2019 ANNUAL REPORT | 2020 PROXY STATEMENT | NOTICE OF ANNUAL MEETING

1108 Fifth Avenue
San Rafael, California 94901

March 09, 2020

To Our Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Westamerica Bancorporation. It will be held at **10:00 a.m. Pacific Time on Thursday, April 23, 2020, at Westamerica Bancorporation, 4550 Mangels Blvd., Fairfield, California** as stated in the formal notice accompanying this letter. We hope you will plan to attend.

At the Annual Meeting, the shareholders will be asked to (i) elect nine Directors; (ii) approve a non-binding advisory vote on the compensation of our named executive officers; (iii) ratify the selection of the independent auditor; and (iv) conduct other business that may properly come before the Annual Meeting.

In order to ensure your shares are voted at the Annual Meeting, you can vote through the internet, by telephone or by mail. Instructions regarding internet and telephone voting are included on the Proxy Card. If you elect to vote by mail, please sign, date and return the Proxy Card in the accompanying postage-paid envelope. The Proxy Statement explains more about voting in the section entitled “Voting Information – How You Can Vote.”

We look forward to seeing you at the Annual Meeting on Thursday, April 23, 2020, at Westamerica Bancorporation, in Fairfield, California.

Sincerely,

David L. Payne
Chairman of the Board, President
and Chief Executive Officer

WESTAMERICA BANCORPORATION

1108 Fifth Avenue
San Rafael, California 94901

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Date: Thursday, April 23, 2020

Time: 10:00 a.m. Pacific Time

Place: Westamerica Bancorporation, 4550 Mangels Blvd., Fairfield, California.

Items of Business

1. Elect nine Directors to serve until the 2021 Annual Meeting of Shareholders;
2. Approve a non-binding advisory vote on the compensation of our named executive officers;
3. Ratify selection of independent auditor; and
4. Conduct other business that may properly come before the Annual Meeting and any adjournments or postponements.

Management's nine nominees are listed and described in the attached proxy statement.

Who Can Vote?

Shareholders of Record at the close of business on February 24, 2020 are entitled to notice of, and to vote at the Annual Meeting or any postponement or adjournment thereof.

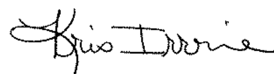
Admission to the Annual Meeting

No ticket will be necessary for admission to the Annual Meeting. However, to facilitate the admission process, Shareholders of Record planning to attend the Annual Meeting should check the appropriate box on the Proxy Card. Your name will be added to a list of attendees. If you hold shares through an intermediary, such as a bank or broker, you may need to register at the desk in the lobby. Please bring the following as evidence of ownership: 1) a legal proxy, or your brokerage statement dated on or after February 24, 2020, evidencing your ownership on February 24, 2020, the record date; and 2) photo identification.

Annual Report

Westamerica Bancorporation's Annual Report on Form 10-K ("Annual Report") to shareholders for the fiscal year ended December 31, 2019 is enclosed or is available for viewing as indicated on the Shareholder Meeting Notice and on the Company's website at: www.westamerica.com, under "Shareholders." The Annual Report contains financial and other information about the activities of Westamerica Bancorporation, but does not constitute a part of the proxy soliciting materials.

BY ORDER OF THE BOARD OF DIRECTORS



Kris Irvine
VP/Corporate Secretary

March 09, 2020

Important notice regarding the availability of proxy materials for the shareholder meeting being held on Thursday, April 23, 2020:

The Proxy Statement and the Annual Report on Form 10-K are available at: www.westamerica.com.

YOUR VOTE IS IMPORTANT
PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN YOUR PROXY, OR VOTE BY TELEPHONE OR ONLINE USING THE PROCEDURES DESCRIBED IN THE PROXY STATEMENT.

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WESTAMERICA BANCORPORATION
1108 Fifth Avenue
San Rafael, California 94901

PROXY STATEMENT

March 09, 2020

GENERAL

The Westamerica Board of Directors is soliciting proxies to be used at the 2020 Annual Meeting of Shareholders of Westamerica Bancorporation (the "Company"), which will be held at 10:00 a.m. Pacific Time, Thursday, April 23, 2020, or at any adjournment or postponement of the Annual Meeting. The Board of Directors is soliciting proxies to give all shareholders an opportunity to vote on matters to be presented at the Annual Meeting. In the following pages of this Proxy Statement, you will find information on matters to be voted at the Annual Meeting.

Voting Information

Internet Availability of Proxy Materials. We are providing proxy materials to our shareholders primarily via the internet, instead of mailing printed copies of those materials to each shareholder. By doing so, we save costs and reduce the environmental impact of our Annual Meeting. On or about March 09, 2020, we mailed a Notice of Internet Availability of Proxy Materials ("Notice") to certain of our shareholders. The Notice contains instructions about how to access our proxy materials and vote online or vote by telephone. If you would like to receive a paper copy of our proxy materials, please follow the instructions included in the Notice. If you previously chose to receive our proxy materials electronically, you will continue to receive access to these materials via email unless you elect otherwise.

Proof of Ownership May Be Required for Attending Annual Meeting in Person. You are entitled to attend the Annual Meeting only if you are a shareholder as of the close of business on February 24, 2020, the record date, or hold a valid proxy for the meeting. In order to be admitted to the Annual Meeting, the Company reserves the right to request proof of ownership of Westamerica Bancorporation common stock on the record date. This can be:

- a brokerage statement or letter from a bank or broker indicating ownership on February 24, 2020;
- the Notice of Internet Availability of Proxy Materials;
- a printout of proxy distribution email (if you received your materials electronically);
- a Proxy Card;
- a voting instruction form; or
- a legal proxy provided by your broker, bank or nominee.

Any holder of a proxy from a shareholder must present the Proxy Card properly executed, and a copy of the proof of ownership. The Company reserves the right to ask shareholders and proxy holders to present a form of photo identification such as a driver's license.

Proxy Card. The Board has designated Catherine MacMillan, Ronald A. Nelson and Edward B. Sylvester to serve as proxies for the Annual Meeting. As proxies, they will vote the shares represented by proxies at the Annual Meeting. If you sign, date and return your Proxy Card but do not specify how to vote your shares, the proxies will vote FOR the election of all of the Director nominees, FOR approval of the advisory vote on the compensation of our named executive officers, and FOR ratifying the selection of independent auditor. The proxies will also have discretionary authority to vote in accordance with their judgment on any other matter that may properly come before the Annual Meeting that we did not have notice of by January 24, 2020.

Quorum and Shares Outstanding. A quorum, which is a majority of the total shares outstanding as of the record date, must be present to hold the Annual Meeting. A quorum is calculated based on the number of shares represented by shareholders attending in person or by proxy. On February 24, 2020, 27,101,866 shares of Westamerica Bancorporation common stock were outstanding. We also count broker non-votes, which we describe below, as shares present or represented at the Annual Meeting for the purpose of determining whether a quorum exists.

Election of Director Nominees. Each share is entitled to one vote, except in the election of Directors where a shareholder may cumulate votes as to candidates nominated prior to voting, but only if a shareholder gives notice of intent to cumulate votes prior to the voting at the Annual Meeting. If any shareholder gives such notice, all shareholders may cumulate their votes for nominees. Under cumulative voting, each share carries as many votes as the number of Directors to be elected, and the shareholder may cast all of such votes for a single nominee or distribute them in any manner among as many nominees as desired. This Proxy Statement solicits the discretionary authority to cumulate votes and allocate them in the proxy holders' discretion if any shareholder requests cumulative voting. In the election of Directors, the nine nominees receiving the highest number of votes will be elected. If your proxy is marked "Withhold" with regard to the election of any nominee, your shares will be counted toward a quorum and for other nominees but they will not be voted for the election of that nominee. If you attend the Annual Meeting and have already voted by proxy, you may vote in person in order to rescind your previous vote if you are a registered holder of shares.

Vote Required; Effect of Abstentions and Broker Non-Votes. The shares of a shareholder whose proxy on any or all proposals is marked as "Abstain" will be included in the number of shares present at the Annual Meeting to determine whether a quorum is present. If you are the beneficial holder of shares held by a broker or other custodian, you may instruct your broker how to vote your shares through the voting instruction form included with this Proxy Statement. If you wish to vote the shares you own beneficially at the meeting, you must first request and obtain a legal proxy from your broker or other custodian. If you choose not to provide instructions or a legal proxy, your shares are referred to as "uninstructed shares." Whether your broker or custodian has the discretion to vote these shares on your behalf depends on the ballot item. Brokers and custodians cannot vote uninstructed shares on your behalf in director elections or, advisory votes on executive compensation. For your vote to be counted on these matters, you must submit your voting instruction form to your broker or custodian.

The following table summarizes the votes required for passage of each proposal and the effect of abstentions and uninstructed shares held by brokers:

Proposal Number	Proposal	Votes Required for Approval	Abstentions	Uninstructed Shares	Board Vote Recommendation
1	Election of directors	Nine nominees receiving the most votes	Not voted	Not voted	FOR
2	Advisory vote on executive compensation "Say on Pay"	Majority of shares voted	Not voted	Not voted	FOR
3	Ratification of independent auditor	Majority of shares voted	Not voted	Broker discretionary vote	FOR

Votes in favor of Proposals 2 and 3 must also constitute a majority of the required quorum for the meeting. If votes in favor are less than a majority of the required quorum, abstentions and non-votes will have the effect of a vote against the proposal.

Other Matters. Approval of any other matter considered at the Annual Meeting will require the affirmative vote of a majority of the shares present or represented by proxy and voting at the Annual Meeting and a majority of the required quorum.

How You Can Vote. Your vote is very important and we hope that you will attend the Annual Meeting. However, whether or not you plan to attend the Annual Meeting, please vote by proxy.

Registered Holders. If your shares are registered directly in your name with the Company's transfer agent, Computershare Investor Services, LLC, you are considered a registered holder of those shares. Please vote by proxy in accordance with the instructions on your Proxy Card, or the instruction you received by email.

A registered holder can vote in one of the following four ways:

- **Via the Internet.** Go to the website noted on your Proxy Card in order to vote via the internet. Internet voting is available 24 hours a day. We encourage you to vote via the internet, as it is the most cost-effective way to vote. When voting via the internet, you do not need to return your Proxy Card.
- **By Telephone.** Call the toll-free telephone number indicated on your Proxy Card and follow the voice prompt instructions to vote by telephone. Telephone voting is available 24 hours a day. When voting by telephone, you do not need to return your Proxy Card.
- **By Mail.** Mark your Proxy Card, sign and date it, and return it in the enclosed postage-paid envelope. If you elected to electronically access the Proxy Statement and Annual Report, you will not be receiving a Proxy Card and must vote via the internet or by telephone.
- **In person.** You may vote your shares at the Annual Meeting if you attend in person, even if you previously submitted a Proxy Card or voted via internet or telephone. Whether or not you plan to attend the Annual Meeting, however, we strongly encourage you to vote your shares by proxy before the meeting.

We have been advised by counsel that these telephone and internet voting procedures comply with California law.

Beneficial Shareholders. If your shares are held in a brokerage account in the name of your bank, broker, or other holder of record ("beneficial holder" or "street name"), you are not a registered holder, but rather are considered a beneficial holder of those shares. Your bank, broker, or other holder of record will send you instructions on how to vote your shares. If you are a beneficial holder, you must obtain a legal proxy, executed in your favor, from the holder of record to be able to vote in person at the Annual Meeting.

Voting Deadlines. If you are a participant in the Westamerica Bancorporation Tax Deferred Savings/Retirement Plan (ESOP) your vote must be received by 11:59 p.m. Central Time, on April 20, 2020. All other shareholders voting by telephone or internet must vote by 12:01 a.m. Central Time, on April 23, 2020 to ensure that their vote is counted.

