

WESTAMERICA BANCORPORATION  
Form 10-K  
February 26, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark one)

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

**For the fiscal year ended December 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 the registrant as specified in its charter)

**CALIFORNIA**                      **94-2156203**  
(State or Other Jurisdiction      (I.R.S. Employer  
of Incorporation or Organization) Identification Number)

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901

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(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (707) 863-6000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of class:</u>	<u>Name of each exchange on which registered:</u>
Common Stock, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 if 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 (section 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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K (section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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.

Large accelerated filer   Accelerated filer   Non-accelerated filer   Smaller reporting company  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES   NO

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2015 as reported on the NASDAQ Global Select Market, was \$1,103,045,781.58 . Shares of Common Stock held by each executive officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares outstanding of each of the registrant’s classes of common stock, as of the close of business on February 17, 2016

25,400,087 Shares

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to registrant’s Annual Meeting of Shareholders, to be held on April 28, 2016, are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III to the extent described therein.

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## FORWARD-LOOKING STATEMENTS

This report on Form 10-K 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 Company undertakes no obligation to update any forward-looking statements in this report. See also "Risk Factors" in Item 1A and other risk factors discussed elsewhere in this Report.

## PART I

### ITEM 1. BUSINESS

Westamerica Bancorporation (the "Company") is a bank holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). Its legal headquarters are located at 1108 Fifth Avenue, San Rafael, California 94901. Principal administrative offices are located at 4550 Mangels Boulevard, Fairfield, California 94534 and its telephone number is (707) 863-6000. The Company provides a full range of banking services to individual and corporate customers in Northern and Central California through its subsidiary bank, Westamerica Bank ("WAB" or the

“Bank”). The principal communities served are located in Northern and Central California, from Mendocino, Lake and Nevada Counties in the north to Kern County in the south. The Company’s strategic focus is on the banking needs of small businesses. In addition, the Bank owns 100% of the capital stock of Community Banker Services Corporation (“CBSC”), a company engaged in providing the Company and its subsidiaries with data processing services and other support functions.

The Company was incorporated under the laws of the State of California in 1972 as “Independent Bankshares Corporation” pursuant to a plan of reorganization among three previously unaffiliated Northern California banks. The Company operated as a multi-bank holding company until mid-1983, at which time the then six subsidiary banks were merged into a single bank named Westamerica Bank and the name of the holding company was changed to Westamerica Bancorporation.

The Company acquired five banks within its immediate market area during the early to mid 1990’s. In April 1997, the Company acquired ValliCorp Holdings, Inc., parent company of ValliWide Bank, the largest independent bank holding company headquartered in Central California. Under the terms of all of the merger agreements, the Company issued shares of its common stock in exchange for all of the outstanding shares of the acquired institutions. The subsidiary banks acquired were merged with and into WAB. These six aforementioned business combinations were accounted for as poolings-of-interests.

During the period 2000 through 2005, the Company acquired three additional banks. These acquisitions were accounted for using the purchase accounting method.

On February 6, 2009, Westamerica Bank acquired the banking operations of County Bank (“County”) from the Federal Deposit Insurance Corporation (“FDIC”). On August 20, 2010, Westamerica Bank acquired assets and assumed liabilities of the former Sonoma Valley Bank (“Sonoma”) from the FDIC. The County and Sonoma acquired assets and assumed liabilities were measured at estimated fair values, as required by FASB ASC 805, Business Combinations.

At December 31, 2015, the Company had consolidated assets of approximately \$5.2 billion, deposits of approximately \$4.5 billion and shareholders’ equity of approximately \$532 million. The Company and its subsidiaries employed 813 full-time equivalent staff as of December 31, 2015.

The Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as well as beneficial ownership reports on Forms 3, 4 and 5 are available through the SEC’s website (<http://www.sec.gov>). Such documents as well as the Company’s director, officer and employee Code of Conduct and Ethics are also available free of charge from the Company by request to:

Westamerica Bancorporation

Corporate Secretary A-2M

Post Office Box 1200

Suisun City, California 94585-1200

## **Supervision and Regulation**

The following is not intended to be an exhaustive description of the statutes and regulations applicable to the Company’s or the Bank’s business. The description of statutory and regulatory provisions is qualified in its entirety by reference to the particular statutory or regulatory provisions. Moreover, major new legislation and other regulatory changes affecting the Company, the Bank, and the financial services industry in general have occurred in the last several years and can be expected to occur in the future. The nature, timing and impact of new and amended laws and regulations cannot be accurately predicted.

### *Regulation and Supervision of Bank Holding Companies*

The Company is a bank holding company subject to the BHCA. The Company reports to, is registered with, and may be examined by, the Board of Governors of the Federal Reserve System (“FRB”). The FRB also has the authority to examine the Company’s subsidiaries. The Company is a bank holding company within the meaning of Section 3700 of

the California Financial Code. As such, the Company and the Bank are subject to examination by, and may be required to file reports with, the Commissioner of the California Department of Business Oversight (the “Commissioner”).

The FRB has significant supervisory and regulatory authority over the Company and its affiliates. The FRB requires the Company to maintain certain levels of capital. See “Capital Standards.” The FRB also has the authority to take enforcement action against any bank holding company that commits any unsafe or unsound practice, or violates certain laws, regulations or conditions imposed in writing by the FRB. Under the BHCA, the Company is required to obtain the prior approval of the FRB before it acquires, merges or consolidates with any bank or bank holding company. Any company seeking to acquire, merge or consolidate with the Company also would be required to obtain the prior approval of the FRB.

The Company is generally prohibited under the BHCA from acquiring ownership or control of more than 5% of any class of voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than banking, managing banks, or providing services to affiliates of the holding company. However, a bank holding company, with the approval of the FRB, may engage, or acquire the voting shares of companies engaged, in activities that the FRB has determined to be closely related to banking or managing or controlling banks. A bank holding company must demonstrate that the benefits to the public of the proposed activity will outweigh the possible adverse effects associated with such activity.

The FRB generally prohibits a bank holding company from declaring or paying a cash dividend that would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements which might adversely affect a bank holding company’s financial position. Under the FRB policy, a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. See the section entitled “Restrictions on Dividends and Other Distributions” for additional restrictions on the ability of the Company and the Bank to pay dividends.



Transactions between the Company and the Bank are restricted under Regulation W. The regulation codifies prior interpretations of the FRB and its staff under Sections 23A and 23B of the Federal Reserve Act. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in “covered transactions” with affiliates: (a) to an amount equal to 10% of the bank’s capital and surplus, in the case of covered transactions with any one affiliate; and (b) to an amount equal to 20% of the bank’s capital and surplus, in the case of covered transactions with all affiliates. The Company is considered to be an affiliate of the Bank. A “covered transaction” includes, among other things, a loan or extension of credit to an affiliate; a purchase of securities issued by an affiliate; a purchase of assets from an affiliate, with some exceptions; and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Federal regulations governing bank holding companies and change in bank control (Regulation Y) provide for a streamlined and expedited review process for bank acquisition proposals submitted by well-run bank holding companies. These provisions of Regulation Y are subject to numerous qualifications, limitations and restrictions. In order for a bank holding company to qualify as “well-run,” both it and the insured depository institutions which it controls must meet the “well capitalized” and “well managed” criteria set forth in Regulation Y.

The Gramm-Leach-Bliley Act (the “GLBA”), or the Financial Services Act of 1999, repealed provisions of the Glass-Steagall Act, which had prohibited commercial banks and securities firms from affiliating with each other and engaging in each other’s businesses. Thus, many of the barriers prohibiting affiliations between commercial banks and securities firms have been eliminated.

The BHCA was also amended by the GLBA to allow new “financial holding companies” (“FHCs”) to offer banking, insurance, securities and other financial products to consumers. Specifically, the GLBA amended section 4 of the BHCA in order to provide for a framework for the engagement in new financial activities. A bank holding company (“BHC”) may elect to become an FHC if all its subsidiary depository institutions are well capitalized and well managed. If these requirements are met, a BHC may file a certification to that effect with the FRB and declare that it elects to become an FHC. After the certification and declaration is filed, the FHC may engage either de novo or through an acquisition in any activity that has been determined by the FRB to be financial in nature or incidental to such financial activity. BHCs may engage in financial activities without prior notice to the FRB if those activities qualify under the list of permissible activities in section 4(k) of the BHCA. However, notice must be given to the FRB within 30 days after an FHC has commenced one or more of the financial activities. The Company has not elected to become an FHC.

### *Regulation and Supervision of Banks*

The Bank is a California state-chartered Federal Reserve member bank and its deposits are insured by the FDIC. The Bank is subject to regulation, supervision and regular examination by the California Department of Business Oversight (“DBO”), and the FRB. The regulations of these agencies affect most aspects of the Bank’s business and prescribe permissible types of loans and investments, the amount of required reserves, requirements for branch offices, the permissible scope of its activities and various other requirements.

In addition to federal banking law, the Bank is also subject to applicable provisions of California law. Under California law, the Bank is subject to various restrictions on, and requirements regarding, its operations and administration including the maintenance of branch offices and automated teller machines, capital requirements, deposits and borrowings, shareholder rights and duties, and investment and lending activities.

In addition, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") imposes limitations on the activities and equity investments of state chartered, federally insured banks. FDICIA also prohibits a state bank from making an investment or engaging in any activity as a principal that is not permissible for a national bank, unless the Bank is adequately capitalized and the FDIC approves the investment or activity after determining that such investment or activity does not pose a significant risk to the deposit insurance fund.

On July 21, 2010, financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things:

- Centralized responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and (as to banks with \$10 billion or more in assets) enforcing compliance with federal consumer financial laws.
- Restricted the preemption of state law by federal law and disallowed subsidiaries and affiliates of national banks from availing themselves of such preemption.

- Applied the same leverage and risk-based capital requirements that would apply to insured depository institutions to most bank holding companies.
- Required bank regulatory agencies to seek to make their capital requirements for banks countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.
- Changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund ("DIF") and increased the floor of the size of the DIF.
- Imposed comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.
- Required large, publicly traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management.
- Implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that would apply to all public companies, not just financial institutions.
- Made permanent the \$250 thousand limit for federal deposit insurance.
- Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Amended the Electronic Fund Transfer Act ("EFTA") to, among other things, give the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. While the Company's assets are currently less than \$10 billion, interchange fees charged by larger institutions may dictate the level of fees smaller institutions will be able to charge to remain competitive.

Many aspects of the Dodd-Frank Act are subject to rulemaking and implementation of new regulations and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees may increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

### *Capital Standards*

The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations for both transactions resulting in assets being recognized on the balance sheet as assets, and the extension of credit facilities such as letters of credit and recourse arrangements, which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 1250% for assets with relatively higher credit risk, such as certain securitizations. A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off balance sheet items.

The federal banking agencies take into consideration concentrations of credit risk and risks from nontraditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation is made as a part of the institution's regular safety and soundness examination. The federal banking agencies also consider interest rate risk (related to the interest rate sensitivity of an institution's assets and liabilities, and its off balance sheet financial instruments) in the evaluation of a bank's capital adequacy.

As of December 31, 2015, the Company's and the Bank's respective ratios exceeded applicable regulatory requirements. See Note 9 to the consolidated financial statements for capital ratios of the Company and the Bank, compared to the standards for well capitalized depository institutions and for minimum capital requirements.

On July 2, 2013, the Federal Reserve Board approved a final rule that implements changes to the regulatory capital framework for all banking organizations over a transitional period 2015 through 2018.

See the sections entitled "Capital Resources and Capital to Risk-Adjusted Assets" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

*Prompt Corrective Action and Other Enforcement Mechanisms*

FDICIA requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios.

An institution that, based upon its capital levels, is classified as “well capitalized,” “adequately capitalized” or “undercapitalized” may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency.

*Safety and Soundness Standards*

The Company’s ability to pay dividends to its shareholders is subject to the restrictions set forth in the California General Corporation Law (“CGCL”). The CGCL provides that a corporation may make a distribution to its shareholders if (i) the corporation’s retained earnings equal or exceed the amount of the proposed distribution plus unpaid accrued dividends, (if any) on securities with a dividend preference, or (ii) immediately after the dividend, the corporation’s total assets equal or exceed total liabilities plus unpaid accrued dividends (if any) on securities with a dividend preference.

FDICIA also implemented certain specific restrictions on transactions and required federal banking regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation, and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefits accounts. The federal banking agencies may require an institution to submit an acceptable compliance plan as well as have the flexibility to pursue other more appropriate or effective courses of action given the specific circumstances and severity of an institution’s noncompliance with one or more standards.

Federal banking agencies require banks to maintain adequate valuation allowances for potential credit losses. The Company has an internal staff that continually reviews loan quality and reports to the Board of Directors. This analysis includes a detailed review of the classification and categorization of problem loans, assessment of the overall quality and collectability of the loan portfolio, consideration of loan loss experience, trends in problem loans,

concentration of credit risk, and current economic conditions, particularly in the Bank's market areas. Based on this analysis, Management, with the review and approval of the Board, determines the adequate level of allowance required. The allowance is allocated to different segments of the loan portfolio, but the entire allowance is available for the loan portfolio in its entirety.

*Restrictions on Dividends and Other Distributions*

The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions. FDICIA prohibits insured depository institutions from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if, after such transaction, the institution would be undercapitalized.

In addition to the restrictions imposed under federal law, banks chartered under California law generally may only pay cash dividends to the extent such payments do not exceed the lesser of retained earnings of the bank or the bank's net income for its last three fiscal years (less any distributions to shareholders during this period). In the event a bank desires to pay cash dividends in excess of such amount, the bank may pay a cash dividend with the prior approval of the Commissioner in an amount not exceeding the greatest of the bank's retained earnings, the bank's net income for its last fiscal year or the bank's net income for its current fiscal year.

The federal banking agencies also have the authority to prohibit a depository institution from engaging in business practices which are considered to be unsafe or unsound, possibly including payment of dividends or other payments under certain circumstances even if such payments are not expressly prohibited by statute.

### *Premiums for Deposit Insurance*

Substantially all of the deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level, asset quality and supervisory rating ("CAMELS rating").

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

In February 2011, the FDIC issued a final rule changing the deposit insurance assessment base from total domestic deposits to average total assets minus average tangible equity, as required by the Dodd-Frank Act, effective April 1, 2011. The FDIC also issued a final rule revising the deposit insurance assessment system for "large" institutions having more than \$10 billion in assets and another for "highly complex" institutions that have over \$50 billion in assets and are fully owned by a parent with over \$500 billion in assets. The Bank is neither a "large" nor "highly complex" institution. Under the new assessment rules, the initial base assessment rates range from 5 to 35 basis points, and after potential adjustments for unsecured debt and brokered deposits, assessment rates range from 2.5 to 45 basis points.

The Company cannot provide any assurance as to the effect of any future changes in its deposit insurance premium rates.

### *Community Reinvestment Act and Fair Lending Developments*

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act ("CRA") activities. The CRA generally requires the federal banking agencies to evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantive penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities including merger applications.

### *Financial Privacy Legislation and Customer Information Security*

The GLBA, in addition to the previously described changes in permissible nonbanking activities permitted to banks, BHCs and FHCs, also required the federal banking agencies, among other federal regulatory agencies, to adopt regulations governing the privacy of consumer financial information. The Bank is subject to the FRB's regulations in this area. The federal bank regulatory agencies have established standards for safeguarding nonpublic personal information about customers that implement provisions of the GLBA (the "Guidelines"). Among other things, the Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

#### *U.S.A. PATRIOT Act*

Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") is the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001. It includes numerous provisions for fighting international money laundering and blocking terrorist access to the U.S. financial system. The goal of Title III is to prevent the U.S. financial system and the U.S. clearing mechanisms from being used by parties suspected of terrorism, terrorist financing and money laundering. The provisions of Title III of the USA Patriot Act which affect the Bank are generally set forth as amendments to the Bank Secrecy Act. These provisions relate principally to U.S. banking organizations' relationships with foreign banks and with persons who are resident outside the United States. The USA Patriot Act does not impose any filing or reporting obligations for banking organizations, but does require certain additional due diligence and recordkeeping practices.

#### *Sarbanes-Oxley Act of 2002*

The stated goals of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. Sarbanes-Oxley generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports under the Securities Exchange Act of 1934 (the "Exchange Act").



Sarbanes-Oxley includes very specific additional disclosure requirements and corporate governance rules, required the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues. Sarbanes-Oxley represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees and public company shareholders. Sarbanes-Oxley addresses, among other matters: (i) independent audit committees for reporting companies whose securities are listed on national exchanges or automated quotation systems (the “Exchanges”) and expanded duties and responsibilities for audit committees; (ii) certification of financial statements by the chief executive officer and the chief financial officer; (iii) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer’s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (iv) a prohibition on insider trading during pension plan blackout periods; (v) disclosure of off-balance sheet transactions; (vi) a prohibition on personal loans to directors and officers under most circumstances with exceptions for certain normal course transactions by regulated financial institutions; (vii) expedited electronic filing requirements related to trading by insiders in an issuer’s securities on Form 4; (viii) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (ix) accelerated filing of periodic reports; (x) the formation of the Public Company Accounting Oversight Board (“PCAOB”) to regulate public accounting firms and the audit of public companies that are subject to the securities laws; (xi) auditor independence; (xii) internal control evaluation and reporting; and (xiii) various increased criminal penalties for violations of securities laws.

#### *Programs To Mitigate Identity Theft*

In November 2007, federal banking agencies together with the National Credit Union Administration and Federal Trade Commission adopted regulations under the Fair and Accurate Credit Transactions Act of 2003 to require financial institutions and other creditors to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with certain new and existing accounts. Covered accounts generally include consumer accounts and other accounts that present a reasonably foreseeable risk of identity theft. Each institution’s program must include policies and procedures designed to: (i) identify indicators, or “red flags,” of possible risk of identity theft; (ii) detect the occurrence of red flags; (iii) respond appropriately to red flags that are detected; and (iv) ensure that the program is updated periodically as appropriate to address changing circumstances. The regulations include guidelines that each institution must consider and, to the extent appropriate, include in its program.

#### *Pending Legislation*

Changes to state laws and regulations (including changes in interpretation or enforcement) can affect the operating environment of BHCs and their subsidiaries in substantial and unpredictable ways. From time to time, various legislative and regulatory proposals are introduced. These proposals, if codified, may change banking statutes and regulations and the Company’s operating environment in substantial and unpredictable ways. If codified, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the

ultimate effect they would have upon our financial condition or results of operations. It is likely, however, that the current level of enforcement and compliance-related activities of federal and state authorities will continue and potentially increase.

## **Competition**

In the past, the Bank's principal competitors for deposits and loans have been major banks and smaller community banks, savings and loan associations and credit unions. To a lesser extent, competition was also provided by thrift and loans, mortgage brokerage companies and insurance companies. Other institutions, such as brokerage houses, mutual fund companies, credit card companies, and certain retail establishments have offered investment vehicles that also compete with banks for deposit business. Federal legislation in recent years has encouraged competition between different types of financial institutions and fostered new entrants into the financial services market.

Legislative changes, as well as technological and economic factors, can be expected to have an ongoing impact on competitive conditions within the financial services industry. While the future impact of regulatory and legislative changes cannot be predicted with certainty, the business of banking will remain highly competitive.

## ITEM 1A. RISK FACTORS

Readers and prospective investors in the Company's securities should carefully consider the following risk factors as well as the other information contained or incorporated by reference in this report.

The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that Management is not aware of or focused on or that Management currently deems immaterial may also impair the Company's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the company's securities could decline significantly, and investors could lose all or part of their investment in the Company's common stock.

### **Market and Interest Rate Risk**

#### *Changes in interest rates could reduce income and cash flow.*

The discussion in this report under "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset, Liability and Market Risk Management" and "- Liquidity and Funding" and "Item 7A Quantitative and Qualitative Disclosures About Market Risk" is incorporated by reference in this paragraph. The Company's income and cash flow depend to a great extent on the difference between the interest earned on loans and investment securities and the interest paid on deposits and other borrowings, and the Company's success in competing for loans and deposits. The Company cannot control or prevent changes in the level of interest rates which fluctuate in response to general economic conditions, the policies of various governmental and regulatory agencies, in particular, the Federal Open Market Committee of the FRB, and pricing practices of the Company's competitors. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and other borrowings, and the rates received on loans and investment securities and paid on deposits and other liabilities.

#### *Changes in capital market conditions could reduce asset valuations.*

Capital market conditions, including liquidity, investor confidence, bond issuer credit worthiness, perceived counter-party risk, the supply of and demand for financial instruments, the financial strength of market participants, and other factors can materially impact the value of the Company's assets. An impairment in the value of the

Company's assets could result in asset write-downs, reducing the Company's asset values, earnings, and equity.

***The value of securities in the Company's investment securities portfolio may be negatively affected by disruptions in securities markets***

The market for some of the investment securities held in the Company's portfolio can be extremely volatile. Volatile market conditions may detrimentally affect the value of these securities, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that the declines in market value will not result in other than temporary impairments of these assets, which would lead to loss recognition that could have a material adverse effect on the Company's net income and capital levels.

***The weakness of other financial institutions could adversely affect the Company.***

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of default of the Company's counterparty or client. In addition, the Company's credit risk may be increased when the collateral the Company holds cannot be realized or is liquidated at prices not sufficient to recover the full amount of the secured obligation. There is no assurance that any such losses would not materially and adversely affect the Company's results of operations or earnings.

***Shares of Company common stock eligible for future sale or grant of stock options could have a dilutive effect on the market for Company common stock and could adversely affect the market price.***

The Articles of Incorporation of the Company authorize the issuance of 150 million shares of common stock (and two additional classes of 1 million shares each, denominated "Class B Common Stock" and "Preferred Stock", respectively) of which approximately 25.5 million shares of common stock were outstanding at December 31, 2015. Pursuant to its stock option plans, at December 31, 2015, the Company had outstanding options for 1.5 million shares of common stock, of which 1.1 million were currently exercisable. As of December 31, 2015, 1.5 million shares of Company common stock remained available for grants under the Company's stock option plans. Sales of substantial amounts of Company common stock in the public market could adversely affect the market price of its common stock.

