan losses was reduced, reflecting improved credit quality and Management's evaluation of losses inherent in the loan portfolio. Noninterest income decreased primarily due to reduced levels of service charges on deposits accounts. Noninterest expense increased mostly due to higher personnel expenses.

- 30 -

---

## Net Interest and Fee Income (FTE)

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

|                                        | For the Three Months Ended |             |                      |
|----------------------------------------|----------------------------|-------------|----------------------|
|                                        | March 31,<br>2015          | 2014        | December 31,<br>2014 |
| (In thousands)                         |                            |             |                      |
| Interest and fee income                | \$33,917                   | \$35,564    | \$34,342             |
| Interest expense                       | (659 )                     | (898 )      | (800 )               |
| FTE adjustment                         | 3,672                      | 4,198       | 3,763                |
| Net interest and fee income (FTE)      | \$36,930                   | \$38,864    | \$37,305             |
| Average earning assets                 | \$4,342,031                | \$4,093,087 | \$4,203,048          |
| Net interest margin (FTE) (annualized) | 3.43 %                     | 3.83 %      | 3.53 %               |

Net interest and fee income (FTE) decreased during the first quarter 2015 by \$1.9 million from the same period in 2014 to \$36.9 million, mainly due to lower average balances of loans (down \$138 million) and lower yields on interest-earning assets (down 43 basis points “bp”), partially offset by higher average balances of investments (up \$387 million) and lower average balances of higher-costing interest-bearing liabilities.

Comparing the first quarter of 2015 with the fourth quarter of 2014, net interest and fee income (FTE) decreased \$375 thousand due to lower yields on interest earning assets (down 12 bp), the effect of two less accrual days and a lower average volume of loans (down \$25 million), partially offset by higher average balances of investments (up \$164 million) and lower average balances of higher-costing interest-bearing liabilities.

Loan volumes have declined due to problem loan workout activities (such as chargeoffs, collateral repossessions and principal payments), particularly with purchased loans, and reduced volumes of loan originations. In Management’s opinion, current levels of competitive loan pricing do not provide adequate forward earnings potential. As a result, the Company has not currently taken an aggressive posture relative to loan portfolio growth. Management has maintained relatively stable interest-earning asset volumes by increasing investment securities as loan volumes have declined.

Yields on interest-earning assets have declined due to relatively low interest rates prevailing in the market. The net interest margin (FTE) was 3.43% in the first quarter 2015, 3.53% in the fourth quarter 2014 and 3.83% in the first quarter 2014. The volume of older-dated higher-yielding loans declined due to principal maturities and paydowns. Newly originated loans have lower yields. The Company, in anticipation of rising interest rates, has been purchasing floating rate and shorter-duration investment securities with lower yields than longer-duration securities to increase liquidity. The Company’s high levels of liquidity will provide an opportunity to obtain higher yielding assets once market interest rates start rising. The Company has been replacing higher-cost funding sources with low-cost deposits and interest expense has declined to offset some of the decline in interest income.

## Interest and Fee Income (FTE)

Interest and fee income (FTE) for the first quarter of 2015 decreased \$2.2 million or 5.5% from the same period in 2014. The decrease was caused by lower average balances of loans and lower yields on interest-earning assets, partially offset by higher average balances of investments.

The total average balances of loans declined due to decreases in the average balances of commercial real estate loans (down \$78 million), consumer loans (down \$36 million), residential real estate loans (down \$37 million) and tax-exempt commercial loans (down \$16 million). The average investment portfolio increased largely due to higher

average balances of securities of U.S. Government sponsored entities (up \$359 million), corporate securities (up \$192 million), partially offset by decreases in average balances of collateralized mortgage obligations and mortgage-backed securities (down \$103 million) and municipal securities (down \$56 million).

- 31 -

---

The average yield on the Company's earning assets decreased from 3.92% in the first quarter 2014 to 3.49% in the corresponding period of 2015. The composite yield on loans declined 23 bp to 4.96% mostly due to lower yields on taxable commercial loans (down 136 bp) and consumer loans (down 23 bp), partially offset by a 12 bp increase in yields on commercial real estate loans. Nonperforming loans are included in average loan volumes used to compute loan yields; fluctuations in nonaccrual loan volumes impact loan yields. Higher yields on commercial real estate loans were attributable to higher interest received on nonaccrual loans and discount accretion on purchased loans. The investment yields in general declined due to market rates. The investment portfolio yield decreased 34 bp to 2.55% primarily due to lower yields on municipal securities (down 32 bp), partially offset by increases in yields on securities of U.S. Government sponsored entities (up 27 bp) and collateralized mortgage obligations and mortgage-backed securities (up 14 bp). The yield on securities of U.S. government sponsored entities, collateralized mortgage obligations and mortgage-backed securities rose as securities added to the portfolio in the first quarter 2015 were higher yielding than securities held in the prior period.

Comparing the first quarter of 2015 with the fourth quarter of 2014, interest and fee income (FTE) was down \$516 thousand or 1.4%. The decrease resulted from lower yields on interest earning assets, the effect of two less accrual days and a lower average volume of loans, partially offset by higher average balances of investments.

Average interest earning assets increased \$139 million or 3.3% in the first quarter of 2015 compared with the fourth quarter of 2014 due to a \$164 million increase in average investments and a \$25 million decrease in average loans. The decrease in the average balance of the loan portfolio was attributable to decreases in average balances of commercial real estate loans (down \$13 million), residential real estate loans (down \$11 million) and consumer loans (down \$6 million), partially offset by a \$6 million increase in the average balance of taxable commercial loans. The average investment portfolio increased mostly due to higher average balances of corporate securities (up \$117 million) and U.S. government sponsored entities (up \$70 million), partially offset by lower average balances of collateralized mortgage obligations and mortgage-backed securities (down \$25 million). The average yield on earning assets for the first quarter of 2015 was 3.49% compared with 3.61% in the fourth quarter of 2014. The loan portfolio yield for the first quarter of 2015 was 4.96% compared with 5.03% for the fourth quarter of 2014 mostly due to lower yields on consumer loans (down 19 bp), commercial taxable loans (down 23 bp), residential real estate loans (down 17 bp), commercial tax-exempt loans (down 24 bp) and construction loans (down 131 bp), partially offset by higher yields on commercial real estate loans (up 13 bp). Higher yields on commercial real estate loans were attributable to higher interest received on nonaccrual loans and discount accretion on purchased loans. The investment portfolio yield decreased 9 bp to 2.55% primarily due to lower yields on municipal securities (down 11 bp), partially offset by higher yields on collateralized mortgage obligations and mortgage-backed securities (up 12 bp). The yield on securities of collateralized mortgage obligations and mortgage-backed securities rose due to lower levels of premium amortization.

### Interest Expense

Interest expense has been reduced by lowering rates paid on interest-bearing deposits and borrowings and by reducing the volume of higher-cost funding sources. A \$10 million term repurchase agreement was repaid in August 2014. Federal Home Loan Bank advances of \$20 million were repaid in January 2015. Average balances of time deposits declined \$87 million in the first quarter 2015 compared with the first quarter 2014. Lower-cost checking and savings deposits accounted for 91.4% of total average deposits in the first quarter 2015 compared with 91.0% in the fourth quarter 2014 and 88.9% in the first quarter 2014.

Interest expense in the first quarter of 2015 decreased \$239 thousand or 26.6% compared with the same period in 2014 due to lower average balances of higher-costing interest-bearing liabilities. Interest-bearing liabilities increased due to higher average balances of money market savings (up \$68 million), money market checking accounts (up \$29 million) and regular savings (up \$39 million) and securities sold under repurchase agreements (up \$24 million), partially offset by lower average balances of time deposits \$100 thousand or more (down \$59 million), time deposits less than \$100 thousand (down \$28 million), Federal Home Loan Bank advances (down \$19 million) and term



repurchase agreement (down \$10 million). The average rate paid on interest-bearing liabilities decreased from 0.14% in the first quarter of 2014 compared to 0.10% in the first quarter of 2015. Rates on interest-bearing deposits were 0.10% for the first quarter 2015 compared with 0.13% for the first quarter 2014.

Comparing the first quarter of 2015 with the fourth quarter of 2014, interest expense declined \$141 thousand or 17.6% due to lower average balances of higher-costing interest-bearing liabilities. Average balances of Federal Home Loan Bank advances declined \$18 million. Average balances of interest-bearing deposits increased primarily due to higher balances of money market savings (up \$32 million) and regular savings (up \$15 million), partially offset by lower average balances of time deposits \$100 thousand or more (down \$7 million) and time deposits less than \$100 thousand (down \$6 million). Rates paid on interest-bearing liabilities averaged 0.10% during the first quarter 2015 compared with 0.12% for the fourth quarter 2014. Rates paid on interest-bearing deposits were 0.10% in the first quarter 2015 compared with 0.11% in the fourth quarter 2014.