Revocation of Proxy. Registered holders who vote by proxy, whether by telephone, internet or mail, may revoke that proxy at any time before it is voted at the Annual Meeting. You may do this by: (a) signing another Proxy Card with a later date and delivering it to us prior to the Annual Meeting or sending a notice of revocation to the Corporate Secretary of Westamerica at 1108 Fifth Avenue, San Rafael, CA 94901; (b) voting at a later time by telephone or on the internet prior to 12:01 a.m. Central Time, on April 23, 2020 (prior to 11:59 p.m. Central Time, on April 20, 2020 for ESOP participants); or (c) attending the Annual Meeting in person and casting a ballot. If

Additional Information

Householding. As permitted by the Securities Exchange Act of 1934 (the "Exchange Act") only one envelope containing two or more Notices of Internet Availability of Proxy Materials is being delivered to shareholders residing at the same address, unless such shareholders have notified their bank, broker, Computershare Investor Services, or other holder of record that they wish to receive separate mailings. If you are a beneficial holder and own your shares in street name, contact your broker, bank or other holder of record to discontinue householding and receive your own separate copy of the Notice in future years. If you are a registered holder and own your shares through Computershare Investor Services, contact Computershare toll-free at 877-588-4258 or in writing directed to Computershare Investor Services, 250 Royall Street, Mail Stop 1A, Canton, MA 02021 to discontinue householding and receive multiple Notices in future years. To receive an additional Annual Report or Proxy Statement this year, contact Shareholder Relations at 707-863-6992 or follow the instructions on the Notice. Mailing of dividends, dividend reinvestment statements, and special notices will not be affected by your election to discontinue duplicate mailings of the Notice.

Electronic Access to Proxy Materials and Annual Reports. Whether you received the Notice of Internet Availability of Proxy Materials or paper copies of proxy materials, this Proxy Statement and the 2019 Annual Report are available on the Company's website at: www.westamerica.com. If you hold your Westamerica Bancorporation common stock in street name through a broker, a bank or other nominee, you may have the option of securing your Proxy Statement and Annual Report via the internet. If you vote this year's proxy electronically, you may also elect to receive future Proxy Statements, Annual Reports and other materials electronically by following the instructions given by your bank, broker, or other holder of record when you vote. Our website is available for information purposes only and should not be relied upon for investment purposes, nor is it incorporated by reference into this Proxy Statement.

Stock Ownership

Security Ownership of Certain Beneficial Holders. Based on Schedule 13G filings, shareholders beneficially holding more than 5% of Westamerica Bancorporation common stock outstanding as of December 31, 2019, in addition to those disclosed in the Security Ownership of Directors and Management section below, were:

Name and Address of Beneficial Owner	Title of Class	Number of Shares Beneficially Owned	Percent of Class
BlackRock, Inc. 55 East 52nd Street, New York, NY 10055	Common	3,789,359 [1]	14.00%
The Vanguard Group, Inc. 100 Vanguard Boulevard, Malvern, PA 19355	Common	3,132,558 [2]	11.57%
T. Rowe Price Associates, Inc 100 East Pratt Street, Baltimore, MD 21202-1009	Common	3,058,373 [3]	11.30%
Eaton Vance Management 2 International Place, Boston, MA 02110	Common	2,203,813 [4]	8.54%

[1] The Schedule 13G filed with the SEC on February 4, 2020 disclosed that the reporting entity, BlackRock, Inc., held sole voting power over 3,733,107 shares and sole dispositive power over 3,789,359 shares.

[2] The Schedule 13G filed with the SEC on February 12, 2020 disclosed that the reporting entity, The Vanguard Group, Inc., held sole voting power over 30,942 shares and sole dispositive power over 3,100,490 shares, and shared dispositive power over 32,068 shares.

[3] The Schedule 13G was filed with the SEC on February 14, 2020. These securities are owned by various individual and institutional investors, which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial holder of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial holder of such securities.

[4] The Schedule 13G filed with the SEC on February 12, 2020 disclosed that the reporting entity, Eaton Vance Management, held sole voting power over 2,203,813 shares and sole dispositive power over 2,203,813 shares.

Security Ownership of Directors and Management. The following table shows the number of common shares and the percentage of the common shares beneficially owned (as defined below) by each of the current Directors, by the Chief Executive Officer ("CEO"), by the Chief Financial Officer ("CFO"), by the three other most highly compensated executive officers, and by all Directors and Officers of the Company as a group as of February 24, 2020. As of February 24, 2020, there were 27,101,866 outstanding shares of Westamerica Bancorporation's common stock. For the purpose of the disclosure of ownership of shares by Directors and Officers below, shares are considered to be beneficially owned if a person, directly or indirectly, has or shares the power to vote or direct the voting of the shares, the power to dispose of or direct the disposition of the shares, or the right to acquire beneficial ownership of shares within 60 days of December 31, 2019.

Amount And Nature Of Beneficial Ownership

Name and Address**	Sole Voting and Investment Power	Shared Voting and Investment Power	Right to Acquire Within 60 days of December 31, 2019	Total[1]	Percent of Class[2]
Etta Allen	10,923 [3]	-	-	10,923	*
Louis E. Bartolini	1,700	-	-	1,700	*
E. Joseph Bowler	-	25,887 [4]	-	25,887	0.1%
Melanie Chiesa[5]	-	-	-	-	*
Catherine Cope MacMillan	8,600 [6]	-	-	8,600	*
Michele Hassid[7]					
Ronald A. Nelson	44,000	-	-	44,000	0.2%
David L. Payne	1,453 [8]	885,570 [9]	-	887,023	3.3%
Edward B. Sylvester	62,490	-	-	62,490	0.2%
Jesse Leavitt[10]	1	-	-	1	*
John "Robert" A. Thorson	-	10,366 [11]	30,517	40,883	0.1%
Brian Donohoe[12]	5,767	-	5,600	11,367	0.3%
George "Steven" Ensinger	14,534	-	15,387	29,921	0.1%
Russell W. Rizzardi	-	-	-	-	*
All 14 Directors and Officers as a Group	149,468	921,823	51,504	1,122,795	4.3%

* Indicates beneficial ownership of less than one-tenth of one percent (0.1%) of the Company's common shares.

** The address of all persons listed is 1108 Fifth Avenue, San Rafael, CA 94901.

(1) None of the shares held by the Directors and Officers listed above have been pledged.

(2) In calculating the percentage of ownership, all shares which the identified person or persons have the right to acquire by exercise of options are deemed to be outstanding for the purpose of computing the percentage of the class owned by such person, but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person.

(3) Includes 10,350 shares held in a trust as to which Mrs. Allen is trustee.

(4) Includes 25,887 shares held in trust as to which Mr. Bowler is co-trustee with shared voting and investment power.

(5) Dr. Martella Chiesa was appointed Director January 23, 2020.

(6) Includes 6,000 shares held in a trust as to which Ms. MacMillan is trustee and 400 shares held in trust under the California Uniform Gift to Minors Act as to which Ms. MacMillan is custodian.

(7) Ms. Hassid was appointed Director September 26, 2019

(8) Includes 462 shares held in a trust under the California Uniform Gift to Minors Act as to which Mr. Payne is custodian.

(9) Includes 528,837 shares owned by Gibson Radio and Publishing Company, of which Mr. Payne is President and CEO, as to which Mr. Payne disclaims beneficial ownership, and 345,808 shares held in a trust as to which Mr. Payne is co-trustee with shared voting and investment power.

(10) Mr. Leavitt was appointed CFO January 1, 2020.

(11) Includes 9,961 shares held in a trust as to which Mr. Thorson is co-trustee with shared voting and investment power.

(12) Mr. Donohoe was appointed Manager of Operations and Systems Administration of Community Banker Services Corporation January 1, 2019.

Anti-Hedging and Anti-Pledging Policy. The Company's Insider Trading and Stock Hedging Policy prohibits our directors, executive officers, and other employees with access to material non-public information from engaging in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the market value of Company securities in which they have an economic interest. Prohibited transactions include but are not limited to: (1) selling short any Company common stock; and (2) buying or selling puts or calls or other derivatives on Company securities, or otherwise entering into any hedging arrangements involving Company securities.

PROPOSAL 1 – ELECTION OF DIRECTORS

Board of Directors

The Board has nominated nine candidates for election as Directors at the Annual Meeting to hold office until the next Annual Meeting or until their successors are elected and qualified. The proxies will vote for the nine nominees named below unless you give different voting instructions on your Proxy Card. Each nominee is presently a Director of the Company and has consented to serve a new term. The Board does not anticipate that any of the nominees will be unavailable to serve as a Director, but if that should occur before the Annual Meeting, the Board reserves the right to substitute another person as nominee. The proxies will vote for any substitute nominated by the Board of Directors. The proxies may use their discretion to cumulate votes for election of Directors and cast all of such votes for any one or more of the nominees, to the exclusion of the others, and in such order of preference as they may determine at their discretion.

Nominees

The nominees for election as Directors are named and certain information with respect to them is given below. Our nominees are seasoned leaders who bring to the Board an array of financial services, public and private company, non-profit, and other business experience. As a group they possess experience in leadership, consumer banking, commercial and small business banking, investment banking, capital markets, financial advisory services, finance and accounting, risk management and real estate. Many of the Board Members have seen the Company through a variety of economic conditions. The information below has been furnished to the Company by the respective nominees. All of the nominees have engaged in their indicated principal occupation for more than five years, unless otherwise indicated and no nominee has served on the Board of Directors of another public company during the past five years.

Name of Nominees, Principal Occupations, and Qualifications

Etta Allen – Director since 1988

Etta Allen (90) is President and CEO of Sunny Slope Vineyard in Sonoma County, California. Until 2017, she was also President and CEO of Allen Heating and Sheet Metal. She is the chair of the Employee Benefits and Compensation Committee and member of the Executive Committee and the Nominating Committee. Mrs. Allen is also a Director of Westamerica Bank.

In 1972, she became the second woman in the state of California to become a licensed contractor in heating, ventilation, air conditioning and sheet metal, and in 1974 she became President and CEO of Allen Heating and Sheet Metal. Under her leadership the company became recognized throughout California. She was the first woman president of Marin Builders Exchange and during her time on the executive committee she also served as a trustee and later as Chairman of their successful insurance trust. She was the first woman contractor on the Executive Committee of the California Association of Builders Exchanges.

Etta Allen is one of the pioneers for women in non-traditional careers. As an entrepreneur, businesswoman and an involved community leader, she brings independence, operations management and executive experience to the Board.

Louis E. Bartolini – Director since 1991

Louis E. Bartolini (87) retired from Merrill Lynch, Pierce, Fenner & Smith, Inc. (now Merrill Lynch and Co.) as a financial consultant. He currently serves on the Audit Committee, the Employee Benefits and Compensation Committee, and is also a Director of Westamerica Bank. Mr. Bartolini has 34 years of experience in the financial industry serving as a financial consultant and branch manager for Merrill Lynch and Co. and has been active for over 36 years in the non-profit community in Marin County. He has served on the boards of many non-profit organizations, including a five-year term as president of the Marin Symphony, a Board member of the Association of California Symphony Orchestras, and a past District Governor of Rotary International.

Mr. Bartolini's continuing interest in the financial industry, his leadership skills, and financial and investment expertise are of great value to the Board. His extensive ties to local community and business leaders through his long-term volunteer involvement provide the Board with a broad prospective and insights into key segments of our markets and customer base.

E. Joseph Bowler – Director since 2003

E. Joseph Bowler (83) retired as Senior Vice President and Treasurer of the Company in 2002. He currently serves as a member of the Audit Committee, the Loan and Investment Committee, and is also a Director of Westamerica Bank. Mr. Bowler holds a Masters of Business Administration from Stanford University.

With many years of direct banking experience, Mr. Bowler brings strong financial and investment expertise important to the oversight of our financial reporting and interest rate risk management. In addition, Mr. Bowler's experience as a director and trustee of various non-profit community and educational organizations brings strategic planning and corporate governance skills to the Board.

Melanie Martella Chiesa – Director since 2020

Melanie Martella Chiesa (54) is an optometrist in private practice at Monte Vista Optometry in Turlock, California. Dr. Martella Chiesa is a member of the Loan and Investment Committee. She is also a Director of Westamerica Bank. Dr. Martella Chiesa was elected to the Board in January 2020.

Dr. Martella Chiesa is a lifelong resident of Hughson, California where she is a partner in her family's walnut and almond farming operations. She is an owner and board member of Martella Farms, Inc., Ag Commodities, Grower Direct Nut, Inc., ARK Development and Nutty Gourmet Nut Company. Dr. Martella Chiesa is a graduate of the University of California, Berkeley, where she received her Doctor of Optometry degree. Dr. Martella Chiesa also received Bachelor of Science degrees in food science and nutrition, functional biology and visual sciences.