*The Company's payment of dividends on common stock could be eliminated or reduced.*

Holders of the Company's common stock are entitled to receive dividends only when, as and if declared by the Company's Board of Directors. Although the Company has historically paid cash dividends on the Company's common stock, the Company is not required to do so and the Company's Board of Directors could reduce or eliminate the Company's common stock dividend in the future.

*The Company could repurchase shares of its common stock at price levels considered excessive.*

The Company repurchases and retires its common stock in accordance with Board of Directors-approved share repurchase programs. At December 31, 2015, approximately 1.7 million shares remained available to repurchase under such plans. The Company has been active in repurchasing and retiring shares of its common stock when alternative uses of excess capital, such as acquisitions, have been limited. The Company could repurchase shares of its common stock at price levels considered excessive, thereby spending more cash on such repurchases as deemed reasonable and effectively retiring fewer shares than would be retired if repurchases were affected at lower prices.

#### **Risks Related to the Nature and Geographical Location of the Company's Business**

*The Company invests in loans that contain inherent credit risks that may cause the Company to incur losses.*

The Company can provide no assurance that the credit quality of the loan portfolio will not deteriorate in the future and that such deterioration will not adversely affect the Company.

*The Company's operations are concentrated geographically in California, and poor economic conditions may cause the Company to incur losses.*

Substantially all of the Company's business is located in California. A portion of the loan portfolio of the Company is dependent on real estate. At December 31, 2015, real estate served as the principal source of collateral with respect to approximately 53% of the Company's loan portfolio. The Company's financial condition and operating results will be subject to changes in economic conditions in California. The California economy is recovering from a severe recession. Much of the California real estate market experienced a decline in values of varying degrees. This decline had an adverse impact on the business of some of the Company's borrowers and on the value of the collateral for many of the Company's loans. Generally, the counties surrounding and near San Francisco Bay have been recovering from the recent recession more soundly than counties in the California "Central Valley," from Sacramento in the north to

Bakersfield in the south. Approximately 25% of the Company's loans are to borrowers in the California "Central Valley." Economic conditions in California are subject to various uncertainties at this time, including the pace of recovery in construction and real estate sectors, the effect of drought on the agricultural sector and its infrastructure, and the California state government's budgetary difficulties and fiscal condition. The Company can provide no assurance that conditions in the California economy will not deteriorate in the future and that such deterioration will not adversely affect the Company.

*The markets in which the Company operates are subject to the risk of earthquakes and other natural disasters.*

All of the properties of the Company are located in California. Also, most of the real and personal properties which currently secure a majority of the Company's loans are located in California. California is prone to earthquakes, brush and forest fires, flooding, drought and other natural disasters. In addition to possibly sustaining uninsured damage to its own properties, if there is a major earthquake, flood, drought, fire or other natural disaster, the Company faces the risk that many of its borrowers may experience uninsured property losses, or sustained job interruption and/or loss which may materially impair their ability to meet the terms of their loan obligations. A major earthquake, flood, prolonged drought, fire or other natural disaster in California could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

***Adverse changes in general business or economic conditions could have a material adverse effect on the Company's financial condition and results of operations.***

A sustained or continuing weakness or weakening in business and economic conditions generally or specifically in the principal markets in which the Company does business could have one or more of the following adverse impacts on the Company's business:

- a decrease in the demand for loans and other products and services offered by the Company;
- an increase or decrease in the usage of unfunded credit commitments;
- a decrease in the amount of deposits;
- a decrease in non-depository funding available to the Company;
- an impairment of certain intangible assets, such as goodwill;

an increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company, which could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses, and valuation adjustments on assets;

- an impairment in the value of investment securities;
- an impairment in the value of life insurance policies owned by the Company;
- an impairment in the value of real estate owned by the Company.

The recent financial crisis led to the failure or merger of a number of financial institutions. Financial institution failures can result in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Weak economic conditions can significantly weaken the strength and liquidity of financial institutions.

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, in the State of California and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, healthy labor markets, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, high rates of unemployment, deflation, declines in business activity or consumer, investor or business confidence; limitations on the availability of or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

Such business conditions could adversely affect the credit quality of the Company's loans, the demand for loans, loan volumes and related revenue, securities valuations, amounts of deposits, availability of funding, results of operations and financial condition.

## **Regulatory Risks**

*Restrictions on dividends and other distributions could limit amounts payable to the Company.*

As a holding company, a substantial portion of the Company's cash flow typically comes from dividends paid by the Bank. Various statutory provisions restrict the amount of dividends the Company's subsidiaries can pay to the Company without regulatory approval. A reduction in subsidiary dividends paid to the Company could limit the capacity of the Company to pay dividends. In addition, if any of the Company's subsidiaries were to liquidate, that subsidiary's creditors will be entitled to receive distributions from the assets of that subsidiary to satisfy their claims against it before the Company, as a holder of an equity interest in the subsidiary, will be entitled to receive any of the assets of the subsidiary.

*Adverse effects of changes in banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect the Company.*

The Company is subject to significant federal and state regulation and supervision, which is primarily for the benefit and protection of the Company's customers and not for the benefit of investors. In the past, the Company's business has been materially affected by these regulations. As an example, the FRB amended Regulation E, which implements the Electronic Fund Transfer Act, in a manner that limits the ability of a financial institution to assess an overdraft fee for paying automated teller machine (ATM) and one-time debit card transactions that overdraw a consumer's account, unless the consumer affirmatively consents, or opts in, to the institution's payment of overdrafts for these transactions. Implementation of the new provisions significantly reduced overdraft fees assessed by the Bank.



Laws, regulations or policies, including accounting standards and interpretations currently affecting the Company and the Company's subsidiaries, may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, the Company's business may be adversely affected by any future changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement including future acts of terrorism, major U.S. corporate bankruptcies and reports of accounting irregularities at U.S. public companies.

Additionally, the Company's business is affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States of America. Among the instruments of monetary policy available to the FRB are (a) conducting open market operations in U.S. government securities, (b) changing the discount rates of borrowings by depository institutions, (c) changing interest rates paid on balances financial institutions deposit with the FRB, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the FRB may have a material effect on the Company's business, results of operations and financial condition. Under long-standing policy of the FRB, a BHC is expected to act as a source of financial strength for its subsidiary banks. As a result of that policy, the Company may be required to commit financial and other resources to its subsidiary bank in circumstances where the Company might not otherwise do so.

Following the most recent recession, the FRB has been providing vast amounts of liquidity into the banking system. The FRB has been purchasing large quantities of U.S. government securities, including agency-backed mortgage securities, increasing the demand for such securities thereby reducing interest rates. The FRB began reducing these asset purchase activities in the fourth quarter 2013 and the Federal Open Market Committee increased the target range for the federal funds rate to 1/4 to 1/2 percent on December 16, 2015 which could reduce liquidity in the markets and cause interest rates to rise, thereby increasing funding costs to the Bank, reducing the availability of funds to the Bank to finance its existing operations, and causing fixed-rate investment securities and loans to decline in value.

***Federal and state governments could pass legislation detrimental to the Company's performance.***

As an example, the Company could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Company could experience higher credit losses because of federal or state legislation or regulatory action that limits or delays the Bank's ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

The FDIC insures deposits at insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. The FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund.

The behavior of depositors in regard to the level of FDIC insurance could cause our existing customers to reduce the amount of deposits held at the Bank, and could cause new customers to open deposit accounts at the Bank. The level and composition of the Bank's deposit portfolio directly impacts the Bank's funding cost and net interest margin.

### **Systems, Accounting and Internal Control Risks**

*The accuracy of the Company's judgments and estimates about financial and accounting matters will impact operating results and financial condition.*

The discussion under "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in this report and the information referred to in that discussion is incorporated by reference in this paragraph. The Company makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Company's operating results and financial condition.

*The Company's information systems may experience an interruption or breach in security.*

The Company relies heavily on communications and information systems, including those of third party vendors and other service providers, to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's data processing, accounting, customer relationship management and other systems. Communication and information systems failures can result from a variety of risks including, but not limited to, events that are wholly or partially out of the Company's control, such as telecommunication line integrity, weather, terrorist acts, natural disasters, accidental disasters, unauthorized breaches of security systems, energy delivery systems, cyber attacks, and other events. Although the Company devotes significant resources to maintain and regularly upgrade its systems and processes that are designed to protect the security of the Company's computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to the Company and its customers, there is no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected by the Company or its vendors. The occurrence of any such failures, interruptions or security breaches could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

*The Company's controls and procedures may fail or be circumvented.*

Management regularly reviews and updates the Company's internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. The Company maintains controls and procedures to mitigate against risks such as processing system failures and errors, and customer or employee fraud, and maintains insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by the Company's internal controls or are not insured against or are in excess of the Company's insurance limits or insurance underwriters' financial capacity. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

**Branch Offices and Facilities**

Westamerica Bank is engaged in the banking business through 88 branch offices in 21 counties in Northern and Central California. WAB believes all of its offices are constructed and equipped to meet prescribed security requirements.

The Company owns 32 banking office locations and one centralized administrative service center facility and leases 64 facilities. Most of the leases contain renewal options and provisions for rental increases, principally for changes in the cost of living index, and for changes in other operating costs such as property taxes and maintenance.

**ITEM 3. 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 4. MINE SAFETY DISCLOSURES**

Not applicable

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**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's common stock is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "WABC". The following table shows the high and the low sales prices for the common stock, for each quarter, as reported by NASDAQ:

	High	Low
2015:		
First quarter	\$49.45	\$40.57
Second quarter	52.16	42.09
Third quarter	52.40	42.97
Fourth quarter	49.89	41.99
2014:		
First quarter	\$56.51	\$48.36
Second quarter	55.34	47.85
Third quarter	53.93	46.12
Fourth quarter	51.24	42.71

As of January 31, 2016, there were approximately 6,100 shareholders of record of the Company's common stock.

The Company has paid cash dividends on its common stock in every quarter since its formation in 1972. See Item 8, Financial Statements and Supplementary Data, Note 20 to the Consolidated Financial Statements for recent quarterly dividend information. It is currently the intention of the Board of Directors of the Company to continue payment of cash dividends on a quarterly basis. There is no assurance, however, that any dividends will be paid since they are dependent upon earnings, cash balances, financial condition and capital requirements of the Company and its subsidiaries as well as policies of the FRB pursuant to the BHCA. See Item 1, "Business - Supervision and Regulation."

The notes to the consolidated financial statements included in this report contain additional information regarding the Company's capital levels, capital structure, regulations affecting subsidiary bank dividends paid to the Company, the Company's earnings, financial condition and cash flows, and cash dividends declared and paid on common stock.

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**Stock performance**

The following chart compares the cumulative return on the Company's stock during the ten years ended December 31, 2015 with the cumulative return on the S&P 500 composite stock index and NASDAQ'S Bank Index. The comparison assumes \$100 invested in each on December 31, 2005 and reinvestment of all dividends.

	December 31,					
	2005	2006	2007	2008	2009	2010
Westamerica Bancorporation (WABC)	\$100.00	\$97.91	\$88.64	\$104.44	\$116.37	\$119.73
S&P 500 (SPX)	100.00	115.78	122.14	76.96	97.33	112.01
NASDAQ Bank Index (CBNK)	100.00	113.80	91.16	71.54	59.88	68.37

	December 31,				
	2011	2012	2013	2014	2015
Westamerica Bancorporation (WABC)	\$97.70	\$97.92	\$133.99	\$119.96	\$118.42
S&P 500 (SPX)	114.35	132.63	175.55	199.52	202.28
NASDAQ Bank Index (CBNK)	61.19	72.65	102.94	107.99	117.54

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The following chart compares the cumulative return on the Company's stock during the five years ended December 31, 2015 with the cumulative return on the S&P 500 composite stock index and NASDAQ'S Bank Index. The comparison assumes \$100 invested in each on December 31, 2010 and reinvestment of all dividends.

	December 31,					
	2010	2011	2012	2013	2014	2015
Westamerica Bancorporation (WABC)	\$100.00	\$81.60	\$81.79	\$111.91	\$100.19	\$98.91
S&P 500 (SPX)	100.00	102.09	118.41	156.73	178.13	180.59
NASDAQ Bank Index (CBNK)	100.00	89.49	106.26	150.56	157.95	171.92

## ISSUER PURCHASES OF EQUITY SECURITIES

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended December 31, 2015 (in thousands, except per share data).

Period	2015		(c) Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
	(a) Total Number of shares Purchased	(b) Average Price Paid per Share		
	(In thousands, except exercise price)			
October 1 through October 31	2	\$43.01	2	1,727
November 1 through November 30	-	-	-	1,727
December 1 through December 31	-	-	-	1,727
Total	2	43.01	2	1,727

No shares were purchased during the fourth quarter 2015 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 fourth quarter 2015 pursuant to a program approved by the Board of Directors on July 23, 2015 authorizing the purchase of up to 1,750 thousand shares of the Company's common stock from time to time prior to September 1, 2016.

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**ITEM 6. SELECTED FINANCIAL DATA**

The following financial information for the five years ended December 31, 2015 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with those statements, notes and other information included elsewhere herein.

**WESTAMERICA BANCORPORATION****FINANCIAL SUMMARY**

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data and ratios)				
Interest and loan fee income	\$ 136,529	\$ 140,209	\$ 154,396	\$ 183,364	\$ 207,979
Interest expense	2,424	3,444	4,671	5,744	8,382
Net interest and loan fee income	134,105	136,765	149,725	177,620	199,597
Provision for loan losses	-	2,800	8,000	11,200	11,200
Noninterest income:					
Net losses from securities	-	-	-	(1,287)	-
Deposit service charges and other	47,867	51,787	57,011	58,309	60,097
Total noninterest income	47,867	51,787	57,011	57,022	60,097
Noninterest expense:					
Settlements	-	-	-	-	2,100
Other noninterest expense	105,300	106,799	112,614	116,885	125,578
Total noninterest expense	105,300	106,799	112,614	116,885	127,678
Income before income taxes	76,672	78,953	86,122	106,557	120,816
Income tax provision	17,919	18,307	18,945	25,430	32,928
Net income	\$ 58,753	\$ 60,646	\$ 67,177	\$ 81,127	\$ 87,888
Average common shares outstanding	25,555	26,099	26,826	27,654	28,628
Average diluted common shares outstanding	25,577	26,160	26,877	27,699	28,742
Common shares outstanding at December 31,	25,528	25,745	26,510	27,213	28,150
Per common share:					
Basic earnings	\$ 2.30	\$ 2.32	\$ 2.50	\$ 2.93	\$ 3.07
Diluted earnings	2.30	2.32	2.50	2.93	3.06
Book value at December 31,	20.85	20.45	20.48	20.58	19.85
Financial ratios:					
Return on assets	1.16	% 1.22	% 1.38	% 1.64	% 1.78
Return on common equity	11.32	% 11.57	% 12.48	% 14.93	% 16.14
Net interest margin (FTE) <sup>(1)</sup>	3.36	% 3.70	% 4.08	% 4.79	% 5.32

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Net loan losses to average loans	0.11	%	0.17	%	0.33	%	0.59	%	0.52	%
Efficiency ratio <sup>(2)</sup>	53.69	%	52.24	%	50.11	%	46.01	%	45.77	%
Equity to assets	10.30	%	10.46	%	11.20	%	11.31	%	11.08	%
Period end balances:										
Assets	\$5,168,875		\$5,035,724		\$4,847,055		\$4,952,193		\$5,042,161	
Loans	1,533,396		1,700,290		1,827,744		2,111,357		2,523,806	
Allowance for loan losses	29,771		31,485		31,693		30,234		32,597	
Investment securities	2,886,291		2,639,439		2,211,680		1,981,677		1,561,556	
Deposits	4,540,659		4,349,191		4,163,781		4,232,492		4,249,921	
Identifiable intangible assets and goodwill	132,104		135,960		140,230		144,934		150,302	
Short-term borrowed funds	53,028		89,784		62,668		53,687		115,689	
Federal Home Loan Bank advances	-		20,015		20,577		25,799		26,023	
Term repurchase agreement	-		-		10,000		10,000		10,000	
Debt financing	-		-		-		15,000		15,000	
Shareholders' equity	532,205		526,603		542,934		560,102		558,641	
Capital ratios at period end:										
Total risk based capital	13.39	%	14.54	%	16.18	%	16.33	%	15.75	%
Tangible equity to tangible assets	7.94	%	7.97	%	8.56	%	8.64	%	8.35	%
Dividends paid per common share	\$1.53		\$1.52		\$1.49		\$1.48		\$1.45	
Common dividend payout ratio	67	%	66	%	60	%	51	%	47	%

Yields on securities and certain loans have been adjusted upward to a "fully taxable equivalent" ("FTE") basis, (1) 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 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion addresses information pertaining to the financial condition and results of operations of Westamerica Bancorporation and subsidiaries (the "Company") that may not be otherwise apparent from a review of the consolidated financial statements and related footnotes. It should be read in conjunction with those statements and notes found on pages 48 through 89, as well as with the other information presented throughout this Report.

### **Critical Accounting Policies**

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the banking industry. 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.

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements. 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.

### **Net Income**

In response to the “great recession” of 2008 and early 2009, 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 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 during the five years ended December 31, 2015 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 has been 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 loans at December 31, 2015 declined 15.5 percent compared with December 31, 2014 and net loan losses have also declined from \$3.0 million in 2014 to \$1.7 million in 2015. The improvement in credit quality has resulted in Management reducing the provision for loan losses to zero in 2015 from \$2.8 million in 2014 and \$8.0 million in 2013. Management is focused on controlling all noninterest expense levels, particularly due to market interest rate pressure on net interest income.

The Company reported net income of \$58.8 million or \$2.30 diluted earnings per common share for the year ended December 31, 2015 compared with net income of \$60.6 million or \$2.32 diluted earnings per common share for the year ended December 31, 2014 and net income of \$67.2 million or \$2.50 diluted earnings per common share for the year ended December 31, 2013.

## Components of Net Income

	For the Years Ended December 31,		
	2015	2014	2013
	(\$ in thousands, except per share data)		
Net interest and loan fee income (FTE) <sup>(1)</sup>	\$148,258	\$152,656	\$167,737
Provision for loan losses	-	(2,800 )	(8,000 )
Noninterest income	47,867	51,787	57,011
Noninterest expense	(105,300)	(106,799)	(112,614)
Income before income taxes (FTE) <sup>(1)</sup>	90,825	94,844	104,134
Income taxes (FTE) <sup>(1)</sup>	(32,072 )	(34,198 )	(36,957 )
Net income	\$58,753	\$60,646	\$67,177
Net income per average fully-diluted common share	\$2.30	\$2.32	\$2.50
Net income as a percentage of average shareholders' equity	11.32 %	11.57 %	12.48 %
Net income as a percentage of average total assets	1.16 %	1.22 %	1.38 %

<sup>(1)</sup> Fully taxable equivalent (FTE)

Comparing 2015 with 2014, net income decreased \$1.9 million or 3.1%, primarily due to lower net interest and loan fee income (FTE) and lower noninterest income, partially offset by decreases in loan loss provision, noninterest expense and income tax provision (FTE). The lower net interest and loan fee income (FTE) was primarily caused by a lower average volume of loans and lower yields on interest-earning assets, partially offset by higher average balances of investments and lower average balances of higher-costing interest-bearing liabilities. The provision for loan losses was reduced, reflecting Management's evaluation of losses inherent in the loan portfolio; net loan losses and nonperforming loan volumes have declined relative to earlier periods. Lower noninterest income was mostly attributable to lower merchant processing service fees and lower service charges on deposit accounts. Noninterest expense decreased primarily due to reduced personnel costs and other operational expenses.

Comparing 2014 with 2013, net income decreased \$6.5 million primarily due to lower net interest and fee income (FTE) and lower noninterest income, partially offset by decreases in the provision for loan losses, noninterest expense and income tax provision (FTE). The lower net interest and fee income (FTE) was primarily caused by a lower average volume of loans and lower yields on interest earning assets, partially offset by higher average balances of investments and lower average balances of higher-costing interest-bearing liabilities. The provision for loan losses was reduced, reflecting Management's evaluation of losses inherent in the loan portfolio. Lower noninterest income was mostly attributable to lower merchant processing service fees and lower service charges on deposit accounts. Noninterest expense decreased mostly due to reduced OREO expense net of disposition gains, lower personnel costs and other operational expenses.

**Net Interest and Loan Fee Income (FTE)**

The Company's primary source of revenue is net interest income, or the difference between interest income earned on loans and investment securities and interest expense paid on interest-bearing deposits and other borrowings.

Components of Net Interest and Loan Fee Income (FTE)

	For the Years Ended December 31,		
	2015	2014	2013
	(\$ in thousands)		
Interest and loan fee income	\$136,529	\$140,209	\$154,396
Interest expense	(2,424 )	(3,444 )	(4,671 )
FTE adjustment	14,153	15,891	18,012
Net interest and loan fee income (FTE) <sup>(1)</sup>	\$148,258	\$152,656	\$167,737
Net interest margin (FTE) <sup>(1)</sup>	3.36 %	3.70 %	4.08 %

<sup>(1)</sup> Fully taxable equivalent (FTE)



Comparing 2015 with 2014, net interest and fee income (FTE) decreased \$4.4 million or 2.9% primarily due to a lower average volume of loans (down \$155 million) and lower yields on interest-earning assets (FTE) (down 37 basis points “bp”), partially offset by higher average balances of investments (up \$436 million) and lower average balances of higher-costing interest-bearing liabilities.

