Blue Buffalo Pet Products, Inc.
Form 8-K/A
December 19, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 7, 2016

Blue Buffalo Pet Products, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-37510**	**46-0552933**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

11 River Road

Wilton, CT 06897

(Address of Principal Executive Offices) (Zip Code)

(203) 762-9751

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

This Amendment No. 1 to Current Report on Form 8-K/A (the Amendment) amends the Current Report on Form 8-K filed by Blue Buffalo Pet Products, Inc. (the Company) on November 10, 2016 (the Original Form 8-K), which disclosed, among other things, the appointment of William Bishop, Jr. as the Company s Chief Executive Officer effective January 1, 2017. At the time of the filing of the Original Form 8-K, the Board of Directors (the Board) of the Company had not yet determined the terms of Mr. Bishop s compensation in connection with his appointment as Chief Executive Officer.

This Amendment is being filed solely to report that on December 15, 2016, the Board, upon the recommendation of the Compensation Committee of the Board, approved: (i) an increase in Mr. Bishop s base salary to $600,000, effective January 1, 2017; (ii) an increase to Mr. Bishop s target annual cash incentive opportunity for 2017 to 150% of his base salary; and (iii) Mr. Bishop s eligibility to receive an award pursuant to the Company s long-term equity inventive plan in 2017 with a target value equal to 150% of his base salary.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

BLUE BUFFALO PET PRODUCTS, INC.

By: /s/ Lawrence Miller

Name: Lawrence Miller
Title: Senior Vice President, General Counsel and Secretary

Date: December 19, 2016

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Mortgage-backed securities and residential collateralized mortgage obligations	282,043	273,685	346,030	345,646
Other securities	2,843	19,871	-	-
Total	$1,256,363	$1,278,242	$1,069,135	$1,073,793

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	At December 31, 2013			
	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	$75,385	$75,609	$ 9,639	$ 9,900
Over 1 to 5 years	536,333	538,111	187,051	189,827
Over 5 to 10 years	66,669	68,166	314,630	310,104
Over 10 years	87,722	90,484	246,988	233,017
Subtotal	766,109	772,370	758,308	742,848
Mortgage-backed securities and residential collateralized mortgage obligations	302,729	290,497	373,991	369,828
Other securities	2,853	16,514	-	-
Total	$1,071,691	$1,079,381	$ 1,132,299	$ 1,112,676

Expected maturities of mortgage-backed securities can differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. In addition, such factors as prepayments and interest rates may affect the yield on the carrying value of mortgage-backed securities. At June 30, 2014 and December 31, 2013, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

	Investment Securities Available for Sale At June 30, 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	7	$166,393	$ (286)	1	$9,964	$ (36)	8	$176,357	$ (322)
Residential mortgage- backed securities	-	-	-	2	836	(21)	2	836	(21)
Commercial mortgage- backed securities	-	-	-	1	910	(2)	1	910	(2)
Obligations of states and political subdivisions	12	5,188	(75)	19	5,509	(142)	31	10,697	(217)
Residential collateralized mortgage obligations	1	1	-	31	217,989	(11,023)	32	217,990	(11,023)
Asset-backed securities	-	-	-	1	3,898	(39)	1	3,898	(39)
Corporate securities	15	35,071	(243)	4	29,350	(227)	19	64,421	(470)
Other securities	-	-	-	1	1,874	(126)	1	1,874	(126)

Total	35	$206,653	$ (604)	60	$270,330	$ (11,616)	95	$476,983	$ (12,220)

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

	Investment Securities Held to Maturity At June 30, 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	1	$1,285	$ (2)	-	$-	$ -	1	$1,285	$ (2)
Residential mortgage-backed securities	1	2,930	(30)	2	3,403	(24)	3	6,333	(54)
Obligations of states and political subdivisions	67	50,734	(223)	220	186,639	(4,996)	287	237,373	(5,219)
Residential collateralized mortgage obligations	7	47,807	(266)	24	135,553	(3,243)	31	183,360	(3,509)
Total	76	$102,756	$ (521)	246	$325,595	$ (8,263)	322	$428,351	$ (8,784)

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

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of June 30, 2014.

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 June 30, 2014, $870,761 thousand of investment securities were pledged to secure public deposits, short-term borrowed funds, and term repurchase agreements, compared to $778,588 thousand at December 31, 2013.

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

	Investment Securities Available for Sale At December 31, 2013								
	Less than 12 months			12 months or longer			Total		
	No. of Investment Positions	Fair Value	Unrealized Losses	No. of Investment Positions	Fair Value	Unrealized Losses	No. of Investment Positions	Fair Value	Unrealized Losses
	($ in thousands)								
U.S. Treasury securities	1	$2,994	$(3)	-	$-	$-	1	$2,994	$(3)
Securities of U.S. Government sponsored entities	15	91,669	(663)	-	-	-	15	91,669	(663)
Residential mortgage-backed securities	3	864	(15)	-	-	-	3	864	(15)
Commercial mortgage-backed securities	1	1,072	(5)	-	-	-	1	1,072	(5)
Obligations of states and political subdivisions	35	17,516	(222)	11	3,214	(101)	46	20,730	(323)
Residential collateralized mortgage obligations	34	187,848	(12,326)	6	40,575	(2,398)	40	228,423	(14,724)
Asset-backed securities	1	5,002	(1)	1	4,475	(100)	2	9,477	(101)
Corporate securities	25	117,751	(1,087)	2	9,824	(177)	27	127,575	(1,264)
Other securities	-	-	-	1	1,842	(158)	1	1,842	(158)
Total	115	$424,716	$(14,322)	21	$59,930	$(2,934)	136	$484,646	$(17,256)

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

	Investment Securities Held to Maturity At December 31, 2013								
	Less than 12 months			12 months or longer			Total		
	No. of Investment Positions	Fair Value	Unrealized Losses	No. of Investment Positions	Fair Value	Unrealized Losses	No. of Investment Positions	Fair Value	Unrealized Losses
	($ in thousands)								
Securities of U.S. Government sponsored entities	1	$1,597	$(4)	-	$-	$-	1	$1,597	$(4)
Residential mortgage-backed securities	13	38,396	(616)	1	392	(8)	14	38,788	(624)
Obligations of states and political subdivisions	530	355,797	(14,893)	64	64,427	(6,774)	594	420,224	(21,667)
	42	214,981	(5,175)	5	14,120	(427)	47	229,101	(5,602)

Residential collateralized mortgage obligations									
Total	586	$610,771	$ (20,688)	70	$78,939	$ (7,209)	656	$689,710	$ (27,897)

The unrealized losses on the Company's investment securities were caused by market conditions for these types of investments, particularly rising risk-free interest rates causing bond prices to decline.

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands)			
Taxable	$5,876	$5,591	$11,559	$11,125
Tax-exempt	6,740	7,498	13,720	15,030
Total interest income from investment securities	$12,616	$13,089	$25,279	$26,155

Note 4: Loans and Allowance for Credit Losses

The 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.

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

	At June 30, 2014					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
			(In thousands)			
Originated loans	$368,853	$ 584,058	$ 9,802	$ 163,287	$ 391,278	$1,517,278
Purchased covered loans:						
Gross purchased covered loans	-	-	-	3,298	15,400	18,698
Credit risk discount	-	-	-	(434)	(95)	(529)
Purchased non-covered loans:						
Gross purchased non-covered loans	23,114	185,497	3,147	985	47,611	260,354
Credit risk discount	(1,858)	(7,544)	(50)	(262)	(1,479)	(11,193)
Total	$390,109	$ 762,011	$ 12,899	$ 166,874	$ 452,715	$1,784,608

	At December 31, 2013					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
			(In thousands)			
Originated loans	$338,824	$ 596,653	$ 10,723	$ 176,196	$ 400,888	$1,523,284
Purchased covered loans:						
Gross purchased covered loans	20,066	175,562	3,223	8,558	54,194	261,603
Credit risk discount	(1,530)	(8,122)	(50)	(434)	(797)	(10,933)
Purchased non-covered loans:						
Gross purchased non-covered loans	7,525	35,712	-	999	12,799	57,035
Credit risk discount	(726)	(786)	-	(262)	(1,471)	(3,245)
Total	$364,159	$ 799,019	$ 13,896	$ 185,057	$ 465,613	$1,827,744

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

	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Impaired purchased loans	(In thousands)	

Carrying amount at the beginning of the period	$	4,936	$	14,629
Reductions during the period		(586)		(9,693)
Carrying amount at the end of the period	$	4,350	$	4,936

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

	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Accretable yield:	(In thousands)	
Balance at the beginning of the period	$ 2,505	$ 4,948
Reclassification from nonaccretable difference	1,597	12,504
Accretion	(2,063)	(14,947)
Balance at the end of the period	$ 2,039	$ 2,505
Accretion	$ (2,063)	$ (14,947)
Reduction in FDIC indemnification asset	211	11,438
(Increase) in interest income	$ (1,852)	$ (3,509)

The following summarizes activity in the allowance for credit losses:

Allowance for Credit Losses
For the Three Months Ended June 30, 2014

	Commercial	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	$4,243	$ 11,259	$ 445	$ 491	$ 2,813	$ 2,574	$ -	$ 10,284	$32,109
Additions:									
Provision	1,085	(610)	(3)	(52)	(75)	115	-	540	1,000
Deductions:									
Chargeoffs	(150)	-	-	(30)	(1,301)	-	-	-	(1,481)
Recoveries	119	15	-	-	618	18	-	-	770
Net loan (losses) recoveries	(31)	15	-	(30)	(683)	18	-	-	(711)
Balance at end of period	5,297	10,664	442	409	2,055	2,707	-	10,824	32,398
Liability for off-balance sheet credit exposure	1,733	24	165	-	465	243	23	40	2,693
Total allowance for credit losses	$7,030	$ 10,688	$ 607	$ 409	$ 2,520	$ 2,950	$ 23	$ 10,864	$35,091

Allowance for Credit Losses
For the Six Months Ended June 30, 2014

	Commercial	Commercial	Construction	Residential	Consumer	Purchased	Purchased	Unallocated	Total

		Real Estate		Real Estate	Installment and Other	Non-covered Loans	Covered Loans		
					(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	1,215	(1,584)	(163)	34	139	1,387	-	972	2,000
Deductions:									
Chargeoffs	(210)	-	-	(30)	(2,300)	(260)	-	-	(2,800)
Recoveries	287	178	3	-	1,018	19	-	-	1,505
Net loan recoveries (losses)	77	178	3	(30)	(1,282)	(241)	-	-	(1,295)
Indemnification expiration	-	-	-	-	-	1,561	(1,561)	-	-
Balance at end of period	5,297	10,664	442	409	2,055	2,707	-	10,824	32,398
Liability for off-balance sheet credit exposure	1,733	24	165	-	465	243	23	40	2,693
Total allowance for credit losses	$7,030	$ 10,688	$607	$ 409	$ 2,520	$ 2,950	$ 23	$10,864	$35,091