Dr. Chiesa is passionate about local community and philanthropy. She, along with her husband, founded the Ciara Chiesa Circle of Hope Fund. Melanie is also the board chair of the Stanislaus Community Foundation, chaired their Scholarship Committee and served on the Executive and Development Committees. Dr. Martella Chiesa also serves as a trustee for the Gallo Center for the Arts.

Along with leadership and private business knowledge, Dr. Chiesa brings to the Board an understanding of agriculture, healthcare, philanthropy and issues of the Central Valley of California.

Michele Hassid – Director since 2019

Michele Hassid (57) is Managing Partner of Eckhoff and Company, San Rafael. Ms. Hassid is a member of the Audit and Employee Benefits and Compensation Committees. She is also a Director of Westamerica Bank. Ms. Hassid was elected to the Board in September 2019.

Ms. Hassid joined Eckhoff and Company in 1990, where along with being a Managing Partner, she also serves as a Partner with Eckhoff Wealth Management. Ms. Hassid assists clients with financial and operational needs. Ms. Hassid graduated with honors from San Francisco State University with a B.A. in Accounting and is a graduate of the San Rafael Leadership Institute. She holds a CPA certificate and a CGMA certification. Ms. Hassid has memberships with AICPA, CALCPA, is a board member of the San Rafael Chamber of Commerce and is a finance committee member for Congregation Ner Tamid in San Francisco.

Ms. Hassid's background and education provides financial expertise and entrepreneurial skills.

Catherine Cope MacMillan – Director since 1985

Catherine Cope MacMillan (72) is a former owner of the Huntington Hotel in San Francisco and La Playa Hotel in Carmel-by-the-Sea. She is a member of the Loan and Investment Committee and the Audit Committee. She is also a Director of Westamerica Bank. Ms. MacMillan previously owned and operated a prominent restaurant for nearly 20 years. She is a graduate of the University of California at Davis and Pacific McGeorge School of Law. She has also served in numerous leadership capacities for community organizations.

Ms. MacMillan's experience in administration and operational aspects of various businesses and organizations provides the Board with sound leadership.

Ronald A. Nelson – Director since 1988

Ronald A. Nelson (77) was Executive Vice President of Charles M. Schulz Creative Associates through 1995. He serves as the Chairman of the Audit Committee and is a member of the Employee Benefits and Compensation Committee, Executive Committee, and Nominating Committee. He is also a Director of Westamerica Bank. Mr. Nelson has a background as a Certified Public Accountant and has been designated as the Audit Committee's "financial expert." He has been a resident of Sonoma County since 1970, which is one of the bank's primary markets and where he has been involved in business management, investment management, and the development of commercial real estate. He also served as a board member and Chairman of Santa Rosa Memorial Hospital, which is the area's primary acute care hospital.

Mr. Nelson's extensive business and financial expertise provides important oversight of our financial reporting and risk management.

David L. Payne – Director since 1984

David L. Payne (64) is Chairman, President & CEO of Westamerica Bancorporation. He was appointed Chairman in 1988 and Chief Executive Officer in 1989 and is Chairman of the Executive Committee. Mr. Payne is also Chairman, President & CEO of Westamerica Bank. He brings to the Board strong leadership and a vision for the future. He has a thorough knowledge of the banking industry, manages regulatory and business development issues, and has extensive financial and accounting expertise. Mr. Payne possesses excellent management, strategic development and business skills.

Since Mr. Payne's appointment as Chairman of the Board, Westamerica's dividends per share have risen twelve-fold and capital levels have increased eleven-fold. Total assets have quadrupled during his tenure and net income has risen by a multiple of 16. Return on equity was 11.9% for the year ended December 31, 2019.

Mr. Payne has successfully negotiated and led the Company through many mergers including: John Muir National Bank, Napa Valley Bancorporation, PV Financial, CapitolBank – Sacramento, North Bay Bancorp, ValliCorp Holdings, First Counties Bank, Kerman State Bank, Redwood Empire Bancorp, County Bank, and Sonoma Valley

Bank. Mr. Payne also manages his family printing, publishing and cable television business.

Edward B. Sylvester – Director since 1979
Edward Sylvester (83) is a licensed civil engineer and the founder of SCO Planning and Engineering. He retired from the day-to-day engineering profession in 2007 but continues as a private consultant. Mr. Sylvester is currently a member of the Executive Committee, Chairman of the Nominating Committee, Chairman of the Loan and Investment Committee, and serves as Lead Independent Director of Westamerica Bancorporation. He was a founding Director of Gold Country Bank headquartered in Grass Valley until the bank merged with Westamerica's predecessor, Independent Bankshares, at which time he was nominated to serve on the corporate Board by his peers. Mr. Sylvester is the Chairman of the Board of Nevada County Broadcasters. He served as the Chairman of the Board of Sierra Nevada Memorial Hospital from 2016-2018. He is a board member of the Sierra Nevada Memorial Hospital Foundation and a member of the Foundation Board. Mr. Sylvester has previously served as a member and Chairman of the California Transportation Commission that prioritizes state transportation projects and allocates funding. He is a past President of the Rotary Club of Grass Valley and past Chairman of the Grass Valley Chamber of Commerce. Mr. Sylvester has run 23 marathons to date and was the 14th person in the world to complete a full marathon on all seven continents including Antarctica.

The depth of Mr. Sylvester's experience gives him first-hand understanding of all the nuances of development and development funding, a current knowledge of the retail economy, and a state-wide perspective and experience in funding allocation. His long tenure on the Board brings a historical and long-term perspective while he remains current on financial issues with his continuing leadership role in the community and active management positions.

THE BOARD OF DIRECTORS RECOMMENDS ELECTION OF ALL NOMINEES

Board of Directors and Committees
Director Independence and Leadership Structure. The Board of Directors has considered whether any relationships or transactions related to a Director were inconsistent with a Director's independence. Based on this review, the Board has determined that E. Allen, L.E. Bartolini, E.J. Bowler, M. Chiesa, M. Hassid, C.C. MacMillan, R.A. Nelson, and E.B. Sylvester are "independent" Directors as defined in NASDAQ rules.

Our Board has carefully considered the critical issue of Board leadership. In the context of risk management, the leadership of each Board committee primarily responsible for risk management is vested in an independent committee chair. With regard to the leadership of the meetings of the full Board, our Board of Directors has carefully evaluated whether the positions of Chairman and CEO should be separate or combined. Our Board believes that the most effective leadership structure for the Company at this time is to combine the responsibilities of the Chairman and CEO, a structure that has been successful since 1989. The combined positions avoid a duplication of efforts, enable decisive leadership, ensure a clear accountability for the performance of the Company, a more rapid implementation of decisions, and a consistent vision. Given the size of our employee base and our level of assets relative to larger, more complex banking structures, our Company is particularly well suited to combine the Chairman and CEO functions. Furthermore, our named executive officers have an average tenure of 19 years and do not require the substantial oversight needed by a less experienced team, which has allowed our Chairman and CEO to lead the Company through eleven acquisitions since 1992.

To ensure strong Board oversight eight of our nine Directors are, as noted above, independent as defined by NASDAQ. Only non-management directors sit on Board committees, with the exception of the Executive Committee, and every non-management director sits on one or more of these Committees. All non-management directors meet at least four times a year outside the presence of the Chairman and CEO. The Board completes an annual board evaluation that is discussed by the Nominating Committee and presented to the full Board.

Although the Board believes that it is more effective to have one person serve as the Chairman and CEO at this time, it also recognizes the importance of strong independent leadership on the Board, accordingly, the Board has established a strong, independent Lead Director, Mr. Sylvester, who must serve at least one year and has the following clearly delineated and comprehensive duties:

- presides at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent Directors;
- serves as liaison between the Chairman and the independent Directors;
- approves information sent to the Board;
- approves meeting agendas for the Board;
- approves meeting schedules to assure that there is sufficient time for discussion of all agenda items;
- has the authority to call meetings of the independent Directors; and
- if requested by major shareholders, ensures that he or she is available for consultation and direct communication.

The Board does not believe that the fact an independent Lead Director does not preside over the normal Board meeting business sessions limits the ability of the Board to have open exchanges of views, or to address any issues the Board chooses, independently of the Chairman.

The Board of Directors of the Company also serve as the Board of Directors of Westamerica Bank, and as such are well informed of Bank operations through regular reports and discussions on the operations of the Bank. The Directors' longevity with the Company has exposed them to a wide range of business cycles, which plays a critical role in managing the risk profile and profitability of the Company through the current economic environment.

Role of the Board of Directors in Risk Oversight. The Board is also responsible for overseeing all aspects of management of the Company, including risk oversight, which is effected through all Board committees, but primarily through the Board's Audit Committee. The Internal Audit Department reports directly to the Board's Audit Committee. It presents its independently prepared company-wide annual risk assessment, its evaluation of Management's prepared risk assessment and its audit plan incorporating the risk assessment, including the policies and procedures utilized to monitor and control such exposures, to the Board's Audit Committee.

The internal loan review function reports directly to the Board's Audit Committee. It reports ongoing evaluations of loan portfolios and the risk rating of individual loans using guidelines established by bank regulatory authorities, to the Board's Audit Committee.

Meetings. The Company expects all Board members to attend all meetings, including the Annual Meeting of Shareholders, except for reasons of health or special circumstances. The Board met on nine days during 2019. Every Director attended at least 75% of the aggregate of: (i) the Board meetings held during that period in which they served; and (ii) the total number of meetings of any Committee of the Board on which the Director served. Each individual who served on the Board of the Company on the date of the 2019 Annual Meeting of Shareholders attended the meeting.

Committees of the Board

Director Name	Executive Committee	Audit Committee	Employee Benefits and Compensation Committee	Loan and Investment Committee	Nominating Committee
Etta Allen	X		Chair [1]		X
Louis E. Bartolini		X	X		
E. Joseph Bowler		X		X	
Melanie Martella Chiesa [2]				X	
Michele Hassid [3]		X	X		
Catherine Cope MacMillan		X		X	
Ronald A. Nelson	X	Chair	X		X
David L. Payne	Chair				
Edward B. Sylvester	X			Chair	Chair
Number of Meetings in 2019	9	5	5	9	5

[1] Ms. Allen was appointed Chair March 9, 2019.
[2] Dr. Martella Chiesa was appointed Director January 23, 2020.
[3] Ms. Hassid was appointed Director September 26, 2019.

Executive Committee. The Board delegates to the Executive Committee all powers and authority of the Board in the management of the business affairs of the Company between board meetings, which the Board is allowed to delegate under California law.

Audit Committee. The Board of Directors has determined that all members of the Audit Committee are independent, as that term is defined by applicable rules of NASDAQ for Audit Committee purposes. The Board has also designated Mr. Nelson as the "Audit Committee financial expert" as defined by the rules of the SEC and has determined that he is "financially sophisticated" under NASDAQ rules. In concluding that Mr. Nelson is the Audit Committee financial expert, the Board determined that he has:

- an understanding of generally accepted accounting principles and financial statements;
- the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;
- an understanding of internal control over financial reporting; and
- an understanding of Audit Committee functions.

Designation of a person as an Audit Committee financial expert does not result in the person being deemed an expert for any purpose, including under Section 11 of the Securities Act of 1933. The designation does not impose on the person any duties, obligations or liability greater than those imposed on any other Audit Committee member or any other Director and does not affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

The Audit Committee provides independent, objective oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the independence and performance of the Company's independent auditor as it performs audit, review or attest services, and the Company's internal audit and control function. It selects and retains the independent registered public accounting firm, and reviews the plan and the results of the auditing engagement. It acts pursuant to a written charter that was reaffirmed by the Board of

Directors in January 2020 and attached as Exhibit A to the Proxy Statement for the 2018 Annual Meeting of Shareholders.

Employee Benefits and Compensation Committee. The Employee Benefits and Compensation Committee of the Board of Directors (the "Compensation Committee") is comprised solely of Directors who are not current or former employees of Westamerica or any of its affiliates. They are independent as defined by NASDAQ rules.