- 32 -

---

## Net Interest Margin (FTE)

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

|                                           | For the Three Months Ended |      |              |      |      |      |
|-------------------------------------------|----------------------------|------|--------------|------|------|------|
|                                           | March 31,                  |      | December 31, |      |      |      |
|                                           | 2015                       | 2014 | 2014         | 2014 | 2014 | 2014 |
| Yield on earning assets (FTE)             | 3.49                       | %    | 3.92         | %    | 3.61 | %    |
| Rate paid on interest-bearing liabilities | 0.10                       | %    | 0.14         | %    | 0.12 | %    |
| Net interest spread (FTE)                 | 3.39                       | %    | 3.78         | %    | 3.49 | %    |
| Impact of noninterest-bearing funds       | 0.04                       | %    | 0.05         | %    | 0.04 | %    |
| Net interest margin (FTE)                 | 3.43                       | %    | 3.83         | %    | 3.53 | %    |

During the first quarter 2015, the net interest margin (FTE) was affected by low market interest rates. The volume of older-dated higher-yielding loans and securities declined due to principal maturities and paydowns. Newly originated loans have lower yields. The Company, in anticipation of rising interest rates, has been purchasing floating rate and shorter-duration investment securities to increase liquidity. The liquidity from the shorter-duration securities can be invested at higher interest rates during a period of rising interest rates. Rates on interest-bearing liabilities were kept low by reducing the volume of higher-cost funding sources. During the first quarter 2015 the net interest margin (FTE) decreased 40 bp compared with the same period in 2014. Lower yields on earning assets were partially offset by lower rates paid on interest-bearing liabilities and resulted in a 39 bp decrease in net interest spread (FTE). The 4 bp net interest margin contribution of noninterest-bearing demand deposits resulted in the net interest margin (FTE) of 3.43%. During the first quarter of 2015, the net interest margin (FTE) decreased 10 bp compared with the fourth quarter of 2014. The net interest spread (FTE) in the first quarter of 2015 was 3.39% compared with 3.49% in the fourth quarter of 2014, the net result of a 12 bp decrease in earning asset yields and 2 bp decrease in the cost of interest-bearing liabilities.

[The remainder of this page intentionally left blank]

## Summary of Average Balances, Yields/Rates and Interest Differential

The following tables present information regarding the consolidated average assets, liabilities and shareholders' equity, the amounts of interest income earned from average interest earning assets and the resulting yields, and the amounts of interest expense incurred on average interest-bearing liabilities and the resulting rates. Average loan balances include nonperforming loans. Interest income includes reversal of previously accrued interest on loans placed on non-accrual status during the period and 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 on tax-exempt securities and loans have been adjusted upward to reflect the effect of income exempt from federal income taxation at the current statutory tax rate. Yields, rates and interest margins are annualized.

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

|                                             | For the Three Months Ended<br>March 31, 2015 |                                                  |      | Yields/<br>Rates |
|---------------------------------------------|----------------------------------------------|--------------------------------------------------|------|------------------|
|                                             | Average<br>Balance                           | Interest<br>Income/<br>Expense<br>(In thousands) |      |                  |
| <b>Assets</b>                               |                                              |                                                  |      |                  |
| Investment securities:                      |                                              |                                                  |      |                  |
| Available for sale                          |                                              |                                                  |      |                  |
| Taxable                                     | \$1,466,850                                  | \$5,896                                          | 1.61 | %                |
| Tax-exempt (1)                              | 166,018                                      | 2,417                                            | 5.82 | %                |
| Held to maturity                            |                                              |                                                  |      |                  |
| Taxable                                     | 321,373                                      | 1,658                                            | 2.06 | %                |
| Tax-exempt (1)                              | 704,042                                      | 7,005                                            | 3.98 | %                |
| <b>Loans:</b>                               |                                              |                                                  |      |                  |
| Commercial:                                 |                                              |                                                  |      |                  |
| Taxable                                     | 308,197                                      | 3,434                                            | 4.52 | %                |
| Tax-exempt (1)                              | 78,906                                       | 1,096                                            | 5.63 | %                |
| Commercial real estate                      | 710,475                                      | 10,941                                           | 6.25 | %                |
| Real estate construction                    | 14,064                                       | 178                                              | 5.12 | %                |
| Real estate residential                     | 147,507                                      | 1,231                                            | 3.34 | %                |
| Consumer installment and other              | 424,599                                      | 3,733                                            | 3.57 | %                |
| Total loans (1)                             | 1,683,748                                    | 20,613                                           | 4.96 | %                |
| Total Interest-earning assets (1)           | 4,342,031                                    | \$37,589                                         | 3.49 | %                |
| Other assets                                | 717,506                                      |                                                  |      |                  |
| Total assets                                | \$5,059,537                                  |                                                  |      |                  |
| <b>Liabilities and shareholders' equity</b> |                                              |                                                  |      |                  |
| Deposits:                                   |                                              |                                                  |      |                  |
| Noninterest-bearing demand                  | \$1,919,820                                  | \$-                                              | -    | %                |
| Savings and interest-bearing transaction    | 2,103,115                                    | 279                                              | 0.05 | %                |
| Time less than \$100,000                    | 180,760                                      | 166                                              | 0.37 | %                |
| Time \$100,000 or more                      | 199,251                                      | 197                                              | 0.40 | %                |
| Total interest-bearing deposits             | 2,483,126                                    | 642                                              | 0.10 | %                |
| Short-term borrowed funds                   | 86,354                                       | 16                                               | 0.08 | %                |
| Federal Home Loan Bank advances             | 2,004                                        | 1                                                | 0.20 | %                |
| Total interest-bearing liabilities          | 2,571,484                                    | \$659                                            | 0.10 | %                |

|                                                         |             |      |   |
|---------------------------------------------------------|-------------|------|---|
| Other liabilities                                       | 52,147      |      |   |
| Shareholders' equity                                    | 516,086     |      |   |
| Total liabilities and shareholders' equity              | \$5,059,537 |      |   |
| Net interest spread (1) (2)                             |             | 3.39 | % |
| Net interest and fee income and interest margin (1) (3) | \$36,930    | 3.43 | % |

(1) Amounts calculated on a fully taxable equivalent 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.

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

|                                                         | For the Three Months Ended<br>March 31, 2014 |                                                  |      | Yields/<br>Rates |
|---------------------------------------------------------|----------------------------------------------|--------------------------------------------------|------|------------------|
|                                                         | Average<br>Balance                           | Interest<br>Income/<br>Expense<br>(In thousands) |      |                  |
| <b>Assets</b>                                           |                                              |                                                  |      |                  |
| Investment securities:                                  |                                              |                                                  |      |                  |
| Available for sale                                      |                                              |                                                  |      |                  |
| Taxable                                                 | \$970,514                                    | \$3,925                                          | 1.62 | %                |
| Tax-exempt (1)                                          | 177,452                                      | 2,434                                            | 5.49 | %                |
| Held to maturity                                        |                                              |                                                  |      |                  |
| Taxable                                                 | 379,393                                      | 1,758                                            | 1.85 | %                |
| Tax-exempt (1)                                          | 743,663                                      | 8,286                                            | 4.46 | %                |
| Loans:                                                  |                                              |                                                  |      |                  |
| Commercial:                                             |                                              |                                                  |      |                  |
| Taxable                                                 | 281,015                                      | 4,073                                            | 5.88 | %                |
| Tax-exempt (1)                                          | 94,841                                       | 1,312                                            | 5.61 | %                |
| Commercial real estate                                  | 788,270                                      | 11,923                                           | 6.13 | %                |
| Real estate construction                                | 13,141                                       | 190                                              | 5.88 | %                |
| Real estate residential                                 | 184,427                                      | 1,549                                            | 3.36 | %                |
| Consumer                                                | 460,371                                      | 4,312                                            | 3.80 | %                |
| Total loans (1)                                         | 1,822,065                                    | 23,359                                           | 5.19 | %                |
| Total Interest-earning assets (1)                       | 4,093,087                                    | \$39,762                                         | 3.92 | %                |
| Other assets                                            | 796,853                                      |                                                  |      |                  |
| Total assets                                            | \$4,889,940                                  |                                                  |      |                  |
| <b>Liabilities and shareholders' equity</b>             |                                              |                                                  |      |                  |
| Deposits:                                               |                                              |                                                  |      |                  |
| Noninterest-bearing demand                              | \$1,768,464                                  | \$-                                              | -    | %                |
| Savings and interest-bearing transaction                | 1,974,430                                    | 301                                              | 0.06 | %                |
| Time less than \$100,000                                | 208,627                                      | 221                                              | 0.43 | %                |
| Time \$100,000 or more                                  | 258,202                                      | 232                                              | 0.36 | %                |
| Total interest-bearing deposits                         | 2,441,259                                    | 754                                              | 0.13 | %                |
| Short-term borrowed funds                               | 62,472                                       | 20                                               | 0.13 | %                |
| Term repurchase agreement                               | 10,000                                       | 25                                               | 1.01 | %                |
| Federal Home Loan Bank advances                         | 20,520                                       | 99                                               | 1.97 | %                |
| Total interest-bearing liabilities                      | 2,534,251                                    | \$898                                            | 0.14 | %                |
| Other liabilities                                       | 54,066                                       |                                                  |      |                  |
| Shareholders' equity                                    | 533,159                                      |                                                  |      |                  |
| Total liabilities and shareholders' equity              | \$4,889,940                                  |                                                  |      |                  |
| Net interest spread (1) (2)                             |                                              |                                                  | 3.78 | %                |
| Net interest and fee income and interest margin (1) (3) |                                              | \$38,864                                         | 3.83 | %                |