Comparing 2014 with 2013, net interest and fee income (FTE) decreased \$15.1 million or 9.0% primarily due to a lower average volume of loans (down \$182 million) and lower yields on interest-earning assets (FTE) (down 41 basis points “bp”), partially offset by higher average balances of investments (up \$206 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 3.36% in 2015, 3.70% in 2014 and 4.08% in 2013. During the three years ended December 31, 2015, the net interest margin (FTE) was affected by declining market interest rates. 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 assuming market interest rates start rising. The Company has been purchasing securities of U. S. government sponsored entities which have call options; the issuing entities have been exercising the call options, and the Company has re-invested the proceeds at prevailing market rates; interest rates in the two to five-year time horizon were volatile throughout 2015 providing some opportunity to re-invest cash flows at higher yields.

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 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 \$15 million long-term note was repaid in October 2013 and a \$10 million term repurchase agreement was repaid in August 2014. Federal Home Loan Bank (“FHLB”) advances were repaid in January 2015. Average balances of time deposits declined \$100 million in 2015 compared with 2014. Lower-cost checking and savings deposits accounted for 92.5% of total average deposits in 2015 compared with 89.8% in 2014 and 86.3% in 2013.

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

The following tables present information regarding the consolidated average assets, liabilities and shareholders' equity, the amounts of interest income earned from average interest earning assets and the resulting yields, and the amounts of interest expense incurred on average interest-bearing liabilities and the resulting rates. Average loan balances include nonperforming loans. Interest income includes 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.

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

	For the Year Ended December 31, 2015		
	Average Balance (\$ in thousands)	Interest Income/ Expense	Yields/ Rates
<b>Assets</b>			
Investment securities:			
Taxable	\$1,947,835	\$34,472	1.77%
Tax-exempt <sup>(1)</sup>	849,618	36,284	4.27%
Total investments <sup>(1)</sup>	2,797,453	70,756	2.53%
Loans:			
Taxable	1,542,264	75,677	4.91%
Tax-exempt <sup>(1)</sup>	76,007	4,249	5.59%
Total loans <sup>(1)</sup>	1,618,271	79,926	4.94%
Total interest-earning assets <sup>(1)</sup>	4,415,724	150,682	3.41%
Other assets	668,276		
Total assets	\$5,084,000		
<b>Liabilities and shareholders' equity</b>			
Deposits:			
Noninterest-bearing demand	\$1,968,817	\$-	- %
Savings and interest-bearing transaction	2,134,256	1,112	0.05%
Time less than \$100,000	172,836	571	0.33%
Time \$100,000 or more	161,710	687	0.42%
Total interest-bearing deposits	2,468,802	2,370	0.10%
Short-term borrowed funds	75,054	53	0.07%
Federal Home Loan Bank advances	494	1	0.20%
Total interest-bearing liabilities	2,544,350	2,424	0.10%
Other liabilities	51,707		
Shareholders' equity	519,126		

Total liabilities and shareholders' equity	\$5,084,000	
Net interest spread <sup>(1) (2)</sup>		3.31%
Net interest and fee income and interest margin <sup>(1) (3)</sup>	\$ 148,258	3.36%

(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 net interest margin is greater than the net interest spread due to the benefit of noninterest-bearing demand deposits.

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

	For the Year Ended December 31, 2014		
	Average Balance (\$ in thousands)	Interest Income/ Expense	Yields/ Rates
<b>Assets</b>			
<b>Investment securities:</b>			
Taxable	\$1,474,579	\$24,766	1.68 %
Tax-exempt <sup>(1)</sup>	886,932	40,525	4.57 %
Total investments <sup>(1)</sup>	2,361,511	65,291	2.76 %
<b>Loans:</b>			
Taxable	1,685,329	85,787	5.09 %
Tax-exempt <sup>(1)</sup>	87,633	5,022	5.73 %
Total loans <sup>(1)</sup>	1,772,962	90,809	5.12 %
Total interest-earning assets <sup>(1)</sup>	4,134,473	156,100	3.78 %
Other assets	821,170		
Total assets	\$4,955,643		
<b>Liabilities and shareholders' equity</b>			
<b>Deposits:</b>			
Noninterest-bearing demand	\$1,841,522	\$-	- %
Savings and interest-bearing transaction	2,005,502	1,174	0.06 %
Time less than \$100,000	197,821	820	0.41 %
Time \$100,000 or more	237,002	893	0.38 %
Total interest-bearing deposits	2,440,325	2,887	0.12 %
Short-term borrowed funds	70,252	90	0.13 %
Federal Home Loan Bank advances	20,308	407	2.00 %
Term repurchase agreement	6,082	60	0.99 %
Total interest-bearing liabilities	2,536,967	3,444	0.14 %
Other liabilities	52,866		
Shareholders' equity	524,288		
Total liabilities and shareholders' equity	\$4,955,643		
Net interest spread <sup>(1) (2)</sup>			3.64 %
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$152,656	3.70 %

(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.

Net interest margin is computed by calculating the difference between interest income and expense, divided by the

(3) average balance of interest-earning assets. The net interest margin is greater than the net interest spread due to the benefit of noninterest-bearing demand deposits.



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

	For the Year Ended December 31, 2013		
	Average Balance (\$ in thousands)	Interest Income/ Expense	Yields/ Rates
<b>Assets</b>			
<b>Investment securities:</b>			
Taxable	\$1,254,474	\$22,201	1.77%
Tax-exempt <sup>(1)</sup>	900,616	45,396	5.04%
Total investments <sup>(1)</sup>	2,155,090	67,597	3.13%
<b>Loans:</b>			
Taxable	1,847,710	98,547	5.33%
Tax-exempt <sup>(1)</sup>	106,871	6,264	5.86%
Total loans <sup>(1)</sup>	1,954,581	104,811	5.36%
Total interest-earning assets <sup>(1)</sup>	4,109,671	172,408	4.19%
Other assets	754,191		
Total assets	\$4,863,862		
<b>Liabilities and shareholders' equity</b>			
<b>Deposits:</b>			
Noninterest-bearing demand	\$1,683,447	\$-	- %
Savings and interest-bearing transaction	1,910,131	1,182	0.06%
Time less than \$100,000	228,061	1,070	0.47%
Time \$100,000 or more	341,184	1,096	0.32%
Total interest-bearing deposits	2,479,376	3,348	0.14%
Short-term borrowed funds	57,454	77	0.13%
Federal Home Loan Bank advances	25,499	480	1.88%
Term repurchase agreement	10,000	98	0.98%
Debt financing	12,452	668	5.37%
Total interest-bearing liabilities	2,584,781	4,671	0.18%
Other liabilities	57,469		
Shareholders' equity	538,165		
Total liabilities and shareholders' equity	\$4,863,862		
Net interest spread <sup>(1) (2)</sup>			4.01%
Net interest and fee income and interest margin <sup>(1) (3)</sup>		\$167,737	4.08%

(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.

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





### 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 Year Ended December 31, 2015		
	Compared with		
	For the Year Ended December 31, 2014		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	\$7,948	\$ 1,758	\$9,706
Tax-exempt <sup>(1)</sup>	(1,705)	(2,536 )	(4,241 )
Total investments <sup>(1)</sup>	6,243	(778 )	5,465
Loans:			
Taxable	(7,282)	(2,828 )	(10,110)
Tax-exempt <sup>(1)</sup>	(666 )	(107 )	(773 )
Total loans <sup>(1)</sup>	(7,948)	(2,935 )	(10,883)
Total decrease in interest and loan fee income <sup>(1)</sup>	(1,705)	(3,713 )	(5,418 )
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	75	(137 )	(62 )
Time less than \$100,000	(104 )	(145 )	(249 )
Time \$100,000 or more	(284 )	78	(206 )
Total interest-bearing deposits	(313 )	(204 )	(517 )
Short-term borrowed funds	6	(43 )	(37 )
Federal Home Loan Bank advances	(397 )	(9 )	(406 )
Term repurchase agreement	(60 )	-	(60 )
Total decrease in interest expense	(764 )	(256 )	(1,020 )
Decrease in net interest and loan fee income <sup>(1)</sup>	\$(941 )	\$(3,457 )	\$(4,398 )
Federal Home Loan Bank advances			

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

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## Summary of Changes in Interest Income and Expense

	For the Year Ended December 31, 2014		
	Compared with For the Year Ended December 31, 2013		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	\$3,957	\$(1,392 )	\$2,565
Tax-exempt <sup>(1)</sup>	(770 )	(4,101 )	(4,871 )
Total investments <sup>(1)</sup>	3,187	(5,493 )	(2,306 )
Loans:			
Taxable	(7,846)	(4,914 )	(12,760)
Tax-exempt <sup>(1)</sup>	(1,128)	(114 )	(1,242 )
Total loans <sup>(1)</sup>	(8,974)	(5,028 )	(14,002)
Total decrease in interest and loan fee income <sup>(1)</sup>	(5,787)	(10,521 )	(16,308)
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	59	(67 )	(8 )
Time less than \$100,000	(142 )	(108 )	(250 )
Time \$100,000 or more	(335 )	132	(203 )
Total interest-bearing deposits	(418 )	(43 )	(461 )
Short-term borrowed funds	17	(4 )	13
Federal Home Loan Bank advances	(97 )	24	(73 )
Term repurchase agreement	(38 )	-	(38 )
Debt financing	(668 )	-	(668 )
Total decrease in interest expense	(1,204)	(23 )	(1,227 )
Decrease in net interest and loan fee income <sup>(1)</sup>	\$(4,583)	\$(10,498 )	\$(15,081)
Federal Home Loan Bank advances			

<sup>(1)</sup>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 2015 compared with \$2.8 million in 2014 and \$8.0 million in 2013. The provision for loan losses is determined based on Management's evaluation of credit quality for the loan portfolio. The reduction in the provision for loan losses in 2015 and 2014 reflects the decline in net losses and nonperforming loan volumes during the periods relative to earlier periods. 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 Loan Losses" sections of this report.

**Noninterest Income**

## Components of Noninterest Income

	For the Years Ended		
	December 31,		
	2015	2014	2013
	(In thousands)		
Service charges on deposit accounts	\$22,241	\$24,191	\$25,693
Merchant processing services	6,339	7,219	9,031
Debit card fees	6,084	5,960	5,829
Other service charges	2,689	2,717	2,846
Trust fees	2,732	2,582	2,313
ATM processing fees	2,397	2,473	2,758
Financial services commissions	695	757	831
Other	4,690	5,888	7,710
Total	\$47,867	\$51,787	\$57,011

In 2015, noninterest income decreased \$3.9 million or 7.6% compared with 2014. Service charges on deposits decreased \$2.0 million compared with 2014 due to declines in fees charged on overdrawn and insufficient funds accounts (down \$913 thousand), lower fees on analyzed accounts (down \$661 thousand) and lower activity on checking accounts (down \$325 thousand). Merchant processing services declined \$880 thousand primarily due to lower transaction volumes.

In 2014, noninterest income decreased \$5.2 million or 9.2% compared with 2013. Merchant processing services fees decreased \$1.8 million primarily due to lower transaction volumes. Service charges on deposits decreased \$1.5 million compared with 2013 primarily due to declines in fees charged on overdrawn and insufficient funds accounts (down \$1.0 million) and lower activity on checking accounts (down \$410 thousand). ATM processing fees decreased \$285 thousand mainly because the Bank customers had fewer transactions at non-Westamerica ATMs and other cash dispensing terminals. Other noninterest income decreased \$1.8 million primarily due to the recognition in 2013 of a loan principal recovery exceeding the purchase date fair value. Trust fees increased \$269 thousand mostly due to marketing efforts to increase customer accounts and higher court-approved fees. Debit card fees increased \$131 thousand primarily due to higher transaction volumes.

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**Noninterest Expense**

## Components of Noninterest Expense

	For the Years Ended December		
	31,		
	2015	2014	2013
	(In thousands)		
Salaries and related benefits	\$52,192	\$54,777	\$56,633
Occupancy	14,960	14,992	15,137
Outsourced data processing services	8,441	8,411	8,548
Furniture and equipment	4,434	4,174	3,869
Amortization of intangible assets	3,856	4,270	4,704
Professional fees	2,490	2,346	3,057
Courier service	2,329	2,624	2,868
Other real estate owned	504	(642 )	1,035
Other	16,094	15,847	16,763
Total	\$105,300	\$106,799	\$112,614

In 2015, noninterest expense decreased \$1.5 million or 1.4% compared with 2014 primarily due to decreases in personnel costs and other operational expenses. Salaries and related benefits decreased \$2.6 million primarily due to employee attrition. Amortization of identifiable intangibles decreased as assets are amortized on a declining balance method. Courier expense decreased primarily due to consolidating service runs. OREO expense in 2015 included net writedowns while in 2014 the Company realized net gains on disposition of foreclosed assets. Furniture and equipment expense increased primarily due to higher depreciation costs resulting from computer and software upgrades and higher software license fees.

In 2014, noninterest expense decreased \$5.8 million or 5.2% compared with 2013. Salaries and related benefits decreased \$1.9 million primarily due to employee attrition. Expenses for other real estate owned, net of disposition gains, declined \$1.7 million due to higher net gains on sale of repossessed loan collateral. Professional fees declined \$711 thousand due to lower legal fees associated with nonperforming assets. Amortization of identifiable intangibles decreased \$434 thousand as assets are amortized on a declining balance method. Other noninterest expense decreased \$916 thousand primarily due to lower loan administration costs and lower limited partnership operating losses. Furniture and equipment expenses increased \$305 thousand primarily due to increased depreciation costs associated with computer system and software upgrades.

**Provision for Income Tax**

The income tax provision (FTE) was \$32.1 million in 2015 compared with \$34.2 million in 2014 and \$37.0 million in 2013. The 2015 effective tax rate (FTE) was 35.3% compared with 36.1% in 2014 and 35.5% in 2013. The effective tax rates without FTE adjustments were 23.4% for 2015 and 23.2% for 2014 and 22.0% for 2013. The 2015 tax provision included adjustments based on filing the 2014 federal and state tax returns and tax benefits from completing audits with the California Franchise Tax Board and recognizing California enterprise zone hiring credits for filed amended returns (2010). The 2014 tax provision reflected an adjustment based on filing 2013 federal tax return and tax benefits from completing audits with the California Franchise Tax Board.

Effective January 1, 2014, the new legislation signed by California's Governor Jerry Brown eliminated the net interest deduction for enterprise zone loans and the hiring credits were significantly altered. The Company did not incur a significant change in its tax provision due to the new laws; the state tax benefits recognized from the current enterprise zone tax incentive program for the years ended December 31, 2014 and 2013 were \$47 thousand and \$121 thousand, net of federal income tax consequences, respectively.

### **Investment Portfolio**

The Company maintains a securities portfolio consisting of securities issued by U.S. Treasury, U.S. Government sponsored entities, agency and non-agency mortgage backed securities, 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 \$2.9 billion as of December 31, 2015, an increase of \$247 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.

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, mortgage-backed securities, and short-term state and municipal bonds. As of December 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 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 table shows the fair value carrying amount of the Company's investment securities available for sale as of the dates indicated:

#### Available for Sale Portfolio

	At December 31,		
	2015	2014	2013
	(In thousands)		
U.S. Treasury securities	\$-	\$3,505	\$3,506
Securities of U.S. Government sponsored entities	301,882	635,188	130,492
Agency residential mortgage-backed securities (MBS)	18,874	26,407	34,176
Non-agency commercial MBS	2,379	2,919	3,425
Agency residential collateralized mortgage obligations (CMO)	183,670	221,851	251,440
Non-agency residential CMO	370	606	1,456
Obligations of states and political subdivisions	157,509	181,799	191,386
Asset-backed securities	2,003	8,313	14,555
FHLMC and FNMA stock	4,329	5,168	13,372
Corporate securities	896,369	512,239	432,431
Other securities	2,831	2,786	3,142



Total	\$1,570,216	\$1,600,781	\$1,079,381
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The following table sets forth the relative maturities and contractual yields of the Company's available for sale securities (stated at fair value) at December 31, 2015. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate. Mortgage-backed securities are shown separately because they are typically paid in monthly installments over a number of years.

### Available for Sale Portfolio Maturity Distribution

	At December 31, 2015											
	Within one year	After one but within five years	After five but within ten years	After ten years	Mortgage-backed	Other	Total					
	(\$ in thousands)											
U.S. Government sponsored entities	\$-	\$265,922	\$35,960	\$-	\$-	\$-	\$301,882					
Interest rate	-	% 1.74	% 2.20	% -	% -	% -	% 1.79	%				%
Obligations of states and political subdivisions	4,145	21,586	129,029	2,749	-	-	157,509					
Interest rate	5.90	% 5.85	% 6.16	% 6.90	% -	% -	% 6.00	%				%
Asset-backed securities	-	-	2,003	-	-	-	2,003					
Interest rate	-	% -	% 0.61	% -	% -	% -	% 0.61	%				%
Corporate securities	132,831	756,945	6,593	-	-	-	896,369					
Interest rate	1.65	% 1.71	% 1.67	% -	% -	% -	% 1.68	%				%
Subtotal	136,976	1,044,453	173,585	2,749	-	-	1,357,763					
Interest rate	1.78	% 1.80	% 5.10	% 6.90	% -	% -	% 2.20	%				%
MBS	-	-	-	-	205,293	-	205,293					
Interest rate	-	% -	% -	% -	% 1.95	% -	% 1.95	%				%
Other securities without set maturities	-	-	-	-	-	7,160	7,160					
Interest rate	-	% -	% -	% -	% -	% 1.99	% 1.99	%				%
Total	\$136,976	\$1,044,453	\$173,585	\$2,749	\$205,293	\$7,160	\$1,570,216					
Interest rate	1.78	% 1.80	% 5.10	% 6.90	% 1.95	% 1.99	% 2.14	%				%

The following table shows the amortized cost carrying amount and fair value of the Company's investment securities held to maturity as of the dates indicated:

### Held to Maturity Portfolio

At December 31,  
2015      2014      2013  
(In thousands)

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Securities of U.S. Government sponsored entities	\$764	\$1,066	\$1,601
Agency residential MBS	400,384	59,078	65,076
Agency commercial MBS	16,258	-	-
Agency residential CMO	195,119	247,047	296,312
Non-agency residential CMO	9,667	11,278	12,603
Obligations of states and political subdivisions	693,883	720,189	756,707
Total	\$1,316,075	\$1,038,658	\$1,132,299
Fair value	\$1,325,699	\$1,048,562	\$1,112,676

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The following table sets forth the relative maturities and contractual yields of the Company's held to maturity securities at December 31, 2015. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate. Mortgage-backed securities are shown separately because they are typically paid in monthly installments over a number of years.

### Held to Maturity Portfolio Maturity Distribution

	At December 31, 2015											
	Within one year		After one but within five years		After five but within ten years		After ten years		Mortgage-backed		Total	
	(\$ in thousands)											
Securities of U.S. Government sponsored entities	\$-		\$-		\$764		\$-		\$-		\$764	
Interest rate	-	%	-	%	1.73	%	-	%	-	%	1.73	%
Obligations of states and political subdivisions	20,709		259,556		288,804		124,814		-		693,883	
Interest rate	4.47	%	3.09	%	4.12	%	4.58	%	-	%	3.71	%
Subtotal	20,709		259,556		289,568		124,814		-		694,647	
Interest rate	4.47	%	3.09	%	4.11	%	4.58	%	-	%	3.71	%
MBS	-		-		-		-		621,428		621,428	
Interest rate	-	%	-	%	-	%	-	%	2.02	%	2.02	%
Total	\$20,709		\$259,556		\$289,568		\$124,814		\$621,428		\$1,316,075	
Interest rate	4.47	%	3.09	%	4.11	%	4.58	%	2.02	%	2.91	%

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

At December 31, 2015, the Company's investment securities portfolios included securities issued by 725 state and local government municipalities and agencies located within 44 states with a fair value of \$864.2 million. None of the Company's investment securities were issued by Puerto Rican government entities. The largest exposure to any one municipality or agency was \$10.3 million (fair value) represented by nine general obligation bonds.

At December 31,  
2015  
Amortized Fair  
Cost Value  
(In thousands)

Obligations of states and political subdivisions:

General obligation bonds:

California	\$117,968	\$121,096
Texas	62,030	63,394
Pennsylvania	51,547	52,115
New Jersey	38,651	39,322
Minnesota	32,588	33,133
Other (34 states)	243,488	249,854
Total general obligation bonds	\$546,272	\$558,914

Revenue bonds:

California	\$49,095	\$51,206
Pennsylvania	29,446	29,841
Kentucky	19,825	20,400
Iowa	18,156	18,728
Colorado	16,161	16,560
Other (31 states)	163,633	168,592
Total revenue bonds	\$296,316	\$305,327
Total obligations of states and political subdivisions	\$842,588	\$864,241

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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 Cost	Fair 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 December 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 22 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, 2015	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	\$ 62,661	\$ 65,412
Sewer	45,912	47,242

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Sales tax	31,680	32,945
Lease (renewal)	21,673	22,227
College & University	17,967	18,215
Lease (abatement)	17,017	17,769
Other	99,406	101,517
Total revenue bonds by revenue source	\$296,316	\$305,327

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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 Fair Cost	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 (abatment)	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 2 to the consolidated financial statements for additional information related to the investment securities.

### **Loan Portfolio**

The Company originates loans with the intent to hold such assets until principal is repaid. Management follows written loan underwriting policies and procedures which are approved by the Bank's Board of Directors. Loans are underwritten following approved underwriting standards and lending authorities within a formalized organizational structure. The Board of Directors also approves independent real estate appraisers to be used in obtaining estimated values for real property serving as loan collateral. Prevailing economic trends and conditions are also taken into consideration in loan underwriting practices.

All loan applications must be for clearly defined legitimate purposes with a determinable primary source of repayment, and as appropriate, secondary sources of repayment. All loans are supported by appropriate documentation such as current financial statements, tax returns, credit reports, collateral information, guarantor asset verification, title reports, appraisals, and other relevant documentation.

Commercial loans represent term loans used to acquire durable business assets or revolving lines of credit used to finance working capital. Underwriting practices evaluate each borrower's cash flow as the principal source of loan



repayment. Commercial loans are generally secured by the borrower's business assets as a secondary source of repayment. Commercial loans are evaluated for credit-worthiness based on prior loan performance, borrower financial information including cash flow, borrower net worth and aggregate debt.