Allowance for Credit Losses
For the Three Months Ended June 30, 2013

	Commercial	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	$5,536	$ 10,965	$480	$ 539	$ 2,768	$ -	$ 738	$9,328	$30,354
Additions:									
Provision	(1,301)	660	(2)	15	225	116	46	2,041	1,800
Deductions:									
Chargeoffs	(148)	(427)	-	(22)	(896)	(116)	(517)	-	(2,126)
Recoveries	297	77	-	-	506	-	18	-	898
Net loan recoveries (losses)	149	(350)	-	(22)	(390)	(116)	(499)	-	(1,228)
Balance at end of period	4,384	11,275	478	532	2,603	-	285	11,369	30,926
Liability for off-balance sheet credit exposure	1,698	1	127	-	473	-	-	394	2,693
	$6,082	$ 11,276	$605	$ 532	$ 3,076	$ -	$ 285	$11,763	$33,619

Total allowance for credit losses

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	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
	Allowance for Credit Losses For the Six Months Ended June 30, 2013 (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	(770)	1,653	(6)	261	507	116	133	2,706	4,600
Deductions:									
Chargeoffs	(2,050)	(539)	-	(109)	(2,205)	(116)	(876)	-	(5,895)
Recoveries	759	98	-	-	1,107	-	23	-	1,987
Net loan losses	(1,291)	(441)	-	(109)	(1,098)	(116)	(853)	-	(3,908)
Balance at end of period	4,384	11,275	478	532	2,603	-	285	11,369	30,926
Liability for off-balance sheet credit exposure	1,698	1	127	-	473	-	-	394	2,693
Total allowance for credit losses	$6,082	$ 11,276	$ 605	$ 532	$ 3,076	$ -	$ 285	$ 11,763	$33,619

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

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
	Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment At June 30, 2014 (In thousands)								
Allowance for credit losses:									
Individually evaluated for impairment	$88	$-	$-	$-	$-	$895	$-	$-	$983
Collectively evaluated for impairment	6,942	10,688	607	409	2,520	2,055	23	10,864	34,108
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	$7,030	$10,688	$607	$409	$2,520	$2,950	$23	$10,864	$35,091
Carrying value of									

loans:									
Individually evaluated for impairment	$3,605	$4,544	$ -	$ -	$ -	$ 13,525	$ -	$ -	$21,674
Collectively evaluated for impairment	365,248	579,514	9,802	163,287	391,278	231,524	17,931	-	1,758,584
Purchased loans with evidence of credit deterioration	-	-	-	-	-	4,112	238	-	4,350
Total	$368,853	$584,058	$ 9,802	$163,287	$391,278	$249,161	$18,169	$ -	$1,784,608

Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment
At December 31, 2013

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for credit losses:									
Individually evaluated for impairment	$100	$1,243	$ -	$ -	$ -	$ -	$153	$ -	$1,496
Collectively evaluated for impairment	5,563	10,827	639	405	3,695	-	1,408	10,353	32,890
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	$5,663	$12,070	$639	$405	$3,695	$ -	$1,561	$10,353	$34,386
Carrying value of loans:									
Individually evaluated for impairment	$3,901	$3,357	$ -	$ -	$ -	$ 3,785	$9,999	$ -	$21,042
Collectively evaluated for impairment	334,923	593,296	10,723	176,196	400,888	47,571	238,169	-	1,801,766
Purchased loans with evidence of credit deterioration	-	-	-	-	-	2,434	2,502	-	4,936
Total	$338,824	$596,653	$10,723	$176,196	$400,888	$53,790	$250,670	$ -	$1,827,744

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 June 30, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
	(In thousands)							
Grade:								
Pass	$351,083	$ 536,579	$ 9,802	$ 161,240	$ 390,135	$ 196,299	$ 17,185	$1,662,323
Substandard	16,881	47,479	-	2,047	952	63,567	1,513	132,439
Doubtful	889	-	-	-	41	345	-	1,275
Loss	-	-	-	-	150	143	-	293
Credit risk discount	-	-	-	-	-	(11,193)	(529)	(11,722)
Total	$368,853	$ 584,058	$ 9,802	$ 163,287	$ 391,278	$ 249,161	$ 18,169	$1,784,608

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

Credit Risk Profile by Internally Assigned Grade
At December 31, 2013

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
	(In thousands)							
Grade:								
Pass	$329,667	$ 554,991	$ 10,274	$ 174,113	$ 399,377	$ 41,490	$196,882	$1,706,794
Substandard	8,142	41,662	449	2,083	1,127	14,587	64,624	132,674
Doubtful	1,015	-	-	-	19	958	97	2,089
Loss	-	-	-	-	365	-	-	365
Credit risk discount	-	-	-	-	-	(3,245)	(10,933)	(14,178)
Total	$338,824	$ 596,653	$ 10,723	$ 176,196	$ 400,888	$ 53,790	$250,670	$1,827,744

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

The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status
At June 30, 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	$ 366,089	$ 1,269	$ 124	$ -	$ 1,371	$ 368,853
Commercial real estate	575,114	2,048	1,459	-	5,437	584,058

Construction	9,802	-	-	-	-	9,802
Residential real estate	160,413	2,874	-	-	-	163,287
Consumer installment & other	387,956	2,517	470	183	152	391,278
Total originated loans	1,499,374	8,708	2,053	183	6,960	1,517,278
Purchased non-covered loans	231,827	2,694	687	351	13,602	249,161
Purchased covered loans	17,743	426	-	-	-	18,169
Total	$ 1,748,944	$ 11,828	$ 2,740	$ 534	$ 20,562	$ 1,784,608

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Summary of Loans by Delinquency and Nonaccrual Status
At December 31, 2013

	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	$ 336,497	$ 677	$ 383	$ -	$ 1,267	$ 338,824
Commercial real estate	586,619	4,012	2,473	-	3,549	596,653
Construction	10,275	-	-	-	448	10,723
Residential real estate	173,082	2,789	325	-	-	176,196
Consumer installment & other	396,725	3,035	606	410	112	400,888
Total originated loans	1,503,198	10,513	3,787	410	5,376	1,523,284
Purchased non-covered loans	45,755	4,237	180	-	3,618	53,790
Purchased covered loans	236,577	845	940	-	12,308	250,670
Total	$ 1,785,530	$ 15,595	$ 4,907	$ 410	$ 21,302	$ 1,827,744

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands)			
Interest income that would have been recognized had the loans performed in accordance with their original terms	$276	$434	$534	$903
Less: Interest income recognized on nonaccrual loans	(25)	(3)	(69)	(93)
Total reduction of interest income	$251	$431	$465	$810

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2014 and December 31, 2013.

The following summarizes impaired loans:

	Impaired Loans At June 30, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
Impaired loans with no related allowance recorded:			
Commercial	$2,984	$ 3,445	$ -
Commercial real estate	15,450	18,041	-
Construction	2,034	2,498	-
Consumer installment and other	1,230	1,352	-
Impaired loans with an allowance recorded:			
Commercial	1,138	2,436	350
Commercial real estate	6,330	9,796	633

Total:			
Commercial	$4,122	$ 5,881	$ 350
Commercial real estate	21,780	27,837	633
Construction	2,034	2,498	-
Consumer installment and other	1,230	1,352	-

	Impaired Loans At December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans with no related allowance recorded:			
Commercial	$ 3,931	$ 4,498	$ -
Commercial real estate	11,002	13,253	-
Construction	2,483	2,947	-
Consumer installment and other	2,014	2,133	-
Impaired loans with an allowance recorded:			
Commercial	1,000	2,173	100
Commercial real estate	9,773	12,482	1,396
Total:			
Commercial	$ 4,931	$ 6,671	$ 100
Commercial real estate	20,775	25,735	1,396
Construction	2,483	2,947	-
Consumer installment and other	2,014	2,133	-

Impaired loans include troubled debt restructured loans. Impaired loans at June 30, 2014, included $5,332 thousand of restructured loans, including $262 thousand that were on nonaccrual status. Impaired loans at December 31, 2013, included $5,453 thousand of restructured loans, including $529 thousand that were on nonaccrual status.

	Impaired Loans							
	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2014		2013		2014		2013	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
	(In thousands)							
Commercial	$4,437	$ 60	$11,473	$ 52	$4,639	$ 127	$12,601	$ 106
Commercial real estate	19,800	153	27,166	205	19,549	270	27,836	505
Construction	2,035	-	2,397	25	2,147	-	2,254	51
Residential real estate	162	-	558	-	162	-	621	-
Consumer installment and other	1,324	7	1,059	8	1,520	15	1,511	15
Total	$27,758	$ 220	$42,653	$ 290	$28,017	$ 412	$44,823	$ 677

The following table provides information on troubled debt restructurings:

	Troubled Debt Restructurings At June 30, 2014			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
			(In thousands)	

Commercial	4	$	3,299	$	2,992	$	262
Commercial real estate	2		2,291		2,326		-
Consumer installment and other	1		18		14		-
Total	7	$	5,608	$	5,332	$	262

	Troubled Debt Restructurings At June 30, 2013			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
			(In thousands)	
Commercial	4	$ 1,991	$ 1,759	$ -
Commercial real estate	3	6,295	6,255	147
Total	7	$ 8,286	$ 8,014	$ 147

During the three and six months ended June 30, 2014, the Company modified one loan with a carrying value of $98 thousand and two loans with a total carrying value of $115 thousand, respectively, that were considered troubled debt restructurings. During the three and six months ended June 30, 2013, the Company modified three loans with a total carrying value of $1,010 thousand and four loans with a total carrying value of $3,019 thousand, respectively, that were considered troubled debt restructurings. The concessions granted in the two restructurings completed in the first six months of 2014 consisted of modification of payment terms to extend the maturity date to allow for deferred principal repayment. The concessions granted in the four restructurings completed in the first six months of 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 three and six months ended June 30, 2014, no troubled debt restructured loans defaulted. During the three and six months ended June 30, 2013, a commercial real estate loan with a carrying value of $3,954 thousand defaulted. A troubled debt restructuring is considered to be in default when payments are ninety days or more past due.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). The carrying value of the FHLB advances was $20,296 thousand and $20,577 thousand at June 30, 2014 and December 31, 2013, respectively. The loans restricted due to collateral requirements approximate $22,101 thousand and $24,242 thousand at June 30, 2014 and December 31, 2013, respectively. The FHLB does not have the right to sell or repledge such loans.

There were no loans held for sale at June 30, 2014 and December 31, 2013.

Note 5: Concentration of Credit Risk

The Company's business activity is with customers in Northern and Central California. The loan portfolio is well diversified within the Company's geographic market, although the Company has significant credit arrangements that are secured by real estate collateral. In addition to real estate loans outstanding as disclosed in Note 4, the Company had loan commitments and standby letters of credit related to real estate loans of $67,487 thousand and $62,277 thousand at June 30, 2014 and December 31, 2013, 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.

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Note 6: Other Assets

Other assets consisted of the following:

	At June 30, 2014	At December 31, 2013
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock (1)	$14,069	$ 14,069
Federal Home Loan Bank stock (2)	940	4,188
Other investments	316	376
Total cost method equity investments	15,325	18,633
Life insurance cash surrender value	44,938	43,896
Net deferred tax asset	49,482	53,281
Limited partnership investments	16,893	18,198
Interest receivable	18,820	18,925
FDIC indemnification receivable	-	4,032
Prepaid assets	5,604	5,229
Other assets	11,508	14,238
Total other assets	$162,570	$ 176,432

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

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

Note 7: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the six months ended June 30, 2014 and year ended December 31, 2013. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the six months ended June 30, 2014 and year ended December 31, 2013, no such adjustments were recorded.