The Compensation Committee administers Westamerica Bancorporation's equity incentive plan, Tax Deferred Savings and Retirement Plan, Deferred Profit Sharing Plan, Deferred Compensation Plan, and the Westamerica Bancorporation Deferral Plan. It administers the Company's compensation programs and reviews and reports to the Board the compensation level for executive officers, including the CEO, of the Company and its subsidiaries and determines that compensation plans are balanced between financial results and prudent risk taking. The Compensation Committee determines annual corporate performance objectives for equity compensation and cash bonuses and their related corporate, divisional and individual goals. Based on the CEO's assessment of the extent to which each executive officer met those objectives and goals, the Committee determines each executive officer's annual equity compensation and cash bonus. The Compensation Committee also establishes the individual goals and targets for the CEO. All compensation approved by the Compensation Committee is reported to the full Board of Directors. The role of the Compensation Committee is described in greater detail under the section entitled "Compensation Discussion and Analysis."

The Compensation Committee is governed by a written charter as required by NASDAQ rules. The charter was reaffirmed by the Board of Directors in January 2020 and is attached as Exhibit A to the Proxy Statement for this 2020 Annual Meeting of Shareholders. The Compensation Committee has the authority to seek assistance from officers and employees of the Company as well as external legal, accounting and other advisors. It has not retained outside consultants for compensation advice, but can request assistance on an as-needed basis. It does not delegate authority to anyone outside of the Compensation Committee. The Payroll and Employee Benefits Department supports the Compensation Committee by fulfilling certain administrative duties regarding the compensation programs.

Nominating Committee. The Board of Directors has determined that all members of the Nominating Committee are independent, as defined in NASDAQ rules.

The Nominating Committee screens and recommends qualified candidates for Board membership. This Committee recommends a slate of nominees for each Annual Meeting. As part of that process, it evaluates and considers all candidates submitted by shareholders in accordance with the Company's Bylaws, and considers each existing Board member's contributions. The Committee applies the same evaluation standards whether the candidate was recommended by a shareholder or the Board. The Nominating Committee is governed by a written charter, which was reaffirmed by the Board of Directors in January 2020 and attached as Exhibit A to the Proxy Statement for the 2019 Annual Meeting of Shareholders.

While the Board does not have a formal diversity policy, it broadly defines diversity to encompass a range of skills and expertise sufficient to provide prudent guidance to the Company. In addition to the qualifications and characteristics described below, it considers whether the potential Director assists in achieving a mix of Board members that represents a diversity of background, perspective, and experience. Our Board includes Directors with experience in public corporations and non-profit organizations, as well as entrepreneurial individuals who have successfully run their own private enterprise. Our Board also has a broad set of skills necessary for providing oversight to a financial institution, which includes proven leadership, and expertise in capital management, finance, accounting, regulatory affairs, and investment management.

Nominating Directors. The Nominating Committee will consider shareholder nominations submitted in accordance with Section 2.14 of the Bylaws of the Company. That section requires, among other things, that nominations be submitted in writing and must be received by the Corporate Secretary at least 45 days before the anniversary of the date on which the Company first mailed its proxy materials for the prior year's Annual Meeting of Shareholders. If the date for the current year's Annual Meeting changes more than 30 days from the date on which the prior year's meeting was held, the Company must receive notice with a reasonable amount of time before the Company mails its proxy materials for the current year.

Nominations must include the following information:

- the principal occupation of the nominee;
- the total number of shares of capital stock of the Company that the shareholder expects will be voted for the nominee;
- the name and address of the nominating shareholder; and
- the number of shares of capital stock of the Company owned by the nominating shareholder.

The Committee has specified the following minimum qualifications it believes must be met by a nominee for a position on the Board:

- appropriate personal and professional attributes to meet the Company's needs;
- highest ethical standards and absolute personal integrity;
- physical and mental ability to contribute effectively as a Director;
- willingness and ability to participate actively in Board activities and deliberations;
- ability to approach problems objectively, rationally and realistically;
- ability to respond well and to function under pressure;
- willingness to respect the confidences of the Board and the Company;
- willingness to devote the time necessary to function effectively as a Board member;
- possess independence necessary to make unbiased evaluation of Management performance;
- be free of any conflict of interest that would violate applicable law or regulation or interfere with ability to perform duties;
- broad experience, wisdom, vision and integrity;
- understanding of the Company's business environment; and
- significant business experience relevant to the operations of the Company.

Loan and Investment Committee. This Committee reviews major loans and investment policies.

Director Compensation

The following table and footnotes provide information regarding the compensation paid to the Company's non-employee members of the Board of Directors in the fiscal year 2019. Directors who are employees of the Company receive no compensation for their services as Directors.

Director Compensation Table For Fiscal Year 2019

Name[1]	Fees Earned Paid in Cash	Change in Pension Value and Nonqualified Deferred Compensation Earnings[2]	Total
Etta Allen	$44,350	$37,243	$81,593
Louis E. Bartolini	38,800	355	39,155
E. Joseph Bowler	40,600	-	40,600
Michele Hassid[3]	12,133	-	12,133
Patrick D. Lynch[4]	9,600	-	9,600
Catherine Cope MacMillan	42,400	-	42,400
Ronald A. Nelson	48,450	-	48,450
Edward B. Sylvester	47,200	6,479	53,679

[1] Non-employee Directors did not receive options or stock awards. During 2019, non-employee Directors of the Company each received an annual retainer of $22,000. Each non-employee Director received $1,200 for each meeting of the Board attended and $600 for each Committee meeting attended. The Chairman of each Committee received an additional $250 for each Committee meeting attended. All non-employee Directors are reimbursed for expenses incurred in attending Board and Committee meetings. The Chairman of the Board, David L. Payne, is compensated as an employee and did not receive any compensation as a Director.
[2] The Deferred Compensation Plan allows non-employee Directors to defer some or all of their Director compensation with interest earnings credited on deferred compensation accounts. The amount shown is the interest on nonqualified deferred compensation that exceeds 120% of the long-term Applicable Federal Rate, with compounding, on all cash compensation deferred in 2019 and in previous years.
[3] Ms. Hassid was appointed Director September 26, 2019.
[4] Mr. Lynch passed away March 9, 2019.

Westamerica Bancorporation does not have a charitable donations program for Directors nor does it make donations on behalf of any Director(s). The Company may make a nominal donation through its Community Relations program to non-profit organizations where a Director(s) may have an affiliation.

EXECUTIVE COMPENSATION

Executive Officers

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

David L. Payne – Held since 1984

David L. Payne (64) is the Chairman of the Board, President and CEO of the Company and Westamerica Bank. Mr. Payne also manages his family printing, publishing and cable television business.

Jesse Leavitt – Held since 2020

Jesse Leavitt (34) is Senior Vice President and Chief Financial Officer of the Company. Mr. Leavitt is a California licensed certified public accountant who joined Westamerica Bancorporation as Vice President and Controller in March 2019. Prior to joining the Company, Mr. Leavitt was a bank examiner with a federal financial regulatory agency from 2011 until 2016 and was Assistant Controller for a $12 billion financial institution from 2016 until 2019.

John "Robert" Thorson – Held since 2020

John "Robert" Thorson (59) is Senior Vice President and Treasurer of the Company. Mr. Thorson joined Westamerica Bancorporation in 1989, was Vice President and Manager of Human Resources from 1995 until 2001, was Senior Vice President and Treasurer from 2002 until 2005, and was Senior Vice President and Chief Financial Officer from 2005 until 2019.

Brian Donohoe – Held since 2019

Brian Donohoe (39) is Senior Vice President and Manager of Operations and System Administration of Community Banker Service Corporation. Mr. Donohoe joined Westamerica Bancorporation in 1999 and has held a variety of positions in the Banking Division and the Operations and Systems Division, most recently, Vice President and Manager of Business Services until 2018.

Russell W. Rizzardi – Held since 2008

Russell W. Rizzardi (64) is Senior Vice President and Chief Credit Administrator of Westamerica Bank. Mr. Rizzardi joined Westamerica Bank in 2007. He has been in the banking industry since 1979 and was previously with Wells Fargo Bank and U.S. Bank.

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

Compensation Discussion and Analysis

The executive compensation practices described below have been followed consistently for twenty-seven years. At each Annual Meeting of Shareholders since 2010, a majority of our shareholders approved an advisory proposal on the Company's executive compensation. Last year 99% of the shares voting on this proposal voted to support our Corporation's executive compensation strategy

The Compensation Committee governs the executive compensation program that combines three compensation elements: base salary, annual non-equity cash incentives, and long-term stock grants. Several compensation philosophies and practices underlie this program:

- base salaries for participants in this program should be limited to foster an environment where incentive compensation motivates and rewards corporate, divisional, and individual performance.
- incentive compensation (annual non-equity cash incentives and long-term stock grants) is based on measurement of performance against pre-established objective measurable goals. Specific criteria for each objective are established for "threshold," "target," and "outstanding" performance. On any one measure, performance below "threshold" results in no credit for that objective. "Threshold" performance results in 75% achievement, "target" performance results in 100% achievement, and "outstanding" performance results in 150% achievement. The performance achievement level determines the size of incentive compensation awards.
- long-term incentive stock grants will be awarded to senior management if the corporate performance level is rated "threshold" or better. The purpose of long-term incentive grants is to:
  - motivate senior management to focus on long-term performance;
  - avoid excessive risk-taking and instill conservative management practices;
  - build equity ownership among Westamerica's senior management;
  - link shareholder interests to management incentives; and
  - create ownership mentality among senior management.

In February 2013, the Board of Directors adopted a clawback policy that requires executive officers to forfeit previously awarded incentive compensation if the incentives were based on materially inaccurate financial statements or other performance measures that are later proven to be materially inaccurate or the achievement of which were due to fraud or other misconduct. The Company's 2019 Omnibus Equity Incentive Plan (the "2019 Omnibus Plan") includes a clawback provision with similar terms.

Establishing Incentive Levels, Determining Objectives and Measuring Performance. In administering the executive compensation program, the Compensation Committee determines "target" incentives for each position annually. The Compensation Committee exercises discretion in establishing "target" incentives in an effort to provide competitive pay practices while motivating and rewarding performance that benefits the Company's long-term financial performance and shareholder interests, and avoids excessive risk-taking.

At the beginning of each calendar year, the Compensation Committee establishes annual corporate performance objectives. In establishing corporate performance objectives, the Compensation Committee takes into consideration the current operating environment for the commercial banking industry as well as internal management policies and practices which would, in the Compensation Committee's opinion, benefit the long-term interests of the Company and its shareholders. Corporate performance measures include risk management elements considered to be responsive to the impact that current operating conditions could have on the long-term performance of the Company. The Compensation Committee monitors the economy and the banking industry's operating environment throughout the ensuing year, and may exercise discretion in adjusting corporate performance objectives during the year.

The operating environment for the commercial banking industry is impacted by a myriad of factors including, but not limited to, local, national and global economic conditions, interest rate levels and trends, monetary policies of the Federal Reserve Board and its counterparts in other countries, fiscal policies of the United States government and other global political conditions, regulations and legislation, liquidity in capital markets, the demand for capital by commercial enterprises and consumers, new financial products, competitive response to changing conditions within the industry, trade balances, the changing values of real estate, currencies, commodities and other assets, and other factors.

Management policies and practices the Board considers in establishing corporate performance objectives include, but are not limited to, management of the Company's balance sheet and product pricing in a manner which will benefit the long-term financial interests of shareholders, the type and variety of financial products offered by the Company, adherence to internal controls, management of the credit risk of the Company's loan and investment portfolios, the results of internal, regulatory and external audits, service quality delivered to the Company's customers, service quality of "back office" support departments provided to those offices and departments directly delivering products and services to the Company's customers, maintenance of operating policies and procedures which remain appropriate for risk management in a dynamic environment, timely and efficient integration of acquired companies, operational efficiencies, and capital management practices.

Restricted performance shares ("RPS") are restricted stock unit awards that vest upon the achievement of performance objectives established by the Compensation Committee. Historically, the Company has granted RPS awards to its executives with a three-year vesting period and vesting conditions based on performance factors including the Company's three year cumulative diluted earnings per share (EPS), three year average of annual return on average total assets (ROA); three year average of annual return on average shareholders' equity relative to industry average ROE (ROE differential); non-performing assets to total assets (NPA); and the efficiency ratio over three years.

In addition to establishing corporate performance objectives, the Compensation Committee also establishes individual goals for the CEO. In regard to the other executives named in the accompanying tables, the CEO recommends divisional and individual performance objectives to the Compensation Committee, which considers, discusses, adjusts as necessary, and adopts such performance objectives.