(1) Amounts calculated on a fully taxable equivalent 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 remainder of this page intentionally left blank]

- 35 -

---

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

|                                                         | For the Three Months Ended<br>December 31, 2014 |                                                  |      | Yields/<br>Rates |
|---------------------------------------------------------|-------------------------------------------------|--------------------------------------------------|------|------------------|
|                                                         | Average<br>Balance                              | Interest<br>Income/<br>Expense<br>(In thousands) |      |                  |
| <b>Assets</b>                                           |                                                 |                                                  |      |                  |
| Investment securities:                                  |                                                 |                                                  |      |                  |
| Available for sale                                      |                                                 |                                                  |      |                  |
| Taxable                                                 | \$1,298,294                                     | \$5,262                                          | 1.62 | %                |
| Tax-exempt (1)                                          | 169,388                                         | 2,492                                            | 5.88 | %                |
| Held to maturity                                        |                                                 |                                                  |      |                  |
| Taxable                                                 | 333,491                                         | 1,597                                            | 1.92 | %                |
| Tax-exempt (1)                                          | 692,863                                         | 7,097                                            | 4.10 | %                |
| Loans:                                                  |                                                 |                                                  |      |                  |
| Commercial:                                             |                                                 |                                                  |      |                  |
| Taxable                                                 | 302,170                                         | 3,616                                            | 4.75 | %                |
| Tax-exempt (1)                                          | 80,706                                          | 1,194                                            | 5.87 | %                |
| Commercial real estate                                  | 723,153                                         | 11,151                                           | 6.12 | %                |
| Real estate construction                                | 13,057                                          | 212                                              | 6.44 | %                |
| Real estate residential                                 | 158,908                                         | 1,396                                            | 3.51 | %                |
| Consumer                                                | 431,018                                         | 4,088                                            | 3.76 | %                |
| Total loans (1)                                         | 1,709,012                                       | 21,657                                           | 5.03 | %                |
| Total Interest-earning assets (1)                       | 4,203,048                                       | \$38,105                                         | 3.61 | %                |
| Other assets                                            | 847,369                                         |                                                  |      |                  |
| Total assets                                            | \$5,050,417                                     |                                                  |      |                  |
| <b>Liabilities and shareholders' equity</b>             |                                                 |                                                  |      |                  |
| Deposits:                                               |                                                 |                                                  |      |                  |
| Noninterest-bearing demand                              | \$1,925,741                                     | \$-                                              | -    | %                |
| Savings and interest-bearing transaction                | 2,054,750                                       | 279                                              | 0.05 | %                |
| Time less than \$100,000                                | 187,087                                         | 184                                              | 0.39 | %                |
| Time \$100,000 or more                                  | 205,894                                         | 209                                              | 0.40 | %                |
| Total interest-bearing deposits                         | 2,447,731                                       | 672                                              | 0.11 | %                |
| Short-term borrowed funds                               | 86,323                                          | 25                                               | 0.12 | %                |
| Federal Home Loan Bank advances                         | 20,099                                          | 103                                              | 2.03 | %                |
| Total interest-bearing liabilities                      | 2,554,153                                       | \$800                                            | 0.12 | %                |
| Other liabilities                                       | 52,317                                          |                                                  |      |                  |
| Shareholders' equity                                    | 518,206                                         |                                                  |      |                  |
| Total liabilities and shareholders' equity              | \$5,050,417                                     |                                                  |      |                  |
| Net interest spread (1) (2)                             |                                                 |                                                  | 3.49 | %                |
| Net interest and fee income and interest margin (1) (3) |                                                 | \$37,305                                         | 3.53 | %                |

(1) Amounts calculated on a fully taxable equivalent 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 remainder of this page intentionally left blank]



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

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

Summary of Changes in Interest Income and Expense

|                                                 | For the Three Months Ended March 31, 2015<br>Compared with<br>For the Three Months Ended March 31, 2014 |            |           |
|-------------------------------------------------|---------------------------------------------------------------------------------------------------------|------------|-----------|
|                                                 | Volume                                                                                                  | Yield/Rate | Total     |
|                                                 | (In thousands)                                                                                          |            |           |
| Increase (decrease) in interest and fee income: |                                                                                                         |            |           |
| Investment securities:                          |                                                                                                         |            |           |
| Available for sale                              |                                                                                                         |            |           |
| Taxable                                         | \$2,007                                                                                                 | \$(36)     | \$1,971   |
| Tax-exempt (1)                                  | (157)                                                                                                   | 140        | (17)      |
| Held to maturity                                |                                                                                                         |            |           |
| Taxable                                         | (269)                                                                                                   | 169        | (100)     |
| Tax-exempt (1)                                  | (441)                                                                                                   | (840)      | (1,281)   |
| Loans:                                          |                                                                                                         |            |           |
| Commercial:                                     |                                                                                                         |            |           |
| Taxable                                         | 394                                                                                                     | (1,033)    | (639)     |
| Tax-exempt (1)                                  | (220)                                                                                                   | 4          | (216)     |
| Commercial real estate                          | (1,177)                                                                                                 | 195        | (982)     |
| Real estate construction                        | 13                                                                                                      | (25)       | (12)      |
| Real estate residential                         | (310)                                                                                                   | (8)        | (318)     |
| Consumer                                        | (335)                                                                                                   | (244)      | (579)     |
| Total loans (1)                                 | (1,635)                                                                                                 | (1,111)    | (2,746)   |
| Total decrease in interest and fee income (1)   | (495)                                                                                                   | (1,678)    | (2,173)   |
| Increase (decrease) in interest expense:        |                                                                                                         |            |           |
| Deposits:                                       |                                                                                                         |            |           |
| Savings and interest-bearing transaction        |                                                                                                         |            |           |
| Time less than \$100,000                        | 20                                                                                                      | (42)       | (22)      |
| Time \$100,000 or more                          | (30)                                                                                                    | (25)       | (55)      |
| Total interest-bearing deposits                 | (63)                                                                                                    | (49)       | (112)     |
| Short-term borrowed funds                       | 8                                                                                                       | (12)       | (4)       |
| Term repurchase agreement                       | (25)                                                                                                    | -          | (25)      |
| Federal Home Loan Bank advances                 | (89)                                                                                                    | (9)        | (98)      |
| Total decrease in interest expense              | (169)                                                                                                   | (70)       | (239)     |
| Decrease in net interest and fee income (1)     | \$(326)                                                                                                 | \$(1,608)  | \$(1,934) |

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.