The carrying values of goodwill were:

	At June 30, 2014	At December 31, 2013
	(In thousands)	
Goodwill	$121,673	$ 121,673

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

	At June 30, 2014		At December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core Deposit Intangibles	$56,808	$ (41,237)	$ 56,808	$ (39,242)
Merchant Draft Processing Intangible	10,300	(9,477)	10,300	(9,309)
Total Identifiable Intangible Assets	$67,108	$ (50,714)	$ 67,108	$ (48,551)

As of June 30, 2014, the current year and estimated future amortization expense for identifiable intangible assets was:

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
		(In thousands)	
Six months ended June 30, 2014 (actual)	$1,995	$ 168	$2,163
Estimate for year ended December 31, 2014	3,946	324	4,270
2015	3,594	262	3,856
2016	3,292	212	3,504
2017	2,913	164	3,077
2018	1,892	29	1,921
2019	538	-	538

Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits:

	Deposits At June 30, 2014	At December 31, 2013
	(In thousands)	
Noninterest-bearing	$1,814,023	$ 1,740,182
Interest-bearing:		
Transaction	756,596	763,088
Savings	1,198,353	1,167,744
Time	444,417	492,767
Total deposits	$4,213,389	$ 4,163,781

Demand deposit overdrafts of $6,516 thousand and $3,002 thousand were included as loan balances at June 30, 2014 and December 31, 2013, respectively. Interest expense for aggregate time deposits with individual account balances in excess of $100 thousand was $233 thousand and $464 thousand in the second quarter and first six months of 2014, respectively and $283 thousand and $587 thousand in the second quarter and first six months of 2013, respectively.

Short-term borrowed funds of $68,962 thousand and $62,668 thousand at June 30, 2014 and December 31, 2013, respectively, represent securities sold under agreements to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. Securities sold under repurchase agreements are held in the custody of independent securities brokers. The carrying amount of the securities approximates $211,852 thousand and $113,902 thousand at June 30, 2014 and December 31, 2013, respectively. The short-term borrowed funds mature on an overnight basis.

Federal Home Loan Bank ("FHLB") advances with a carrying value of $20,296 thousand at June 30, 2014 and $20,577 thousand at December 31, 2013 are secured by residential real estate loans and securities, the amount of such loans and securities approximates $30,602 thousand at June 30, 2014 and $32,953 thousand at December 31, 2013. The FHLB advances are due in full at par value upon their maturity dates: $20,000 thousand mature in January 2015. The FHLB advances may be paid off prior to such maturity dates subject to prepayment fees.

The $10,000 thousand term repurchase agreement at June 30, 2014 and December 31, 2013 represents securities sold under an agreement to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. Securities sold under repurchase agreements are held in the custody of independent securities brokers. The carrying amount of the related securities is approximately $10,288 thousand at June 30, 2014 and $11,278 thousand at December 31, 2013. The term repurchase agreement matures in full in August 2014.

The Company has a $35,000 thousand unsecured line of credit which had no outstanding balance at June 30, 2014 and December 31, 2013. The line of credit has a variable interest rate, which was 2.0% per annum at June 30, 2014, with interest payable monthly on outstanding advances. Advances may be made up to the unused credit limit through March 18, 2015.

Note 9: Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale investment securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as other real estate owned, impaired loans, certain loans held for investment, investment securities held to maturity, and other assets. These nonrecurring fair value adjustments typically involve the lower-of-cost-or-fair value accounting of individual assets.

In accordance with the Fair Value Measurement and Disclosure topic of the Codification, the Company bases its fair values on the price that would be received to sell an asset or paid to transfer a liability in the principal market or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. A fair value measurement reflects all of the assumptions that market participants would use in pricing the asset or liability, including assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance.

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

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

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

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

The Company relies on independent vendor pricing services to measure fair value for investment securities available for sale and investment securities held to maturity. The Company employs three pricing services. To validate the pricing of these vendors, the Company routinely randomly selects securities for pricing by two or more of the vendors; significant pricing differences, if any, are evaluated using all available independent quotes with the lowest quote generally used as the fair value estimate. In addition, the Company conducts "other than temporary impairment (OTTI)" analysis on a quarterly basis; securities selected for OTTI analysis include all securities at a market price below 95 percent of par value and with a market to book ratio below 95:100. As with any valuation technique used to estimate fair value, changes in underlying assumptions used could significantly affect the results of current and future values. Accordingly, these fair value estimates may not be realized in an actual sale of the securities.

When the Company changes its valuation assumptions for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new assumptions used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the six months ended June 30, 2014 and year ended December 31, 2013, there were no transfers in or out of levels 1, 2 or 3.

Assets Recorded at Fair Value on a Recurring Basis

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

	At June 30, 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	$3,510	$3,510	$ -	$ -
Securities of U.S. Government sponsored entities	340,439	340,439	-	-
Residential mortgage-backed securities	30,359	-	30,359	-
Commercial mortgage-backed securities	3,135	-	3,135	-
Obligations of states and political subdivisions	185,826	-	185,826	-
Residential collateralized mortgage obligations	240,191	-	240,191	-
Asset-backed securities	8,946	-	8,946	-
FHLMC and FNMA stock	17,199	17,199	-	-
Corporate securities	445,965	-	445,965	-
Other securities	2,672	798	1,874	-
Total securities available for sale	$1,278,242	$361,946	$ 916,296	$ -

	At December 31, 2013			
	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	$3,506	$3,506	$ -	$ -
Securities of U.S. Government sponsored entities	130,492	130,492	-	-
Residential mortgage-backed securities	34,176	-	34,176	-
Commercial mortgage-backed securities	3,425	-	3,425	-
Obligations of states and political subdivisions	191,386	-	191,386	-
Residential collateralized mortgage obligations	252,896	-	252,896	-
Asset-backed securities	14,555	-	14,555	-
FHLMC and FNMA stock	13,372	13,372	-	-
Corporate securities	432,431	-	432,431	-
Other securities	3,142	1,300	1,842	-
Total securities available for sale	$1,079,381	$148,670	$ 930,711	$ -

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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 June 30, 2014 and December 31, 2013, 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 June 30, 2014				
	Fair Value	Level 1	Level 2	Level 3	Total Losses
	(In thousands)				
Other real estate owned	$8,543	$-	$8,543	$-	$(39)
Impaired loans	8,472	-	6,900	1,572	(385)
Total assets measured at fair value on a nonrecurring basis	$17,015	$-	$15,443	$1,572	$(424)

	At December 31, 2013				
	Fair Value	Level 1	Level 2	Level 3	Total Losses
	(In thousands)				
Other real estate owned	$13,320	$-	$13,320	$-	$(814)
Impaired loans	9,672	-	7,967	1,705	(233)
Total assets measured at fair value on a nonrecurring basis	$22,992	$-	$21,287	$1,705	$(1,047)

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

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

Disclosures about Fair Value of Financial Instruments

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

Cash and Due from Banks Cash and due from banks represent U.S. dollar denominated coin and currency, deposits at the Federal Reserve Bank and correspondent banks, and amounts being settled with other banks to complete the processing of customers' daily transactions. Collectively, the Federal Reserve Bank and financial institutions operate in a market in which cash and due from banks transactions are processed continuously in significant daily volumes honoring the face value of the U.S. dollar.

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

Loans Loans were separated into two groups for valuation. Variable rate loans, except for those described below, which reprice frequently with changes in market rates were valued using historical cost. Fixed rate loans and variable rate loans that have reached their minimum contractual interest rates were valued by discounting the future cash flows expected to be received from the loans using current interest rates charged on loans with similar characteristics. Additionally, the allowance for loan losses of $32,398 thousand at June 30, 2014 and $31,693 thousand at December 31, 2013 and the fair value discount due to credit default risk associated with purchased covered and purchased non-covered loans of $529 thousand and $11,193 thousand, respectively at June 30, 2014 and purchased covered and purchased non-covered loans of $10,933 thousand and $3,245 thousand, respectively at December 31, 2013 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.

FDIC Indemnification Receivable The fair value of the FDIC indemnification receivable recorded in Other Assets was estimated by discounting estimated future cash flows using current market rates for financial instruments with similar characteristics.

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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.

Term Repurchase Agreement The fair value of the term repurchase agreement was estimated by using interpolated yields for financial instruments with similar characteristics.

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 June 30, 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	$484,904	$484,904	$484,904	$-	$ -
Investment securities held to maturity	1,069,135	1,073,793	1,285	1,072,508	-
Loans	1,752,210	1,756,418	-	-	1,756,418
Financial Liabilities:					
Deposits	$4,213,389	$4,211,748	$-	$3,768,972	$ 442,776
Short-term borrowed funds	68,962	68,962	-	68,962	-
Federal Home Loan Bank advances	20,296	20,299	20,299	-	-
Term repurchase agreement	10,000	10,009	-	10,009	-

At December 31, 2013

	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	$472,028	$472,028	$472,028	$-	$ -
Investment securities held to maturity	1,132,299	1,112,676	1,597	1,111,079	-
Loans	1,796,051	1,800,625	-	-	1,800,625
Other assets - FDIC indemnification receivable	4,032	4,032	-	-	4,032
Financial Liabilities:					
Deposits	$4,163,781	$4,162,935	$-	$3,671,014	$ 491,921
Short-term borrowed funds	62,668	62,668	-	62,668	-
Federal Home Loan Bank advances	20,577	20,558	20,558	-	-
Term repurchase agreement	10,000	10,054	-	10,054	-

The majority of the Company's standby letters of credit and other commitments to extend credit carry current market interest rates if converted to loans. No premium or discount was ascribed to these commitments because virtually all funding would be at current market rates.

Note 10: Commitments and Contingent Liabilities

Loan commitments are agreements to lend to a customer provided there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements. Loan commitments are subject to the Company's normal credit policies and collateral requirements. Unfunded loan commitments were $318,709 thousand and $320,934 thousand at June 30, 2014 and December 31, 2013, 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 $29,172 thousand and $31,777 thousand at June 30, 2014 and December 31, 2013, respectively. The Company also had commitments for commercial and similar letters of credit of $40 thousand at June 30, 2014 and $344 thousand at December 31, 2013.

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

Note 11: Earnings Per Common Share

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net income applicable to common equity (numerator)	$15,157	$17,112	$30,464	$34,383
Basic earnings per common share				
Weighted average number of common shares outstanding - basic (denominator)	26,175	26,890	26,303	27,017
Basic earnings per common share	$0.58	$0.64	$1.16	$1.27
Diluted earnings per common share				
Weighted average number of common shares outstanding - basic	26,175	26,890	26,303	27,017
Add common stock equivalents for options	63	8	84	10
Weighted average number of common shares outstanding - diluted (denominator)	26,238	26,898	26,387	27,027
Diluted earnings per common share	$0.58	$0.64	$1.15	$1.27

For the three and six months ended June 30, 2014, options to purchase 1,050 thousand and 929 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

For the three and six months ended June 30, 2013, options to purchase 2,264 thousand and 2,290 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because their inclusion would have had an anti-dilutive effect.