Commercial real estate loans represent term loans used to acquire real estate to be operated by the borrower in a commercial capacity. Underwriting practices evaluate each borrower's global cash flow as the principal source of loan repayment, independent appraisal of value of the property, and other relevant factors. Commercial real estate loans are generally secured by a first lien on the property as a secondary source of repayment.

Real estate construction loans represent the financing of real estate development. Loan principal disbursements are controlled through the use of project budgets, and disbursements are approved based on construction progress, which is validated by project site inspections. The real estate serves as collateral, secured by a first lien position on the property.

Residential real estate loans generally represent first lien mortgages used by the borrower to purchase or refinance a principal residence. For interest-rate risk purposes, the Company offers only fully-amortizing, adjustable-rate mortgages. In underwriting first lien mortgages, the Company evaluates each borrower's ability to repay the loan, an independent appraisal of the value of the property, and other relevant factors. The Company does not offer riskier mortgage products, such as non-amortizing "interest-only" mortgages and "negative amortization" mortgages.

For loans secured by real estate, the Bank requires title insurance to insure the status of its lien and each borrower is obligated to insure the real estate collateral, naming the Company as loss payee, in an amount sufficient to repay the principal amount outstanding in the event of a property casualty loss.

Consumer installment and other loans are predominantly comprised of indirect automobile loans with underwriting based on credit history and scores, personal income, debt service capacity, and collateral values.

For management purposes, the Company segregates its loan portfolio into three segments. Loans originated by the Company following its loan underwriting policies and procedures are separated from loans purchased from the FDIC. Loan volumes have declined due to problem loan workout activities, 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.

The following table shows the composition of the loan portfolio of the Company by type of loan and type of borrower, on the dates indicated:

#### Loan Portfolio

	At December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Commercial	\$382,748	\$391,815	\$364,159	\$401,331	\$513,362
Commercial real estate	637,456	718,604	799,019	916,594	1,114,496
Construction	3,951	13,872	13,896	16,515	34,437
Residential real estate	120,091	149,827	185,057	234,035	286,727
Consumer installment and other	389,150	426,172	465,613	542,882	574,784
Total loans	\$1,533,396	\$1,700,290	\$1,827,744	\$2,111,357	\$2,523,806

The following table shows the maturity distribution and interest rate sensitivity of commercial, commercial real estate, and construction loans at December 31, 2015. Balances exclude residential real estate loans and consumer loans totaling \$509.2 million. These types of loans are typically paid in monthly installments over a number of years.

#### Loan Maturity Distribution

	At December 31, 2015			
	Within One Year	One to Five Years	After Five Years	Total
	(In thousands)			
Commercial and Commercial real estate	\$211,914	\$200,373	\$607,917	\$1,020,204

Construction	3,951	-	-	3,951
Total	\$215,865	\$200,373	\$607,917	\$1,024,155
Loans with fixed interest rates	\$88,441	\$88,273	\$104,131	\$280,845
Loans with floating or adjustable interest rates	127,424	112,100	503,786	743,310
Total	\$215,865	\$200,373	\$607,917	\$1,024,155

### Commitments and Letters of Credit

The Company issues formal commitments on lines of credit to well-established and financially responsible commercial enterprises. Such commitments can be either secured or unsecured and are typically in the form of revolving lines of credit for seasonal working capital needs. Occasionally, such commitments are in the form of letters of credit to facilitate the customers' particular business transactions. Commitment fees are generally charged for commitments and letters of credit. Commitments on lines of credit and letters of credit typically mature within one year. For further information, see the accompanying notes to the consolidated financial statements.

### Loan Portfolio Credit Risk

The Company extends loans to commercial and consumer customers which 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.

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## Nonperforming Assets

	At December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Originated:					
Nonperforming nonaccrual loans	\$6,302	\$5,296	\$5,301	\$10,016	\$10,291
Performing nonaccrual loans	350	13	75	1,759	5,256
Total nonaccrual loans	6,652	5,309	5,376	11,775	15,547
Accruing loans 90 or more days past due	295	502	410	455	2,047
Total nonperforming loans	6,947	5,811	5,786	12,230	17,594
Other real estate owned	5,829	4,809	5,527	9,295	14,868
Total nonperforming assets	\$12,776	\$10,620	\$11,313	\$21,525	\$32,462
Purchased covered:					
Nonperforming nonaccrual loans	\$-	\$297	\$11,672	\$11,698	\$9,388
Performing nonaccrual loans	-	-	636	1,323	4,924
Total nonaccrual loans	-	297	12,308	13,021	14,312
Accruing loans 90 or more days past due	-	-	-	155	241
Total nonperforming loans	-	297	12,308	13,176	14,553
Other real estate owned	-	-	7,793	13,691	19,135
Total nonperforming assets	\$-	\$297	\$20,101	\$26,867	\$33,688
Purchased non-covered:					
Nonperforming nonaccrual loans	\$8,346	\$11,901	\$2,920	\$7,038	\$16,170
Performing nonaccrual loans	-	97	698	461	7,037
Total nonaccrual loans	8,346	11,998	3,618	7,499	23,207
Accruing loans 90 or more days past due	-	-	-	4	34
Total nonperforming loans	8,346	11,998	3,618	7,503	23,241
Other real estate owned	3,435	1,565	-	3,366	11,632
Total nonperforming assets	\$11,781	\$13,563	\$3,618	\$10,869	\$34,873
Total nonperforming assets	\$24,557	\$24,480	\$35,032	\$59,261	\$101,023

At December 31, 2015, two loans secured by commercial real estate totaling \$10,990 thousand were on nonaccrual status. The remaining sixteen nonaccrual loans held at December 31, 2015 had an average carrying value of \$251 thousand and the largest carrying value was \$1,323 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.

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**Allowance for Credit Losses**

The Company's allowance for loan losses represents Management's estimate of loan 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 loan losses represents Management's estimate of loan 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 Years Ended December 31,				
	2015	2014	2013	2012	2011
	(\$ in thousands)				
Analysis of the Allowance for Loan Losses					
Balance, beginning of period	\$31,485	\$31,693	\$30,234	\$32,597	\$35,636
Provision for loan losses	-	2,800	8,000	11,200	11,200
Loans charged off:					
Commercial	(756 )	(1,890 )	(2,857 )	(6,851 )	(8,280 )
Commercial real estate	(449 )	(762 )	(997 )	(1,202 )	(1,332 )
Construction	-	-	-	(2,217 )	(2,167 )
Residential real estate	-	(30 )	(109 )	(1,156 )	(739 )
Consumer installment and other	(3,493 )	(4,214 )	(4,097 )	(5,685 )	(6,754 )
Purchased covered loans	-	-	(2,286 )	(953 )	(987 )
Purchased non-covered loans	(431 )	(522 )	(385 )	(110 )	-
Total chargeoffs	(5,129 )	(7,418 )	(10,731 )	(18,174 )	(20,259 )
Recoveries of loans previously charged off:					
Commercial	1,153	2,250	1,575	1,317	3,129
Commercial real estate	72	213	191	203	-
Construction	45	3	-	224	1
Consumer installment and other	1,906	1,869	2,152	2,723	2,890
Purchased covered loans	-	-	272	144	-
Purchased non-covered loans	239	75	-	-	-
Total recoveries	3,415	4,410	4,190	4,611	6,020
Net loan losses	(1,714 )	(3,008 )	(6,541 )	(13,563 )	(14,239 )
Balance, end of period	\$29,771	\$31,485	\$31,693	\$30,234	\$32,597
Net loan losses:					
Originated loans	\$(1,522 )	\$(2,561 )	\$(4,142 )	\$(12,644 )	\$(13,252 )
Purchased covered loans	-	-	(2,014 )	(809 )	(987 )
Purchased non-covered loans	(192 )	(447 )	(385 )	(110 )	-



Net loan losses as a percentage of average loans    0.11    %    0.17    %    0.33    %    0.59    %    0.52    %

The Company's allowance for loan 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 loan 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 loan 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 loan 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 loan 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 loan 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 loan default discounts ascribed to each segment. Management establishes allocations of the allowance for loan 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 December 31, 2015 are economic and business conditions \$1.0 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 \$1.2 million, adequacy of lending Management and staff \$1.3 million, concentrations of credit \$2.5 million, and other factors.

The following table presents the allocation of the allowance for loan losses as of December 31 for the years indicated:

	At December 31, 2015		2014		2013		2012		2011	
	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans
	(\$ in thousands)									
Originated loans:										
Commercial	\$9,559	24 %	\$5,460	22 %	\$4,005	18 %	\$6,445	16 %	\$6,012	16 %
Commercial real estate	4,224	34 %	4,245	33 %	12,070	33 %	10,063	30 %	10,611	28 %
Construction	177	- %	644	1 %	602	- %	484	- %	2,342	- %
Residential real estate	1,801	8 %	2,241	9 %	405	10 %	380	10 %	781	11 %
Consumer installment and other	7,080	22 %	7,717	22 %	3,198	22 %	3,194	22 %	3,072	19 %
Purchased covered loans	-	1 %	-	1 %	1,561	14 %	1,005	18 %	-	21 %
Purchased non-covered loans	967	11 %	2,120	12 %	-	3 %	-	4 %	-	5 %
Unallocated portion	5,963	- %	9,058	- %	9,852	- %	8,663	- %	9,779	- %
Total	\$29,771	100 %	\$31,485	100 %	\$31,693	100 %	\$30,234	100 %	\$32,597	100 %

Allowance for Loan Losses

For the Year Ended December 31, 2015

	Commercial Real Estate	Construction Real Estate	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
	(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	3,702	356	(512 )	(440 )	950	(961 )	-	(3,095 )	-
Deductions:									
Chargeoffs	(756 )	(449 )	-	-	(3,493 )	(431 )	-	-	(5,129 )
Recoveries	1,153	72	45	-	1,906	239	-	-	3,415
Net loan recoveries (losses)	397	(377 )	45	-	(1,587 )	(192 )	-	-	(1,714 )
Total allowance for loan losses	\$9,559	\$ 4,224	\$ 177	\$ 1,801	\$ 7,080	\$ 967	\$ -	\$ 5,963	\$29,771

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

	Commercial Commercial Estate	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
(In thousands)									
Allowance for loan losses: Individually evaluated for impairment	\$4,942	\$585	\$-	\$-	\$-	\$-	\$-	\$-	\$5,527
Collectively evaluated for impairment	4,617	3,639	177	1,801	7,080	967	-	5,963	24,244
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	\$9,559	\$4,224	\$177	\$1,801	\$7,080	\$967	\$-	\$5,963	\$29,771
Carrying value of loans: Individually evaluated for impairment	\$12,587	\$5,541	\$-	\$-	\$-	\$11,777	\$-	\$-	\$29,905
Collectively evaluated for impairment	355,530	511,529	2,978	117,631	346,043	152,038	13,855	-	1,499,604
Purchased loans with evidence of credit deterioration	-	-	-	-	-	3,681	206	-	3,887
Total	\$368,117	\$517,070	\$2,978	\$117,631	\$346,043	\$167,496	\$14,061	\$-	\$1,533,396

The Company allocated more allowance for loan losses to the commercial loan category at December 31, 2015, due to more reserve being allocated to individually evaluated loans. At December 31, 2015, the decline in the unallocated was generally due to the overall improved credit quality metrics.

Management considers the \$29.8 million allowance for loan losses to be adequate as a reserve against loan losses inherent in the loan portfolio as of December 31, 2015.

See Note 3 to the consolidated financial statements for additional information related to the loan portfolio, loan portfolio credit risk, and allowance for loan 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 ("FOMC") increased the target range for the federal funds rate to 1/4 to 1/2 percent on December 16, 2015. Interest rates on United States Treasury obligations declined from January 1, 2016 through January 27, 2016. The FOMC's January 27, 2016 press release stated "Information received since the Federal Open Market Committee met in December suggests that labor market conditions improved further even as economic growth slowed late last year...Market-based measures of inflation compensation declined further; survey-based measures of longer-term inflation expectations are little changed, on balance, in recent months...The Committee is closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook...Given the economic outlook, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation." In this context, Management expects a high level of uncertainty in regard to interest rate levels in the immediate term, and Management's most likely earnings forecast for the twelve months ending December 31, 2016 assumes market interest rates will either remain at relatively low levels 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 December 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 or gradually increasing interest rates in the near-term and intermediate term. 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 chargeoffs 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 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.

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 \$2.9 billion in total investment securities at December 31, 2015. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At December 31, 2015, such collateral requirements totaled approximately \$739 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 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 2016. 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 volatility in economic conditions, competition and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

Westamerica Bancorporation ("Parent Company") is a separate entity apart from 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.

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 in 2015 and 2014 to pay shareholder dividends of \$39 million and \$40 million, respectively, and retire common stock in the amount of \$15 million and \$53 million, respectively. Payment of dividends to the Parent Company by the Bank is limited under California and Federal laws. The Company believes these regulatory dividend restrictions will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

## **Contractual Obligations**

The following table sets forth the known contractual obligations, except short-term borrowing arrangements and post-retirement benefit plans, of the Company:

	At December 31, 2015				
	Within One Year	Over One to Three Years	Over Three to Five Years	After Five Years	Total
	(In thousands)				
Operating Lease Obligations	\$6,708	\$10,887	\$5,549	\$1,516	\$24,660
Purchase Obligations	8,270	-	-	-	8,270
Total	\$14,978	\$10,887	\$5,549	\$1,516	\$32,930

Operating lease obligations have not been reduced by minimum sublease rentals of \$2 million due in the future under noncancelable subleases. Operating lease obligations may be retired prior to the contractual maturity as discussed in the notes to the consolidated financial statements. The purchase obligation consists of the Company's minimum liabilities under contracts with third-party automation services providers .

## Capital Resources

The Company has historically generated high levels of earnings, which provides a means of accumulating capital. The Company's net income as a percentage of average shareholders' equity ("return on equity" or "ROE") has been 11.3% in 2015, 11.6% in 2014 and 12.5% in 2013. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options was \$5 million in 2015 compared with \$12 million in 2014 and \$21 million in 2013.

The Company paid common dividends totaling \$39 million in 2015, \$40 million in 2014 and \$40 million in 2013, which represent dividends per common share of \$1.53, \$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 344 thousand shares valued at \$15 million in 2015, 1.0 million shares valued at \$53 million in 2014 and 1.2 million shares valued at \$57 million in 2013.

The Company's primary capital resource is shareholders' equity, which was \$532 million at December 31, 2015 compared with \$527 million at December 31, 2014. The Company's ratio of equity to total assets was 10.30% at December 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 most affected the regulatory capital requirements of the Company and the Bank:

- Introduced a new "Common Equity Tier 1" capital measurement,

- Established higher minimum levels of capital,

Introduced a “capital conservation buffer,”

Increased the risk-weighting of certain assets, and

Established 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 December 31, 2015		Transitional Minimum Regulatory Requirement Effective January 1, 2015		Minimum Regulatory Requirement Effective January 1, 2016		Minimum Regulatory Requirement Effective January 1, 2019		Well-capitalized by Regulatory Definition Under FDICIA Effective January 1, 2015	
	Company	Bank								
Common Equity Tier I Capital	12.82 %	11.00 %	4.50 %		5.125 %		7.00 %		6.50 %	
Tier I Capital	12.82 %	11.00 %	6.00 %		6.625 %		8.50 %		8.00 %	
Total Capital	13.39 %	11.68 %	8.00 %		8.625 %		10.50 %		10.00 %	
Leverage Ratio	7.99 %	6.82 %	4.00 %		4.000 %		4.00 %		5.00 %	

(1)Includes 0.625% capital conservation buffer.

(2)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 following summarizes the ratios of regulatory capital to risk-adjusted assets under the superseded capital framework on the date indicated:

	At December 31, 2014		Minimum Regulatory Requirement		Well-capitalized by Regulatory Definition	
	Company	Bank				
Tier I Capital	13.30 %	12.04 %	4.00 %		6.00 %	
Total Capital	14.54 %	13.49 %	8.00 %		10.00 %	
Leverage Ratio	7.95 %	7.16 %	4.00 %		5.00 %	

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## Deposit Categories

The Company primarily attracts deposits from local businesses and professionals, as well as through retail savings and checking accounts, and, to a more limited extent, certificates of deposit.

The following table summarizes the Company's average daily amount of deposits and the rates paid for the periods indicated:

### Deposit Distribution and Average Rates Paid

	For the Years Ended December 31,								
	2015			2014			2013		
	Average Balance	Percentage of Total Deposits	Rate	Average Balance	Percentage of Total Deposits	Rate	Average Balance	Percentage of Total Deposits	Rate
	(\$ in thousands)								
Noninterest-bearing demand	\$1,968,817	44.4 %	- %	\$1,841,522	43.0 %	- %	\$1,683,447	40.4 %	- %
Interest bearing:									
Transaction	822,156	18.5 %	0.03 %	790,467	18.5 %	0.03 %	758,771	18.2 %	0.03 %
Savings	1,312,100	29.6 %	0.06 %	1,215,035	28.4 %	0.07 %	1,151,360	27.7 %	0.08 %
Time less than \$100 thousand	172,836	3.9 %	0.33 %	197,821	4.6 %	0.41 %	228,061	5.5 %	0.47 %
Time \$100 thousand or more	161,710	3.6 %	0.42 %	237,002	5.5 %	0.38 %	341,184	8.2 %	0.32 %
Total <sup>(1)</sup>	\$4,437,619	100.0 %	0.10 %	\$4,281,847	100.0 %	0.07 %	\$4,162,823	100.0 %	0.08 %

<sup>(1)</sup>The rates for total deposits reflect value of noninterest-bearing deposits.

The Company's strategy includes building the value of its deposit base by building balances of lower-costing deposits and avoiding reliance on higher-costing time deposits. From 2013 to 2015 the deposit composition shifted from higher costing time deposits to lower costing checking and savings accounts. The Company's average balances of checking and savings accounts represented 93% of average balances of total deposits in 2015 compared with 90% in 2014 and 86% in 2013.

Total time deposits were \$287 million and \$385 million at December 31, 2015 and 2014, respectively. The following table sets forth, by time remaining to maturity, the Company's total domestic time deposits. The Company has no

foreign time deposits.

Time Deposits Maturity Distribution

	At December 31, 2015 (In thousands)
2016	\$ 223,662
2017	30,949
2018	11,920
2019	15,107
2020	2,950
Thereafter	2,380
Total	\$ 286,968

The following sets forth, by time remaining to maturity, the Company's domestic time deposits in amounts of \$100 thousand or more:

Time Deposits Over \$100,000 Maturity Distribution

	At December 31, 2015 (In thousands)
Three months or less	\$ 49,800
Over three through six months	26,434
Over six through twelve months	31,049
Over twelve months	28,905
Total	\$ 136,188



**Short-term Borrowings**

The following table sets forth the short-term borrowings of the Company:

**Short-Term Borrowings Distribution**

	At December 31,		
	2015	2014	2013
	(In thousands)		
Securities sold under agreements to repurchase the securities	\$53,028	\$89,784	\$62,668
Total short-term borrowings	\$53,028	\$89,784	\$62,668

Further detail of federal funds purchased and other borrowed funds is as follows:

	For the Years Ended December 31,					
	2015		2014		2013	
	(\$ in thousands)					
Federal funds purchased balances and rates paid on outstanding amount:						
Average balance for the year	\$8		\$8		\$8	
Maximum month-end balance during the year	-		-		-	
Average interest rate for the year	0.48	%	0.48	%	0.60	%
Average interest rate at period end	-	%	-	%	-	%
Securities sold under agreements to repurchase the securities balances and rates paid on outstanding amount:						
Average balance for the year	\$75,046		\$70,244		\$57,446	
Maximum month-end balance during the year	89,484		89,784		66,640	
Average interest rate for the year	0.07	%	0.07	%	0.07	%
Average interest rate at period end	0.06	%	0.06	%	0.07	%
FHLB advances balances and rates paid on outstanding amount:						
Average balance for the year	\$494		\$20,308		\$25,499	
Maximum month-end balance during the year	-		20,530		25,780	
Average interest rate for the year	0.20	%	2.00	%	1.88	%
Average interest rate at period end	-	%	2.04	%	1.96	%
Term repurchase agreement balances and rates paid on outstanding amount:						
Average balance for the year	\$-		\$6,082		\$10,000	
Maximum month-end balance during the year	-		10,000		10,000	
Average interest rate for the year	-	%	0.99	%	0.98	%
Average interest rate at period end	-	%	-	%	0.97	%

**Financial Ratios**

The following table shows key financial ratios for the periods indicated:

	At and For the Years Ended		
	December 31,		
	2015	2014	2013
Return on average total assets	1.16 %	1.22 %	1.38 %
Return on average common shareholders' equity	11.32 %	11.57 %	12.48 %
Average shareholders' equity as a percentage of:			
Average total assets	10.21 %	10.58 %	11.06 %
Average total loans	32.08 %	29.57 %	27.53 %
Average total deposits	11.70 %	12.24 %	12.93 %

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## ITEM 7A. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## **MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Westamerica Bancorporation and subsidiaries (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2015 based upon criteria in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this assessment, Management determined that the Company’s internal control over financial reporting was effective as of December 31, 2015 based on the criteria in Internal Control - Integrated Framework (2013) issued by COSO.

The Company’s independent registered public accounting firm has issued an attestation report on Management’s assessment of the Company’s internal control over financial reporting. Their opinion and attestation on internal control over financial reporting appear on page 90.