Upon the closure of each calendar year, the Compensation Committee reviews corporate, divisional, and individual performance against the performance objectives for the year just completed. After thorough review and deliberation, the Compensation Committee determines the recommended amount of individual non-equity cash incentives and

stock-based incentive awards. The Compensation Committee reports such incentives to the Board of Directors. Meetings of the Compensation Committee and Board of Directors routinely occur in January, immediately following the closure of the calendar year for which performance is measured for incentive compensation purposes.

Stock Grants. Long-term stock grants may only be awarded under shareholder approved stock-based incentive compensation plans (the "equity incentive plans"). The Company's Proxy Statement dated March 12, 2012, as filed with the SEC on March 13, 2012, summarizes the 2012 Amended Plan's changes from the predecessor plan. The 2012 Amended Plan:

- reduces the issuable shares to 1,500,000 (plus shares that become available if awards under prior plans expire unexercised or are cancelled, forfeited or terminated before being exercised). Any additional authorization of shares available for issuance must be approved by shareholders.
- establishes a plan expiration date of April 26, 2022 after which shareholder approval is again required to extend the term or approve a new stock option plan.

The 2012 Amended Plan established governing terms and conditions for all stock grants awarded from the effective date of the plan through the effective date of the 2019 Omnibus Plan.

The Company's 2019 Proxy Statement, as filed with the SEC on March 11, 2019, summarizes the 2019 Omnibus Plan. The 2019 Omnibus Plan:

- authorizes the grant of up to 1,235,898 shares (plus shares that become available if awards under prior plans expire unexercised or are cancelled, forfeited or terminated before being exercised). In addition, the 2019 Omnibus Plan authorizes the issuance of shares under an award granted in the assumption of, or in substitution for, outstanding awards previously granted by another business entity acquired by the Company. Any additional authorization of shares available for issuance must be approved by shareholders.
- establishes a plan expiration date of April 25, 2029 after which shareholder approval is again required to extend the term or approve a new stock option plan.
- replaces the Company's 2012 Amended and Restated Stock Option Plan of 1995 (the "2012 Amended Plan"), though award previously issued under such plan continue to be outstanding, subject to the terms of the applicable awards agreements.

The equity incentive plans allow the following types of stock-based compensation awards:

Incentive Stock Options. ("ISO") allow the optionee to buy a certain number of shares of Westamerica Bancorporation common stock at a fixed price, which is established on the date of the option grant. ISOs are intended to meet the requirements of Section 422 of the Internal Revenue Code which provide advantages if certain conditions are met. If the optionee holds the acquired stock for the designated holding period, the optionee defers the timing of recognizing taxable income related to exercising the ISO. If the optionee complies with the ISO requirements, the Company does not receive a corporate tax deduction related to the shares issued.

Nonqualified Stock Options. ("NQSO") also give the optionee the option to buy a certain number of shares of Westamerica Bancorporation common stock at a fixed price, which is established on the date of grant. Unlike ISOs, NQSOs do not allow deferral of taxable income for the optionee. At the time NQSOs are exercised, the optionee incurs taxable income equal to the spread between the exercise price and the market price of the stock, and the Company receives a corporate tax deduction in the same amount.

Share Appreciation Rights. ("SAR") provide the holder a cash payment equal to the difference between the fair market value of the Westamerica Bancorporation's common stock on the date the SAR is surrendered and the fair market value of the Company's common stock on the date the SAR was granted. The optionee incurs taxable income at the time the SAR is settled and the Company receives a corporate tax deduction in the same amount.

Restricted Shares and Restricted Stock Units. The Compensation Committee determines the vesting schedule and performance goals, if any, applicable to the grant of restricted shares and Restricted Stock Units. Restricted Stock Units are awards that may be settled in Westamerica Bancorporation's common stock or cash, subject to vesting. As described above, the Company has historically granted Restricted Stock Units as RPS awards that settle in shares of Westamerica Bancorporation's common stock, subject to the achievement of performance objectives. Award recipients receive shares at the end of the performance measurement period only if performance objectives are achieved. The award recipient incurs taxable income at the time any RPS vests and the Company receives a corporate tax deduction in the same amount.

Determination of Awards to Grant. In determining which type of stock-based compensation awards to grant, the Compensation Committee considers the attributes of each form of incentive. Examples include the ability to motivate management to make decisions based on the long-term interests of shareholders, the desire to compensate with shares rather than cash, and the tax consequences of each type of award. The Compensation Committee retains the latitude to utilize all forms of incentives provided under the equity incentive plans. In the current and preceding years, the Compensation Committee has utilized NQSO and RPS based on the motivational aspects of stock price appreciation, the settlement in shares rather than cash, and the preservation of tax deductions for the Company. As of February 24, 2020, the Company had no ISO, SAR or restricted stock awards outstanding.

Determination of Exercise Price. The equity incentive plans require the exercise price of each NQSO, ISO or SAR to be no less than one hundred percent (100%) of the fair market value of the Company's common stock on the date of grant. The equity incentive plans do not allow re-pricing stock options for poor stock price performance.

Stock-based compensation awards are submitted by the Compensation Committee to the full Board of Directors for review. As described above, these meetings have routinely occurred in January immediately following the closure of the calendar year for which performance is measured for incentive compensation purposes. The Compensation Committee meeting has routinely been held during the same week as the related Board of Directors meeting. These January meetings follow by no more than ten business days the Company's public disclosure of its financial results for the preceding year. As a result, stock option grants are awarded, and the exercise price of such grants are determined at a time when the Company has broadly disseminated its financial condition and current operating results to the public. The Company's outstanding stock option grants are dated, and related stock option exercise prices are determined, on the January date the Compensation Committee meets to approve such grants.

Long-Term Incentive Attributes. The Board of Directors has designated the Compensation Committee as the administrator of the equity incentive plans. The Compensation Committee reports to the Board the terms and conditions of awards granted under these plans. In carrying out this responsibility, the Compensation Committee designs such awards as long-term incentives. The terms and conditions of currently outstanding awards under the Company's several equity incentive plans include:

- NQSO grants vest one-third (1/3) on each anniversary of the grant date. As such, NQSO grants become fully vested over a three-year period. NQSO grants expire on the tenth anniversary of the grant date. The Company does not pay dividends on shares underlying NQSO grants until the optionee exercises the option and the shares are outstanding on a dividend record date.
- RPS awards vest three years following the grant date, only if corporate performance objectives are achieved over the three-year period. The Company does not pay dividends on RPS shares until vesting occurs and shares awarded become outstanding on a dividend record date.

Compensation for the Chairman, President & CEO. Mr. Payne performs two functions for the Company. These two functions tend to be compensated separately at similarly sized banking institutions. Mr. Payne serves as Chairman of the Board with responsibilities including oversight of the organization and external strategic initiatives. Mr. Payne also serves as President and CEO with responsibilities including daily management of internal operations. Mr. Payne's total compensation reflects these broad responsibilities. Consistent with the overall compensation philosophy for senior executives, Mr. Payne's compensation has a greater amount of pay at risk through incentives than through base salary. Since Mr. Payne is compensated as an executive, he is not eligible to receive compensation as a Director.

As noted on page 29 of this Proxy Statement under the Pension Benefits Table, during 1997 the Company entered into a nonqualified pension agreement ("Pension Agreement") with Mr. Payne in consideration of Mr. Payne's agreement that RPS granted in 1995, 1996 and 1997 would be cancelled.[(1)] In entering the Pension Agreement, the Board of Directors considered the following:

- Mr. Payne had a significant beneficial interest in Westamerica Bancorporation common stock, which was more than adequate to continue to provide motivation for Mr. Payne to continue managing the Company in the best interests of shareholders.
- in 1997, the Company had consummated its largest acquisition, with significant total asset growth of approximately 51 percent. One of the Board's objectives was to provide a compensation mechanism providing retention features for Mr. Payne. Retention of Mr. Payne as President and CEO was desired following the Company's significant growth. The RPS shares surrendered for the Pension Agreement were scheduled to vest on dates in 1998, 1999 and 2000, while the Pension Agreement was not fully vested until December 31, 2002. Additionally, the 20-year certain pension provided under the Pension Agreement was to commence upon Mr. Payne's attainment of age 55. Mr. Payne was age 42 at the time of entering the Pension Agreement.

Compensation Awarded to Named Executive Officers. Base salaries for participants in the executive compensation program are generally limited to foster an environment where incentive compensation motivates and rewards corporate, divisional, and individual performance. As such, base pay increases are generally infrequent and limited to "control points" assigned to each position. The non-equity cash incentive formula has the following components:

"Target" Cash Incentive X Composite Corporate, Divisional and Individual Performance Level = Cash Incentive Award

In structuring performance goals for the named executive officers, the Compensation Committee emphasizes goals, which if achieved, will benefit the overall Company. As such, senior management level positions have high relative weighting on corporate objectives, and divisional leadership positions also have significant weighting on divisional objectives. The "target" cash incentive and the weighting of goals for the named executive officers for 2019 performance were as follows:

	"Target" Cash Incentive	Goal Weighting		
		Corporate	Divisional	Individual
Mr. Payne	$371,000	80%	–	20%
Mr. Thorson	112,200	55%	25%	20%
Mr. Donohoe	42,000	55%	25%	20%
Mr. Rizzardi	60,500	55%	35%	10%
Mr. Ensinger	49,100	55%	35%	10%

(1) The value of the surrendered RPS shares and the Pension Agreement were considered equivalent based on actuarial assumptions.

The Compensation Committee establishes corporate goals with the intent to balance current profitability with long-term stability of the Company and its future earnings potential. The 2019 corporate performance goals related to current year "profitability" included return on equity, return on assets and diluted earnings per share. The performance goals designed to maintain the long-term stability of the Company include "quality" and "control" components. The "quality" measures include loan portfolio quality measures (classified loans and other real estate owned, non-performing loans and other real estate owned, and net loan losses to average loans) and service quality measures (service quality of support departments and branches). The "control" measures include non-interest expense to revenues (efficiency ratio), the level of non-interest expenses, and internal audit results. By maintaining both current year "profitability" goals and longer-term "quality" and "control" goals, Management has a disincentive to maximize current earnings at the expense of longer-term results.

For 2019, the Compensation Committee expected uncertain economic growth with short-term interest rates rising and a flattening or inverting yield curve. The Committee reserved the ability to exercise a certain degree of judgment in adjusting target goals based on the resulting operating environment.

The Compensation Committee determined the 2019 operating environment was generally characterized as follows:

- economic growth in the United States' slowed, but remained positive;
- inflation remained below targets established by the Federal Open Market Committee in spite of improving employment conditions;
- the Federal Open Market Committee reduced the federal funds rate on three occasions resulting in declining short-term interest rates; intermediate-term and long-term interest rates declined as well;
- throughout much of 2019, competitive interest rates on loans remained below the yields required for the Company to deliver satisfactory financial results throughout a full business cycle; and
- regulations imposed on banks continued to pressure compliance costs, revenue opportunities, and increased operational risks.

The Compensation Committee considered Management's response to the current operating environment including:

- management maintained discipline in pricing loans and deposits for long-term financial results;
- management consistently maintained conservative corporate bond and loan underwriting practices to appropriately manage the Company's exposure to credit risk;
- management enhanced the value of the Company's deposit base through growth in checking and savings deposits and a reduction in time deposits;
- management contained operating costs to deliver revenue improvement to pre-tax income;
- management maintained high levels of customer service; and
- management prudently managed capital enabling the Company to continue delivering increasing annual levels of dividends per share and position the Company for growth opportunities.

The Compensation Committee chose to make adjustments to actual results to take into account the impact of the operating environment. Adjusted actual results against "target" performance goals were:

	Performance "Target"	Adjusted Actual Results
Profitability Goals:		
Return on average shareholders' equity	11.55%	11.62%
Return on average assets	1.39%	1.40%
Diluted earnings per share	$2.87	$2.89

Quality Goals:		
Classified loans and other real estate owned	$35 million	$25 million
Non-performing loans and other real estate owned	$8 million	$5 million
Net loan losses to average loans	0.20%	0.15%
Service quality	Improving	Improving
Control Goals:		
Non-interest expense to revenues (efficiency ratio)	49.3%	48.1%
Non-interest expenses	$104.2 million	$99.9 million
Below satisfactory internal audits	none	none

In reviewing the operating environment, Management's response to the operating environment, and adjusted results compared to "target" performance goals, the Compensation Committee determined corporate performance to be 116.0% of target goals.