## Summary of Changes in Interest Income and Expense

|                                                          | For the Three Months Ended March 31, 2015    |            |          |
|----------------------------------------------------------|----------------------------------------------|------------|----------|
|                                                          | Compared with                                |            |          |
|                                                          | For the Three Months Ended December 31, 2014 |            |          |
|                                                          | Volume                                       | Yield/Rate | Total    |
|                                                          | (In thousands)                               |            |          |
| Increase (decrease) in interest and fee income:          |                                              |            |          |
| Investment securities:                                   |                                              |            |          |
| Available for sale                                       |                                              |            |          |
| Taxable                                                  | \$683                                        | \$(49 )    | \$634    |
| Tax-exempt (1)                                           | (50 )                                        | (25 )      | (75 )    |
| Held to maturity                                         |                                              |            |          |
| Taxable                                                  | (58 )                                        | 119        | 61       |
| Tax-exempt (1)                                           | 115                                          | (207 )     | (92 )    |
| Loans:                                                   |                                              |            |          |
| Commercial:                                              |                                              |            |          |
| Taxable                                                  | 49                                           | (231 )     | (182 )   |
| Tax-exempt (1)                                           | (50 )                                        | (48 )      | (98 )    |
| Commercial real estate                                   | (437 )                                       | 227        | (210 )   |
| Real estate construction                                 | 12                                           | (46 )      | (34 )    |
| Real estate residential                                  | (100 )                                       | (65 )      | (165 )   |
| Consumer installment and other                           | (143 )                                       | (212 )     | (355 )   |
| Total loans (1)                                          | (669 )                                       | (375 )     | (1,044 ) |
| Total increase (decrease) in interest and fee income (1) | 21                                           | (537 )     | (516 )   |
| Increase (decrease) in interest expense:                 |                                              |            |          |
| Deposits:                                                |                                              |            |          |
| Savings and interest-bearing                             |                                              |            |          |
| transaction                                              | 1                                            | (1 )       | -        |
| Time less than \$100,000                                 | (10 )                                        | (8 )       | (18 )    |
| Time \$100,000 or more                                   | (11 )                                        | (1 )       | (12 )    |
| Total interest-bearing deposits                          | (20 )                                        | (10 )      | (30 )    |
| Short-term borrowed funds                                | -                                            | (9 )       | (9 )     |
| Federal Home Loan Bank advances                          | (92 )                                        | (10 )      | (102 )   |
| Total decrease in interest expense                       | (112 )                                       | (29 )      | (141 )   |
| Increase (decrease) in net interest and fee income (1)   | \$133                                        | \$(508 )   | \$(375 ) |

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

## Provision for Loan Losses

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

The Company provided no provision for loan losses in the first quarter of 2015 compared with \$1.0 million and \$200 thousand in the first quarter 2014 and the fourth quarter 2014, respectively. The provision for loan losses is determined based on Management's evaluation of credit quality for the loan portfolio. The Company recorded purchased County Bank and Sonoma Valley Bank loans at estimated fair value upon the acquisition dates, February 6, 2009 and August 20, 2010, respectively. Such estimated fair values were recognized for individual loans, although small balance homogenous loans were pooled for valuation purposes. The valuation discounts recorded for purchased loans included Management's assessment of the risk of principal loss under economic and borrower conditions prevailing on the dates of purchase. The purchased County Bank loans secured by single-family residential real estate are "covered" through February 6, 2019 by loss-sharing agreements the Company entered with the FDIC which mitigates losses during the term of the agreements. The FDIC indemnification of purchased County Bank non-single-family residential secured loans expired February 6, 2014. Any deterioration in estimated value related to principal loss subsequent to the acquisition dates requires additional loss recognition through a provision for loan losses. No assurance can be given future provisions for loan losses related to purchased loans will not be necessary. For further information regarding credit risk, the FDIC loss-sharing agreements, net credit losses and the allowance for loan losses, see the "Loan Portfolio Credit Risk" and "Allowance for Credit Losses" sections of this report.

## Noninterest Income

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

|                                     | For the Three Months Ended |                   |                      |
|-------------------------------------|----------------------------|-------------------|----------------------|
|                                     | 2015                       | March 31,<br>2014 | December 31,<br>2014 |
|                                     | (In thousands)             |                   |                      |
| Service charges on deposit accounts | \$5,707                    | \$6,010           | \$5,870              |
| Merchant processing services        | 1,703                      | 1,924             | 1,734                |
| Debit card fees                     | 1,456                      | 1,405             | 1,478                |
| Trust fees                          | 706                        | 654               | 684                  |
| Other service fees                  | 665                        | 661               | 673                  |
| ATM processing fees                 | 585                        | 620               | 581                  |
| Financial services commissions      | 153                        | 171               | 171                  |
| Other noninterest income            | 1,325                      | 1,545             | 1,354                |
| <b>Total</b>                        | <b>\$12,300</b>            | <b>\$12,990</b>   | <b>\$12,545</b>      |

Noninterest income for the first quarter 2015 declined by \$690 thousand or 5.3% from the same period in 2014. Service charges on deposits decreased \$303 thousand due to declines in fees charged on overdrawn and insufficient funds accounts (down \$150 thousand), lower activity on checking accounts (down \$88 thousand) and lower fees on analyzed accounts (down \$67 thousand). Merchant processing services fees decreased \$221 thousand primarily due to lower transaction volumes.

In the first quarter 2015, noninterest income decreased \$245 thousand or 2.0% compared with the fourth quarter 2014 generally due to fewer processing days and lower levels of customer transaction activity. Service charges on deposits

decreased \$163 thousand compared with the fourth quarter 2014 due to declines in fees charged on overdrawn and insufficient funds accounts (down \$165 thousand), and lower activity on checking accounts, partially offset by collection of annual IRA fees in the first quarter 2015.

[The remainder of this page intentionally left blank]

## Noninterest Expense

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

|                                          | For the Three Months Ended |                   |                      |
|------------------------------------------|----------------------------|-------------------|----------------------|
|                                          | 2015                       | March 31,<br>2014 | December 31,<br>2014 |
|                                          | (In thousands)             |                   |                      |
| Salaries and related benefits            | \$13,338                   | \$14,126          | \$13,086             |
| Occupancy                                | 3,727                      | 3,727             | 3,708                |
| Outsourced data processing services      | 2,108                      | 2,105             | 2,097                |
| Furniture and equipment                  | 1,119                      | 1,005             | 1,104                |
| Amortization of identifiable intangibles | 1,001                      | 1,105             | 1,051                |
| Professional fees                        | 548                        | 430               | 640                  |
| Courier service                          | 543                        | 610               | 686                  |
| Other real estate owned                  | 315                        | (350)             | 265                  |
| Other                                    | 4,028                      | 4,115             | 3,716                |
| Total                                    | \$26,727                   | \$26,873          | \$26,353             |

Noninterest expense decreased \$146 thousand in the first quarter 2015 compared with the same period in 2014 primarily due to lower personnel costs, lower intangible amortization, lower operational losses and lower courier service costs, partially offset by increases in other real estate owned (“OREO”) expense net of disposition gains. Salaries and related benefits declined \$788 thousand mostly due to employee attrition. Amortization of identifiable intangibles decreased \$104 thousand as assets are amortized on a declining balance method. Expenses for other real estate owned in the first quarter 2015 included net writedowns while the first quarter 2014 included net gains on disposition of foreclosed assets. Professional fees increased \$118 thousand due to higher accounting fees, partially offset by lower legal fees associated with nonperforming assets. Equipment expense increased \$114 thousand mostly due to higher depreciation costs resulting from computer and software upgrades.

In the first quarter 2015, noninterest expense increased \$374 thousand compared with the fourth quarter 2014 primarily due to higher personnel costs, partially offset by lower courier service expenses. Salaries and related benefits increased \$252 thousand primarily due to seasonally higher payroll taxes. Courier expense decreased primarily due to consolidating service runs.

## Provision for Income Tax

During the first quarter 2015, the Company recorded an income tax provision (FTE) of \$7.9 million, compared with \$8.7 million and \$8.3 million for the first and fourth quarters of 2014, respectively. The current quarter provision represents an effective tax rate (FTE) of 35.3%, compared with 36.2% and 35.5% for the first and fourth quarters of 2014, respectively.

## Investment Portfolio

The Company maintains a securities portfolio consisting of securities issued by U.S. Treasury, U.S. Government sponsored entities, state and political subdivisions, corporations, and asset-backed and other securities. Investment securities are held in safekeeping by an independent custodian.

Management has increased the investment portfolio in response to deposit growth and loan volume declines. The carrying value of the Company’s investment securities portfolio was \$2.8 billion as of March 31, 2015, an increase of

\$153 million compared to December 31, 2014.

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, change the composition of the Company's investment securities portfolio, and change the proportion of investments allocated into the available for sale and held to maturity investment categories.