Dated: February 26, 2016

## WESTAMERICA BANCORPORATION

## CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2015	2014
	(In thousands)	
Assets:		
Cash and due from banks	\$433,044	\$380,836
Investment securities available for sale	1,570,216	1,600,781
Investment securities held to maturity, with fair values of: \$1,325,699 at December 31, 2015 and \$1,048,562 at December 31, 2014	1,316,075	1,038,658
Loans	1,533,396	1,700,290
Allowance for loan losses	(29,771 )	(31,485 )
Loans, net of allowance for loan losses	1,503,625	1,668,805
Other real estate owned	9,264	6,374
Premises and equipment, net	38,693	37,852
Identifiable intangibles, net	10,431	14,287
Goodwill	121,673	121,673
Other assets	165,854	166,458
Total Assets	\$5,168,875	\$5,035,724
Liabilities:		
Noninterest bearing deposits	\$2,026,049	\$1,910,781
Interest bearing deposits	2,514,610	2,438,410
Total deposits	4,540,659	4,349,191
Short-term borrowed funds	53,028	89,784
Federal Home Loan Bank advances	-	20,015
Other liabilities	42,983	50,131
Total Liabilities	4,636,670	4,509,121
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares Issued and outstanding: 25,528 at December 31, 2015 and 25,745 at December 31, 2014	378,858	378,132
Deferred compensation	2,578	2,711
Accumulated other comprehensive income	675	5,292
Retained earnings	150,094	140,468
Total Shareholders' Equity	532,205	526,603
Total Liabilities and Shareholders' Equity	\$5,168,875	\$5,035,724

See accompanying notes to consolidated financial statements.

## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December		
	31,	2014	2013
	2015		
	(In thousands, except per share data)		
<b>Interest and Fee Income:</b>			
Loans	\$78,441	\$89,056	\$102,626
Investment securities available for sale	31,263	24,740	21,822
Investment securities held to maturity	26,825	26,413	29,948
Total Interest and Fee Income	136,529	140,209	154,396
<b>Interest Expense:</b>			
Deposits	2,370	2,887	3,348
Short-term borrowed funds	53	90	77
Federal Home Loan Bank advances	1	407	480
Term repurchase agreement	-	60	98
Debt financing	-	-	668
Total Interest Expense	2,424	3,444	4,671
Net Interest Income	134,105	136,765	149,725
Provision for Loan Losses	-	2,800	8,000
Net Interest Income After Provision For Loan Losses	134,105	133,965	141,725
<b>Noninterest Income:</b>			
Service charges on deposit accounts	22,241	24,191	25,693
Merchant processing services	6,339	7,219	9,031
Debit card fees	6,084	5,960	5,829
Other service fees	2,689	2,717	2,846
Trust fees	2,732	2,582	2,313
ATM processing fees	2,397	2,473	2,758
Financial services commissions	695	757	831
Other	4,690	5,888	7,710
Total Noninterest Income	47,867	51,787	57,011
<b>Noninterest Expense:</b>			
Salaries and related benefits	52,192	54,777	56,633
Occupancy	14,960	14,992	15,137
Outsourced data processing services	8,441	8,411	8,548
Amortization of identifiable intangibles	3,856	4,270	4,704
Furniture and equipment	4,434	4,174	3,869
Courier service	2,329	2,624	2,868
Professional fees	2,490	2,346	3,057
Other real estate owned	504	(642 )	1,035
Other	16,094	15,847	16,763
Total Noninterest Expense	105,300	106,799	112,614
Income Before Income Taxes	76,672	78,953	86,122
Provision for income taxes	17,919	18,307	18,945

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Net Income	\$58,753	\$60,646	\$67,177
Average Common Shares Outstanding	25,555	26,099	28,826
Diluted Average Common Shares Outstanding	25,577	26,160	26,877
Per Common Share Data:			
Basic earnings	\$2.30	\$2.32	\$2.50
Diluted earnings	2.30	2.32	2.50
Dividends paid	1.53	1.52	1.49

See accompanying notes to consolidated financial statements.

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

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Net Income	\$58,753	\$60,646	\$67,177
Other comprehensive (loss) income:			
(Decrease) increase in net unrealized gains on securities available for sale	(8,028 )	1,627	(17,855)
Deferred tax (expense) benefit	3,375	(684 )	7,507
(Decrease) increase in net unrealized gains on securities available for sale, net of tax	(4,653 )	943	(10,348)
Post-retirement benefit transition obligation amortization	61	61	61
Deferred tax expense	(25 )	(25 )	(25 )
Post-retirement benefit transition obligation amortization, net of tax	36	36	36
Total Other Comprehensive (Loss) Income	(4,617 )	979	(10,312)
Total Comprehensive Income	\$54,136	\$61,625	\$56,865

See accompanying notes to consolidated financial statements.



## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares Outstanding	Common Stock	Deferred Compensation	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total
	(In thousands)					
Balance, December 31, 2012	27,213	\$372,012	\$ 3,101	\$ 14,625	\$170,364	\$560,102
Net income for the year 2013					67,177	67,177
Other comprehensive loss				(10,312 )		(10,312 )
Exercise of stock options	479	21,499				21,499
Tax benefit decrease upon expiration/exercise of stock options		(298 )				(298 )
Restricted stock activity	15	1,068	(390 )			678
Stock based compensation		1,397				1,397
Stock awarded to employees	2	107				107
Retirement of common stock including repurchases	(1,199 )	(16,839 )			(40,481 )	(57,320 )
Dividends					(40,096 )	(40,096 )
Balance, December 31, 2013	26,510	378,946	2,711	4,313	156,964	542,934
Net income for the year 2014					60,646	60,646
Other comprehensive income				979		979
Exercise of stock options	256	12,396				12,396
Tax benefit decrease upon expiration/exercise of stock options		(447 )				(447 )
Restricted stock activity	21	1,114				1,114
Stock based compensation		1,318				1,318
Stock awarded to employees	2	102				102
Retirement of common stock including repurchases	(1,044 )	(15,297 )			(37,381 )	(52,678 )
Dividends					(39,761 )	(39,761 )
Balance, December 31, 2014	25,745	378,132	2,711	5,292	140,468	526,603
Net income for the year 2015					58,753	58,753
Other comprehensive loss				(4,617 )		(4,617 )
Exercise of stock options	108	4,848				4,848
Tax benefit decrease upon expiration/exercise of stock options		(1,284 )				(1,284 )
Restricted stock activity	17	874	(133 )			741
Stock based compensation		1,272				1,272
Stock awarded to employees	2	105				105
Retirement of common stock including repurchases	(344 )	(5,089 )			(10,003 )	(15,092 )

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Dividends						(39,124 )	(39,124 )
Balance, December 31, 2015	25,528	\$378,858	\$ 2,578	\$ 675		\$150,094	\$532,205

See accompanying notes to consolidated financial statements.

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## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
<b>Operating Activities:</b>			
Net income	\$58,753	\$60,646	\$67,177
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization/accretion	16,402	15,502	18,015
Loan loss provision	-	2,800	8,000
Net amortization of deferred loan fees	(310 )	(279 )	(420 )
(Increase) decrease in interest income receivable	(780 )	(469 )	1,249
Decrease (increase) in net deferred tax asset	830	1,417	(1,618 )
(Increase) decrease in other assets	(1,828 )	(2,923 )	5,814
Stock option compensation expense	1,272	1,318	1,397
Tax benefit decrease upon expiration/exercise of stock options	1,284	447	298
Increase (decrease) in income taxes payable	265	478	(1,677 )
Decrease in interest expense payable	(86 )	(111 )	(274 )
(Decrease) increase in other liabilities	(5,754 )	4,474	(12,510 )
Gain on sale of real estate and other assets	-	(400 )	(548 )
Write-down/net loss on sale of premises and equipment	109	76	17
Originations of mortgage loans for resale	-	-	(501 )
Proceeds from sale of mortgage loans originated for resale	-	-	509
Net loss/write-down (gain) on sale of foreclosed assets	247	(665 )	387
<b>Net Cash Provided by Operating Activities</b>	<b>70,404</b>	<b>82,311</b>	<b>85,315</b>
<b>Investing Activities:</b>			
Net repayments of loans	164,093	126,414	274,774
Proceeds from FDIC <sup>(1)</sup> loss-sharing indemnification	-	6,703	7,069
Purchases of investment securities available for sale	(946,794)	(1,126,203)	(418,745)
Proceeds from sale/maturity/calls of securities available for sale	967,118	604,475	144,886
Purchases of investment securities held to maturity	(437,935)	(67,725 )	(196,536)
Proceeds from maturity/calls of securities held to maturity	153,014	153,405	217,652
Purchases of premises and equipment	(4,474 )	(3,791 )	(1,693 )
Net change in FRB <sup>(2)</sup> /FHLB <sup>(3)</sup> securities	940	3,248	3,166
Proceeds from sale of foreclosed assets	1,774	8,212	20,349
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(102,264)</b>	<b>(295,262 )</b>	<b>50,922</b>
<b>Financing Activities:</b>			
Net change in deposits	191,476	185,508	(68,357 )
Net change in short-term borrowings and FHLB <sup>(3)</sup> advances	(56,756 )	26,741	3,981
Repayments of debt financing	-	-	(15,000 )
Repayments of term repurchase agreement	-	(10,000 )	-
Exercise of stock options/issuance of shares	4,848	12,396	21,499
Tax benefit decrease upon expiration/exercise of stock options	(1,284 )	(447 )	(298 )
Retirement of common stock including repurchases	(15,092 )	(52,678 )	(57,320 )

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Common stock dividends paid	(39,124 )	(39,761 )	(40,096 )
Net Cash Provided by (Used in) Financing Activities	84,068	121,759	(155,591)
Net Change In Cash and Due from Banks	52,208	(91,192 )	(19,354 )
Cash and Due from Banks at Beginning of Period	380,836	472,028	491,382
Cash and Due from Banks at End of Period	\$433,044	\$380,836	\$472,028

Supplemental Cash Flow Disclosures:

Supplemental disclosure of noncash activities:

Loan collateral transferred to other real estate owned	\$4,911	\$968	\$8,643
Securities purchases pending settlement	2,885	2,892	3,769
Supplemental disclosure of cash flow activities:			
Interest paid for the period	2,533	3,822	5,452
Income tax payments for the period	17,666	16,412	22,562

See accompanying notes to consolidated financial statements.

(1) Federal Deposit Insurance Corporation ("FDIC")

(2) Federal Reserve Bank ("FRB")

(3) Federal Home Loan Bank ("FHLB")

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## **WESTAMERICA BANCORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **Note 1: Business and Accounting Policies**

Westamerica Bancorporation, a registered bank holding company (the “Company”), provides a full range of banking services to corporate and individual customers in Northern and Central California through its subsidiary bank, Westamerica Bank (the “Bank”). The Bank is subject to competition from both financial and nonfinancial institutions and to the regulations of certain agencies and undergoes periodic examinations by those regulatory authorities.

The Company has evaluated events and transactions subsequent to the balance sheet date. Based on this evaluation, the Company is not aware of any events or transactions that occurred subsequent to the balance sheet date but prior to filing that would require recognition or disclosure in its consolidated financial statements. Certain amounts in prior periods have been reclassified to conform to the current presentation.

#### **Summary of Significant Accounting Policies**

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The following is a summary of significant policies used in the preparation of the accompanying financial statements.

**Accounting Estimates.** Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments about future economic and market conditions. These estimates and judgments may affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Although the estimates contemplate current conditions and how Management expects them to change in the future, it is reasonably possible that in 2016 actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial conditions. The most significant of these involve the Allowance for Credit Losses, as discussed below under “Allowance for Credit Losses.”

**Principles of Consolidation.** The consolidated financial statements include the accounts of the Company and all the Company’s subsidiaries. Significant intercompany transactions have been eliminated in consolidation. The Company does not maintain or conduct transactions with any unconsolidated special purpose entities.

Cash. Cash include Due From Banks balances which are readily convertible to known amounts of cash and are generally 90 days or less from maturity at the time of initiation, presenting insignificant risk of changes in value due to interest rate changes.

Securities. Investment securities consist of debt securities of the U.S. Treasury, government sponsored entities, states, counties, municipalities, corporations, agency and non-agency mortgage-backed securities, asset-backed securities and equity securities. Securities transactions are recorded on a trade date basis. The Company classifies its debt and marketable equity securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are recorded at fair value with unrealized gains and losses included in earnings. Held to maturity securities are those debt securities which the Company has the ability and intent to hold until maturity. Held to maturity securities are recorded at cost, adjusted for the amortization of premiums or accretion of discounts. Securities not included in trading or held to maturity are classified as available for sale. Available for sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available for sale securities are included in other comprehensive income.

The Company utilizes third-party sources to value its investment securities; securities individually valued using quoted prices in active markets are classified as Level 1 assets in the fair value hierarchy, and securities valued using quoted prices in active markets for similar securities (commonly referred to as “matrix” pricing) are classified as Level 2 assets in the fair value hierarchy. The Company validates the reliability of third-party provided values by comparing individual security pricing for securities between more than one third-party source. When third-party information is not available, valuation adjustments are estimated in good faith by Management and classified as Level 3 in the fair value hierarchy.

A decline in the market value of any available for sale or held to maturity security below amortized cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. Unrealized investment securities losses are evaluated at least quarterly to determine whether such declines in value should be considered “other than temporary” and therefore be subject to immediate loss recognition in income. Although these evaluations involve significant judgment, an unrealized loss in the fair value of a debt security is generally deemed to be temporary when the fair value of the security is below the carrying value primarily due to changes in risk-free interest rates, there has not been significant deterioration in the financial condition of the issuer, and the Company does not intend to sell or be required to sell the securities before recovery of its amortized cost. An unrealized loss in the value of an equity security is generally considered temporary when the fair value of the security declined primarily due to current market conditions and not deterioration in the financial condition of the issuer, the Company expects the fair value of the security to recover in the near term and the Company does not intend to sell or be required to sell the securities before recovery of its amortized cost. Other factors that may be considered in determining whether a decline in the value of either a debt or an equity security is “other than temporary” include ratings by recognized rating agencies, actions of commercial banks or other lenders relative to the continued extension of credit facilities to the issuer of the security, the financial condition, capital strength and near-term prospects of the issuer, and recommendations of investment advisors or market analysts.

The Company follows the guidance issued by the Board of Governors of the Federal Reserve System, “Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies” (SR 12-15) and other regulatory guidance when performing investment security pre-purchase analysis or evaluating investment securities for impairment. Credit ratings issued by recognized rating agencies are considered in the Company’s analysis only as a guide to the historical default rate associated with similarly-rated bonds.

Purchase premiums are amortized and purchase discounts are accreted over the estimated life of the related investment security as an adjustment to yield using the effective interest method. Unamortized premiums, unaccreted discounts, and early payment premiums are recognized as a component of gain or loss on sale upon disposition of the related security. Interest and dividend income are recognized when earned. Realized gains and losses from the sale of available for sale securities are included in earnings using the specific identification method.

**Nonmarketable Equity Securities.** Nonmarketable equity securities include securities that are not publicly traded, such as Visa Class B common stock, and securities acquired to meet regulatory requirements, such as Federal Home Loan Bank and Federal Reserve Bank stock, which are restricted. These restricted securities are accounted for under the cost method and are included in other assets. The Company reviews those assets accounted for under the cost method at least quarterly for possible declines in value that are considered “other than temporary”. The Company’s review typically includes an analysis of the facts and circumstances of each investment, the expectations for the investment’s cash flows and capital needs, the viability of its business model and any exit strategy. The asset value is reduced when a decline in value is considered to be other than temporary. The Company recognizes the estimated loss in noninterest income.

**Loans.** Loans are stated at the principal amount outstanding, net of unearned discount and unamortized deferred fees and costs. Interest is accrued daily on the outstanding principal balances. Loans which are more than 90 days delinquent with respect to interest or principal, unless they are well secured and in the process of collection, and other

loans on which full recovery of principal or interest is in doubt, are placed on nonaccrual status. Interest previously accrued on loans placed on nonaccrual status is charged against interest income. In addition, some loans secured by real estate with temporarily impaired values and commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status (“performing nonaccrual loans”) even though the borrowers continue to repay the loans as scheduled. When the ability to fully collect nonaccrual loan principal is in doubt, payments received are applied against the principal balance of the loans on a cost-recovery method until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Performing nonaccrual loans are reinstated to accrual status when improvements in credit quality eliminate the doubt as to the full collectability of both interest and principal. Certain consumer loans or auto receivables are charged off against the allowance for credit losses when they become 120 days past due.

The Company evaluates all classified loans and nonaccrual loans with outstanding principal balances in excess of \$500 thousand, and all “troubled debt restructured” loans for impairment. The Company recognizes a loan as impaired when, based on current information and events, it is probable that it will be unable to collect both the contractual interest and principal payments as scheduled in the loan agreement. Income recognition on impaired loans conforms to that used on nonaccrual loans. In certain circumstances, the Company might agree to restructured loan terms with borrowers experiencing financial difficulties; such restructured loans are evaluated under ASC 310-40, “Troubled Debt Restructurings by Creditors.” In general, a restructuring constitutes a troubled debt restructuring when the Company, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower it would not otherwise consider. Loans are evaluated on an individual basis. The Company follows its general nonaccrual policy for troubled debt restructurings. Performing troubled debt restructurings are reinstated to accrual status when improvements in credit quality eliminate the doubt as to full collectability of both principal and interest.

Nonrefundable fees and certain costs associated with originating or acquiring loans are deferred and amortized as an adjustment to interest income over the contractual loan lives. Upon prepayment, unamortized loan fees, net of costs, are immediately recognized in interest income. Other fees, including those collected upon principal prepayments, are included in interest income when received. Loans held for sale are identified upon origination and are reported at the lower of cost or market value on an aggregate loan basis.



**Purchased Loans.** Purchased loans are recorded at estimated fair value on the date of purchase. Impaired purchased loans are accounted for under FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include attributes such as past due and nonaccrual status. Generally, purchased loans that meet the Company's definition for nonaccrual status fall within the scope of FASB ASC 310-30. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on interest income on a prospective basis. Any excess of expected cash flows over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. For covered purchased loans with an accretable difference, the corresponding FDIC receivable is amortized over the shorter of the contractual term of the indemnification asset or the remaining life of the loan. Further, the Company elected to analogize to ASC 310-30 and account for all other loans that had a discount due in part to credit not within the scope of ASC 310-30 using the same methodology.

**Covered Loans.** Loans covered under loss-sharing or similar credit protection agreements with the FDIC are reported in loans exclusive of the expected reimbursement cash flows from the FDIC. Covered loans are initially recorded at fair value at the acquisition date. Subsequent decreases in the amount expected to be collected results in a provision for loan losses and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss impacting earnings. Interest previously accrued on covered loans placed on nonaccrual status is charged against interest income, net of estimated FDIC reimbursements of such accrued interest. The FDIC reimburses the Company up to 80% of 90 days interest on covered loans.

**Allowance for Credit Losses.** 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 these financial statements requires Management to estimate the amount of probable incurred 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 significant 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 allowance for credit losses is established through provisions for credit losses charged to income. Losses on loans, including impaired loans, are charged to the allowance for loan losses when all or a portion of the recorded amount of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance when realized. The Company's allowance for credit losses is maintained at a level considered adequate to provide for 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, recommendations of regulatory authorities, prevailing economic conditions, FDIC loss-sharing or similar credit protection agreements and other factors. A portion of the allowance is specifically allocated to impaired loans whose full collectability is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. The Company evaluates all classified loans and nonaccrual loans with outstanding principal balances in excess of \$500 thousand, and all "troubled debt restructured" loans for impairment. A second allocation is based in part on quantitative analyses of historical credit loss experience. The results of this analysis are applied to current loan balances to allocate the reserve to the respective segments of the loan portfolio exclusive of loans individually evaluated for impairment. In addition, consumer installment loans which have similar characteristics and are not usually criticized using regulatory guidelines are analyzed and reserves established based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. The remainder of the reserve 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. It 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 past loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses that are attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific segment of the loan portfolio in a statistically meaningful manner.

**Liability for Off-Balance Sheet Credit Exposures.** A liability for off-balance sheet credit exposures is established through expense recognition. Off-balance sheet credit exposures relate to letters of credit and unfunded loan commitments for commercial, construction and consumer loans. Historical credit loss factors for commercial, construction and consumer loans are applied to the amount of these off-balance sheet credit exposures to estimate inherent losses.

**Other Real Estate Owned.** Other real estate owned is comprised of property acquired through foreclosure proceedings, acceptances of deeds-in-lieu of foreclosure and, if applicable, vacated bank properties. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for credit losses. Other real estate owned is recorded at the fair value of the collateral, generally based upon an independent property appraisal, less estimated disposition costs. Losses incurred subsequent to acquisition due to any decline in annual independent property appraisals are recognized as noninterest expense. Routine holding costs, such as property taxes, insurance and maintenance, and losses from sales and dispositions, are recognized as noninterest expense.

**Covered Other Real Estate Owned.** Other real estate owned covered under loss-sharing agreements with the FDIC is reported exclusive of expected reimbursement cash flows from the FDIC. Upon transferring covered loan collateral to covered other real estate owned status, the covered loan collateral is recorded at fair value, generally based upon an independent property appraisal, less estimated disposition costs with losses charged against acquisition date fair value discounts; the amount of losses exceeding acquisition date fair value discounts are recognized as noninterest expense inclusive of expected reimbursement cash flows from the FDIC. Subsequent losses incurred due to any decline in annual independent property appraisal valuations are recognized as noninterest expense inclusive of expected reimbursement cash flows from the FDIC.

**Premises and Equipment.** Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed substantially on the straight-line method over the estimated useful life of each type of asset. Estimated useful lives of premises and equipment range from 20 to 50 years and from 3 to 20 years, respectively. Leasehold improvements are amortized over the terms of the lease or their estimated useful life, whichever is shorter.

**Revenue Recognition.** The Company recognizes revenue as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. In certain circumstances, noninterest income is reported net of associated expenses that are directly related to variable volume-based sales or revenue sharing arrangements or when the Company acts on an agency basis for others.