As described above, divisional and individual goals are used in conjunction with corporate performance goals to determine cash bonus awards.

In addition to daily management responsibilities, Mr. Payne's individual goals included:

- achievement of assigned corporate performance financial goals including return on equity, return on assets, earnings per share and expense level;
- prepare for a decline in interest rates to ensure achievement of financial goals;
- oversee internal controls and risk management activities including internal audits, external audits and regulatory exams;
- ensure application of consistent underwriting and credit management supervision;
- oversee transitions in divisional managers;
- mentor new senior level managers;
- investor relations goals;
- achievement of merchant processing services revenue objectives;
- maintaining effective communication throughout the Company; and
- merger and acquisition projects.

Based on individual performance against these goals, the Committee exercised its discretion and assigned Mr. Payne a composite corporate and individual performance level of 81%.

In addition to routine on-going divisional responsibilities, Mr. Thorson managed the Finance Division toward functional goals, which included:

- manage the balance sheet to meet financial performance objectives while maintaining appropriate liquidity and managing interest rate risk,
- management of the investment securities portfolio including credit risk, liquidity, and risks derived from possible movements in interest rates;
- monitor market rates on depository products and meet low-cost funding objective;
- manage the Trust Department toward achieving fee growth goals, maintaining satisfactory audit results, and achieving personnel development objectives;
- provide management oversight to the Regulatory Compliance Department;
- provide management oversight to the Facilities Department;
- manage implementation of new accounting standards;
- manage operating units to deliver superior customer service; and

- satisfactory regulatory examinations, external audits, and internal audits within all areas of responsibility.

Based on the Finance Division's results, the Committee determined divisional performance to be 114%.

In addition to daily management responsibilities, Mr. Thorson's individual goals included:

- provide training, mentoring and development to personnel hired to assume divisional responsibilities;
- hire, train, mentor and develop key divisional personnel;
- develop personnel succession plans; and
- evaluate the impact of California wage laws on the Companies salary administration practices.

Based on individual performance against these goals, the Committee determined Mr. Thorson's individual performance to be 138%. In considering all elements of performance, the Committee exercised its discretion and assigned Mr. Thorson a composite corporate, divisional and individual performance level of 145%.

In addition to routine on-going divisional responsibilities, Mr. Donohoe managed the Operations & Systems Division toward functional goals, which included:

- achievement of customer service objectives;
- meet or exceed non-interest expense goals;
- achieve risk management goals;
- execute staff development plans; and
- complete divisional projects in the areas of compliance, systems development and implementation, and other areas of responsibility.

Based on the Operations & Systems Division's results, the Committee determined divisional performance to be 116%.

In addition to daily management responsibilities, Mr. Donohoe's individual goals included:

- successfully assume division management responsibilities;
- evaluate and complete recommended organizational restructuring;
- establish strong and effective communication practices with division managers and the Board of Directors;
- personnel management objectives; and
- satisfactory internal audit, external audit and regulatory exam outcomes.

Based on individual performance against these goals, the Committee determined Mr. Donohoe's individual performance to be 125%. As a result, Mr. Donohoe's composite corporate, divisional and individual performance level was 118%.

In addition to routine on-going divisional responsibilities, Mr. Rizzardi managed the Credit Division toward functional goals, which included:

- managing loan portfolio credit risk to established targets;
- completion of regulatory compliance projects;
- update divisional credit policies and procedures manuals,
- satisfactory results from internal, third-party and regulatory examinations; and
- achievement of satisfactory service quality objectives.

Based on the Credit Division's results, the Committee determined divisional performance to be 105%.

In addition to daily management responsibilities, Mr. Rizzardi's individual goals included:

- enhance communication practices with the Board of Directors;
- fill critical divisional staffing vacancies;

- maintain consistency of underwriting standards and principles; and
- provide support to the Loan Review function.

Based on individual performance against these goals, the Committee determined Mr. Rizzardi's individual performance to be 99%. As a result, Mr. Rizzardi's composite corporate, divisional and individual performance level was 110%.

In addition to routine on-going divisional responsibilities, Mr. Ensinger managed the Human Resources Division toward functional goals, which included:

- achievement of corporate-wide training objectives;
- monitor and communicate changes in state and federal employment laws;
- administration of the employee relations program;
- management of the workers' compensation and unemployment claims programs; and
- delivery of satisfactory divisional customer service throughout the Company.

Based on the Human Resources Division's results, the Committee determined divisional performance to be 100%.

In addition to daily management responsibilities, Mr. Ensinger's individual goals included:

- evaluation of the Company's affirmative action plan;
- maintaining and updating policies and procedures to remain compliant with state and federal laws;
- enhance communication practices with division managers and the Board of Directors; and
- manage expenses to budgeted amounts.

Based on individual performance against these goals, the Committee determined Mr. Ensinger's individual performance to be 111%. As a result, Mr. Ensinger's composite corporate, divisional and individual performance level was 109%.

Based on the above described performance against objectives, the Committee determined cash incentive awards as follows:

	"Target" Cash Incentive	X	Composite Corporate Divisional and Individual Performance Level	=	Cash Incentive Award
Mr. Payne	$371,000		81%		$300,000
Mr. Thorson	112,200		145%		163,200
Mr. Donohoe	42,000		118%		49,400
Mr. Rizzardi	60,500		110%		66,800
Mr. Ensinger	49,100		109%		53,400

The size of stock grants is determined by corporate performance using stated formulas. The formulas used to determine "target" NQSO and RPS grant sizes adjust for changes in the underlying value of one share of Westamerica Bancorporation stock. For achievement of corporate performance in 2019, the following stock grants were awarded in January 2020:

	"Target" Nonqualified Stock Option Grant	X	Corporate Performance Level	=	Nonqualified Stock Option Award
Mr. Payne	–		116.0%		–
Mr. Thorson	17,160		116.0%		19,900
Mr. Donohoe	10,600		116.0%		12,300
Mr. Rizzardi	13,790		116.0%		16,000
Mr. Ensinger	11,210		116.0%		13,000

	"Target" RPS Grant	X	Corporate Performance Level	=	RPS Award
Mr. Payne	–		116.0%		–
Mr. Thorson	1,680		116.0%		1,950
Mr. Donohoe	1,090		116.0%		1,260
Mr. Rizzardi	1,360		116.0%		1,580
Mr. Ensinger	1,110		116.0%		1,290

RPS awards vest three years following the grant date, only if certain corporate performance objectives are achieved over the three-year period. In January 2020, the Compensation Committee evaluated whether the three year corporate performance objectives were met for RPS awards granted in January 2017. The performance objectives for the RPS granted in January 2017 included:

- 3 year cumulative diluted earnings per share (EPS);
- 3 year average of annual return on average total assets (ROA);
- 3 year average of annual return on average shareholders' equity relative to industry average ROE (ROE differential);
- ending non-performing assets to total assets (NPA); and
- efficiency ratio over three years.

The RPS would vest if any one of the following performance results were achieved:

- 4 of 5 objectives reaching "threshold" performance level;
- 3 of 5 objectives reaching "target" performance level; or
- 2 of 5 objectives reaching "outstanding" performance level.

The goals and achieved results were:

	Threshold	Target	Outstanding	Result
EPS	$6.70	$6.85	$6.95	Outstanding
ROA	1.00%	1.05%	1.10%	Outstanding
ROE differential	0.25%	0.50%	0.75%	Target
NPA	0.50%	0.35%	0.25%	Outstanding
Efficiency Ratio	56.00%	55.00%	53.00%	Outstanding

With five of the goals achieving the "threshold" performance level or better, the Compensation Committee determined the RPS shares awarded in 2017 vested upon achievement of the three year goals.

Nonqualified Deferred Compensation Programs. The Company maintains nonqualified deferred compensation programs to provide senior and mid-level executives the ability to defer compensation in excess of the annual limits imposed on the Company's 401(k) plan. The Company believes these tax deferral programs enhance loyalty and motivate retention of executives. These programs allow executives to defer cash pay and RPS shares upon vesting. The programs also allow Directors to defer Director fees.

- Cash pay deferred in the program accumulates in accounts in the names of the participating Directors and executives. The Company credits the balance of these accounts with interest using an interest rate that approximates the crediting rate on corporate-owned life insurance policies, under which Directors and executives are the named insured. Deferrals and interest credits represent general obligations of the Company.
- The common stock the Company issues to executives upon the vesting of RPS grants may be deferred into the program and deposited into a "Rabbi Trust." Since these shares are outstanding shares of the Company's common stock, the Company pays dividends on these shares at the same rate paid to all shareholders. The shares held in the "Rabbi Trust" are subject to claims by the Company's creditors.

Employment Contracts. None of the executives named in the accompanying tables have employment contracts with the Company.

Compensation in the Event of a Change in Control. The banking industry has significant merger and acquisition activity. To promote retention of senior executives, unvested NQSO and RPS grants contain a "change in control" provision, which trigger full vesting upon a change in control. The Compensation Committee determined these provisions were appropriate in order to retain executives to continue managing the Company after any "change in control" was announced through its ultimate consummation. Since none of the named executive officers have entered employment contracts with the Company, they serve in an "at-will" capacity and could terminate their employment at any time. The Compensation Committee felt it would be in the best interests of shareholders to have a retention mechanism in place to provide continuity of management during a "change in control" process. Further, the Committee expects the named executive officers would be terminated by an acquiring institution rather than retained in a similar functional capacity.

The Company also maintains a Severance Payment Plan covering all employees to promote employee retention. The Severance Payment Plan provides salary continuation benefits for employees in the event of a "change in control." The amount of salary continuation benefits is based on years of service and corporate title, but in no event exceed the equivalent of one times annual salary. Messrs. Payne, Thorson and Rizzardi are eligible for one year's salary under the plan. Mr. Ensinger was eligible for the equivalent of 30-weeks salary under the plan as of December 31, 2019.

Internal Revenue Code. Internal Revenue Code ("IRC") Section 162(m) places a limit on the amount of compensation that may be deducted by the Company in any year with respect to certain of the Company's highest-paid executives. Prior to enactment of the Tax Cuts and Jobs Act of 2017 (the "Act"), certain "performance-based compensation" was not counted toward this limit. The Act eliminated the "performance-based compensation" exemption as of November 2, 2017. The Company intends generally to qualify compensation paid to executive officers for deductibility under the IRC but reserves the right to pay compensation that is not deductible.

Employee Benefits Compensation Committee Report

We, the Compensation Committee of the Board of Directors of the Company, have reviewed and discussed the Compensation Discussion and Analysis with Management. Based on that review and discussion, we have recommended to the Board of Directors inclusion of the Compensation Discussion and Analysis in this Proxy Statement and the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Submitted by the Employee Benefits and Compensation Committee

Etta Allen, Chair

Louis E. Bartolini

Michele Hassid

Ronald A. Nelson

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is a current or former officer or employee of the Company or any of its subsidiaries, or entered into (or agreed to enter into) any transaction or series of transactions with the Company or any of its subsidiaries with a value in excess of $120,000. None of the executive officers of the Company has served on the Board of Directors or on the Compensation Committee of any other entity, where one of that entity's executive officers served either on the Board of Directors or on the Compensation Committee of the Company.

Summary Compensation

The following table sets forth summary compensation information for the chief executive officer, chief financial officer and each of the other three most highly compensated executive officers for the fiscal years ending December 31, 2019, 2018, and 2017. These persons are referred to as named executive officers elsewhere in this Proxy Statement.