WESTAMERICA BANCORPORATION
FINANCIAL SUMMARY

	For the Three Months				For the Six Months			
	Ended June 30,							
	2014		2013		2014		2013	
	(In thousands, except per share data)							
Net Interest and Fee Income (FTE)1	$38,582		$42,628		$77,446		$86,463	
Provision for Loan Losses	1,000		1,800		2,000		4,600	
Noninterest Income	13,198		14,284		26,188		28,562	
Noninterest Expense	26,957		28,192		53,830		56,869	
Income Before Income Taxes (FTE)1	23,823		26,920		47,804		53,556	
Income Tax Provision (FTE)1	8,666		9,808		17,340		19,173	
Net Income	$15,157		$17,112		$30,464		$34,383	
Average Common Shares Outstanding	26,175		26,890		26,303		27,017	
Diluted Average Common Shares Outstanding	26,238		26,898		26,387		27,027	
Common Shares Outstanding at Period End	26,074		26,769		26,074		26,769	
Per Common Share:								
Basic Earnings	$0.58		$0.64		$1.16		$1.27	
Diluted Earnings	0.58		0.64		1.15		1.27	
Book Value	$20.66		$20.34					
Financial Ratios:								
Return on Assets	1.24	%	1.42	%	1.25	%	1.42	%
Return on Common Equity	11.57	%	12.74	%	11.61	%	12.84	%
Net Interest Margin (FTE)1	3.76	%	4.12	%	3.79	%	4.19	%
Net Loan Losses to Average Loans	0.16	%	0.25	%	0.14	%	0.39	%
Efficiency Ratio2	52.1	%	49.5	%	51.9	%	49.4	%
Average Balances:								
Assets	$4,908,467		$4,840,319		$4,899,255		$4,874,212	
Earning Assets	4,114,811		4,147,096		4,104,009		4,141,510	
Loans	1,802,041		1,994,361		1,811,998		2,035,944	
Deposits	4,238,769		4,132,509		4,224,326		4,165,685	
Shareholders' Equity	525,288		538,529		529,202		540,192	
Period End Balances:								
Assets	$4,931,095		$4,813,908					
Earning Assets	4,131,985		4,078,844					
Loans	1,784,608		1,939,341					
Deposits	4,213,389		4,101,394					
Shareholders' Equity	538,803		544,622					
Capital Ratios at Period End:								
Total Risk Based Capital	15.04	%	15.98	%				
Tangible Equity to Tangible Assets	8.36	%	8.61	%				
Dividends Paid Per Common Share	$0.38		$0.37		$0.76		$0.74	

Common Dividend Payout Ratio	66 %	58 %	66 %	58 %

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

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

2 The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income on an FTE basis, which is a non-GAAP financial measure, and noninterest income).

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

The Federal Reserve's Federal Open Market Committee has maintained highly accommodative monetary policies to influence interest rates to low levels in order to provide stimulus to the economy following the "financial crisis" recession. The Company's principal source of revenue is net interest and fee income, which represents interest earned on loans and investment securities ("earning assets") reduced by interest paid on deposits and other borrowings ("interest-bearing liabilities"). The relatively low level of market interest rates has reduced the spread between interest rates on earning assets and interest bearing liabilities. The Company's net interest margin and net interest income declined as market interest rates on newly originated loans remain below the yields earned on older-dated loans and on the overall loan portfolio. The Company is reducing its exposure to rising interest rates by purchasing shorter-duration investment securities with lower yields than longer-duration securities. The Company's noninterest income was lower in the second quarter 2014 and in the first half of 2014 relative to the comparable periods in 2013 due to lower service charges on deposit accounts and lower merchant processing service fees. The Company incurs noninterest expenses to deliver products and services to its customers. The Company's credit quality continued to improve, as nonperforming assets and loan charge-offs declined in the second quarter and in the first half of 2014 compared with corresponding periods in 2013 and contributed to reducing expenses for nonperforming assets. Management is focused on controlling all noninterest expense levels, particularly due to market interest rate pressure on net interest income.

Westamerica Bancorporation and subsidiaries (the "Company") reported net income of $15.2 million or $0.58 diluted earnings per common share for the second quarter 2014 and net income of $30.5 million or $1.15 diluted earnings per common share for the six months ended June 30, 2014. These results compare to net income of $17.1 million or $0.64 diluted earnings per common share for the second quarter 2013 and net income of $34.4 million or $1.27 diluted earnings per common share for the six months ended June 30, 2013.

Net Income

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands, except per share data)			
Net interest income (FTE)	$38,582	$42,628	$77,446	$86,463
Provision for loan losses	1,000	1,800	2,000	4,600
Noninterest income	13,198	14,284	26,188	28,562
Noninterest expense	26,957	28,192	53,830	56,869
Income before taxes (FTE)	23,823	26,920	47,804	53,556
Income tax provision (FTE)	8,666	9,808	17,340	19,173
Net income	$15,157	$17,112	$30,464	$34,383
Average diluted common shares	26,238	26,898	26,387	27,027
Diluted earnings per common share	$0.58	$0.64	$1.15	$1.27
Average total assets	$4,908,467	$4,840,319	$4,899,255	$4,874,212
Net income to average total assets (annualized)	1.24 %	1.42 %	1.25 %	1.42 %
Net income to average common stockholders' equity (annualized)	11.57 %	12.74 %	11.61 %	12.84 %

Net income for the second quarter of 2014 was $2.0 million less than the same quarter of 2013, the net result of declines in net interest and fee income (fully taxable equivalent or "FTE") and noninterest income, partially offset by decreases in the provision for loan losses, noninterest expense and income tax provision (FTE). A decrease in net interest and fee income (FTE) was mostly attributed to lower average balances of loans and lower yields on interest-earning assets, partially offset by higher average balances of investments and lower average balances of interest-bearing liabilities. The provision for loan losses was reduced, reflecting Management's evaluation of losses inherent in the loan portfolio; net losses and nonperforming loan volumes have declined relative to earlier periods. Lower noninterest income was mostly attributable to lower service charges on deposit accounts and lower merchant processing service fees. Noninterest expense decreased primarily due to reduced other real estate owned ("OREO") expense net of disposition gains, loan administration expenses, and professional fees.

Comparing the first half of 2014 with the first half of 2013, net income decreased $3.9 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 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 service charges on deposit accounts and lower merchant processing service fees. Noninterest expense decreased mostly due to reduced OREO expense net of disposition gains, personnel costs, loan administration expenses, intangible amortization and professional fees.

Net Interest and Fee Income (FTE)

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands)			
Interest and fee income	$35,403	$39,269	$70,967	$79,734
Interest expense	900	1,219	1,798	2,471
FTE adjustment	4,079	4,578	8,277	9,200
Net interest income (FTE)	$38,582	$42,628	$77,446	$86,463
Average earning assets	$4,114,811	$4,147,096	$4,104,009	$4,141,510
Net interest margin (FTE) (annualized)	3.76 %	4.12 %	3.79 %	4.19 %

Net interest and fee income (FTE) decreased during the second quarter 2014 by $4.0 million from the same period in 2013 to $38.6 million, mainly due to lower average balances of loans (down $192 million) and lower yields on interest-earning assets (down 39 basis points “bp”), partially offset by higher average balances of investments (up $160 million) and lower average balances of interest-bearing liabilities (down $84 million).

Comparing the first six months of 2014 with the first six months of 2013, net interest and fee income (FTE) decreased $9.0 million primarily due to a lower average volume of loans (down $224 million) and lower yields on interest-earning assets (down 43 bp), partially offset by higher average balances of investments (up $186 million) and lower average balances of interest-bearing liabilities (down $107 million).

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. In the first half of 2014, the Company purchased shorter-duration investment securities with lower yields than longer-duration securities in order to reduce its exposure to rising interest rates. The Company’s high levels of liquidity will provide an opportunity to obtain higher yielding assets once market interest rates start rising. The Company has been replacing higher-cost funding sources with low-cost deposits and interest expense has declined to offset some of the decline in asset yields.

Interest and Fee Income (FTE)

Interest and fee income (FTE) for the second quarter of 2014 decreased $4.4 million or 10.0% from the same period in 2013. The decrease was caused by lower average balances of loans and lower yields on interest-earning assets, partially offset by higher average balances of investments.

The total average balances of loans declined due to decreases in the average balances of commercial real estate loans (down $105 million), consumer loans (down $58 million), residential real estate loans (down $44 million) and tax-exempt commercial loans (down $20 million), partially offset by a $37 million increase in the average balance of taxable commercial loans. The average investment portfolio increased largely due to higher average balances of securities of U.S. Government sponsored entities (up $269 million), partially offset by a $113 million decrease in average balances of collateralized mortgage obligations and mortgage-backed securities.

The average yield on the Company's earning assets decreased from 4.24% in the second quarter 2013 to 3.85% in the corresponding period of 2014. The composite yield on loans declined 20 bp to 5.18% mostly due to lower yields on consumer loans (down 36 bp), taxable commercial loans (down 46 bp), commercial real estate loans (down 10 bp) and construction loans (down 313 bp). Nonperforming loans are included in average loan volumes used to compute loan yields; fluctuations in nonaccrual loan volumes impact loan yields. The investment yields in general declined due to market rates. The investment portfolio yield decreased 38 bp to 2.80% primarily due to lower yields on municipal securities (down 50 bp) and corporate securities (down 28 bp), partially offset by a 39 bp increase in yields on securities of U.S. Government sponsored entities. The yield on securities of U.S. government sponsored entities rose as securities added to the portfolio in the second quarter 2014 were higher yielding than securities held in the prior period.

Comparing the first half of 2014 with the first half of 2013, interest and fee income (FTE) was down $9.7 million or 10.9%. The decrease resulted from a lower average volume of loans and lower yields on interest-earning assets, partially offset by higher average balances of investments. Average interest earning assets decreased $38 million or 0.9% in the first half of 2014 compared with the first half of 2013, net result of a $224 million decrease in average loans and a $186 million increase in average investments. The decrease in the average balance of the loan portfolio was attributable to decreases in average balances of commercial real estate loans (down $111 million), consumer loans (down $67 million), residential real estate loans (down $46 million) and tax-exempt commercial loans (down $20 million), partially offset by a $22 million increase in the average balance of taxable commercial loans. The average investment portfolio increased mostly due to higher average balances of U.S. government sponsored entities (up $218 million) and corporate securities (up $65 million), partially offset by a $105 million decrease in average balances of collateralized mortgage obligations and mortgage-backed securities. The average yield on earning assets for the first half of 2014 was 3.88% compared with 4.31% in the first half of 2013. The loan portfolio yield for the first half of 2014 was 5.19% compared with 5.42% for the first half of 2013 mostly due to lower yields on consumer loans (down 38 bp), commercial real estate loans (down 15 bp), taxable commercial loans (down 46 bp), residential real estate loans (down 15 bp), construction loans (down 216 bp) and tax-exempt commercial loans (down 17 bp). Nonperforming loans are included in average loan volumes used to compute loan yields; fluctuations in nonaccrual loan volumes impact loan yields. The yield on construction loans in the first half of 2013 was elevated due to interest received on nonaccrual loans and discount accretion on purchased loans. The investment portfolio yield decreased 41 bp to 2.84% primarily due to lower yields on municipal securities (down 56 bp) and corporate securities (down 32 bp), partially offset by higher yields on securities of U.S. government sponsored entities (up 34 bp). The yield on securities of U.S. government sponsored entities rose as securities added to the portfolio in the first half of 2014 were higher yielding than securities held in the prior period.