- 40 -

---

The Company has been reducing its positions in mortgage-related securities in an effort to manage extension risk. Extension risk represents the risk mortgages underlying the securities experience slower principal reductions as rising market interest rates cause a disincentive for borrowers to reduce principal balances; under such circumstances the Company will hold these securities for a longer period than anticipated at current yield levels rather than having the opportunity to reinvest cash flows at higher yields. The Company's positioning of the balance sheet for rising interest rates has resulted in the purchase of floating rate corporate bonds, federal agency bonds, and short-term state and municipal bonds. As of March 31, 2015, substantially all of the Company's investment securities continue to be investment grade 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 issued by states, municipalities and political subdivisions 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. Credit ratings are considered in our analysis only as a guide to the historical default rate associated with similarly-rated bonds. There have been no significant differences in our internal analyses compared with the ratings assigned by the third party credit rating agencies.

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

At March 31, 2015, the Company's investment securities portfolios included securities issued by 753 state and local government municipalities and agencies located within 45 states with a fair value of \$900.5 million. The largest exposure to any one municipality or agency was \$5.0 million (fair value) represented by one revenue bond.

|                                                               | At March 31, 2015 |                  |
|---------------------------------------------------------------|-------------------|------------------|
|                                                               | Amortized<br>Cost | Fair<br>Value    |
|                                                               | (In thousands)    |                  |
| <b>Obligations of states and political subdivisions:</b>      |                   |                  |
| California                                                    | \$112,494         | \$115,635        |
| Texas                                                         | 63,714            | 64,988           |
| Pennsylvania                                                  | 48,664            | 49,617           |
| New Jersey                                                    | 31,768            | 32,264           |
| Arizona                                                       | 28,446            | 29,473           |
| Other (35 states)                                             | 272,832           | 278,831          |
| <b>Total general obligation bonds</b>                         | <b>\$557,918</b>  | <b>\$570,808</b> |
| <b>Revenue bonds:</b>                                         |                   |                  |
| California                                                    | \$59,675          | \$62,238         |
| Pennsylvania                                                  | 29,458            | 30,070           |
| Kentucky                                                      | 19,937            | 20,512           |
| Iowa                                                          | 18,208            | 18,959           |
| Colorado                                                      | 18,512            | 18,941           |
| Indiana                                                       | 16,783            | 16,920           |
| Other (31 states)                                             | 156,946           | 162,036          |
| <b>Total revenue bonds</b>                                    | <b>\$319,519</b>  | <b>\$329,676</b> |
| <b>Total obligations of states and political subdivisions</b> | <b>\$877,437</b>  | <b>\$900,484</b> |

[The remainder of this page intentionally left blank]





At December 31, 2014, the Company's investment securities portfolios included securities issued by 763 state and local government municipalities and agencies located within 45 states with a fair value of \$911.0 million. The largest exposure to any one municipality or agency was \$7.4 million (fair value) represented by three revenue bonds.

|                                                        | At December 31, 2014 |               |
|--------------------------------------------------------|----------------------|---------------|
|                                                        | Amortized<br>Cost    | Fair<br>Value |
|                                                        | (In thousands)       |               |
| Obligations of states and political subdivisions:      |                      |               |
| General obligation bonds:                              |                      |               |
| California                                             | \$107,997            | \$110,563     |
| Texas                                                  | 65,292               | 66,162        |
| Pennsylvania                                           | 48,675               | 49,546        |
| Minnesota                                              | 33,524               | 33,840        |
| New Jersey                                             | 30,223               | 30,598        |
| Arizona                                                | 28,492               | 29,378        |
| Other (34 states)                                      | 249,513              | 254,043       |
| Total general obligation bonds                         | \$563,716            | \$574,130     |
| Revenue bonds:                                         |                      |               |
| California                                             | \$60,473             | \$62,788      |
| Pennsylvania                                           | 29,462               | 30,101        |
| Kentucky                                               | 19,975               | 20,370        |
| Iowa                                                   | 18,225               | 18,898        |
| Colorado                                               | 18,532               | 18,862        |
| Indiana                                                | 16,865               | 16,859        |
| Other (31 states)                                      | 164,848              | 168,972       |
| Total revenue bonds                                    | \$328,380            | \$336,850     |
| Total obligations of states and political subdivisions | \$892,096            | \$910,980     |

At March 31, 2015, the revenue bonds in the Company's investment securities portfolios were issued by state and local government municipalities and agencies to fund public services such as water utility, sewer utility, recreational and school facilities, and general public and economic improvements. The revenue bonds were payable from 24 revenue sources. The revenue sources that represent 5% or more individually of the total revenue bonds are summarized in the following table.

|                                       | At March 31, 2015 |               |
|---------------------------------------|-------------------|---------------|
|                                       | Amortized<br>Cost | Fair<br>Value |
|                                       | (In thousands)    |               |
| Revenue bonds by revenue source       |                   |               |
| Water                                 | \$66,235          | \$69,172      |
| Sewer                                 | 48,421            | 49,930        |
| Sales tax                             | 35,017            | 36,434        |
| Lease (renewal)                       | 21,760            | 22,275        |
| Lease (abatement)                     | 18,539            | 19,399        |
| College & University                  | 18,506            | 18,819        |
| Other                                 | 111,041           | 113,647       |
| Total revenue bonds by revenue source | \$319,519         | \$329,676     |

[The remainder of this page intentionally left blank]

At December 31, 2014, the revenue bonds in the Company's investment securities portfolios were issued by state and local government municipalities and agencies to fund public services such as water utility, sewer utility, recreational and school facilities, and general public and economic improvements. The revenue bonds were payable from 25 revenue sources. The revenue sources that represent 5% or more individually of the total revenue bonds are summarized in the following table.

|                                       | At December 31, 2014 |               |
|---------------------------------------|----------------------|---------------|
|                                       | Amortized<br>Cost    | Fair<br>Value |
|                                       | (In thousands)       |               |
| Revenue bonds by revenue source       |                      |               |
| Water                                 | \$66,305             | \$68,885      |
| Sewer                                 | 48,461               | 49,773        |
| Sales tax                             | 35,045               | 36,289        |
| Lease (renewal)                       | 21,789               | 22,091        |
| Lease (abatement)                     | 19,002               | 19,710        |
| College & University                  | 17,655               | 17,849        |
| Other                                 | 120,123              | 122,253       |
| Total revenue bonds by revenue source | \$328,380            | \$336,850     |

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 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 losses inherent in the loan portfolio and establish an allowance for credit losses. The allowance for credit losses is established by assessing a provision for loan losses against 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 credit loss experience, the amount of past due, nonperforming and classified loans, recommendations of regulatory authorities, prevailing economic conditions and other information. The amount of ultimate losses on the loan portfolio can vary from the estimated amounts. Management follows a systematic methodology to estimate loss potential in an effort to reduce the differences between estimated and actual losses.

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

combining business development and loan approval functions. In measuring and managing credit risk, the Company adheres to the following practices.

- The Bank maintains a Loan Review Department which reports directly to the Board of Directors. The Loan Review Department performs independent evaluations of loans and assigns credit risk grades to evaluated loans 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 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”).

The former County Bank loans and repossessed loan collateral were purchased from the FDIC with indemnifying loss-sharing agreements. The loss-sharing agreement on single-family residential real estate assets expires February 6, 2019. The loss-sharing agreement on non-single-family residential real estate assets expired February 6, 2014 as to losses and expires February 6, 2017 as to loss recoveries.

#### Nonperforming Assets

|                                         | At March 31,   |          | At December |
|-----------------------------------------|----------------|----------|-------------|
|                                         | 2015           | 2014     | 31,         |
|                                         | 2014           |          |             |
|                                         | (In thousands) |          |             |
| <b>Originated:</b>                      |                |          |             |
| Nonperforming nonaccrual loans          | \$3,315        | \$4,784  | \$5,296     |
| Performing nonaccrual loans             | 26             | 39       | 13          |
| Total nonaccrual loans                  | 3,341          | 4,823    | 5,309       |
| Accruing loans 90 or more days past due | 191            | 196      | 502         |
| Total nonperforming loans               | 3,532          | 5,019    | 5,811       |
| Other real estate owned                 | 5,483          | 5,347    | 4,809       |
| Total nonperforming assets              | \$9,015        | \$10,366 | \$10,620    |
| <b>Purchased covered:</b>               |                |          |             |
| Nonperforming nonaccrual loans          | \$-            | \$86     | \$297       |
| Performing nonaccrual loans             | -              | -        | -           |
| Total nonaccrual loans                  | -              | 86       | 297         |
| Accruing loans 90 or more days past due | -              | -        | -           |
| Total nonperforming loans               | -              | 86       | 297         |
| Other real estate owned                 | 486            | 585      | -           |
| Total nonperforming assets              | \$486          | \$671    | \$297       |
| <b>Purchased non-covered:</b>           |                |          |             |
| Nonperforming nonaccrual loans          | \$8,952        | \$11,578 | \$11,901    |
| Performing nonaccrual loans             | 1,093          | 902      | 97          |
| Total nonaccrual loans                  | 10,045         | 12,480   | 11,998      |
| Accruing loans 90 or more days past due | -              | 209      | -           |
| Total nonperforming loans               | 10,045         | 12,689   | 11,998      |
| Other real estate owned                 | 3,264          | 6,254    | 1,565       |
| Total nonperforming assets              | \$13,309       | \$18,943 | \$13,563    |
| Total nonperforming assets              | \$22,810       | \$29,980 | \$24,480    |

At March 31, 2015, one purchased non-covered nonperforming nonaccrual loan had a carrying value of \$6,330 thousand; such loan is secured by commercial real estate. The remaining twenty nonaccrual loans held at March 31, 2015 had an average carrying value of \$353 thousand, the largest carrying value was \$1,364 thousand.