Summary Compensation Table For Fiscal Year 2019

Name / Position	Year	Salary	Stock Awards[1]	Option Awards[2]	Non-Stock Incentive Plan Compensation[3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings[4]	All Other Compensation[5]	TOTAL
David L. Payne	2019	$371,000	$-	$-	$300,000	$-	$24,274	$695,274
Chairman,	2018	371,000	-	-	250,000	-	19,813	640,813
President & CEO	2017	371,000	-	-	225,000	-	19,031	615,031
John "Robert" A. Thorson	2019	149,000	124,718	216,028	163,200	23,955	32,405	709,306
SVP & Chief	2018	149,000	123,688	210,578	160,700	22,351	29,012	695,329
Financial Officer	2017	149,000	122,932	179,459	156,200	36,594	27,366	671,551
Russell W. Rizzardi	2019	120,960	101,529	175,268	66,800	-	9,050	473,607
SVP/Credit Administrator	2018	120,960	100,070	169,660	65,500	-	7,903	464,093
Division Manager	2017	120,960	100,061	144,725	65,400	-	7,491	438,637
George "Steven" Ensinger	2019	98,160	82,101	141,641	53,300	137	16,134	391,473
SVP/Human Resources	2018	98,160	81,423	138,722	53,400	130	15,408	387,243
Division Manager	2017	98,160	81,192	116,607	52,300	214	15,315	363,788
Brian Donohoe[6]	2019	120,000	-	55,026	49,400	-	2,605	227,031
SVP/Operations & Systems	2018	87,348	-	54,890	22,100	-	7,422	171,760
Division Manager	2017	75,348	-	48,793	17,300	-	5,686	147,127

(1) Stock Awards represent RPS shares as described in the Compensation Discussion & Analysis. The amounts shown represent the aggregate grant date fair market value computed in accordance with FASB ASC Topic 718. For further information, see Note 1 to the Company's audited financial statements for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K.

(2) Option awards represent Nonqualified Stock Options as described in the Compensation Discussion & Analysis. The amounts shown represent the aggregate grant date fair market value computed in accordance with FASB ASC Topic 718. For further information, see Note 1 to the Company's audited financial statements for the year ended December 31, 2019 included in the Company's Annual Report on Form 10-K.

(3) The amounts shown are non-equity incentive compensation only. No interest or other form of earnings was paid on the compensation.

[(4)] The amounts include interest paid on deferred cash compensation to the extent the interest exceeds 120% of the long-term Applicable Federal Rates with compounding. The Company has no defined benefit pension plan. Mr. Payne has a pension agreement, which is discussed under “Pension Benefits for Fiscal Year 2019.”
[(5)] Each of the above-named executive officers received less than $10,000 of aggregate perquisites and personal benefits. All other compensation includes Company contributions to defined contribution plans (ESOP and Deferred Profit Sharing), and amounts added to taxable wages using IRS tables for the cost of providing group term life insurance coverage that is more than the cost of $50,000 of coverage. It also includes the dollar value of the benefit to Mr. Payne for the portion of the premium payable by the Company with respect to a split dollar life insurance policy (projected on an actuarial basis), and a bonus paid to Mr. Payne in the amount of his portion of the split dollar life insurance premium.
[(6)] Mr. Donohoe was appointed Manager of Operations and Systems Administration of Community Banker Services Corporation on January 1, 2019.

Based on the compensation disclosed in the Summary Compensation Table, approximately 36% of total compensation comes from base salaries. See Compensation Discussion and Analysis for more details.

Pay Ratio Disclosure. In August 2015 pursuant to a mandate of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission adopted a rule requiring annual disclosure of the ratio of the median employee’s annual total compensation to the total annual compensation of the principal executive officer (“PEO”). The Company’s PEO is Mr. Payne.

Median Employee total annual compensation	$ 35,667
Mr. Payne total annual compensation	$695,274
Ratio of PEO to Median Employee Compensation	19.5:1.0

In determining the median employee total annual compensation, the Company prepared a census of all employees as of December 31, 2019, except the PEO, with compensation annualized for those employees hired in 2019. For simplicity, the value of benefits provided by the Company’s qualified retirement plans and welfare benefit plans were excluded from the determination of total annual compensation as all employees are offered the same benefit programs.

Grants of Plan-Based Awards Table For Fiscal Year 2019

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units[(1)]	All Other Stock Awards: Number of Securities Underlying Options[(2)]	Exercise or Base Price of Option Awards ($/Share)[(2)]	Grant Date Fair Value[(3)]
Name	Grant Date	Threshold	Target	Maximum				
David L. Payne	1/24/19	$-	$371,000	$556,500	-	-	$-	$-
	1/24/19	-	-	-	-	-	-	-
	1/24/19	-	-	-	-	-	-	-
John "Robert" A. Thorson	1/24/19	-	112,200	168,300	-	-	-	-
	1/24/19	-	-	-	1,990	-	-	124,718
	1/24/19	-	-	-	-	21,200	62.67	183,168
Brian Donohoe	1/24/19	-	42,000	$63,000	-	-	-	-
	1/24/19	-	-	-	-	-	- -	
	1/24/19	-	-	-	-	5,400	62.67	46,656
Russell W. Rizzardi	1/24/19	-	60,500	90,750	-	-	-	-
	1/24/19	-	-	-	1,620	-	-	101,529
	1/24/19	-	-	-	-	17,200	62.67	148,608
George "Steven" Ensinger	1/24/19	-	49,100	$73,650	-	-	-	-
	1/24/19	-	-	-	1,310	-	-	82,101
	1/24/19	-	-	-	-	13,900	62.67	120,096

[(1)] Includes RPS grants. There is no dollar amount of consideration paid by any executive officer on the grant or vesting date of an award. The material terms of the RPS grants are as follows:

- The performance and vesting period is three years;
- Multiple three-year performance goals are established by the Compensation Committee for each grant;
- The Compensation Committee may revise the goals upon significant events;
- Accelerated vesting occurs upon a “change in control;” and

• No dividends are paid or accrued prior to settlement or deferral delivery of shares which takes place approximately two months after vesting.
(2) Includes NQSO grants with an exercise price of not less than 100% of fair market value as of the date of grant.
The material terms of the NQSO's listed in the table are as follows:
• Options vest ratably over three years beginning one year from date of grant;
• Options expire 10 years following grant date;
• Exercise price is 100% of fair market value as defined in the 2012 Amended Plan;
• Dividends are not paid on unexercised options;
• Vesting ceases upon termination of employment, whatever the reason, except if vesting is accelerated as described below;
• Vested options may be exercised within 90 days of termination of employment and within one year upon death or disability; and
• Accelerated vesting occurs upon a "change in control."
(3) The amounts shown for NQSOs and RPS awards represent the aggregate grant date fair market value.

Outstanding Equity Awards Table at Fiscal Year End 2019

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable[1]	Number of Securities Underlying Unexercised Options (#) Unexercisable[1]	Option Exercise Price ($)[1]	Option Expiration Date[1]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)[2]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) valued at 12/31/19[2]
David L. Payne	-	-	$-	-	-	$-
John "Robert" A. Thorson	-	7,233	57.178	1/26/2027		
	7,034	14,066	62.155	1/25/2028		
	-	21,200	62.673	1/24/2029	6,130	415,430
Brian Donohoe	3,933	1,967	57.178	1/26/2027		
	1,834	3,666	62.155	1/25/2028		
	-	5,400	62.673	1/24/2029	-	-
Russell W. Rizzardi	-	5,833	57.178	1/26/2027		
	-	11,333	62.155	1/25/2028		
	-	17,200	62.673	1/24/2029	4,980	337,495
George "Steven" Ensinger	9,400	4,700	57.178	1/26/2027		
	4,634	9,266	62.155	1/25/2028		
	-	13,900	62.673	1/24/2029	4,040	273,791

(1) Option Awards vest ratably over three years beginning one year from date of grant. Options expiring in 2027 fully vested in January 2020. Options expiring in 2028 fully vest in January 2021. Options expiring in 2029 fully vest in January 2022.
(2) RPS shares fully vest three years from date of grant if performance goals are met. RPS grants vest as follows: Messrs. Thorson - 2,150 shares vested in January 2020, 1,990 vest in January 2021, and 1,990 vest in January 2022; Rizzardi - 1,750 shares vested in January 2020, 1,610 shares vest in January 2021, and 1,620 shares vest in 2022; and Ensinger - 1,420 shares vested in January 2020, 1,310 shares vest in January 2021, and 1,310 vest in January 2022. Donohoe – has no RPS shares. Vesting may occur on a pro-rated basis for employees separating from service due to retirement.

Option Exercises And Stock Vested Table For Fiscal Year 2019

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise($)	Number of Shares Acquired on Vesting	Value Realized on Vesting($)[1]
David L. Payne	-	$-	-	$-
John "Robert" A. Thorson	23,634	305,114	2,930	181,587
Brian Donohoe	0	0	0	0
Russell W. Rizzardi	24,767	219,463	2,370	146,881
George "Steven" Ensinger	11,500	235,964	1,930	119,612

(1) Amounts represent value upon vesting of RPS shares.

Pension Benefits For Fiscal Year 2019

Name	Plan Name	Present Value of Accumulated Benefit	Payments during Last Fiscal Year
David L. Payne	Non-Qualified Pension Agreement	$4,455,863	$511,950

During 1997, the Company entered into a nonqualified pension agreement with Mr. Payne in consideration of Mr. Payne's agreement that RPS awards granted in 1995, 1996 and 1997 would be cancelled. In January 2000, the Compensation Committee, based on the Company's achievement of certain performance goals which had first been established for Mr. Payne's 1995, 1996 and 1997 RPS awards, determined Mr. Payne's annual pension would be $511,950. The pension commenced in 2010 and will be paid to Mr. Payne for 20 years.

The discount rate used to determine the present value is 2.76%. The obligation is an unfunded general obligation of the Company.

Nonqualified Deferred Compensation Table For Fiscal Year 2019

Name	Executive Contributions in Last Fiscal Year[(1)]	Aggregate Earnings in Last Fiscal Year[(2)]	Aggregate Withdrawls/ Distributions[(3)]	Aggregate Balance at Last Fiscal Year End[(4)]
David L. Payne	$-	$-	$-	$-
John "Robert" A. Thorson	45,000	109,886	-	2,259,249
Brian Donohoe	-	-	-	-
Russell W. Rizzardi	-	-	-	-
George "Steven" Ensinger	-	629	-	12,912

[(1)] No RPS shares were deferred upon vesting in 2019.
[(2)] Includes change in value of deferred RPS shares, dividends earned on deferred RPS shares, and interest earned on deferred cash compensation. The amounts included in the Summary Compensation Table for Fiscal Year 2019 on page 27 are as follows: Messrs. Thorson - $23,955; Baker - $571; Ensinger - $137.
[(3)] Includes dividends paid on deferred RPS shares.
[(4)] Aggregate balance of deferred compensation reported as compensation prior to 2019 is as follows: Messrs. Thorson - $2,104,363; Ensinger - $12,2823.

Under the Westamerica Bancorporation and Subsidiaries Deferred Compensation Plan (the "Deferred Compensation Plan"), Directors and Officers may defer up to 100% of their Director's compensation, salary and/or non-equity incentive compensation (cash bonus) into a non-qualified, unfunded deferred compensation program. The interest rate credited during 2019 was 5.0%. The interest rate may be changed annually. Interest is compounded semi-monthly. Participants choose in advance from the following distribution commencement dates: termination of employment, January 1 following termination of employment, or a specific date at least five years from date of deferral. Payment is made in a lump sum unless the participant chooses a four year, five year or ten year annual installment.

Under the Westamerica Bancorporation Deferral Plan, 100% of vested RPS grants may be deferred. Dividends paid on such issued and outstanding shares are paid in cash to the deferral participants, and are paid at the same rate as is paid to all other shareholders. The distribution of deferred RPS shares occurs at least two years after deferral, one month following termination, or the January 1 immediately following termination as elected by the participant at the time of deferral. If the participant is one of the named executive officers, benefit distributions that are made upon termination of employment may not start earlier than six months after the date of termination.

Potential Payments Upon Termination or Change in Control

Payments to be made to the named executive officers in the event of termination of employment or change in control are described below.

Termination. Vested NQSOs may be exercised within 90 days of termination and within one year of death or disability. RPS shares vest if the Compensation Committee determines performance goals are met. Terminated employees will receive vested RPS shares if the settlement date of the RPS grant occurs within 90 days of termination. Employees separating from service due to death, disability or retirement are eligible to receive a pro rata portion of granted RPS shares if the Compensation Committee determines that the performance goals are likely to be met for the grant period. The pro rata basis is determined by the number of full years of the vesting period completed before date of death, disability or retirement.

Deferred compensation account balances are distributed on January 1 following termination, or a specific date at least five years from the date of deferral in the form of annual payments over four years. Payment may also be made in a lump sum or in annual payments for five or 10 years as elected by the participant at the time of deferral. If the participant is one of the named executive officers, benefit distributions that are made upon termination of employment may not start earlier than six months after the date of termination.