Interest Expense

Interest expense has been reduced by lowering rates paid on interest-bearing deposits and borrowings and by reducing the volume of higher-cost funding sources. A $15 million long-term note was repaid in October 2013 and average balances of time deposits declined $148 million for the second quarter 2014 compared with second quarter 2013 and $156 million for the first half of 2014 compared with the first half of 2013. Lower-cost checking and savings deposits accounted for 89.3% of total average deposits in the second quarter 2014 compared with 85.5% in the second quarter 2013 and 89.1% in the first half of 2014 compared with 85.2% in the first half of 2013.

Interest expense in the second quarter of 2014 decreased $319 thousand or 26.2% compared with the same period in 2013 due to lower average balances of interest-bearing liabilities. Interest-bearing liabilities declined due to lower average balances of time deposits $100 thousand or more (down $118 million), time deposits less than $100 thousand (down $30 million), preferred money market savings (down $19 million), debt financing (down $15 million) and Federal Home Loan Bank advances (down $5 million), partially offset by higher average balances of money market savings (up $58 million), money market checking accounts (up $31 million) and regular savings (up $15 million). The average rate paid on interest-bearing liabilities decreased from 0.19% in the second quarter of 2013 to 0.14% in the second quarter of 2014. Rates on interest-bearing deposits were 0.12% for the second quarter 2014 compared with 0.14% for the second quarter 2013.

Comparing the first half of 2014 with the first half of 2013, interest expense declined $673 thousand or 27.2% due to lower average balances of interest-bearing liabilities. Average balances of debt financing and Federal Home Loan Bank advances declined $15 million and $5 million, respectively. Average balances of interest-bearing deposits decreased primarily due to lower average balances of time deposits $100 thousand or more (down $125 million), time deposits less than $100 thousand (down $31 million) and preferred money market savings (down $19 million), partially offset by higher average balances of money market checking accounts (up $23 million), money market savings (up $49 million) and regular savings (up $14 million). Rates paid on interest-bearing liabilities averaged 0.14% during the first half of 2014 compared with 0.19% for the first half of 2013. Rates paid on interest-bearing deposits were 0.12% in the first half of 2014 compared with 0.14% in the first half of 2013.

Net Interest Margin (FTE)

The following summarizes the components of the Company's net interest margin for the periods indicated:

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
Yield on earning assets (FTE)	3.85 %	4.24 %	3.88 %	4.31 %
Rate paid on interest-bearing liabilities	0.14 %	0.19 %	0.14 %	0.19 %
Net interest spread (FTE)	3.71 %	4.05 %	3.74 %	4.12 %
Impact of noninterest bearing demand deposits	0.05 %	0.07 %	0.05 %	0.07 %
Net interest margin (FTE)	3.76 %	4.12 %	3.79 %	4.19 %

During the first half of 2014, the net interest margin (FTE) was affected by low market interest rates. The volume of older-dated higher-yielding loans and securities declined due to principal maturities and paydowns. Newly originated loans and purchased securities have lower yields. The Company is reducing its exposure to rising interest rates by purchasing shorter-duration investment securities, which carry lower yields than longer-duration securities. Rates on interest-bearing liabilities were kept low by reducing the volume of higher-cost funding sources. During the second quarter 2014 the net interest margin (FTE) decreased 36 bp compared with the same period in 2013. Lower yields on earning assets were partially offset by lower rates paid on interest-bearing liabilities and resulted in a 34 bp decrease in net interest spread (FTE). The 5 bp net interest margin contribution of noninterest-bearing demand deposits resulted in the net interest margin (FTE) of 3.76%. During the first half of 2014, the net interest margin (FTE) decreased 40 bp compared with the first half of 2013. The net interest spread (FTE) in the first half of 2014 was 3.74% compared with 4.12% in the fourth quarter of 2013, the net result of a 43 bp decrease in earning asset yields, partially offset by lower cost of interest-bearing liabilities (down 5 bp).

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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 Three Months Ended June 30, 2014			
	Average Balance	Interest Income/ Expense	Yields/ Rates	
	(In thousands)			
Assets				
Investment securities:				
Available for sale				
Taxable	$1,050,267	$4,175	1.59	%
Tax-exempt (1)	172,720	2,403	5.57	%
Held to maturity				
Taxable	364,952	1,701	1.86	%
Tax-exempt (1)	724,831	7,947	4.39	%
Loans:				
Commercial:				
Taxable	294,875	4,051	5.51	%
Tax-exempt (1)	89,565	1,343	6.01	%
Commercial real estate	775,687	11,889	6.15	%
Real estate construction	13,109	182	5.55	%
Real estate residential	174,791	1,490	3.41	%
Consumer	454,014	4,301	3.80	%
Total loans (1)	1,802,041	23,256	5.18	%
Total Interest-earning assets (1)	4,114,811	$39,482	3.85	%
Other assets	793,656			
Total assets	$4,908,467			
Liabilities and shareholders' equity				
Deposits:				
Noninterest-bearing demand	$1,799,994	$-	-	%
Savings and interest-bearing transaction	1,986,256	305	0.06	%
Time less than $100,000	201,506	216	0.43	%
Time $100,000 or more	251,013	233	0.37	%
Total interest-bearing deposits	2,438,775	754	0.12	%
Short-term borrowed funds	60,876	21	0.14	%
Term repurchase agreement	10,000	24	0.98	%
Federal Home Loan Bank advances	20,379	101	1.99	%

Total interest-bearing liabilities	2,530,030	$900	0.14	%
Other liabilities	53,155			
Shareholders' equity	525,288			
Total liabilities and shareholders' equity	$4,908,467			
Net interest spread (1) (2)			3.71	%
Net interest and fee income and interest margin (1) (3)		$38,582	3.76	%

(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 (annualized), divided by the average balance of interest-earning assets.

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

	For the Three Months Ended June 30, 2013		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(In thousands)		
Assets			
Investment securities:			
Available for sale			
Taxable	$812,920	$3,715	1.83 %
Tax-exempt (1)	188,231	2,632	5.59 %
Held to maturity			
Taxable	441,285	1,875	1.70 %
Tax-exempt (1)	710,299	8,880	5.00 %
Loans:			
Commercial:			
Taxable	257,516	3,834	5.97 %
Tax-exempt (1)	109,410	1,620	5.94 %
Commercial real estate	881,108	13,725	6.25 %
Real estate construction	15,706	340	8.68 %
Real estate residential	218,926	1,915	3.50 %
Consumer	511,695	5,311	4.16 %
Total loans (1)	1,994,361	26,745	5.38 %
Total Interest-earning assets (1)	4,147,096	$43,847	4.24 %
Other assets	693,223		
Total assets	$4,840,319		
Liabilities and shareholders' equity			
Deposits:			
Noninterest-bearing demand	$1,630,326	$-	- %
Savings and interest-bearing transaction	1,901,341	292	0.06 %
Time less than $100,000	231,567	272	0.47 %
Time $100,000 or more	369,275	283	0.31 %
Total interest-bearing deposits	2,502,183	847	0.14 %
Short-term borrowed funds	61,076	26	0.17 %
Term repurchase agreement	10,000	25	0.99 %
Federal Home Loan Bank advances	25,719	120	1.87 %
Debt financing	15,000	201	5.35 %
Total interest-bearing liabilities	2,613,978	$1,219	0.19 %
Other liabilities	57,486		
Shareholders' equity	538,529		
Total liabilities and shareholders' equity	$4,840,319		
Net interest spread (1) (2)			4.05 %
Net interest and fee income and interest margin (1) (3)		$42,628	4.12 %

(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 (annualized), divided by the average balance of interest-earning assets.

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

	For the Six Months Ended June 30, 2014			
	Average Balance	Interest Income/ Expense	Yields/ Rates	
	(In thousands)			
Assets				
Investment securities:				
Available for sale				
Taxable	$1,010,610	$8,100	1.60	%
Tax-exempt (1)	175,073	4,837	5.53	%
Held to maturity				
Taxable	372,133	3,459	1.86	%
Tax-exempt (1)	734,195	16,233	4.42	%
Loans:				
Commercial:				
Taxable	287,984	8,124	5.69	%
Tax-exempt (1)	92,188	2,655	5.81	%
Commercial real estate	781,944	23,812	6.14	%
Real estate construction	13,125	372	5.72	%
Real estate residential	179,582	3,038	3.38	%
Consumer	457,175	8,614	3.80	%
Total loans (1)	1,811,998	46,615	5.19	%
Total Interest-earning assets (1)	4,104,009	$79,244	3.88	%
Other assets	795,246			
Total assets	$4,899,255			
Liabilities and shareholders' equity				
Deposits:				
Noninterest-bearing demand	$1,784,316	$-	-	%
Savings and interest-bearing transaction	1,980,375	606	0.06	%
Time less than $100,000	205,047	437	0.43	%
Time $100,000 or more	254,588	465	0.37	%
Total interest-bearing deposits	2,440,010	1,508	0.12	%
Short-term borrowed funds	61,670	41	0.13	%
Term repurchase agreement	10,000	49	0.99	%
Federal Home Loan Bank advances	20,449	200	1.98	%
Total interest-bearing liabilities	2,532,129	$1,798	0.14	%
Other liabilities	53,608			
Shareholders' equity	529,202			
Total liabilities and shareholders' equity	$4,899,255			
Net interest spread (1) (2)			3.74	%
Net interest and fee income and interest margin (1) (3)		$77,446	3.79	%

(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 (annualized), divided by the average balance of interest-earning assets.

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

	For the Six Months Ended June 30, 2013		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	(In thousands)		
Assets			
Investment securities:			
Available for sale			
Taxable	$761,994	$7,158	1.88 %
Tax-exempt (1)	190,170	5,845	6.15 %
Held to maturity			
Taxable	457,052	3,967	1.74 %
Tax-exempt (1)	696,350	17,230	4.95 %
Loans:			
Commercial:			
Taxable	265,961	8,110	6.15 %
Tax-exempt (1)	111,750	3,312	5.98 %
Commercial real estate	892,908	27,853	6.29 %
Real estate construction	15,990	625	7.88 %
Real estate residential	225,412	3,975	3.53 %
Consumer	523,923	10,859	4.18 %
Total loans (1)	2,035,944	54,734	5.42 %
Total Interest-earning assets (1)	4,141,510	$88,934	4.31 %
Other assets	732,702		
Total assets	$4,874,212		
Liabilities and shareholders' equity			
Deposits:			
Noninterest-bearing demand	$1,636,801	$-	- %
Savings and interest-bearing transaction	1,913,236	588	0.06 %
Time less than $100,000	235,810	571	0.49 %
Time $100,000 or more	379,838	587	0.31 %
Total interest-bearing deposits	2,528,884	1,746	0.14 %
Short-term borrowed funds	59,414	37	0.13 %
Term repurchase agreement	10,000	49	0.99 %
Federal Home Loan Bank advances	25,748	238	1.87 %
Debt financing	15,000	401	5.35 %
Total interest-bearing liabilities	2,639,046	$2,471	0.19 %
Other liabilities	58,173		
Shareholders' equity	540,192		
Total liabilities and shareholders' equity	$4,874,212		
Net interest spread (1) (2)			4.12 %
Net interest and fee income and interest margin (1) (3)		$86,463	4.19 %

(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 (annualized), divided by the average balance of interest-earning assets.