Management believes the overall credit quality of the loan portfolio is reasonably stable; however, classified and nonperforming assets could fluctuate from period to period. The performance of any individual loan can be affected by external factors such as the interest rate environment, economic conditions, 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.

- 44 -

---

## Allowance for Credit Losses

The Company's allowance for credit losses represents Management's estimate of credit losses inherent in the loan portfolio. In evaluating credit risk for loans, Management measures 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. Further, the carrying value of purchased loans includes fair value discounts assigned at the time of purchase under the provisions of FASB ASC 805, Business Combinations, and FASB ASC 310-30, Loans or Debt Securities with Deteriorated Credit Quality. The allowance for credit losses represents Management's estimate of credit losses in excess of these reductions to the carrying value of loans within the loan portfolio. The following table summarizes the allowance for credit losses, chargeoffs and recoveries of the Company for the periods indicated:

|                                                                     | For the Three Months Ended |                   |                      |
|---------------------------------------------------------------------|----------------------------|-------------------|----------------------|
|                                                                     | 2015                       | March 31,<br>2014 | December 31,<br>2014 |
|                                                                     | (In thousands)             |                   |                      |
| <b>Analysis of the Allowance for Credit Losses</b>                  |                            |                   |                      |
| Balance, beginning of period                                        | \$34,178                   | \$34,386          | \$34,462             |
| Provision for loan losses                                           | -                          | 1,000             | 200                  |
| Provision for unfunded commitments                                  | -                          | -                 | -                    |
| <b>Loans charged off</b>                                            |                            |                   |                      |
| Commercial                                                          | (60 )                      | (60 )             | (776 )               |
| Commercial real estate                                              | -                          | -                 | (762 )               |
| Consumer installment and other                                      | (995 )                     | (999 )            | (997 )               |
| Purchased covered loans                                             | -                          | (260 )            | -                    |
| Purchased non-covered loans                                         | (35 )                      | -                 | (262 )               |
| Total chargeoffs                                                    | (1,090 )                   | (1,319 )          | (2,797 )             |
| <b>Recoveries of loans previously charged off</b>                   |                            |                   |                      |
| Commercial                                                          | 180                        | 168               | 1,734                |
| Commercial real estate                                              | 15                         | 163               | 20                   |
| Construction                                                        | -                          | 3                 | -                    |
| Consumer installment and other                                      | 590                        | 400               | 554                  |
| Purchased non-covered loans                                         | 7                          | 1                 | 5                    |
| Total recoveries                                                    | 792                        | 735               | 2,313                |
| Net loan (losses)                                                   | (298 )                     | (584 )            | (484 )               |
| Balance, end of period                                              | \$33,880                   | \$34,802          | \$34,178             |
| <b>Components:</b>                                                  |                            |                   |                      |
| Allowance for loan losses                                           | \$31,187                   | \$32,109          | \$31,485             |
| Liability for off-balance sheet credit exposure                     | 2,693                      | 2,693             | 2,693                |
| Allowance for credit losses                                         | \$33,880                   | \$34,802          | \$34,178             |
| <b>Net loan losses:</b>                                             |                            |                   |                      |
| Originated loans                                                    | \$(270 )                   | \$(325 )          | \$(227 )             |
| Purchased covered loans                                             | -                          | (260 )            | -                    |
| Purchased non-covered loans                                         | (28 )                      | -                 | (257 )               |
| Net loan losses as a percentage of average total loans (annualized) | 0.07                       | % 0.13            | % 0.11               |

The Company's allowance for credit losses is maintained at a level considered appropriate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming and classified loans, the amount of



non-indemnified purchased loans, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is individually allocated to impaired loans whose full collectability of principal is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. The Company evaluates all loans with outstanding principal balances in excess of \$500 thousand which are classified or on nonaccrual status and all “troubled debt restructured” loans for impairment. The remainder of the loan portfolio is collectively evaluated for impairment based in part on quantitative analyses of historical credit loss experience of loan portfolio segments to determine standard loss rates for each segment. The loss rate for each loan portfolio segment reflects both the historical loss experience during a look-back period and the loss emergence period. During 2014, the Company refined its processes used to measure look-back periods and loss emergence periods. The loss rates are applied to segmented loan balances to allocate the allowance to the segments of the loan portfolio.

Purchased loans were recorded on the date of purchase at estimated fair value; fair value discounts include a component for estimated credit losses. The Company evaluates all nonaccrual purchased loans with outstanding principal balances in excess of \$500 thousand for impairment; the impaired loan value is compared to the recorded investment in the loan, which has been reduced by the credit default discount estimated on the date of purchase. If Management's impairment analysis determines the impaired loan value is less than the recorded investment in the purchased loan, an allocation of the allowance for credit losses is established for the deficiency. For all other purchased loan portfolio segments, Management applies the standard loss rates to the purchased loan portfolio segments to determine initial allocations of the allowance. Further, liquidating purchased consumer installment loans are evaluated separately by applying historical loss rates to forecasted liquidating principal balances to initially measure losses inherent in this portfolio segment. The initial allocations of the allowance to purchased loan portfolio segments are compared to credit default discounts ascribed to each segment. Management establishes allocations of the allowance for credit losses for any estimated deficiency.

The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. The unallocated allowance addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in loan chargeoff history (external factors). The primary external factor evaluated by the Company and the judgmental amount of unallocated reserve assigned by Management as of March 31, 2015 are economic and business conditions \$1.7 million. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company and the judgmental amount of unallocated reserve assigned by Management are: loan review system \$1.8 million, adequacy of lending Management and staff \$1.7 million, concentrations of credit \$3.2 million, and other factors.

Allowance for Loan Losses  
For the Three Months Ended March 31, 2015

|                                 | Commercial |                       | Consumer     |             |                                       | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans | Unallocated | Total     |
|---------------------------------|------------|-----------------------|--------------|-------------|---------------------------------------|-----------------------------------|-------------------------------|-------------|-----------|
|                                 | Commercial | Real Estate<br>Estate | Construction | Real Estate | Residential<br>Estate<br>and<br>Other |                                   |                               |             |           |
| (In thousands)                  |            |                       |              |             |                                       |                                   |                               |             |           |
| Allowance for loan losses:      |            |                       |              |             |                                       |                                   |                               |             |           |
| Balance at beginning of period  | \$ 5,460   | \$ 4,245              | \$ 644       | \$ 2,241    | \$ 7,717                              | \$ 2,120                          | \$ -                          | \$ 9,058    | \$ 31,485 |
| Additions:                      |            |                       |              |             |                                       |                                   |                               |             |           |
| Provision                       | (110 )     | (137 )                | 86           | (101 )      | (281 )                                | 247                               | -                             | 296         | -         |
| Deductions:                     |            |                       |              |             |                                       |                                   |                               |             |           |
| Chargeoffs                      | (60 )      |                       | -            |             | (995 )                                | (35 )                             | -                             | -           | (1,090 )  |
| Recoveries                      | 180        | 15                    | -            | -           | 590                                   | 7                                 | -                             | -           | 792       |
| Net loan recoveries (losses)    | 120        | 15                    | -            | -           | (405 )                                | (28 )                             | -                             | -           | (298 )    |
| Total allowance for loan losses | \$ 5,470   | \$ 4,123              | \$ 730       | \$ 2,140    | \$ 7,031                              | \$ 2,339                          | \$ 0                          | \$ 9,354    | \$ 31,187 |