**Intangible Assets.** Intangible assets are comprised of goodwill, core deposit intangibles and other identifiable intangibles acquired in business combinations. Intangible assets with definite useful lives are amortized on an accelerated basis over their respective estimated useful lives not exceeding 15 years. If an event occurs that indicates the carrying amount of an intangible asset may not be recoverable, Management reviews the asset for impairment. Any goodwill and any intangible asset acquired in a purchase business combination determined to have an indefinite useful life is not amortized, but is evaluated for impairment annually. The Company has the option to first assess qualitative factors to determine the likelihood of impairment pursuant to FASB ASU 2011-08, *Testing for Goodwill*

*Impairment.* Although the Company has the option to first assess qualitative factors when determining if impairment exists, the Company has opted to perform a quantitative analysis to determine if an impairment exists.

**Impairment of Long-Lived Assets.** The Company reviews its long-lived and certain intangible assets for impairment whenever events or changes indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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**Income Taxes.** The Company and its subsidiaries file consolidated tax returns. The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes, resulting in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. The Company determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to Management's judgment that realization is more likely than not. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. Interest and penalties are recognized as a component of income tax expense.

**Stock Options.** The Company applies FASB ASC 718 – Compensation – Stock Compensation, to account for stock based awards granted to employees using the fair value method. The Company recognizes compensation expense for restricted performance share grants over the relevant attribution period. Restricted performance share grants have no exercise price, therefore, the intrinsic value is measured using an estimated per share price at the vesting date for each restricted performance share. The estimated per share price is adjusted during the attribution period to reflect actual stock price performance. The Company's obligation for unvested outstanding restricted performance share grants is classified as a liability until the vesting date due to a cash settlement feature, at which time the issued shares become classified as shareholders' equity.

**Extinguishment of Debt.** Gains and losses, including fees, incurred in connection with the early extinguishment of debt are charged to current earnings as reductions in noninterest income.

**Postretirement Benefits.** The Company uses an actuarial-based accrual method of accounting for post-retirement benefits.

**Other.** Securities and other property held by the Bank in a fiduciary or agency capacity are not included in the financial statements since such items are not assets of the Company or its subsidiaries.

#### Recently Issued Accounting Standards

FASB Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued January 2016. The ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the ASU changes the income statement impact of equity investments held by the Company and the requirement for the Company to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

The Company will be required to adopt the ASU provisions on January 1, 2018. Management is evaluating the impact that the ASU will have on the Company's financial statements.

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**Note 2: 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 December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Securities of U.S. Government sponsored entities	\$302,292	\$ 255	\$ (665 )	\$301,882
Agency residential mortgage-backed securities (MBS)	208,046	1,407	(6,909 )	202,544
Non-agency residential MBS	354	16	-	370
Non-agency commercial MBS	2,383	5	(9 )	2,379
Obligations of states and political subdivisions	148,705	8,861	(57 )	157,509
Asset-backed securities	2,025	-	(22 )	2,003
FHLMC <sup>(1)</sup> and FNMA <sup>(2)</sup> stock	775	3,554	-	4,329
Corporate securities	902,308	882	(6,821 )	896,369
Other securities	2,039	952	(160 )	2,831
Total	\$1,568,927	\$ 15,932	\$ (14,643 )	\$1,570,216

(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, 2015				
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
(In thousands)				
Securities of U.S. government sponsored entities	\$764	\$ -	\$ -	\$764
Agency residential MBS	595,503	1,810	(4,966 )	592,347
Non-agency residential MBS	9,667	185	-	9,852
Agency commercial MBS	16,258	20	(274 )	16,004
Obligations of states and political subdivisions	693,883	13,638	(789 )	706,732

Total                                      \$1,316,075   \$ 15,653        \$ (6,029    )   \$1,325,699

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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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair 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 MBS	24,647	1,776	(16 )	26,407
Commercial MBS	2,923	6	(10 )	2,919
Residential collateralized mortgage obligations (CMO)	230,347	634	(8,524 )	222,457
Obligations of states and political subdivisions	171,907	10,015	(123 )	181,799
Asset-backed securities	8,349	-	(36 )	8,313
FHLMC and FNMA stock	775	4,393	-	5,168
Corporate securities	511,699	2,169	(1,629 )	512,239
Other securities	2,039	871	(124 )	2,786
Total	\$1,591,464	\$ 20,806	\$ (11,489 )	\$1,600,781

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

	At December 31, 2014			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
Securities of U.S. government sponsored entities	\$1,066	\$ 11	\$ -	\$1,077
Residential MBS	59,078	1,183	(137 )	60,124
Residential CMO	258,325	2,236	(2,381 )	258,180
Obligations of states and political subdivisions	720,189	11,350	(2,358 )	729,181
Total	\$1,038,658	\$ 14,780	\$ (4,876 )	\$1,048,562

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

At December 31, 2015	
Securities Available for Sale	Securities Held to Maturity

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	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)				
Maturity in years:				
1 year or less	\$ 136,717	\$ 136,976	\$ 20,709	\$ 21,354
Over 1 to 5 years	1,049,786	1,044,453	259,556	262,163
Over 5 to 10 years	166,352	173,585	289,568	296,352
Over 10 years	2,475	2,749	124,814	127,627
Subtotal	1,355,330	1,357,763	694,647	707,496
MBS	210,783	205,293	621,428	618,203
Other securities	2,814	7,160	-	-
Total	\$ 1,568,927	\$ 1,570,216	\$ 1,316,075	\$ 1,325,699

Securities available for sale at December 31, 2015 with maturity dates over one year but less than five years include \$265,921 thousand (fair value) of securities of U.S. Government sponsored entities with call options on dates within one year or less, of which \$28,020 thousand have interest coupons which will increase if the issuer does not exercise the call option.

	At December 31, 2014			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
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
MBS and residential CMO	257,917	251,783	317,403	318,304
Other securities	2,814	7,954	-	-
Total	\$1,591,464	\$1,600,781	\$1,038,658	\$1,048,562

Expected maturities of mortgage-related securities can differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. In addition, such factors as prepayments and interest rates may affect the yield on the carrying value of mortgage-related securities. At December 31, 2015 and December 31, 2014, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

	Investment Securities Available for Sale At December 31, 2015								
	No. of Investment Positions	Less than 12 months Fair Value	Unrealized Losses	No. of Investment Positions	12 months or longer Fair Value	Unrealized Losses	No. of Investment Positions	Total Fair Value	Unrealized Losses
	(\$ in thousands)								
	Securities of U.S.								
Government sponsored entities	8	\$121,392	\$(665)	-	\$-	\$-	8	\$121,392	\$(665)
Agency residential MBS	2	12,491	(366)	31	161,296	(6,543)	33	173,787	(6,909)
Non-agency commercial MBS	1	1,071	-	1	855	(9)	2	1,926	(9)
Obligations of states and political subdivisions	3	2,728	(18)	4	1,644	(39)	7	4,372	(57)
Asset-backed securities	-	-	-	1	2,003	(22)	1	2,003	(22)
Corporate securities	97	548,177	(5,442)	25	86,762	(1,379)	122	634,939	(6,821)
Other securities	-	-	-	1	1,840	(160)	1	1,840	(160)
Total	111	\$685,859	\$(6,491)	63	\$254,400	\$(8,152)	174	\$940,259	\$(14,643)

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

Investment Securities Held to Maturity									
At December 31, 2015									
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total	
	Investment	Unrecognized	Investment	Unrecognized	Investment	Unrecognized	Investment	Unrecognized	
	Positions	Fair Value	Losses	Positions	Fair Value	Losses	Positions	Fair Value	Losses
	(\$ in thousands)								
Agency residential MBS	41	\$426,317	\$ (3,490 )	13	\$62,041	\$ (1,476 )	54	\$488,358	\$ (4,966 )
Agency commercial MBS	-	-	-	2	13,951	(274 )	2	13,951	(274 )
Obligations of states and political subdivisions	55	44,585	(249 )	54	42,081	(540 )	109	86,666	(789 )
Total	96	\$470,902	\$ (3,739 )	69	\$118,073	\$ (2,290 )	165	\$588,975	\$ (6,029 )

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-backed and asset-backed securities, delinquency and loss information with respect to the underlying collateral, changes in the levels of subordination for the Company's particular position within the repayment structure and remaining credit enhancement as compared to expected credit losses of the security. 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 December 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 December 31, 2015, \$738,865 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	Unrealized Losses	No. of Investment Positions	12 months or longer Fair Value	Unrealized Losses	No. of Investment Positions	Total Fair Value	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 MBS	-	-	-	2	822	(16)	2	822	(16)
Commercial MBS	1	942	(7)	1	803	(3)	2	1,745	(10)
Residential CMO	-	-	-	32	205,074	(8,524)	32	205,074	(8,524)
Obligations of states and political subdivisions	7	2,548	(18)	17	5,518	(105)	24	8,066	(123)
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)
Total	77	\$427,156	\$(2,325)	60	\$261,583	\$(9,164)	137	\$688,739	\$(11,489)

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

Investment Securities Held to Maturity					
At December 31, 2014					
	Less than 12 months	No. of	12 months or longer	No. of	Total

	Investment			Investment			Investment		
	No. of Positions	Fair Value	Unrecognized Losses	No. of Positions	Fair Value	Unrecognized Losses	No. of Positions	Fair Value	Unrecognized Losses
	(\$ in thousands)								
Residential MBS	4	\$ 19,467	\$ (132 )	1	\$ 201	\$ (5 )	5	\$ 19,668	\$ (137 )
Residential CMO	5	13,932	(166 )	22	119,513	(2,215 )	27	133,445	(2,381 )
Obligations of states and political subdivisions	103	76,202	(439 )	138	123,370	(1,919 )	241	199,572	(2,358 )
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 Years Ended		
	December 31,		
	2015	2014	2013
	(In thousands)		
Taxable	\$34,472	\$24,766	\$22,201
Tax-exempt from regular federal income tax	23,616	26,387	29,569
Total interest income from investment securities	\$58,088	\$51,153	\$51,770

### Note 3: Loans and Allowance for Credit Losses

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

	At December 31, 2015					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	
	(In thousands)					
Originated loans	\$368,117	\$ 517,070	\$ 2,978	\$ 117,631	\$ 346,043	\$1,351,839
Purchased covered loans:						
Gross purchased covered loans	-	-	-	2,385	11,828	14,213
Purchased loan discount	-	-	-	(133 )	(19 )	(152 )
Purchased non-covered loans:						
Gross purchased non-covered loans	15,620	124,650	973	231	32,454	173,928
Purchased loan discount	(989 )	(4,264 )	-	(23 )	(1,156 )	(6,432 )
Total	\$382,748	\$ 637,456	\$ 3,951	\$ 120,091	\$ 389,150	\$1,533,396

	At December 31, 2014					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer 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
Purchased loan discount	-	-	-	(434 )	(34 )	(468 )
Purchased non-covered loans:						
Gross purchased non-covered loans	19,166	157,502	2,919	972	41,656	222,215

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Purchased loan 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 Years	
	Ended December	
	31,	
	2015	2014
Impaired purchased loans	(In thousands)	
Carrying amount at the beginning of the period	\$4,672	\$4,936
Reductions during the period	(785 )	(264 )
Carrying amount at the end of the period	\$3,887	\$4,672

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

	For the Years Ended December 31,	
	2015	2014
Accretable yield:	(In thousands)	
Balance at the beginning of the period	\$2,261	\$2,505
Reclassification from nonaccretable difference	3,051	5,016
Accretion	(4,053)	(5,260)
Balance at the end of the period	\$1,259	\$2,261
Accretion	\$(4,053)	\$(5,260)
Change in FDIC indemnification	698	1,110
(Increase) in interest income	\$(3,355)	\$(4,150)

The following summarizes activity in the allowance for loan losses:

	Allowance for Loan Losses For the Year Ended December 31, 2015							Total	
	Commercial Real Estate	Commercial Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated		
Allowance for loan losses:	(In thousands)								
Balance at beginning of period	\$5,460	\$4,245	\$644	\$2,241	\$7,717	\$2,120	\$-	\$9,058	\$31,485
Additions:									
Provision	3,702	356	(512)	(440)	950	(961)	-	(3,095)	-
Deductions:									
Chargeoffs	(756)	(449)	-	-	(3,493)	(431)	-	-	(5,129)
Recoveries	1,153	72	45	-	1,906	239	-	-	3,415
Net loan recoveries (losses)	397	(377)	45	-	(1,587)	(192)	-	-	(1,714)
Total allowance for loan losses	\$9,559	\$4,224	\$177	\$1,801	\$7,080	\$967	\$-	\$5,963	\$29,771

	Allowance for Credit Losses For the Year Ended December 31, 2014							Total
	Commercial Real Estate	Commercial Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	
	(In thousands)							

Allowance for loan losses:									
Balance at beginning of period	\$4,005	\$ 12,070	\$ 602	\$ 405	\$ 3,198	\$ -	\$ 1,561	\$ 9,852	\$ 31,693
Additions:									
Provision	1,095	(7,276 )	39	1,866	6,864	1,006	-	(794 )	2,800
Deductions:									
Chargeoffs	(1,890)	(762 )	-	(30 )	(4,214 )	(522 )	-	-	(7,418 )
Recoveries	2,250	213	3	-	1,869	75	-	-	4,410
Net loan recoveries (losses)	360	(549 )	3	(30 )	(2,345 )	(447 )	-	-	(3,008 )
Indemnification expiration	-	-	-	-	-	1,561	(1,561 )	-	-
Balance at end of period	5,460	4,245	644	2,241	7,717	2,120	-	9,058	31,485
Liability for off-balance sheet credit exposure	2,408	-	344	-	437	-	-	(496 )	2,693
Total allowance for credit losses	\$7,868	\$ 4,245	\$ 988	\$ 2,241	\$ 8,154	\$ 2,120	\$-	\$ 8,562	\$ 34,178

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.

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## Allowance for Credit Losses

For the Year Ended December 31, 2013

	Commercial Commercial Estate	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
(In thousands)									
Allowance for loan losses:									
Balance at beginning of period	\$6,445	\$ 10,063	\$ 484	\$ 380	\$ 3,194	\$ -	\$ 1,005	\$ 8,663	\$ 30,234
Additions:									
Provision	(1,158)	2,813	118	134	1,949	385	2,570	1,189	8,000
Deductions:									
Chargeoffs	(2,857)	(997 )	-	(109 )	(4,097 )	(385 )	(2,286 )	-	(10,731)
Recoveries	1,575	191	-	-	2,152	-	272	-	4,190
Net loan losses	(1,282)	(806 )	-	(109 )	(1,945 )	(385 )	(2,014 )	-	(6,541 )
Balance at end of period	4,005	12,070	602	405	3,198	-	1,561	9,852	31,693
Liability for off-balance sheet credit exposure	1,658	-	37	-	497	-	-	501	2,693
Total allowance for credit losses	\$5,663	\$ 12,070	\$ 639	\$ 405	\$ 3,695	\$ -	\$ 1,561	\$ 10,353	\$ 34,386

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 December 31, 2015

	Commercial Commercial Estate	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
(In thousands)									
Allowance for loan losses:									
Individually evaluated for impairment	\$4,942	\$585	\$-	\$-	\$-	\$-	\$-	\$-	\$5,527
Collectively evaluated for impairment	4,617	3,639	177	1,801	7,080	967	-	5,963	24,244
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	\$9,559	\$4,224	\$ 177	\$ 1,801	\$7,080	\$967	\$-	\$ 5,963	\$29,771

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Carrying value of loans:									
Individually evaluated for impairment	\$12,587	\$5,541	\$-	\$-	\$-	\$11,777	\$-	\$-	\$29,905
Collectively evaluated for impairment	355,530	511,529	2,978	117,631	346,043	152,038	13,855	-	1,499,604
Purchased loans with evidence of credit deterioration	-	-	-	-	-	3,681	206	-	3,887
Total	\$368,117	\$517,070	\$2,978	\$117,631	\$346,043	\$167,496	\$14,061	\$-	\$1,533,396

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

	Commercial	Commercial	Construction	Residential	Consumer	Purchased	Purchased	Unallocated	Total
	Commercial	Real	Construction	Real	Installment	Non-covered	Covered	Unallocated	Total
	Estate	Estate		Estate	and Other	Loans	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
Purchased loans with evidence of credit deterioration	-	-	-	-	-	4,445	227	-	4,672
Total	\$374,005	\$567,594	\$11,003	\$146,925	\$370,842	\$212,843	\$17,078	\$-	\$1,700,290

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 December 31, 2015

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans <sup>(1)</sup>	Total
(In thousands)								
Grade:								
Pass	\$353,474	\$496,744	\$ 2,978	\$114,525	\$344,876	\$ 149,100	\$12,563	\$1,474,260
Substandard	14,643	20,326	-	3,106	781	24,810	1,650	65,316
Doubtful	-	-	-	-	12	18	-	30
Loss	-	-	-	-	374	-	-	374
Purchased loan discount	-	-	-	-	-	(6,432 )	(152 )	(6,584 )
Total	\$368,117	\$517,070	\$ 2,978	\$117,631	\$346,043	\$ 167,496	\$14,061	\$1,533,396

<sup>(1)</sup> 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

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans <sup>(1)</sup>	Total
(In thousands)								
Grade:								
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
Purchased loan discount	-	-	-	-	-	(9,372 )	(468 )	(9,840 )
Total	\$374,005	\$567,594	\$ 11,003	\$146,925	\$370,842	\$ 212,843	\$17,078	\$1,700,290

<sup>(1)</sup> 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 December 31, 2015

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Loans
(In thousands)						
Commercial	\$365,450	\$ 1,777	\$ 122	\$ -	\$ 768	\$368,117
Commercial real estate	504,970	5,930	726	-	5,444	517,070
Construction	2,978	-	-	-	-	2,978
Residential real estate	115,575	1,202	414	-	440	117,631
Consumer installment and other	341,566	3,263	919	295	-	346,043
Total originated loans	1,330,539	12,172	2,181	295	6,652	1,351,839
Purchased non-covered loans	158,554	589	7	-	8,346	167,496
Purchased covered loans	13,929	132	-	-	-	14,061
Total	\$1,503,022	\$ 12,893	\$ 2,188	\$ 295	\$ 14,998	\$1,533,396

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

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Loans
(In thousands)						
Commercial	\$372,235	\$1,704	\$36	\$-	\$30	\$374,005
Commercial real estate	557,041	6,500	-	-	4,053	567,594
Construction	11,003	-	-	-	-	11,003
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 following is a summary of the effect of nonaccrual loans on interest income:

	For the Years Ended December 31,		
	2015	2014	2013
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$1,277	\$1,146	\$1,866
Interest income recognized on nonaccrual loans	(362)	(60)	(402)
Total reduction of interest income	\$915	\$1,086	\$1,464

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

The following summarizes impaired loans:

Impaired Loans At December 31, 2015		
Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)		



Impaired loans with no related allowance recorded:

Commercial	\$2,917	\$2,979	\$ -
Commercial real estate	16,309	21,168	-
Construction	271	271	-
Residential real estate	666	697	-
Consumer installment and other	350	456	-

Impaired loans with an allowance recorded:

Commercial	10,170	10,170	4,942
Commercial real estate	4,660	5,109	585
Construction	-	-	-
Residential real estate	-	-	-
Consumer installment and other	-	-	-

Total:

Commercial	\$13,087	\$13,149	\$ 4,942
Commercial real estate	20,969	26,277	585
Construction	271	271	-
Residential real estate	666	697	-
Consumer installment and other	350	456	-

Impaired Loans  
At December 31, 2014

Recorded Investment	Unpaid Principal Balance	Related 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 December 31, 2015, included \$15,712 thousand of restructured loans, \$7,464 thousand of which 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

## For the Years Ended December 31,

	2015		2014		2013	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
Commercial	\$12,631	\$ 584	\$5,240	\$ 325	\$10,566	\$ 222
Commercial real estate	20,307	674	19,880	469	27,186	763
Construction	263	-	2,015	-	2,400	80
Residential real estate	643	31	153	-	362	-
Consumer installment and other	739	25	1,399	29	1,469	38
Total	\$34,583	\$ 1,314	\$28,687	\$ 823	\$41,983	\$ 1,103



The following table provides information on troubled debt restructurings:

Troubled Debt Restructurings At December 31, 2015				
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
(In thousands)				
Commercial	6	\$ 3,138	\$ 2,802	\$ 194
Commercial real estate	10	12,927	12,684	-
Residential real estate	1	242	226	-
Total	17	\$ 16,307	\$ 15,712	\$ 194

Troubled Debt Restructurings At December 31, 2014				
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
(In thousands)				
Commercial	3	\$ 2,075	\$ 1,901	\$ -
Commercial real estate	4	2,890	2,928	-
Consumer installment and other	1	18	8	-
Total	8	\$ 4,983	\$ 4,837	\$ -

Troubled Debt Restructurings At December 31, 2013				
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
(In thousands)				
Commercial	4	\$ 3,427	\$ 3,164	\$ -
Commercial real estate	2	2,291	2,289	-
Total	6	\$ 5,718	\$ 5,453	\$ -

During the year ended December 31, 2015, the Company modified ten loans with a carrying value of \$11,026 thousand that were considered troubled debt restructurings. The concessions granted in the restructurings completed in 2015 consisted of four under-market terms and modification of payment terms to extend the maturity date to allow for deferred principal repayment and six court orders.

During the year ended December 31, 2014, the Company modified five loans with a total carrying value of \$713 thousand that were considered troubled debt restructurings. The concessions granted in the five restructurings completed in 2014 consisted of modification of payment terms to extend the maturity date to allow for deferred principal repayment.

During the year ended December 31, 2013, the Company modified five loans with a total carrying value of \$4,966 thousand that were considered troubled debt restructurings. The concessions granted in the five restructurings completed in 2013 consisted of modification of payment terms to lower the interest rate and extend the maturity date to allow for deferred principal repayment.

During the years ended December 31, 2015 and 2014, no troubled debt restructured loans defaulted within 12 months of the modification date. During the year ended December 31, 2013 a commercial real estate loan with a carrying value of \$3,954 thousand defaulted within 12 months of the modification date. A troubled debt restructuring is considered to be in default when payments are ninety days or more past due.