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

	Three Months Ended June 30, 2014 Compared with Three Months Ended June 30, 2013		
	Volume	Yield/Rate (In thousands)	Total
Increase (decrease) in interest and fee income:			
Investment securities:			
Available for sale			
Taxable	$ 1,085	$ (625)	$ 460
Tax-exempt (1)	(217)	(12)	(229)
Held to maturity			
Taxable	(324)	150	(174)
Tax-exempt (1)	182	(1,115)	(933)
Loans:			
Commercial:			
Taxable	556	(339)	217
Tax-exempt (1)	(294)	17	(277)
Commercial real estate	(1,642)	(194)	(1,836)
Real estate construction	(56)	(102)	(158)
Real estate residential	(386)	(39)	(425)
Consumer	(599)	(411)	(1,010)
Total loans (1)	(2,421)	(1,068)	(3,489)
Total decrease in interest and fee income (1)	(1,695)	(2,670)	(4,365)
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	13	-	13
Time less than $100,000	(35)	(21)	(56)
Time $100,000 or more	(91)	41	(50)
Total interest-bearing deposits	(113)	20	(93)
Short-term borrowed funds	-	(5)	(5)
Term repurchase agreement	-	(1)	(1)
Federal Home Loan Bank advances	(25)	6	(19)
Debt financing	(201)	-	(201)
Total (decrease) increase in interest expense	(339)	20	(319)
Decrease in net interest and fee income (1)	$ (1,356)	$ (2,690)	$ (4,046)

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

Summary of Changes in Interest Income and Expense

	Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and fee income:			
Investment securities:			
Available for sale			
Taxable	$2,335	$(1,393)	$942
Tax-exempt (1)	(464)	(544)	(1,008)
Held to maturity			
Taxable	(737)	229	(508)
Tax-exempt (1)	936	(1,933)	(997)
Loans:			
Commercial:			
Taxable	672	(658)	14
Tax-exempt (1)	(580)	(77)	(657)
Commercial real estate	(3,461)	(580)	(4,041)
Real estate construction	(112)	(141)	(253)
Real estate residential	(808)	(129)	(937)
Consumer	(1,383)	(862)	(2,245)
Total loans (1)	(5,672)	(2,447)	(8,119)
Total decrease in interest and fee income (1)	(3,602)	(6,088)	(9,690)
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	21	(3)	18
Time less than $100,000	(74)	(60)	(134)
Time $100,000 or more	(194)	72	(122)
Total interest-bearing deposits	(247)	9	(238)
Short-term borrowed funds	1	3	4
Term repurchase agreement	-	-	-
Federal Home Loan Bank advances	(49)	11	(38)
Debt financing	(401)	-	(401)
Total (decrease) increase in interest expense	(696)	23	(673)
Decrease in net interest and fee income (1)	$(2,906)	$(6,111)	$(9,017)

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

Provision for Loan Losses

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

The Company provided $1.0 million for loan losses in the second quarter of 2014, $1.8 million in the second quarter of 2013, $2.0 million in the first half of 2014 and $4.6 million in the first half of 2013. The reduced provision for loan losses for the second quarter and the first half of 2014 reflects Management’s current evaluation of credit quality for the loan portfolio. The Company recorded purchased County Bank and Sonoma Valley Bank loans at estimated fair value upon the acquisition dates, February 6, 2009 and August 20, 2010, respectively. Such estimated fair values were recognized for individual loans, although small balance homogenous loans were pooled for valuation purposes. The valuation discounts recorded for purchased loans included Management's assessment of the risk of principal loss under economic and borrower conditions prevailing on the dates of purchase. The purchased County Bank loans secured by single-family residential real estate are "covered" through February 6, 2019 by loss-sharing agreements the Company entered with the FDIC which mitigates losses during the term of the agreements. The FDIC indemnification of purchased County Bank non-single-family residential real estate secured loans expired February 6, 2014. Any deterioration in estimated value related to principal loss subsequent to the acquisition dates requires additional loss recognition through a provision for loan losses. No assurance can be given future provisions for loan losses related to purchased loans will not be necessary. For further information regarding credit risk, the FDIC loss-sharing agreements, net credit losses and the allowance for loan losses, see the "Loan Portfolio Credit Risk" and "Allowance for Credit Losses" sections of this report.

Noninterest Income

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands)			
Service charges on deposit accounts	$6,105	$6,452	$12,115	$12,994
Merchant processing services	1,820	2,413	3,744	4,822
Debit card fees	1,534	1,478	2,939	2,836
Other service fees	688	696	1,349	1,458
ATM processing fees	634	721	1,254	1,426
Trust fees	615	585	1,269	1,153
Financial services commissions	221	284	392	464
Other	1,581	1,655	3,126	3,409
Total	$13,198	$14,284	$26,188	$28,562

Noninterest income for the second quarter 2014 declined by $1.1 million or 7.6% from the same period in 2013. Service charges on deposits decreased $347 thousand due to declines in fees charged on overdrawn and insufficient funds accounts (down $222 thousand) and lower activity on checking accounts (down $104 thousand). Merchant processing services fees decreased $593 thousand primarily due to customer attrition and lower transaction volumes.

In the first half of 2014, noninterest income decreased $2.4 million or 8.3% compared with the first half of 2013. Service charges on deposits decreased $879 thousand compared with the first half of 2013 due to declines in fees charged on overdrawn and insufficient funds accounts (down $592 thousand), lower activity on checking accounts (down $207 thousand) and fees charged on analyzed accounts (down $82 thousand). Merchant processing services fees decreased $1.1 million primarily due to customer attrition and lower transaction volumes. ATM processing fees decreased $172 thousand mainly because the Bank customers had fewer transactions at non-Westamerica ATMs and other cash dispensing terminals. Trust fees increased $116 thousand mostly due to marketing efforts to increase customer accounts and higher court-approved fees. Debit card fees increased $103 thousand primarily due to higher transaction volumes.

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Noninterest Expense

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

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands)			
Salaries and related benefits	$13,926	$14,064	$28,052	$28,467
Occupancy	3,746	3,638	7,473	7,524
Outsourced data processing services	2,115	2,140	4,220	4,297
Amortization of identifiable intangibles	1,058	1,165	2,163	2,384
Furniture and equipment	1,005	1,021	2,010	1,901
Professional fees	577	745	1,007	1,380
Courier service	665	737	1,275	1,478
Other real estate owned	(270)	278	(620)	612
Other noninterest expense	4,135	4,404	8,250	8,826
Total	$26,957	$28,192	$53,830	$56,869

Noninterest expense decreased $1.2 million or 4.4% in the second quarter 2014 compared with the same period in 2013. Salaries and related benefits declined $138 thousand primarily due to lower employee benefits. Amortization of identifiable intangibles decreased $107 thousand as assets are amortized on a declining balance method. Professional fees decreased $168 thousand due to lower legal fees relating to nonperforming assets. Expenses for other real estate owned, net of disposition gains, decreased $548 thousand due to higher valuation writedowns and maintenance costs in the second quarter 2013. Other noninterest expense decreased $269 thousand mostly due to lower limited partnership operating losses. Occupancy expense increased $108 thousand primarily due to higher utility costs.

In the first half of 2014, noninterest expense decreased $3.0 million or 5.3% compared with the first half of 2013. Salaries and related benefits decreased $415 thousand primarily due to lower employee benefits. Amortization of identifiable intangibles decreased $221 thousand as assets are amortized on a declining balance method. Professional fees declined $373 thousand due to lower legal fees associated with nonperforming assets. Expenses for other real estate owned, net of disposition gains, declined $1.2 million due to higher valuation writedowns and maintenance costs in the first half of 2013, and higher disposition gains in the first half of 2014. Other noninterest expense decreased $576 thousand primarily due to lower loan administration costs and lower limited partnership operating losses.

Provision for Income Tax

During the second quarter 2014, the Company recorded income tax provision (FTE) of $8.7 million, compared with $9.8 million in the second quarter 2013. The second quarter 2014 provision represents an effective tax rate (FTE) of 36.4%, unchanged from the second quarter 2013. The income tax provision (FTE) was $17.3 million for the first half of 2014 compared with $19.2 million for the corresponding period of 2013. The first half of 2014 effective tax rate (FTE) was 36.3% compared to 35.8% for the same period of 2013.

Investment Portfolio

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

Management has maintained relatively stable interest-earning asset volumes by increasing investment securities as loan volumes have declined. The carrying value of the Company's investment securities portfolio was $2.3 billion as of June 30, 2014, an increase of $135.7 million or 6.1% compared to December 31, 2013.

Management continually evaluates the Company's investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability, 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 has been reducing its positions in mortgage-related securities since the second quarter 2013 in an effort to manage extension risk. Extension risk represents the risk mortgages underlying the securities experience slower principal reductions as rising market interest rates cause a disincentive for borrowers to reduce principal balances; under such circumstances the Company will hold these securities for a longer period than anticipated at current yield levels rather than having the opportunity to reinvest cash flows at higher yields. The Company's positioning of the balance sheet for rising interest rates has resulted in the purchase of floating rate corporate bonds, federal agency bonds, and short-term state and municipal bonds. As of June 30, 2014, substantially all of the Company's investment securities continue to be investment grade rated by one or more major rating agencies. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset-backed securities.

The Company's procedures for evaluating investments in securities issued by states, municipalities and political subdivisions are in accordance with guidance issued by the Board of Governors of the Federal Reserve System, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies" (SR 12-15) and other regulatory guidance. Credit ratings are considered in our analysis only as a guide to the historical default rate associated with similarly-rated bonds. There have been no significant differences in our internal analyses compared with the ratings assigned by the third party credit rating agencies.

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

At June 30, 2014, the Company's investment securities portfolios included securities issued by 772 state and local government municipalities and agencies located within 45 states with a fair value of $912.7 million. The largest exposure to any one municipality or agency was $7.5 million (fair value) represented by three revenue bonds.

	At June 30, 2014	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	$111,209	$113,647
Texas	56,667	57,459
Pennsylvania	48,699	49,270
Arizona	27,970	28,706
Other (35 states)	318,507	322,341
Total general obligation bonds	$563,052	$571,423
Revenue bonds:		
California	$61,447	$63,590
Pennsylvania	29,536	30,019
Colorado	18,141	18,181
Indiana	17,708	17,466
Kentucky	16,843	17,114
Other (34 states)	191,220	194,895
Total revenue bonds	$334,895	$341,265
Total obligations of states and political subdivisions	$897,947	$912,688

At December 31, 2013, the Company's investment securities portfolios included securities issued by 808 state and local government municipalities and agencies located within 47 states with a fair value of $932.6 million. The largest exposure to any one municipality or agency was $5.3 million (fair value) represented by two revenue bonds.