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment  
At March 31, 2015

|                                                       | Commercial<br>Commercial | Commercial<br>Real Estate | Commercial<br>Construction | Residential<br>Real Estate | Consumer<br>Installment<br>and Other | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans | Unallocated | Total       |
|-------------------------------------------------------|--------------------------|---------------------------|----------------------------|----------------------------|--------------------------------------|-----------------------------------|-------------------------------|-------------|-------------|
| (In thousands)                                        |                          |                           |                            |                            |                                      |                                   |                               |             |             |
| Allowance for loan losses:                            |                          |                           |                            |                            |                                      |                                   |                               |             |             |
| Individually evaluated for impairment                 | \$493                    | \$-                       | \$-                        | \$-                        | \$-                                  | \$-                               | \$-                           | \$-         | \$493       |
| Collectively evaluated for impairment                 | 4,977                    | 4,123                     | 730                        | 2,140                      | 7,031                                | 2,339                             | -                             | 9,354       | 30,694      |
| Purchased loans with evidence of credit deterioration | -                        | -                         | -                          | -                          | -                                    | -                                 | -                             | -           | -           |
| Total                                                 | \$5,470                  | \$4,123                   | \$730                      | \$2,140                    | \$7,031                              | \$2,339                           | \$-                           | \$9,354     | \$31,187    |
| Carrying value of loans:                              |                          |                           |                            |                            |                                      |                                   |                               |             |             |
| Individually evaluated for impairment                 | \$12,459                 | \$597                     | \$-                        | \$574                      | \$599                                | \$10,740                          | \$-                           | \$-         | \$24,969    |
| Collectively evaluated for impairment                 | 379,404                  | 548,339                   | 12,438                     | 139,760                    | 371,376                              | 186,835                           | 16,107                        | -           | 1,654,259   |
| Purchased loans with evidence of credit deterioration | -                        | -                         | -                          | -                          | -                                    | 4,434                             | 222                           | -           | 4,656       |
| Total                                                 | \$391,863                | \$548,936                 | \$12,438                   | \$140,334                  | \$371,975                            | \$202,009                         | \$16,329                      | \$-         | \$1,683,884 |

Management considers the \$33.9 million allowance for credit losses to be adequate as a reserve against credit losses inherent in the loan portfolio as of March 31, 2015.

See Note 4 to the unaudited consolidated financial statements for additional information related to the loan portfolio, loan portfolio credit risk, and allowance for credit losses.

## 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. Assets and liabilities may mature or re-price at different times. Assets and liabilities 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 assets or liabilities may shorten or lengthen as interest rates change. In addition, the changing levels of interest rates may have an impact on loan demand, demand for various deposit products, credit losses, and other elements of earnings such as account analysis fees on commercial deposit accounts and correspondent bank service charges.

The Company's earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the U.S. and its agencies, particularly the Federal Reserve Board (the "FRB"). The monetary policies of the FRB can influence the overall growth of loans, investment securities, and deposits and the level of interest rates earned on assets and paid for liabilities. The nature and impact of future changes in monetary policies are generally not predictable.

The Federal Open Market Committee's April 29, 2015 press release stated "To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate. In determining how long to maintain this target range, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.... When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run." In this context, Management's most likely earnings forecast for the twelve months ending March 31, 2016 assumes market interest rates will either remain relatively stable or short-term rates will rise gradually.

In adjusting the Company's asset/liability position, 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 general 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 in order to manage its net interest margin and net interest income. The Company's results of operations and net portfolio values remain subject to changes in interest rates and to fluctuations in the difference between long and short term interest rates.

The Company's asset and liability position was slightly "asset sensitive" at March 31, 2015, depending on the interest rate assumptions applied to the simulation model employed by Management to measure interest rate risk. An "asset sensitive" position results in a slightly larger change in interest income than in interest expense resulting from application of assumed interest rate changes. Simulation estimates depend on, and will change with, the size and mix

of the actual and projected balance sheet at the time of each simulation. Management's interest rate risk management is currently biased toward stable interest rates in the near-term, and ultimately, rising interest rates. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate 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.

#### Market Risk - Equity Markets

Equity price risk can affect the Company. As an example, any preferred or common stock holdings, as permitted by banking regulations, can fluctuate in value. Management regularly assesses the extent and duration of any declines in market value, the causes of such declines, the likelihood of a recovery in market value, and its intent to hold securities until a recovery in value occurs. Declines in value of preferred or common stock holdings that are deemed "other than temporary" could result in loss recognition 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 regularly repurchased and retired its common stock; the market price paid to retire the Company's common stock can affect 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. Finally, the amount of compensation expense 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 charge-offs and the provision for loan 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 portfolio requiring the Company to recognize other than temporary impairment charges. 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.

#### Liquidity and Funding

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

In recent years, the Company's deposit base has provided the majority of the Company's funding requirements. This relatively stable and low-cost source of funds, along with shareholders' equity, provided 97 percent of funding for average total assets in the first quarter 2015 and 2014. The stability of the Company's funding from customer deposits is in part reliant on the confidence clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining an appropriate level of liquidity reserves.

In the first quarter 2015 and 2014, non-deposit funding has continued to be provided by short-term borrowings and Federal Home Loan Bank advances until repayment in January 2015, and additionally, a term repurchase agreement until repayment in August 2014. These non-deposit sources of funds comprise a modest portion of total funding.

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. The Company's investment securities portfolio provides a substantial secondary liquidity reserve. The Company held \$2.8 billion in total investment securities at March 31, 2015. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At March 31, 2015, such collateral requirements totaled approximately \$720 million.

Liquidity risk can result from the mismatching of asset and liability cash flows, or from disruptions in the financial markets. The Company performs liquidity stress tests on a periodic basis to evaluate the sustainability of its liquidity. Under the stress testing, the Company assumes outflows of funds increase beyond expected levels. Measurement of such heightened outflows considers the composition of the Company's deposit base, including any concentration of deposits, non-deposit funding such as short-term borrowings and Federal Home Loan Bank advances, and unfunded lending commitments. The Company evaluates its stock of highly liquid assets to meet the assumed higher levels of outflows. Highly liquid assets include cash and amounts due from other banks from daily transaction settlements, reduced by branch cash needs and Federal Reserve Bank reserve requirements, and investment securities based on

regulatory risk-weighting guidelines. Based on the results of the most recent liquidity stress test, Management is satisfied with the liquidity condition of the Bank and the Company. However, no assurance can be given the Bank or Company will not experience a period of reduced liquidity.

Management will monitor the Company's cash levels throughout 2015. Loan demand from credit-worthy borrowers will be dictated by economic and competitive conditions. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to changes in interest rates. The growth of these deposit balances is subject to heightened competition, the success of the Company's sales efforts, delivery of superior customer service, new regulations and market conditions. The Company does not aggressively solicit higher-costing time deposits; as a result, Management anticipates such deposits will decline. Changes in interest rates, most notably rising interest rates, could impact deposit volumes. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, reduce borrowings or purchase investment securities. However, due to possible concerns such as uncertainty in the general economic environment, 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 Westamerica Bank ("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. Substantially all of the Parent Company's revenues are obtained from subsidiary dividends and service fees.

In the first quarter 2015, the Bank's dividends paid to the Parent Company provided adequate cash flow for the Parent Company to pay shareholder dividends of \$10 million and retire common stock in the amount of \$8 million. In the first quarter 2014, the Bank's dividends paid to the Parent Company and proceeds from the exercise of stock options provided adequate cash flow for the Parent Company to pay shareholder dividends of \$10 million and retire common stock in the amount of \$23 million. Payment of dividends to the Parent Company by the Bank is limited under California and Federal laws. The Company believes these regulatory dividend restrictions will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

#### Capital Resources

The Company has historically generated high levels of earnings, which provides a means of raising capital. The Company's net income as an annualized percentage of average shareholders' equity ("return on equity" or "ROE") has been 11.4% in the first quarter 2015, 11.6% in 2014 and 12.5% in 2013. The Company also raises capital as employees exercise stock options. There was no capital raised through the exercise of stock options in the first quarter 2015 compared with \$12.4 million in 2014 and \$21.5 million in 2013.

The Company paid common dividends totaling \$9.8 million in the first quarter 2015, \$39.8 million in 2014 and \$40.1 million in 2013, which represent dividends per common share of \$0.38, \$1.52 and \$1.49, 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 repurchased and retired its common stock as another means to return earnings to shareholders. The Company repurchased and retired 183 thousand shares valued at \$7.9 million in the first quarter 2015, 1.0 million shares valued at \$52.7 million in 2014 and 1.2 million shares valued at \$57.3 million in 2013.