The Company repaid \$20,015 thousand of Federal Home Loan Bank (“FHLB”) advances in January 2015, which had been collateralized by loans; the collateral requirements expired upon repayment of the debt. At December 31, 2014, the Company pledged loans to secure borrowings with a carrying value of \$20,015 thousand from the FHLB. The loans restricted due to collateral requirements approximated \$18,366 thousand at December 31, 2014.

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

At December 31, 2015 and December 31, 2014, the Company held total other real estate owned (OREO) of \$9,264 thousand net of reserve of \$1,986 thousand and \$6,374 thousand net of reserve of \$2,390 thousand, respectively, of which \$-0- thousand and \$-0- 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 \$-0- thousand and \$967 thousand at December 31, 2015 and December 31, 2014, respectively.

#### **Note 4: Concentration of Credit Risk**

Under the California Financial Code, credit extended 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 December 31, 2015, Westamerica Bank did not have credit extended to any one entity exceeding these limits. At December 31, 2015, Westamerica Bank had 38 lending relationships with aggregate loans exceeding \$5 million. The Company has significant credit arrangements that are secured by real estate collateral. In addition to real estate loans outstanding as disclosed in Note 3, the Company had loan commitments related to real estate loans of \$61,190 thousand and \$66,086 thousand at December 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. At December 31, 2015, Westamerica Bank held corporate bonds in 47 issuing entities which exceeded \$5 million of each issuer.

#### **Note 5: Premises, Equipment and Other Assets**

Premises and equipment consisted of the following:

At December 31,  
Cost

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		Accumulated Depreciation and Amortization	Net Book Value
(In thousands)			
2015			
Land	\$ 11,896	\$ -	\$ 11,896
Building and improvements	40,795	(24,024 )	16,771
Leasehold improvements	5,696	(4,628 )	1,068
Furniture and equipment	24,266	(15,308 )	8,958
Total	\$ 82,653	\$ (43,960 )	\$ 38,693
2014			
Land	\$ 11,933	\$ -	\$ 11,933
Building and improvements	40,939	(23,267 )	17,672
Leasehold improvements	5,742	(4,664 )	1,078
Furniture and equipment	21,438	(14,269 )	7,169
Total	\$ 80,052	\$ (42,200 )	\$ 37,852

Depreciation and amortization of premises and equipment included in noninterest expense amounted to \$3,523 thousand in 2015, \$3,177 thousand in 2014 and \$3,001 thousand in 2013.

Other assets consisted of the following:

	At December 31,	
	2015	2014
(In thousands)		
Cost method equity investments:		
Federal Reserve Bank stock <sup>(1)</sup>	\$ 14,069	\$ 14,069
Federal Home Loan Bank stock <sup>(2)</sup>	-	940
Other investments	201	241
Total cost method equity investments	14,270	15,250
Life insurance cash surrender value	48,972	46,479
Net deferred tax asset	51,748	50,903
Limited partnership investments	15,259	18,673
Interest receivable	20,174	19,394
Prepaid assets	4,771	5,609
Other assets	10,660	10,150
Total other assets	\$ 165,854	\$ 166,458

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

(2) Borrowings from the FHLB must be supported by capital stock holdings. The requirement may be adjusted from time to time by the FHLB within limits established in the FHLB's Capital Plan. The Company repaid the FHLB advances in full upon their maturity in January 2015 eliminating the requirement for FHLB capital stock holdings.

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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 December 31, 2015, this investment totaled \$15,259 thousand and \$2,299 thousand of this amount represents outstanding equity capital commitments. At December 31, 2014, this investment totaled \$18,673 thousand and \$2,460 thousand of this amount represents outstanding equity capital commitments. At December 31, 2015, the \$2,299 thousand of outstanding equity capital commitments are expected to be paid as follows, \$453 thousand in 2016, \$763 thousand in 2017, and \$1,083 thousand in 2018, or thereafter.

The amounts recognized in net income for these investments include:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Investment loss included in pre-tax income	\$2,850	\$2,950	\$3,450
Tax credits recognized in provision for income taxes	2,650	2,825	3,425

#### Note 6: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is evaluated for impairment at least annually. The Company did not recognize impairment during the years ended December 31, 2015 and 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 years ended December 31, 2015 and December 31, 2014, no such adjustments were recorded.

The carrying values of goodwill were:

	At December 31,	
	2015	2014
	(In thousands)	
Goodwill	\$121,673	\$121,673

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

At December 31, 2015    At December 31, 2014

	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization
	(In thousands)				
Core Deposit Intangibles	\$56,808	\$ (46,782 )	)	\$56,808	\$ (43,188 )
Merchant Draft Processing Intangible	10,300	(9,895 )	)	10,300	(9,633 )
Total Identifiable Intangible Assets	\$67,108	\$ (56,677 )	)	\$67,108	\$ (52,821 )

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

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
	(In thousands)		
For the Year ended December 31, 2015 (actual)	\$3,594	\$ 262	\$3,856
Estimate for year ended December 31, 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 7: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

	Deposits At December 31,	
	2015	2014
	(In thousands)	
Noninterest-bearing	\$2,026,049	\$1,910,781
Interest-bearing:		
Transaction	860,706	792,448
Savings	1,366,936	1,260,819
Time deposits less than \$100 thousand	150,780	169,959
Time deposits \$100 thousand through \$250 thousand	96,971	113,023
Time deposits more than \$250 thousand	39,217	102,161
Total deposits	\$4,540,659	\$4,349,191

Demand deposit overdrafts of \$3,038 thousand and \$3,173 thousand were included as loan balances at December 31, 2015 and December 31, 2014, respectively. Interest expense for aggregate time deposits with individual account balances in excess of \$100 thousand was \$687 thousand in 2015, \$893 thousand in 2014 and \$1,096 thousand in 2013.

The following table provides additional detail regarding short-term borrowed funds.

	Repurchase Agreements (Sweep) Accounted for as Secured Borrowings At December 31, 2015      2014 Remaining Contractual Maturity of the Agreements Overnight and Continuous (In thousands)	
Repurchase agreements:		
Collateral securing borrowings:		
Securities of U.S. Government sponsored entities	\$98,969	\$80,827
Obligations of states and political subdivisions	3,975	14,251
Corporate securities	54,681	52,936
Total collateral carrying value	\$157,625	\$148,014
Total short-term borrowed funds	\$53,028	\$89,784

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 December 31, 2015 and December 31, 2014. The line of credit has a variable interest rate, which was 2.25% per annum at December 31, 2015, with interest payable monthly on outstanding advances. Advances may be made up to the unused credit limit through March 18, 2016.

The following table summarizes deposits and borrowed funds of the Company for the periods indicated:

	Balance at December 31, 2015	Average Balance For the Year Ended December 31, 2015	Weighted Average Rate For the Year Ended December 31, 2015		Balance at December 31, 2014	Average Balance For the Year Ended December 31, 2014	Weighted Average Rate For the Year Ended December 31, 2014	
	(\$ in thousands)							
Time deposits over \$100 thousand	\$ 136,188	\$ 161,710	0.42	%	\$ 215,184	\$ 237,002	0.38	%
Securities sold under repurchase agreements	53,028	75,046	0.07	%	89,784	70,244	0.07	%
Federal Home Loan Bank advances	-	494	0.20	%	20,015	20,308	2.00	%
Term repurchase agreement	-	-	-		-	6,082	0.99	%
Federal funds purchased	-	8	0.48	%	-	8	0.48	%

	For the Years Ended December 31, 2015		2014
	Highest Balance at Any Month-end (In thousands)		
Securities sold under repurchase agreements	\$ 89,484	\$ 89,784	
Federal Home Loan Bank advances	-	20,530	
Term repurchase agreement	-	10,000	

## Note 8: Shareholders' Equity

The Company grants stock options and restricted performance shares to employees in exchange for employee services, pursuant to the shareholder-approved 1995 Stock Option Plan, which was last amended and restated in 2012. Nonqualified stock option grants ("NQSO") are granted with an exercise price equal to the fair market value of the related common stock on the grant date. NQSO generally become exercisable in equal annual installments over a three-year period with each installment vesting on the anniversary date of the grant. Each NQSO has a maximum ten-year term. A restricted performance share grant becomes vested after three years of being awarded, provided the Company has attained its performance goals for such three-year period.

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The following table summarizes information about stock options granted under the Plan as of December 31, 2015. The intrinsic value is calculated as the difference between the market value as of December 31, 2015 and the exercise price of the shares. The market value as of December 31, 2015 was \$46.75 as reported by the NASDAQ Global Select Market:

Range of Exercise Price	Options Outstanding			For the Year Ended December 31, 2015		Options Exercisable			For the Year Ended December 31, 2015	
	At December 31, 2015			Weighted Average Exercise Price	At December 31, 2015			Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	
	Number Outstanding	Aggregate Intrinsic Value	Average Remaining Contractual Life		Number Outstanding	Aggregate Intrinsic Value	Average Remaining Contractual Life			
	(In thousands)		(Years)	\$	(In thousands)		(Years)	\$		
\$40 - 45	487	\$ 1,792	7.9	43	133	\$ 432	5.8	44		
45 - 50	228	86	3.7	47	228	85	3.7	47		
50 - 55	671	-	4.8	52	532	-	4.0	51		
55 - 60	163	-	4.1	57	163	-	4.1	57		
\$40 - 60	1,549	\$ 1,878	5.5	49	1,056	\$ 517	4.2	50		

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The Company applies the Roll-Geske option pricing model (Modified Roll) to determine grant date fair value of stock option grants. This model modifies the Black-Scholes Model to take into account dividends and American options. During the twelve months ended December 31, 2015, 2014 and 2013, the Company granted 343 thousand, 294 thousand and 322 thousand stock options, respectively. The following weighted average assumptions were used in the option pricing to value stock options granted in the periods indicated:

	For the Years Ended		
	December 31,		
	2015	2014	2013
Expected volatility <sup>(1)</sup>	20 %	16 %	17 %
Expected life in years <sup>(2)</sup>	4.9	4.9	4.8
Risk-free interest rate	1.36 %	1.59 %	0.74 %
Expected dividend yield <sup>(3)</sup>	3.64 %	3.32 %	3.57 %
Fair value per award	\$5.46	\$5.91	\$4.61

<sup>(1)</sup> Measured using daily price changes of Company's stock over respective expected term of the option and the implied volatility derived from the market prices of the Company's stock and traded options.

<sup>(2)</sup> The number of years that the Company estimates that the options will be outstanding prior to exercise.

<sup>(3)</sup> The risk-free rate over the expected life based on the US Treasury yield curve in effect at the time of the grant.

Employee stock option grants are being expensed by the Company over the grants' three year vesting period. The Company issues new shares upon the exercise of options. The number of shares authorized to be issued for options at December 31, 2015 is 1,453 thousand.

A summary of option activity during the year ended December 31, 2015 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
	(In thousands)		(Years)
Outstanding at January 1, 2015	1,889	\$ 50.31	
Granted	343	42.70	
Exercised	(108 )	45.09	
Forfeited or expired	(575 )	50.71	
Outstanding at December 31, 2015	1,549	48.83	5.5
Exercisable at December 31, 2015	1,056	50.23	4.2

A summary of the Company's nonvested option activity during the year ended December 31, 2015 is presented below:

	Shares	Weighted Average Grant Date Fair Value
	(In thousands)	
Nonvested at January 1, 2015	499	\$ 5.40
Granted	343	5.46
Vested	(247 )	5.34
Forfeited	(102 )	5.45
Nonvested at December 31, 2015	493	\$ 5.45

The weighted average estimated grant date fair value for options granted under the Company's stock option plan during the twelve months ended December 31, 2015, 2014 and 2013 was \$5.46, \$5.91 and \$4.61 per share, respectively. The total remaining unrecognized compensation cost related to nonvested awards as of December 31, 2015 is \$1,422 thousand and the weighted average period over which the cost is expected to be recognized is 1.8 years.

The total intrinsic value of options exercised during the twelve months ended December 31, 2015, 2014 and 2013 was \$504 thousand, \$1,309 thousand and \$2,058 thousand, respectively. The total fair value of RPSs that vested during the twelve months ended December 31, 2015, 2014 and 2013 was \$741 thousand, \$1,115 thousand and \$678 thousand, respectively. The total fair value of options vested during the twelve months ended December 31, 2015, 2014 and 2013 was \$1,321 thousand, \$1,397 thousand and \$1,514 thousand, respectively. The decrease in tax benefits recognized for the tax deductions from the exercise of options totaled \$1,284 thousand, \$447 thousand and \$298 thousand, respectively, for the twelve months ended December 31, 2015, 2014 and 2013.



A summary of the status of the Company's restricted performance shares as of December 31, 2015 and 2014 and changes during the twelve months ended on those dates, follows:

	2015	2014
	(In thousands)	
Outstanding at January 1,	50	59
Granted	21	17
Issued upon vesting	(17)	(21)
Forfeited	(9 )	(5 )
Outstanding at December 31,	45	50

As of December 31, 2015 and 2014, the restricted performance shares had a weighted-average contractual life of 1.3 years and 1.2 years, respectively. The compensation cost that was charged against income for the Company's restricted performance shares granted was \$535 thousand, \$575 thousand and \$1,338 thousand for the twelve months ended December 31, 2015, 2014 and 2013, respectively. There were no stock appreciation rights or incentive stock options granted in the twelve months ended December 31, 2015 and 2014.

On February 13, 2009, the Company issued a warrant to purchase 246,640 shares of the Company's common stock at an exercise price of \$50.92 per share. The warrants remain outstanding at December 31, 2015.

The Company repurchases and retires its common stock in accordance with Board of Directors approved share repurchase programs. At December 31, 2015, approximately 1,727 thousand shares remained available to repurchase under such plans.

Shareholders have authorized two additional classes of stock of one million shares each, to be denominated "Class B Common Stock" and "Preferred Stock," respectively, in addition to the 150 million shares of common stock presently authorized. At December 31, 2015, no shares of Class B Common Stock or Preferred Stock were outstanding.

#### **Note 9: Risk-Based Capital**

The Company and the Bank were well capitalized under the regulatory framework effective January 1, 2015. To be well capitalized, the institution must maintain a total risk-based capital ratio as set forth in the following table and not be subject to a capital directive order. As of December 31, 2015, the Company and the Bank met all capital adequacy requirements to which they are subject.

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 most affected the regulatory capital requirements of the Company and the Bank:

- Introduced a new "Common Equity Tier 1" capital measurement,
- Established higher minimum levels of capital,
- Introduced a "capital conservation buffer,"
- Increased the risk-weighting of certain assets, and
- Established 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 December 31, 2015		Transitional Minimum Regulatory Requirement Effective January 1, 2015		Well-capitalized by Regulatory Definition Under FDICIA Effective January 1, 2015	
	Amount (\$ in thousands)	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital						
Company	402,876	12.82 %	141,417	4.50 %	N/A	N/A
Bank	340,918	11.00 %	139,412	4.50 %	201,373	6.50 %
Tier 1 Capital						
Company	402,876	12.82 %	188,557	6.00 %	N/A	N/A
Bank	340,918	11.00 %	185,883	6.00 %	247,844	8.00 %
Total Capital						
Company	420,731	13.39 %	251,409	8.00 %	N/A	N/A
Bank	361,880	11.68 %	247,844	8.00 %	309,805	10.00 %
Leverage Ratio <sup>1</sup>						
Company	402,876	7.99 %	201,606	4.00 %	N/A	N/A
Bank	340,918	6.82 %	199,919	4.00 %	249,899	5.00 %

<sup>1</sup> The leverage ratio consists of Tier 1 capital divided by the most recent quarterly average total assets, excluding certain intangible assets.

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

At December 31, 2014	Minimum Regulatory Requirement		Well-capitalized by Regulatory Definition Under FDICIA	
	Amount (\$ in thousands)	Ratio	Amount	Ratio

Tier 1 Capital						
Company	391,121	13.30%	117,644	4.00%	176,467	6.00 %
Bank	349,120	12.04%	116,018	4.00%	174,027	6.00 %
Total Capital						
Company	427,612	14.54%	235,289	8.00%	294,111	10.00%
Bank	391,219	13.49%	232,036	8.00%	290,045	10.00%
Leverage Ratio <sup>1</sup>						
Company	391,121	7.95 %	196,809	4.00%	246,011	5.00 %
Bank	349,120	7.16 %	195,149	4.00%	243,936	5.00 %

<sup>1</sup> The leverage ratio consists of Tier 1 capital divided by the most recent quarterly average total assets, excluding certain intangible assets.

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**Note 10: Income Taxes**

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the amounts reported in the financial statements of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Amounts for the current year are based upon estimates and assumptions as of the date of these financial statements and could vary significantly from amounts shown on the tax returns as filed.

The components of the net deferred tax asset are as follows:

	At December 31,	
	2015	2014
	(In thousands)	
Deferred tax asset		
Allowance for credit losses	\$13,466	\$14,220
State franchise taxes	2,612	2,867
Deferred compensation	8,082	7,839
Real estate owned	1,062	1,041
Purchased assets and assumed liabilities	4,975	6,389
Post-retirement benefits	1,072	1,097
Employee benefit accruals	3,772	4,692
VISA Class B shares	1,691	1,706
Limited partnership investments	760	1,332
Impaired capital assets	19,074	18,941
Leases	-	84
Premises and equipment	205	538
Other	397	730
Subtotal deferred tax asset	57,168	61,476
Valuation allowance	-	-
Total deferred tax asset	57,168	61,476
Deferred tax liability		
Net deferred loan fees	456	461
Intangible assets	4,294	5,770
Securities available for sale	542	3,919
Other	128	423
Total deferred tax liability	5,420	10,573
Net deferred tax asset	\$51,748	\$50,903

Based on Management's judgment, a valuation allowance is not needed to reduce the gross deferred tax asset because it is more likely than not that the gross deferred tax asset will be realized through recoverable taxes or future taxable income. Net deferred tax assets are included with other assets in the Consolidated Balance Sheets.

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The provision for federal and state income taxes consists of amounts currently payable and amounts deferred are as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Current income tax expense:			
Federal	\$9,647	\$11,950	\$13,975
State	6,738	7,802	8,597
Total current	16,385	19,752	22,572
Deferred income tax expense (benefit):			
Federal	1,643	(1,220 )	(2,518 )
State	(109 )	(225 )	(1,109 )
Total deferred	1,534	(1,445 )	(3,627 )
Provision for income taxes	\$17,919	\$18,307	\$18,945

The provision for income taxes differs from the provision computed by applying the statutory federal income tax rate to income before taxes, as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Federal income taxes due at statutory rate	\$26,835	\$27,634	\$30,142
Reductions in income taxes resulting from:			
Interest on state and municipal securities and loans not taxable for federal income tax purposes	(9,046 )	(10,173 )	(11,565 )
State franchise taxes, net of federal income tax benefit	4,309	4,925	4,712
Tax credits	(2,600 )	(2,700 )	(3,190 )
Dividend received deduction	(45 )	(39 )	(32 )
Cash value life insurance	(599 )	(641 )	(747 )
Other	(935 )	(699 )	(375 )
Provision for income taxes	\$17,919	\$18,307	\$18,945

At December 31, 2015, the company had no net operating loss and general tax credit carryforwards for tax return purposes.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follow:

	2015	2014
	(In thousands)	
Balance at January 1,	\$1,635	\$1,437
Additions for tax positions taken in the current period	-	245
Reductions for tax positions taken in the current period	-	-
Additions for tax positions taken in prior years	55	-
Reductions for tax positions taken in prior years	(447 )	(47 )
Decrease related to settlements with taxing authorities	-	-
Decrease as a result of a lapse in statute of limitations	-	-
Balance at December 31,	\$1,243	\$1,635

The Company does not anticipate any significant increase or decrease in unrecognized tax benefits during 2016. Unrecognized tax benefits at December 31, 2015 and 2014 include accrued interest and penalties of \$88 thousand and \$93 thousand, respectively. If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate.

The Company classifies interest and penalties as a component of the provision for income taxes. The tax years ended December 31, 2015, 2014, 2013 and 2012 remain subject to examination by the Internal Revenue Service. The tax years ended December 31, 2015, 2014, 2013, 2012 and 2011 remain subject to examination by the California Franchise Tax Board. The deductibility of these tax positions will be determined through examination by the appropriate tax jurisdictions or the expiration of the tax statute of limitations.



### **Note 11: 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 and equity securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 includes federal agency securities, 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 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.

The Company regularly reviews the valuation techniques and assumptions used by its vendors and determines which valuation techniques are utilized based on observable market inputs for the type of securities being measured. The Company uses the information to determine the placement in the fair value hierarchy as level 1, 2 or 3. 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, or reevaluates the valuation techniques and assumptions used by its vendors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new information. The Company recognizes these transfers at the end of the reporting period that the transfers occur. During the quarter ended June 30, 2015, the Company reevaluated the valuation techniques and assumptions used by its vendors in valuing the Company's available for sale securities, and based on the evaluation, transferred \$437,715 thousand out of level 1 and transferred \$437,715 thousand into level 2. There were no transfers into level 1 or into or out of level 3. Subsequent to June 30, 2015 and through the year ended December 31, 2015, and the year ended December 31, 2014, there were no transfers into or out of levels 1, 2 or 3.

**Assets Recorded at Fair Value on a Recurring Basis**

The tables below present assets measured at fair value on a recurring basis on the dates indicated.