	At December 31, 2013	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	$ 119,215	$ 119,360
Texas	57,433	56,594
Pennsylvania	48,722	47,394
Other (37 states)	375,640	371,215
Total general obligation bonds	$ 601,010	$ 594,563
Revenue bonds:		
California	$ 63,001	$ 64,246
Pennsylvania	29,537	28,898
Colorado	18,176	17,563
Indiana	17,811	17,031
Other (37 states)	213,254	210,336
Total revenue bonds	$ 341,779	$ 338,074
Total obligations of states and political subdivisions	$ 942,789	$ 932,637

At June 30, 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 26 revenue sources. The revenue sources that represent 5% or more individually of the total revenue bonds are summarized in the following table.

	At June 30, 2014	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source		
Water	$68,933	$71,088
Sewer	49,154	50,112
Sales tax	33,757	34,627
Lease (abatement)	21,281	21,927
Lease (renewal)	18,856	18,997
Other	142,914	144,514
Total revenue bonds by revenue source	$334,895	$341,265

At December 31, 2013, 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 27 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, 2013	
	Amortized Cost	Fair Value

	(In thousands)	
Revenue bonds by revenue source		
Water	$ 70,924	$ 70,948
Sewer	49,625	48,911
Sales tax	34,291	33,465
Lease (abatement)	21,821	22,033
Lease (renewal)	21,353	20,742
Other	143,765	141,975
Total revenue bonds by revenue source	$ 341,779	$ 338,074

See Note 3 to the unaudited consolidated financial statements for additional information related to the investment securities.

Loan Portfolio Credit Risk

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

	At June 30, 2014	At December 31, 2013
	(In thousands)	
Commercial	$390,109	$ 364,159
Commercial real estate	762,011	799,019
Construction	12,899	13,896

Residential real estate	166,874	185,057
Consumer installment and other	452,715	465,613
Total	$1,784,608	$ 1,827,744

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 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; the Company reclassified assets for which loss indemnification expired during the first quarter 2014 from "purchased covered" to "purchased non-covered".

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Nonperforming Assets

	At June 30, 2014	2013	At December 31, 2013
	(In thousands)		
Originated:			
Nonperforming nonaccrual loans	$6,757	$7,664	$ 5,301
Performing nonaccrual loans	203	1,272	75
Total nonaccrual loans	6,960	8,936	5,376
Accruing loans 90 or more days past due	183	241	410
Total nonperforming loans	7,143	9,177	5,786
Other real estate owned	5,308	5,414	5,527
Total nonperforming assets	$12,451	$14,591	$ 11,313
Purchased covered:			
Nonperforming nonaccrual loans	$-	$14,619	$ 11,672
Performing nonaccrual loans	-	2,204	636
Total nonaccrual loans	-	16,823	12,308
Accruing loans 90 or more days past due	-	74	-
Total nonperforming loans	-	16,897	12,308
Other real estate owned	585	10,480	7,793
Total nonperforming assets	$585	$27,377	$ 20,101
Purchased non-covered:			
Nonperforming nonaccrual loans	$12,707	$1,890	$ 2,920
Performing nonaccrual loans	895	3,013	698
Total nonaccrual loans	13,602	4,903	3,618
Accruing loans 90 or more days past due	351	-	-
Total nonperforming loans	13,953	4,903	3,618
Other real estate owned	2,650	3,543	-
Total nonperforming assets	$16,603	$8,446	$ 3,618
Total nonperforming assets	$29,639	$50,414	$ 35,032

The Bank’s commercial loan customers are primarily small businesses and professionals. As a result, average loan balances are relatively small, providing risk diversification within the overall loan portfolio. At June 30, 2014, the Bank’s nonaccrual loans reflected this diversification: nonaccrual originated loans with a carrying value totaling $7 million comprised eleven borrowers, and nonaccrual purchased non-covered loans with a carrying value totaling $14 million comprised sixteen borrowers.

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.

Allowance for Credit Losses

The Company's allowance for credit losses represents Management's estimate of credit losses inherent in the loan portfolio. In evaluating credit risk for loans, Management measures loss potential of the carrying value of loans. As described above, payments received on nonaccrual loans may be applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected. Further, the carrying value of purchased loans includes fair value discounts assigned at the time of purchase under the provisions of FASB ASC 805, Business Combinations, and FASB ASC 310-30, Loans or Debt Securities with Deteriorated Credit Quality. The allowance for credit losses represents Management's estimate of credit losses in excess of these reductions to the carrying value of loans within the loan portfolio. The following table summarizes the allowance for credit losses, chargeoffs and recoveries of the Company for the periods indicated:

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands)			
Analysis of the Allowance for Credit Losses				
Balance, beginning of period	$34,802	$33,047	$34,386	$32,927
Provision for loan losses	1,000	1,800	2,000	4,600
Provision for unfunded commitments	-	-	-	-
Loans charged off				
Commercial	(150)	(148)	(210)	(2,050)
Commercial real estate	-	(427)	-	(539)
Real estate construction	-	-	-	-
Real estate residential	(30)	(22)	(30)	(109)
Consumer installment and other	(1,301)	(896)	(2,300)	(2,205)
Purchased covered loans	-	(517)	-	(876)
Purchased non-covered loans	-	(116)	(260)	(116)
Total chargeoffs	(1,481)	(2,126)	(2,800)	(5,895)
Recoveries of loans previously charged off				
Commercial	119	297	287	759
Commercial real estate	15	77	178	98
Real estate construction	-	-	3	-
Real estate residential	-	-	-	-
Consumer installment and other	618	506	1,018	1,107
Purchased non-covered loans	18	18	19	23
Total recoveries	770	898	1,505	1,987
Net loan losses	(711)	(1,228)	(1,295)	(3,908)
Balance, end of period	$35,091	$33,619	$35,091	$33,619
Components:				
Allowance for loan losses	$32,398	$30,926		
Liability for off-balance sheet credit exposure	2,693	2,693		
Allowance for credit losses	$35,091	$33,619		
Net loan (losses) recoveries:				
Originated loans	$(729)	$(613)	$(1,054)	$(2,939)
Purchased covered loans	-	(499)	-	(853)
Purchased non-covered loans	18	(116)	(241)	(116)
Net loan losses as a percentage of average total loans (annualized)	0.16 %	0.25 %	0.14 %	0.39 %

The Company's allowance for credit losses is maintained at a level considered appropriate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming and classified loans, the amount of non-indemnified purchased loans, FDIC loss-sharing indemnification, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically 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 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, in which historical originated classified credit balances are analyzed using a statistical model to determine standard loss rates for originated loans. The results of this analysis are applied to originated classified loan balances to allocate the allowance to the respective segments of the loan portfolio. In addition, originated loans with similar characteristics not usually criticized using regulatory guidelines are analyzed based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Last, allocations are made to originated non-classified commercial and commercial real estate loans based on historical loss rates and other statistical data.

Purchased loans were recorded on the date of purchase at estimated fair value; fair value discounts include a component for estimated credit losses. The Company evaluates all nonaccrual purchased loans with outstanding principal balances in excess of $500 thousand for impairment; the impaired loan value is compared to the recorded investment in the loan, which has been reduced by the credit default discount estimated on the date of purchase. If Management's impairment analysis determines the impaired loan value is less than the recorded investment in the purchased loan, an allocation of the allowance for credit losses is established, net of estimated FDIC indemnification. For all other purchased loans, Management evaluates post-acquisition historical credit losses on purchased loans, credit default discounts on purchased loans, and other data to evaluate the likelihood of realizing the recorded investment of purchased loans. Management establishes allocations of the allowance for credit losses for any estimated deficiency.

The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. The unallocated allowance addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in loan chargeoff history (external factors). The external factors evaluated by the Company and the judgmental amount of unallocated reserve assigned by Management as of June 30, 2014 are: economic and business conditions $1.3 million, external competitive issues $700 thousand, and other factors. 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 $700 thousand, adequacy of lending Management and staff $700 thousand, loan policies and procedures $900 thousand, concentrations of credit $900 thousand, and other factors. By their nature, these risks are not readily allocable to any specific loan category in a statistically meaningful manner and are difficult to quantify with a specific number. Management assigns a range of estimated risk to the qualitative risk factors described above based on Management's judgment as to the level of risk, and assigns a quantitative risk factor from the range of loss estimates to determine the appropriate level of the unallocated portion of the allowance.

Allowance for Credit Losses
For the Three Months Ended June 30, 2014

	Commercial	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	$4,243	$ 11,259	$ 445	$ 491	$ 2,813	$ 2,574	$ -	$ 10,284	$32,109
Additions:									
Provision	1,085	(610)	(3)	(52)	(75)	115	-	540	1,000
Deductions:									
Chargeoffs	(150)	-	-	(30)	(1,301)	-	-	-	(1,481)
Recoveries	119	15	-	-	618	18	-	-	770
Net loan (losses) recoveries	(31)	15	-	(30)	(683)	18	-	-	(711)
Balance at end of period	5,297	10,664	442	409	2,055	2,707	-	10,824	32,398
Liability for off-balance sheet credit exposure	1,733	24	165	-	465	243	23	40	2,693
Total allowance for credit losses	$7,030	$ 10,688	$ 607	$ 409	$ 2,520	$ 2,950	$ 23	$ 10,864	$35,091

Allowance for Credit Losses
For the Six Months Ended June 30, 2014

	Commercial	Commercial	Construction	Residential	Consumer Installment	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total

		Real Estate		Real Estate	and Other (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	1,215	(1,584)	(163)	34	139	1,387	-	972	2,000
Deductions:									
Chargeoffs	(210)	-	-	(30)	(2,300)	(260)	-	-	(2,800)
Recoveries	287	178	3	-	1,018	19	-	-	1,505
Net loan recoveries (losses)	77	178	3	(30)	(1,282)	(241)	-	-	(1,295)
Indemnification expiration	-	-	-	-	-	1,561	(1,561)	-	-
Balance at end of period	5,297	10,664	442	409	2,055	2,707	-	10,824	32,398
Liability for off-balance sheet credit exposure	1,733	24	165	-	465	243	23	40	2,693
Total allowance for credit losses	$ 7,030	$ 10,688	$ 607	$ 409	$ 2,520	$ 2,950	$ 23	$ 10,864	$ 35,091

Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment
At June 30, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other (In thousands)	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
Allowance for credit losses:									
Individually evaluated for impairment	$88	$ -	$ -	$ -	$ -	$ 895	$ -	$ -	$983
Collectively evaluated for impairment	6,942	10,688	607	409	2,520	2,055	23	10,864	34,108
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	$7,030	$10,688	$607	$409	$2,520	$2,950	$23	$10,864	$35,091
Carrying value of loans:									
	$3,605	$4,544	$ -	$ -	$ -	$ 13,525	$ -	$ -	$21,674

Individually evaluated for impairment									
Collectively evaluated for impairment	365,248	579,514	9,802	163,287	391,278	231,524	17,931	-	1,758,584
Purchased loans with evidence of credit deterioration	-	-	-	-	-	4,112	238	-	4,350
Total	$368,853	$584,058	$9,802	$163,287	$391,278	$249,161	$18,169	$-	$1,784,608

Management considers the $35.1 million allowance for credit losses to be adequate as a reserve against credit losses inherent in the loan portfolio as of June 30, 2014.