The Company's primary capital resource is shareholders' equity, which was \$527.4 million at March 31, 2015 compared with \$526.6 million at December 31, 2014. The Company's ratio of equity to total assets was 10.47% at March 31, 2015 and 10.46% at December 31, 2014.

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, unanticipated asset devaluations, and significant operational lapses. 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

On July 2, 2013, the Federal Reserve Board approved a final rule that implements changes to the regulatory capital framework for all banking organizations. The rule's provisions which would most affect the regulatory capital requirements of the Company and the Bank:

- Introduce a new "Common Equity Tier 1" capital measurement,
- Establish higher minimum levels of capital,
- Introduce a "capital conservation buffer,"



- Increase the risk-weighting of certain assets, and
- Establish limits on the amount of deferred tax assets with any excess treated as a deduction from Tier 1 capital.

Under the final rule, a banking organization that is not subject to the “advanced approaches rule” may make a one-time election not to include most elements of Accumulated Other Comprehensive Income, including net-of-tax unrealized gains and losses on available for sale investment securities, in regulatory capital. Neither the Company nor the Bank are subject to the “advanced approaches rule” and made the election not to include most elements of Accumulated Other Comprehensive Income in regulatory capital.

Banking organizations that are not subject to the “advanced approaches rule” began complying with the final rule on January 1, 2015; on such date, the Company and the Bank became subject to the revised definitions of regulatory capital, the new minimum regulatory capital ratios, and various regulatory capital adjustments and deductions according to transition provisions and timelines. All banking organizations began calculating standardized total risk-weighted assets on January 1, 2015. The transition period for the capital conservation buffer for all banking organizations will begin on January 1, 2016 and end January 1, 2019. Any bank subject to the rule which is unable to maintain its “capital conservation buffer” will be restricted in the payment of discretionary executive compensation and shareholder distributions, such as dividends and share repurchases.

The final rule did not supersede provisions of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) requiring federal banking agencies to take prompt corrective action (PCA) to resolve problems of insured depository institutions. The final rule revised the PCA thresholds to incorporate the higher minimum levels of capital, including the newly proposed “common equity tier 1” ratio.

The capital ratios for the Company and the Bank under the new capital framework are presented in the table below.

|                                 | At March 31,<br>2015 |         | Transitional<br>Minimum<br>Regulatory<br>Requirement<br>Effective<br>January 1, 2015 | Minimum<br>Regulatory<br>Requirement (1)<br>Effective<br>January 1, 2019 |       | Well-capitalized<br>by Regulatory<br>Definition<br>Under FDICIA<br>Effective<br>January 1, 2015 |       |   |
|---------------------------------|----------------------|---------|--------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------|-------------------------------------------------------------------------------------------------|-------|---|
|                                 | Company              | Bank    |                                                                                      |                                                                          |       |                                                                                                 |       |   |
| Common Equity Tier I<br>Capital | 12.54 %              | 11.35 % | 4.50                                                                                 | %                                                                        | 7.00  | %                                                                                               | 6.50  | % |
| Tier I Capital                  | 12.54 %              | 11.35 % | 6.00                                                                                 | %                                                                        | 8.50  | %                                                                                               | 8.00  | % |
| Total Capital                   | 13.08 %              | 12.05 % | 8.00                                                                                 | %                                                                        | 10.50 | %                                                                                               | 10.00 | % |
| Leverage Ratio                  | 7.88 %               | 7.09 %  | 4.00                                                                                 | %                                                                        | 4.00  | %                                                                                               | 5.00  | % |

(1) Includes 2.5% capital conservation buffer.

The Company and the Bank intend to maintain regulatory capital in excess of the highest regulatory standard. The Company and the Bank routinely project capital levels by analyzing forecasted earnings, credit quality, securities valuations, shareholder dividends, asset volumes, share repurchase activity, stock option exercise proceeds, and other factors. Based on current capital projections, the Company and the Bank expect to maintain regulatory capital levels exceeding the highest effective regulatory standard and pay quarterly dividends to shareholders. No assurance can be given that changes in capital management plans will not occur.

[The remainder of this page intentionally left blank]



The following summarizes the ratios of regulatory capital to risk-adjusted assets under the superseded capital framework on the dates indicated:

|                 | At March<br>31,<br>2014 |   | At<br>December<br>31,<br>2014 |   | Minimum<br>Regulatory<br>Requirement |   | Well-capitalized<br>by Regulatory<br>Definition |   |
|-----------------|-------------------------|---|-------------------------------|---|--------------------------------------|---|-------------------------------------------------|---|
| <b>Company:</b> |                         |   |                               |   |                                      |   |                                                 |   |
| Tier I Capital  | 13.74                   | % | 13.30                         | % | 4.00                                 | % | 6.00                                            | % |
| Total Capital   | 15.19                   | % | 14.54                         | % | 8.00                                 | % | 10.00                                           | % |
| Leverage ratio  | 8.40                    | % | 7.95                          | % | 4.00                                 | % | 5.00                                            | % |
| <b>Bank:</b>    |                         |   |                               |   |                                      |   |                                                 |   |
| Tier I Capital  | 12.40                   | % | 12.04                         | % | 4.00                                 | % | 6.00                                            | % |
| Total Capital   | 14.07                   | % | 13.49                         | % | 8.00                                 | % | 10.00                                           | % |
| Leverage ratio  | 7.54                    | % | 7.16                          | % | 4.00                                 | % | 5.00                                            | % |

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

### Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of March 31, 2015.

Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company's management, including the principal executive officer and the principal financial officer, to allow for timely decisions regarding required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2015 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

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. None of these proceedings is expected to have a material adverse impact upon the Company's business, financial position or results of operations.

Item 1A. Risk Factors

The Company's Form 10-K as of December 31, 2014 includes detailed disclosure about the risks faced by the Company's business; such risks have not materially changed since the Form 10-K was filed.

- 51 -

---

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

(a) Previously reported on Form 8-K.

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended March 31, 2015.

| Period      | (a)<br>Total<br>Number of<br>Shares<br>Purchased<br>(In thousands, except per share data) | (b)<br>Average Price<br>Paid per Share | (c)<br>Total Number<br>of Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs* | (d)<br>Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Plans<br>or Programs |
|-------------|-------------------------------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| January 1   |                                                                                           |                                        |                                                                                                      |                                                                                                   |
| through     | 85                                                                                        | \$ 42.87                               | 85                                                                                                   | 1,648                                                                                             |
| January 31  |                                                                                           |                                        |                                                                                                      |                                                                                                   |
| February 1  |                                                                                           |                                        |                                                                                                      |                                                                                                   |
| through     | 43                                                                                        | 42.44                                  | 43                                                                                                   | 1,605                                                                                             |
| February 28 |                                                                                           |                                        |                                                                                                      |                                                                                                   |
| March 1     |                                                                                           |                                        |                                                                                                      |                                                                                                   |
| through     | 55                                                                                        | 43.60                                  | 55                                                                                                   | 1,550                                                                                             |
| March 31    |                                                                                           |                                        |                                                                                                      |                                                                                                   |
| Total       | 183                                                                                       | \$ 42.99                               | 183                                                                                                  | 1,550                                                                                             |

\* Includes 7 thousand, 4 thousand and 11 thousand shares purchased in January, February and March, respectively, by the Company in private transactions with the independent administrator of the Company's Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

The Company repurchases shares of its common stock in the open market 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.

Shares were repurchased during the first quarter of 2015 pursuant to a program approved by the Board of Directors on July 24, 2014 authorizing the purchase of up to 2 million shares of the Company's common stock from time to time prior to September 1, 2015.

## Item 3. Defaults upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not applicable.

- 52 -

---

Item 5. Other Information

(a) Submission of Matters to a Vote of Security Holders

Information required is incorporated by reference to the Registrant's Form 8-K, filed with the Securities and Exchange Commission on April 27, 2015.

Item 6. Exhibits

The exhibit list required by this item is incorporated by reference to the Exhibit Index filed with this report.

[The remainder of this page intentionally left blank]



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 hereunto duly authorized.

WESTAMERICA BANCORPORATION  
(Registrant)

/s/ JOHN "ROBERT" THORSON  
John "Robert" Thorson  
Senior Vice President and Chief Financial Officer  
(Chief Financial and Accounting Officer)

Date: May 5, 2015

EXHIBIT INDEX

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: Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2015, is formatted in XBRL interactive data files: (i) Consolidated Statements of Income for the three months ended March 31, 2015 and 2014; (ii) Consolidated Balance Sheets at March 31, 2015, and December 31, 2014; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2015 and 2014, (iv) Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 and (vi) Notes to the Unaudited Consolidated Financial Statements.