	At December 31, 2015			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2 )	Significant Unobservable Inputs (Level 3 )
	(In thousands)			
Securities of U.S. Government sponsored entities	\$ 301,882	\$ -	\$ 301,882	\$ -
Agency residential MBS	202,544	-	202,544	-
Non-agency residential MBS	370	-	370	-
Agency commercial MBS	2,379	-	2,379	-
Obligations of states and political subdivisions	157,509	-	157,509	-
Asset-backed securities	2,003	-	2,003	-
FHLMC and FNMA stock	4,329	7	4,322	-
Corporate securities	896,369	-	896,369	-
Other securities	2,831	991	1,840	-
Total securities available for sale	\$ 1,570,216	\$ 998	\$ 1,569,218	\$ -

	At December 31, 2014			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2 )	Significant Unobservable Inputs (Level 3 )
	(In thousands)			
U.S. Treasury securities	\$ 3,505	\$ 3,505	\$ -	\$ -
Securities of U.S. Government sponsored entities	635,188	635,188	-	-
Residential MBS	26,407	-	26,407	-
Commercial MBS	2,919	-	2,919	-
Residential CMO	222,457	-	222,457	-

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Obligations of states and political subdivisions	181,799	-	181,799	-
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	\$-

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**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 December 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 December 31, 2015				For the Year Ended December 31, 2015
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
	(In thousands)				
Other real estate owned	\$9,264	\$ -	\$ -	\$9,264	\$ (320 )
Impaired loans	15,633	-	-	15,633	(449 )
Total assets measured at fair value on a nonrecurring basis	\$24,897	\$ -	\$ -	\$24,897	\$ (769 )

Level 3 – Valuation is based upon independent market prices, estimated liquidation values of loan collateral or appraised value of the collateral as determined by third-party independent appraisers, less 10% for selling costs, generally. Level 3 includes other real estate owned that has been measured at fair value upon transfer to foreclosed assets and impaired loans collateralized by real property and other business asset collateral where a specific reserve has been established or a chargeoff 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. The unobservable inputs and qualitative information about the unobservable inputs are not presented due to the unavailability from third party evaluators.

	At December 31, 2014				For the Year Ended December 31, 2014
	Fair 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 chargeoff 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 chargeoff 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 \$29,771 thousand at December 31, 2015 and \$31,485 thousand at December 31, 2014 and the purchased loan discount associated with purchased covered and purchased non-covered loans of \$152 thousand and \$6,432 thousand, respectively at December 31, 2015 and 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 December 31, 2015				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2 )	Significant Unobservable Inputs (Level 3 )
Financial Assets:	(In thousands)				
Cash and due from banks	\$433,044	\$433,044	\$433,044	\$-	\$-
Investment securities held to maturity	1,316,075	1,325,699	-	1,325,699	-
Loans	1,503,625	1,517,394	-	-	1,517,394



Financial Liabilities:

Deposits	\$4,540,659	\$4,539,455	\$-	\$4,253,691	\$ 285,764
Short-term borrowed funds	53,028	53,028	-	53,028	-

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At December 31, 2014					
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2 )	Significant Unobservable Inputs (Level 3 )
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 12: Lease Commitments

Thirty-two banking offices and a centralized administrative service center are owned and 64 facilities are leased. Substantially all the leases contain renewal options and provisions for rental increases, principally for cost of living index. The Company also leases certain pieces of equipment.

Minimum future rental payments under noncancelable operating leases as of December 31, 2015 are as follows:

	(In thousands)
2016	\$ 6,708
2017	5,814
2018	5,073
2019	3,551
2020	1,998

Thereafter	1,516
Total minimum lease payments	\$ 24,660

The total minimum lease payments have not been reduced by minimum sublease rentals of \$2,076 thousand due in the future under noncancelable subleases. Total rentals for premises were \$8,359 thousand in 2015, \$8,798 thousand in 2014 and \$8,953 thousand in 2013. Total sublease rentals were \$1,721 thousand in 2015, \$1,833 thousand in 2014 and \$1,852 thousand in 2013. Total rentals for premises, net of sublease income, included in noninterest expense were \$6,638 thousand in 2015, \$6,965 thousand in 2014 and \$7,101 thousand in 2013.

**Note 13: 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 \$299,884 thousand and \$312,694 thousand at December 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 \$26,149 thousand and \$29,002 thousand at December 31, 2015 and December 31, 2014, respectively. The Company also had commitments for commercial and similar letters of credit of \$40 thousand at December 31, 2015 and December 31, 2014. At December 31, 2015 and December 31, 2014, the Company had a reserve for unfunded commitments of \$2,593 thousand and \$2,693 thousand, respectively, 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 14: Retirement Benefit Plans**

The Company sponsors a qualified defined contribution Deferred Profit-Sharing Plan covering substantially all of its salaried employees with one or more years of service. The costs charged to noninterest expense related to discretionary Company contributions to the Deferred Profit-Sharing Plan were \$734 thousand in 2015, \$1,002 thousand in 2014 and \$1,200 thousand in 2013.

The Company also sponsors a qualified defined contribution Tax Deferred Savings/Retirement Plan (ESOP) covering salaried employees who become eligible to participate upon completion of a 90-day introductory period. The Tax Deferred Savings/ Retirement Plan (ESOP) allows employees to defer, on a pretax or after-tax basis, a portion of their salaries as contributions to this Plan. Participants may invest in several funds, including one fund that invests primarily in Westamerica Bancorporation common stock. The Company funds contributions to match participating employees' contributions, subject to certain limits. The matching contributions charged to compensation expense were \$1,147 thousand in 2015, \$1,159 thousand in 2014 and \$1,214 thousand in 2013.

The Company offers a continuation of group insurance coverage to eligible employees electing early retirement, for the period from the date of retirement until age 65. For eligible employees the Company pays a portion of these early retirees' group insurance premiums. The Company also reimburses a portion of Medicare Part B premiums for all qualifying retirees over age 65 and, if eligible, their spouses. Eligibility for post-retirement medical benefits is based on age and years of service, and restricted to employees hired prior to February 1, 2006 who elect early retirement prior to January 1, 2018. The Company uses an actuarial-based accrual method of accounting for post-retirement benefits. The Company used a December 31 measurement date for determining post-retirement medical benefit calculations.

The following tables set forth the net periodic post-retirement benefit cost and the change in the benefit obligation for the years ended December 31 and the funded status of the post-retirement benefit plan as of December 31:

#### **Net Periodic Benefit Cost**

At December 31,

	2015	2014	2013
	(In thousands)		
Service (benefit) cost	\$(202)	\$288	\$(153)
Interest cost	106	122	110
Amortization of unrecognized transition obligation	61	61	61
Net periodic (benefit) cost	\$(35 )	\$471	\$18

**Other Changes in Benefit Obligations Recognized in Other Comprehensive Income**

Amortization of unrecognized transition obligation, net of tax	(36)	(36)	(36)
Total recognized in net periodic (benefit) cost and accumulated other comprehensive income	\$(71)	\$435	\$(18)

The remaining transition obligation cost for this post-retirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$61 thousand.

**Obligation and Funded Status**

	At December 31,		
	2015	2014	2013
	(In thousands)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$2,782	\$2,544	\$2,755
Service (benefit) cost	(202 )	288	(153 )
Interest cost	106	122	110
Benefits paid	(164 )	(172 )	(168 )
Benefit obligation at end of year	\$2,522	\$2,782	\$2,544
Accumulated post-retirement benefit obligation attributable to:			
Retirees	\$1,695	\$1,732	\$1,443
Fully eligible participants	809	998	983
Other	18	52	118
Total	\$2,522	\$2,782	\$2,544
Fair value of plan assets	-	-	-
Accumulated post-retirement benefit obligation in excess of plan assets	\$2,522	\$2,782	\$2,544

## Additional Information

## Assumptions

	At December 31,		
	2015	2014	2013
	(In thousands)		
Weighted-average assumptions used to determine benefit obligations			
Discount rate	4.30%	3.80%	4.80%
Weighted-average assumptions used to determine net periodic benefit cost			
Discount rate	3.80%	4.80%	4.00%

The above discount rate is based on the Corporate Aa 25-year rate, the term of which approximates the term of the benefit obligations. The Company reserves the right to terminate or alter post-employment health benefits. Post-retirement medical benefits are currently fixed amounts without provision for future increases; as a result, the assumed annual average rate of inflation used to measure the expected cost of benefits covered by this program is zero percent for 2016 and beyond.

Assumed benefit inflation rates are not applicable for this program.

	Estimated future benefit payments (In thousands)
2016	\$ 165
2017	165
2018	160
2019	156
2020	152
Years 2021-2025	700

**Note 15: Related Party Transactions**

Certain of the Directors, executive officers and their associates have had banking transactions with subsidiaries of the Company in the ordinary course of business. In Management's opinion, with the exception of the Company's Employee Loan Program, all outstanding loans and commitments included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, did not involve more than a normal risk of collectability, and did not present other favorable features. As part of the Employee Loan Program, all employees, including executive officers, are eligible to receive mortgage loans at one percent below Westamerica Bank's prevailing interest rate at the time of loan origination. In Management's opinion, all loans to executive officers under the Employee Loan Program are made by Westamerica Bank in compliance with the applicable restrictions of Section 22(h) of the Federal Reserve Act.

The table below reflects information concerning loans to certain directors and executive officers and/or family members during 2015 and 2014:

	2015	2014
	(In thousands)	
Balance at January 1,	\$957	\$1,013
Originations	-	-
Principal reductions	(46 )	(56 )
Balance at December 31,	\$911	\$957
Percent of total loans outstanding.	0.06 %	0.06 %

#### Note 16: Regulatory Matters

Payment of dividends to the Company by the Bank is limited under regulations for state chartered banks. The amount that can be paid in any calendar year, without prior approval from regulatory agencies, cannot exceed the net profits (as defined) for the preceding three calendar years less dividends paid. Under this regulation, the Bank obtained approval for dividends paid to the Company during 2015. The Company consistently has paid quarterly dividends to its shareholders since its formation in 1972.

The Bank is required to maintain reserves with the Federal Reserve Bank equal to a percentage of its reservable deposits. The Bank's daily average on deposit at the Federal Reserve Bank was \$254,600 thousand in 2015 and \$400,039 thousand in 2014, which amounts exceed the Bank's required reserves.

#### Note 17: Other Comprehensive Income

The components of other comprehensive income (loss) and other related tax effects were:

	2015		
	Before tax	Tax effect	Net of tax
	(In thousands)		
Securities available for sale:			
Net unrealized losses arising during the year	\$(8,028)	\$3,375	\$(4,653)
Reclassification of gains (losses) included in net income	-	-	-
Net unrealized losses arising during the year	(8,028)	3,375	(4,653)



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Post-retirement benefit obligation	61	(25 )	36
Other comprehensive loss	\$(7,967)	\$3,350	\$(4,617)

2014  
 Before Tax Net  
 tax effect of tax  
 (In thousands)

Securities available for sale:			
Net unrealized gains arising during the year	\$1,627	\$(684)	\$943
Reclassification of gains (losses) included in net income	-	-	-
Net unrealized gains arising during the year	1,627	(684)	943
Post-retirement benefit obligation	61	(25 )	36
Other comprehensive income	\$1,688	\$(709)	\$979

2013  
 Before Tax Net of tax  
 tax effect  
 (In thousands)

Securities available for sale:			
Net unrealized losses arising during the year	\$(17,855)	\$7,507	\$(10,348)
Reclassification of gains (losses) included in net income	-	-	-
Net unrealized losses arising during the year	(17,855)	7,507	(10,348)
Post-retirement benefit obligation	61	(25 )	36
Other comprehensive loss	\$(17,794)	\$7,482	\$(10,312)

Accumulated other comprehensive income (loss) balances were:

	Post-retirement Benefit Obligations	Net Realized Gains (Losses) on Securities	Accumulated Other Comprehensive Income (loss)
	(In thousands)		
Balance, December 31, 2012	\$(178)	\$ 14,803	\$ 14,625
Net change	36	(10,348 )	(10,312 )
Balance, December 31, 2013	(142)	4,455	4,313
Net change	36	943	979
Balance, December 31, 2014	(106)	5,398	5,292
Net change	36	(4,653 )	(4,617 )
Balance, December 31, 2015	\$(70 )	\$ 745	\$ 675

#### Note 18: 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 Years Ended December 31,		
	2015	2014	2013
	(In thousands, except per share data)		
Net income (numerator)	\$58,753	\$60,646	\$67,177
Basic earnings per common share			
Weighted average number of common shares outstanding - basic (denominator)	25,555	26,099	26,826
Basic earnings per common share	\$2.30	\$2.32	\$2.50
Diluted earnings per common share			
Weighted average number of common shares outstanding - basic	25,555	26,099	26,826
Add common stock equivalents for options	22	61	51
Weighted average number of common shares outstanding - diluted (denominator)	25,577	26,160	26,877
Diluted earnings per common share	\$2.30	\$2.32	\$2.50

For the years ended December 31, 2015, 2014, and 2013, options to purchase 1,313 thousand, 1,133 thousand and 1,575 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price exceeded the fair value of the stock such that their

inclusion would have had an anti-dilutive effect.

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**Note 19: Westamerica Bancorporation (Parent Company Only Condensed Financial Information)**

## Statements of Income and Comprehensive Income

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Dividends from subsidiaries	\$68,981	\$75,369	\$88,754
Interest income	10	7	14
Other income	8,411	7,182	8,684
Total income	77,402	82,558	97,452
Interest on borrowings	1	42	707
Salaries and benefits	6,291	6,587	7,120
Other expense	3,424	1,704	2,174
Total expense	9,716	8,333	10,001
Income before taxes and equity in undistributed income of subsidiaries	67,686	74,225	87,451
Income tax benefit	803	742	732
Earnings of subsidiaries less than subsidiary dividends	(9,736 )	(14,321 )	(21,006 )
Net income	58,753	60,646	67,177
Other comprehensive (loss) income, net of tax	(4,617 )	979	(10,312 )
Comprehensive income	\$54,136	\$61,625	\$56,865

## Balance Sheets

	At December 31,	
	2015	2014
	(In thousands)	
<b>Assets</b>		
Cash	\$26,453	\$7,451
Investment securities available for sale	991	910
Investment in Westamerica Bank	475,697	490,098
Investment in non-bank subsidiaries	455	456
Premises and equipment, net	9,391	9,679
Accounts receivable from Westamerica Bank	552	323
Other assets	33,850	32,974
Total assets	\$547,389	\$541,891
<b>Liabilities</b>		
Accounts payable to Westamerica Bank	\$737	\$790
Other liabilities	14,447	14,498
Total liabilities	15,184	15,288

Shareholders' equity	532,205	526,603
Total liabilities and shareholders' equity	\$547,389	\$541,891

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## Statements of Cash Flows

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
<b>Operating Activities</b>			
Net income	\$58,753	\$60,646	\$67,177
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	326	341	312
(Increase) decrease in accounts receivable from affiliates	(217 )	(17 )	26
Increase in other assets	(1,713 )	(1,668 )	(926 )
Stock option compensation expense	1,272	1,318	1,397
Tax benefit decrease upon exercise of stock options	1,284	447	298
(Benefit) provision for deferred income tax	(491 )	616	(769 )
Increase (decrease) in other liabilities	743	(814 )	2,573
Earnings of subsidiaries less than subsidiary dividends	9,736	14,321	21,006
Gain on sales of property and equipment	(39 )	(88 )	(259 )
<b>Net Cash Provided by Operating Activities</b>	<b>69,654</b>	<b>75,102</b>	<b>90,835</b>
<b>Investing Activities</b>			
Purchases of premises and equipment	-	-	-
<b>Net Cash Provided by Investing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financing Activities</b>			
Net reductions in debt financing	-	-	(15,000)
Exercise of stock options/issuance of shares	4,848	12,396	21,499
Tax benefit decrease upon exercise of stock options	(1,284 )	(447 )	(298 )
Retirement of common stock including repurchases	(15,092)	(52,678)	(57,320)
Dividends	(39,124)	(39,761)	(40,096)
<b>Net Cash Used in Financing Activities</b>	<b>(50,652)</b>	<b>(80,490)</b>	<b>(91,215)</b>
Net change in cash	19,002	(5,388 )	(380 )
Cash at Beginning of Period	7,451	12,839	13,219
<b>Cash at End of Period</b>	<b>\$26,453</b>	<b>\$7,451</b>	<b>\$12,839</b>
<b>Supplemental Cash Flow Disclosures:</b>			
Supplemental disclosure of cash flow activities:			
Interest paid for the period	\$1	\$42	\$840
Income tax payments for the period	17,666	16,412	22,562

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**Note 20: Quarterly Financial Information****(Unaudited)**

	For the Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	(In thousands, except per share data and price range of common stock)							
<b>2015</b>								
Interest and loan fee income	\$	33,917	\$	34,425	\$	34,299	\$	33,888
Net interest income		33,258		33,808		33,714		33,325
Provision for credit losses		-		-		-		-
Noninterest income		12,300		12,269		11,993		11,305
Noninterest expense		26,727		26,896		26,173		25,504
Income before taxes		18,831		19,181		19,534		19,126
Net income		14,557		14,761		14,857		14,578
Basic earnings per common share		0.57		0.58		0.58		0.57
Diluted earnings per common share		0.57		0.58		0.58		0.57
Dividends paid per common share		0.38		0.38		0.38		0.39
Price range, common stock	40.57-	49.45	42.09-	52.16	42.97-	52.40	41.99-	49.89
<b>2014</b>								
Interest and loan fee income	\$	35,564	\$	35,403	\$	34,900	\$	34,342
Net interest income		34,666		34,503		34,054		33,542
Provision for credit losses		1,000		1,000		600		200
Noninterest income		12,990		13,198		13,054		12,545
Noninterest expense		26,873		26,957		26,616		26,353
Income before taxes		19,783		19,744		19,892		19,534
Net income		15,307		15,157		15,154		15,028
Basic earnings per common share		0.58		0.58		0.58		0.58
Diluted earnings per common share		0.58		0.58		0.58		0.58
Dividends paid per common share		0.38		0.38		0.38		0.38
Price range, common stock	48.36-	56.51	47.85-	55.34	46.12-	53.93	42.71-	51.24
<b>2013</b>								
Interest and loan fee income	\$	40,465	\$	39,269	\$	37,956	\$	36,706
Net interest income		39,213		38,050		36,780		35,682
Provision for credit losses		2,800		1,800		1,800		1,600
Noninterest income		14,278		14,284		14,419		14,030
Noninterest expense		28,677		28,192		27,758		27,987
Income before taxes		22,014		22,342		21,641		20,125
Net income		17,271		17,112		16,738		16,056
Basic earnings per common share		0.64		0.64		0.63		0.60
Diluted earnings per common share		0.64		0.64		0.63		0.60
Dividends paid per common share		0.37		0.37		0.37		0.38
Price range, common stock	42.59-	45.80	41.76-	46.56	45.73-	50.78	48.29-	57.59

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors

Westamerica Bancorporation

San Rafael, California

We have audited the accompanying consolidated balance sheet of Westamerica Bancorporation (the “Company”) as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended. We also have audited the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California

February 26, 2016

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Westamerica Bancorporation:

We have audited the accompanying consolidated balance sheet of Westamerica Bancorporation and subsidiaries (the Company) as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Westamerica Bancorporation and subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ /KPMG LLP

KPMG LLP

San Francisco, California

February 27, 2015



**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

As previously reported in the Company's current report on Form 8-K filed March 3, 2015, the Company engaged a new independent accounting firm for the fiscal year ending December 31, 2015. There have been no disagreements between the Company and the previous independent accounting firm or current independent accounting firm.

**ITEM 9A. 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 December 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 December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management's Report on Internal Control Over Financial Reporting and the attestation Report of Independent Registered Public Accounting Firm are found on page 47 and 90, respectively.

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE**

The information regarding Directors of the Registrant and compliance with Section 16(a) of the Securities Exchange Act of 1934 required by this Item 10 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the captions “Board of Directors and Committees”, “Proposal 1 — Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s Proxy Statement for its 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

## Executive Officers

The executive officers of the Company and Westamerica Bank serve at the pleasure of the Board of Directors and are subject to annual appointment by the Board at its first meeting following the Annual Meeting of Shareholders. It is anticipated that each of the executive officers listed below will be reappointed to serve in such capacities at that meeting.

Name of Executive	Position	Held Since
David L. Payne	Mr. Payne, born in 1955, is the Chairman of the Board, President and Chief Executive Officer of the Company. Mr. Payne is President and Chief Executive Officer of Gibson Printing and Publishing Company and Gibson Radio and Publishing Company which are newspaper, commercial printing and real estate investment companies headquartered in Vallejo, California.	1984
John “Robert” Thorson	Mr. Thorson, born in 1960, is Senior Vice President and Chief Financial Officer for the Company. Mr. Thorson joined Westamerica Bancorporation in 1989, was Vice President and Manager of Human Resources from 1995 until 2001 and was Senior Vice President and Treasurer from 2002 until 2005.	2005
Dennis R. Hansen	Mr. Hansen, born in 1950, is Senior Vice President and Manager of the Operations and Systems Administration of Community Banker Services Corporation. Mr. Hansen joined Westamerica Bancorporation in 1978 and was Senior Vice President and Controller for the Company until 2005.	2005
David L. Robinson	Mr. Robinson, born in 1959, is Senior Vice President and Banking Division Manager of Westamerica Bank. Mr. Robinson joined Westamerica Bancorporation in 1993 and has held several banking positions, most recently, Senior Vice President and Southern Banking Division Manager until 2007.	2007

Russell W. Rizzardi      Mr. Rizzardi, born in 1955, is Senior Vice President and Chief Credit Administrator of Westamerica Bank. Mr. Rizzardi joined Westamerica Bank in 2007. He has been in the banking industry since 1979 and was previously with Wells Fargo Bank and U.S. Bank.      2008

The Company has adopted a Code of Ethics (as defined in Item 406 of Regulation S-K of the Securities Act of 1933) that is applicable to its senior financial officers including its chief executive officer, chief financial officer, and principal accounting officer.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the captions “Executive Compensation” in the Company’s Proxy Statement for its 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

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## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the caption "Stock Ownership" in the Company's Proxy Statement for its 2016 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934.

### Securities Authorized For Issuance Under Equity Compensation Plans

The following table summarizes the status of the Company's equity compensation plans as of December 31, 2015:

Plan category	At December 31, 2015		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,549	\$ 49	1,453
Equity compensation plans not approved by security holders	-	N/A	