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

Asset/Liability and Market Risk Management

Asset/liability management involves the evaluation, monitoring and management of interest rate risk, market risk, liquidity and funding. The fundamental objective of the Company's management of assets and liabilities is to maximize its economic value while maintaining adequate liquidity and a conservative level of interest rate risk.

Interest Rate Risk

Interest rate risk is a significant market risk affecting the Company. Many factors affect the Company’s exposure to interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Assets and liabilities may mature or re-price at different times. Assets and liabilities may re-price at the same time but by different amounts. Short-term and long-term market interest rates may change by different amounts. The timing and amount of cash flows of various assets or liabilities may shorten or lengthen as interest rates change. In addition, the changing levels of interest rates may have an impact on loan demand, demand for various deposit products, credit losses, and other elements of earnings such as account analysis fees on commercial deposit accounts and correspondent bank service charges.

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

The Federal Open Market Committee’s June 18, 2014 press release stated “The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate….. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation.” In this context, Management’s most likely earnings forecast for the twelve months ending June 30, 2015 assumes market interest rates remain relatively stable and yields on newly originated or refinanced loans and on purchased investment securities will reflect current interest rates, which are generally lower than yields on the Company’s older dated loans and investment securities.

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 ranged from risk neutral to slightly “liability sensitive” at June 30, 2014, depending on the interest rate assumptions applied to the simulation model employed by Management to measure interest rate risk. A “liability sensitive” position results in a slightly larger change in interest expense than in interest income resulting from application of assumed interest rate changes. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation. Management’s interest rate risk management is currently biased toward stable interest rates in the near-term, and ultimately, rising interest rates. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate risk.

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

Market Risk - Equity Markets

Equity price risk can affect the Company. As an example, any preferred or common stock holdings, as permitted by banking regulations, can fluctuate in value. Management regularly assesses the extent and duration of any declines in market value, the causes of such declines, the likelihood of a recovery in market value, and its intent to hold securities until a recovery in value occurs. Declines in value of preferred or common stock holdings that are deemed “other than temporary” could result in loss recognition in the Company's income statement.

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

Market Risk - Other

Market values of loan collateral can directly impact the level of loan charge-offs and the provision for loan losses. The financial condition and liquidity of debtors issuing bonds and debtors whose mortgages or other obligations are securitized can directly impact the credit quality of the Company’s investment portfolio requiring the Company to recognize other than temporary impairment charges. Other types of market risk, such as foreign currency exchange risk and commodity price risk, are not significant in the normal course of the Company's business activities.

Liquidity and Funding

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

In recent years, the Company's deposit base has provided the majority of the Company's funding requirements. This relatively stable and low-cost source of funds, along with shareholders' equity, provided 97 percent of funding for average total assets in the first six months of 2014 and 2013. 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.

During the first six months of 2014 and 2013, non-deposit funding has continued to be provided by short-term borrowings, a term repurchase agreement, and Federal Home Loan Bank advances, and additionally, long-term debt for the first half of 2013. These non-deposit sources of funds comprise a modest portion of total funding.

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. The Company's investment securities portfolio provides a substantial secondary liquidity reserve. The Company held $2.3 billion in total investment securities at June 30, 2014. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At June 30, 2014, such collateral requirements totaled approximately $871 million.

Liquidity risk can result from the mismatching of asset and liability cash flows, or from disruptions in the financial markets. The Company performs liquidity stress tests on a periodic basis to evaluate the sustainability of its liquidity. Under the stress testing, the Company assumes outflows of funds increase beyond expected levels. Measurement of such heightened outflows considers the composition of the Company’s deposit base, including any concentration of deposits, non-deposit funding such as short-term borrowings and Federal Home Loan Bank advances, and unfunded lending commitments. The Company evaluates its stock of highly liquid assets to meet the assumed higher levels of outflows. Highly liquid assets include cash and amounts due from other banks from daily transaction settlements, reduced by branch cash needs and Federal Reserve Bank reserve requirements, and investment securities based on regulatory risk-weighting guidelines. Based on the results of the most recent liquidity stress test, Management is satisfied with the liquidity condition of the Bank and the Company. However, no assurance can be given the Bank or Company will not experience a period of reduced liquidity.

Management will monitor the Company’s cash levels throughout 2014. Loan demand from credit-worthy borrowers will be dictated by economic and competitive conditions. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to changes in interest rates. The growth of these deposit balances is subject to heightened competition, the success of the Company's sales efforts, delivery of superior customer service, new regulations and market conditions. The Company does not aggressively solicit higher-costing time deposits; as a result, Management anticipates such deposits will decline. Changes in interest rates, most notably rising interest rates, could impact deposit volumes. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, reduce borrowings or purchase investment securities. However, due to possible concerns such as uncertainty in the general economic environment, competition and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

Westamerica Bancorporation ("Parent Company") is a separate entity apart from Westamerica Bank (“Bank”) and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for the payment of dividends declared for its shareholders, and interest and principal on any outstanding debt. Substantially all of the Parent Company's revenues are obtained from subsidiary dividends and service fees. 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 the first halves of 2014 and 2013 to pay shareholder dividends of $20 million in each period, and retire common stock in the amount of $36 million and $27 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.

Capital Resources

The Company has historically generated high levels of earnings, which provides a means of raising capital. The Company's net income as a percentage of average shareholders' equity (“return on equity” or “ROE”) has been 11.6% in the first half of 2014, 12.5% in 2013 and 14.9% in 2012. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options totaled $12.2 million in the first half of 2014, $21.5 million in 2013 and $7.6 million in 2012.

The Company paid common dividends totaling $20.1 million in the first half of 2014, $40.1 million in 2013 and $41.0 million in 2012, which represent dividends per common share of $0.76, $1.49 and $1.48, 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 708 thousand shares valued at $36.4 million in the first half of 2014, 1.2 million shares valued at $57.3 million in 2013 and 1.1 million shares valued at $51.5 million in 2012.

The Company's primary capital resource is shareholders' equity, which was $538.8 million at June 30, 2014 compared with $542.9 million at December 31, 2013. The Company's ratio of equity to total assets was 10.93% at June 30, 2014 and 11.20% at December 31, 2013.

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

The following summarizes the ratios of regulatory capital to risk-adjusted assets for the Company on the dates indicated:

	At June 30, 2014		At June 30, 2013		At December 31, 2013		Minimum Regulatory Requirement		Well-capitalized by Regulatory Definition	
Tier I Capital	13.57	%	14.64	%	14.71	%	4.00	%	6.00	%
Total Capital	15.04	%	15.98	%	16.18	%	8.00	%	10.00	%

Leverage ratio	8.26 %	8.62 %	8.55 %	4.00 %	5.00 %

The following summarizes the ratios of capital to risk-adjusted assets for the Bank on the dates indicated:

	At June 30, 2014	At June 30, 2013	At December 31, 2013	Minimum Regulatory Requirement	Well-capitalized by Regulatory Definition
Tier I Capital	12.32 %	13.47 %	13.26 %	4.00 %	6.00 %
Total Capital	14.01 %	15.04 %	14.93 %	8.00 %	10.00 %
Leverage ratio	7.47 %	7.89 %	7.67 %	4.00 %	5.00 %

FDIC-indemnified assets are generally 20% risk-weighted. The FDIC indemnification expires on February 6, 2019 as to single-family residential real estate indemnified assets and expired on February 6, 2014 as to non-single-family residential real estate indemnified assets. Subsequent to such dates, previously FDIC-indemnified assets will generally be included in the 100% risk-weight category. The expiration of FDIC indemnification related to non-single-family residential real estate assets on February 6, 2014 caused an increase in risk-weighted assets, and a corresponding decline in the Tier 1 and Total Capital ratios.

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

- Introduce a new "Common Equity Tier 1" capital measurement,
- Establish higher minimum levels of capital,
- Introduce a "capital conservation buffer,"
- Increase the risk-weighting of certain assets, and
- Establish limits on the amount of deferred tax assets with any excess treated as a deduction from Tier 1 capital.

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

Generally, banking organizations that are not subject to the "advanced approaches rule" must begin complying with the final rule on January 1, 2015; on such date, the Company and the Bank become 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 must begin 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 does 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 revises the PCA thresholds to incorporate the higher minimum levels of capital, including the newly proposed "common equity tier 1" ratio.

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Management has evaluated the capital structure and assets for the Company and the Bank as of June 30, 2014 assuming the Federal Reserve's final rule was currently fully phased-in. Based on this evaluation, the Company and the Bank currently maintain capital in excess of all the final rule regulatory ratios, as follows:

	Final Rule Minimum Capital Requirement		"Well-capitalized" Under PCA Proposal		Final Rule Minimum Plus "Capital Conservation Buffer"		Proforma Measurements as of June 30, 2014 Assuming Final Rule Fully Phased-in			
							Company		Bank	
Capital Measurement:										
Leverage	4.00	%	5.00	%	4.00	%	8.26	%	7.47	%
Common Equity Tier 1	4.50	%	6.50	%	7.00	%	13.51	%	12.28	%
Tier I Capital	6.00	%	8.00	%	8.50	%	13.51	%	12.28	%
Total Capital	8.00	%	10.00	%	10.50	%	14.98	%	13.96	%

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of June 30, 2014.

Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company's management, including the principal executive officer and the principal financial officer, to allow for timely decisions regarding required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of its business, the Company is subject to various threatened or filed legal cases resulting from loan collection efforts, transaction processing for deposit accounts and employment practices. The Company establishes a liability for contingent litigation losses for any legal matter when payments associated with the claims become probable and the costs can be reasonably estimated.

Item 1A. Risk Factors

The Company's Form 10-K as of December 31, 2013 includes detailed disclosure about the risks faced by the Company's business; such risks have not materially changed since the Form 10-K was filed.

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

(a) Previously reported on Form 8-K.
(b) None
(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended June 30, 2014.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total 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
	(In thousands, except per share data)			
April 1 through April 30	93	$ 51.64	93	938
May 1 through May 31	161	49.58	161	777
June 1 through June 30	17	50.36	17	760
Total	271	$ 50.33	271	760

* Includes 1 thousand, 4 thousand and 7 thousand shares purchased in April, May and June, respectively, by the Company in private transactions with the independent administrator of the Company's Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

The Company repurchases shares of its common stock in the open market to optimize the Company's use of equity capital and enhance shareholder value and with the intention of lessening the dilutive impact of issuing new shares related to stock option plans and other ongoing requirements.

Shares were repurchased during the second quarter of 2014 pursuant to a program approved by the Board of Directors on July 25, 2013, authorizing the purchase of up to 2 million shares of the Company's common stock from time to time prior to September 1, 2014.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

WESTAMERICA BANCORPORATION
(Registrant)

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

Date: August 1, 2014

EXHIBIT INDEX

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

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

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

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

Exhibit 101: Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2014, is formatted in XBRL interactive data files: (i) Consolidated Statements of Income for the three and six months ended June 30, 2014 and 2013; (ii) Consolidated Balance Sheets at June 30, 2014, and December 31, 2013; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2014 and 2013, (iv) Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2014 and 2013; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 and (vi) Notes to the unaudited Consolidated Financial Statements.