Change in Control. A change in control is defined under the 2012 Amended Plan as shareholder approval of a dissolution or liquidation of the Company or a sale of substantially all of the Company's assets to another company, or a tender offer for 5% or more of the Company's outstanding common stock or a merger in which the Company's shareholders before the merger hold less than 50% of the voting power of the surviving company after the merger.

Under the 2019 Omnibus Plan, a change in control occurs when (i) a person or entity becomes the beneficial owner of more than 50% of voting power of the Company; (ii) there is an unapproved change in the majority membership of the Board of Directors; (iii) a merger of the Company or any of its subsidiaries is completed, other than (A) a merger that results in the Company's voting securities continuing to represent 50% or more of the combined voting power of the surviving entity and the Board of Directors immediately prior to the merger or consolidation continuing to represent at least a majority of the Board of Directors of the surviving entity or (B) a merger or consolidation effected to implement a recapitalization in which no person is or becomes the owner of voting securities representing more than 50% of the combined voting power of the Company; or (iv) shareholders approve of a plan of liquidation or dissolution.

In the event of a change in control, unvested NQSOs and RPS shares immediately vest. The value of in-the-money options and RPS shares subject to accelerated vesting for each of the named executive officers is as follows: Messrs. Payne: $0; Thorson: $679,093; Donohoe: $68,947; Rizzardi: $550,592; and Ensinger: $488,477. The value is computed by multiplying the difference between the market value on December 31, 2019, the last business day of 2019, and the exercise price of each option by the number of shares subject to accelerated vesting.

Under the Company's Severance Payment Plan, executive officers receive six week's pay for every year or partial year of service up to one year's base salary (see Summary Compensation Table for Fiscal Year 2019 for annual base salary for all named executive officers). Messrs. Payne, Thorson, Donohoe and Rizzardi are eligible for one year's salary under the plan. Mr. Ensinger was eligible for the equivalent of 36-weeks pay under the plan as of December 31, 2019. Severance pay is paid in a lump sum or on a semi-monthly basis at the discretion of the Company. The Severance Payment Plan is subject to Section 409A of the Internal Revenue Code.

Certain Relationships and Related Party Transactions

In accordance with the Audit Committee Charter, the Audit Committee is responsible for reviewing and approving or disapproving all related party transactions required to be disclosed by Item 404 of Regulation S-K for potential conflicts of interest. The Company is also required by NASDAQ Rule 5250(b)(3) to disclose all agreements and arrangements between any director or nominee for director, and any person or entity other than the Company (the "Third Party"), relating to compensation or other payment in connection with such person's candidacy or service as a director of the Company. The Company is not aware of any such agreements. Additionally, the Company's Code of Conduct and Ethics provides rules that restrict transactions with affiliated persons.

Certain of the Directors, executive officers and their associates have had banking transactions with subsidiaries of the Company in the ordinary course of business. With the exception of the Company's Employee Loan Program, all outstanding loans and commitments included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons not related to the Company, did not involve more than a normal risk of collectability, and did not present other favorable features. As part of the Employee Loan Program, all employees, including executive officers, are eligible to receive mortgage loans with interest rates one percent (1%) below Westamerica Bank's prevailing interest rate at the time of loan origination. Westamerica Bank makes all loans to executive officers under the Employee Loan Program in compliance with the applicable restrictions of Section 22(h) of the Federal Reserve Act. Messrs. Payne and Thorson have mortgage loans through this Program. The largest aggregate amount of principal during 2019 was $347,727 and $229,015, respectively. The principal amount outstanding at December 31, 2019 was $329,659 and $203,677, respectively. The amount of principal paid during 2019 was $18,068 and $25,338, respectively. The amount of interest paid during 2019 was $13,234 and $10,109, respectively. The rate of interest payable on the loans is 3.75% and 3.38%, respectively.

PROPOSAL 2 – APPROVE A NON-BINDING ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires that shareholders cast a non-binding advisory vote on the executive compensation paid to the executive officers listed in the Summary Compensation Table (a so-called "say on pay" vote) as well as an advisory vote with respect to whether future say on pay votes will be held every one, two or three years. The result of the shareholder vote on the proposal to determine the frequency of future say on pay proposals was that shareholders should review executive compensation annually. Therefore, Proposal 2 requests that shareholders again approve the compensation paid to our named executive officers. Last year 98.6% of the shares voting on this proposal voted to support our Corporation's executive compensation strategy. The proposal to determine how often the say on pay proposal should be voted on by shareholders will again be brought to a shareholder vote in 2022.

We believe that our compensation policies and procedures are centered on a pay-for-performance culture and are strongly aligned with the long-term interests of our shareholders. Our incentive compensation plan provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, and restricted performance shares. The Summary Compensation Table shows very stable base salaries indicative of our greater emphasis on performance-based stock and non-stock awards. Our RPS and option awards are based on a minimum achievement of meeting the "threshold" level for each pre-established objective. Vesting of our RPS award is conditioned upon the achieve of performance criteria. Both awards have a three-year vesting period. Our annual incentive plan incorporates at least four financial and/or strategic performance metrics in order to properly balance risk with the incentives to drive our key annual financial and/or strategic initiatives; in addition, the annual

incentive program incorporates a 150% maximum payout to further manage risk and the possibility of excessive payments.

Consistent with our pay-for-performance philosophy, the 2019 Omnibus Plan and the 2012 Amended Plan, which were approved by shareholders, include the following features:

- disallow re-pricing stock options for poor stock performance;
- limits the number of shares that may be awarded; and
- includes a clawback provision.

Vote Required. The "say on pay" proposal gives you as a shareholder the opportunity to endorse or not endorse our executive pay program through the following resolution:

> "Resolved, that the shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, which disclosure includes the compensation discussion and analysis, the compensation tables and any related footnotes and narratives in the Company's proxy statement for the Annual Meeting of Shareholders."

Because your vote is advisory, it will not be binding on the Board or create or imply any additional fiduciary duty by the Board. However, the Compensation Committee may take into account the outcome of the vote when considering future executive compensation arrangements.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SECURITIES AND EXCHANGE COMMISSION

PROPOSAL 3 – RATIFY SELECTION OF INDEPENDENT AUDITOR

Ratify Selection of Independent Auditor. At the Annual Meeting, shareholders will be asked to ratify the Audit Committee's selection of Crowe LLP to serve as the Company's independent auditors for the fiscal year ending December 31, 2020. If the proposal is approved, the Audit Committee, in its discretion, may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders. If the proposal to ratify the selection of Crowe LLP as the Company's independent auditors is rejected by the shareholders, then the Audit Committee will reconsider its choice of independent auditors. A representative of Crowe LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Audit Fees. The aggregate fees billed to the Company by Crowe LLP with respect to services performed for fiscal 2019 and 2018 are as follows:

	2019	2018
Audit Fees[1]	$619,800	$530,000
Audit related fees[2]	43,305	37,355
Tax fees[3]	42,400	46,540
All other fees	77,072	40,340
Total	$782,577	$654,235

[1] Audit fees consisted of fees billed by Crowe LLP for professional services rendered for the audit of the Company's consolidated financial statements, reviews of the consolidated financial statements included in the Company's quarterly reports on Form 10-Q, and the audit of the Company's internal controls over financial reporting. The audit fees also relate to services such as consents and audits of mortgage banking subsidiaries.
[2] Audit-related fees consisted of fees billed by Crowe LLP for audits of certain employee benefits plans.
[3] Tax fees consisted of fees billed by Crowe LLP for the compilation and review of the Company's tax returns.

Preapproval Policies and Procedures. The Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of any public accounting firm engaged by the Company for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. Any accounting firm appointed by the Company reports directly to the Audit Committee.

The Audit Committee must preapprove all auditing services and permitted non-audit services by its independent auditors and the fees to be paid by the Company for these services, except for those fees qualifying for the "de minimis exception" which provides that the preapproval requirement for certain non-audit services may be waived if certain express standards and requirements are satisfied prior to completion of the audit under certain conditions. This exception requires that the aggregate amount of all such services provided constitutes no more than five percent of the total amount of revenue paid to the audit firm by the Company during the fiscal year in which the services are provided. This exception also requires that at the time of the engagement, the Company did not recognize such services to be non-audit services, and such services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit by the Audit Committee. During fiscal year 2019, there were no non-audit services that were provided using this exception.

The Audit Committee may delegate to one or more members of the Audit Committee the authority to grant preapprovals of non-audit services and fees. In such event, the decisions of the member or members of the Committee regarding preapprovals are presented to the full Audit Committee at its next meeting. The Audit Committee preapproved 100% of all services performed for the Company by Crowe LLP during fiscal year 2019.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE SELECTION OF CROWE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

AUDIT COMMITTEE REPORT

The material in this report is not soliciting material and is not deemed filed with the SEC. It is not incorporated by reference in any of the Company's filings under the Securities Act of 1933 or the Exchange Act, whether made in the past or in the future even if any of those filings contain any general incorporation language.

The Audit Committee is composed of five Directors who are neither officers nor employees of the Company, and who meet the NASDAQ independence requirements for Audit Committee members. The Audit Committee selects, appoints and retains the Company's independent auditors and is responsible for their compensation and

oversight.
In performing its functions, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent auditors. The auditors express an opinion on the conformity of the Company's annual financial statements to United States generally accepted accounting principles and on internal control over financial reporting. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited consolidated financial statements for the fiscal year 2019 and discussed them with Management and with Crowe LLP, the Corporation's independent registered public accountants.

Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. Management also represented that it performed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019, and that internal control over financial reporting was effective. The independent auditor discussed with the Audit Committee matters required to be discussed by Auditing Standard of the Public Accounting Oversight Board (PCAOB), including certain matters related to the conduct of an audit and to obtain certain information from the Audit Committee relevant to the audit.

The auditors also provided to the Audit Committee the written disclosures and the letter from the independent auditors required by PCAOB standards. The Audit Committee discussed with auditors the firm's independence.

Based on the Audit Committee's discussion with Management and the independent auditors, the Audit Committee's review of the representations of Management and the Report of the Independent Auditors to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 for filing with the SEC.

Submitted by the Audit Committee

Ronald A. Nelson, Chairman
Louis E. Bartolini
E. Joseph Bowler
Michele Hassid
Catherine C. MacMillan

SHAREHOLDER PROPOSAL GUIDELINES

To be considered for inclusion in the Company's Proxy Statement and form of proxy for next year's Annual Meeting, shareholder proposals must be delivered to the Corporate Secretary, Westamerica Bancorporation A-2M, P.O. Box 1200, Suisun City, CA 94585, no later than 5:00 p.m. on November 09, 2020. However, if the date of next year's Annual Meeting is changed by more than 30 days from the date of this year's meeting, the notice must be received by the Corporate Secretary a reasonable time before we begin to produce and distribute our Proxy Statement. All such proposals must meet the requirements of Rule 14a-8 under the Exchange Act.

In order for business, other than a shareholder proposal submitted for the Company's Proxy Statement, to be properly brought before next year's Annual Meeting by a shareholder, the shareholder must give timely written notice to the Corporate Secretary. To be timely, written notice must be received by the Corporate Secretary at least 45 days before the anniversary of the day our Proxy Statement was mailed to shareholders in connection with the previous year's Annual Meeting or January 22, 2021, for the 2021 Annual Meeting. If the date of the

Annual Meeting is changed by more than 30 days, the deadline is a reasonable time before we begin to produce and distribute our Proxy Statement. A shareholder's notice must set forth a brief description of the proposed business, the name and residence address of the shareholder, the number of shares of the Company's common stock that the shareholder owns and any material interest the shareholder has in the proposed business. The Company will have discretionary voting authority with respect to any non-Rule 14a-8 proposals for the next annual shareholders meeting that are not received by January 22, 2021.

The requirements and process for shareholder nominations of director candidates are described under the heading "Nominating Directors" on page 13.

Westamerica reserves the right to reject, to rule out of order, or to take other appropriate action with respect to any proposal that does not comply with these and other applicable legal requirements.

SHAREHOLDER COMMUNICATION TO BOARD OF DIRECTORS

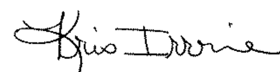
Shareholders and other interested parties who wish to communicate with the Board may do so by writing to: Kris Irvine, VP/Corporate Secretary, Westamerica Bancorporation A-2M, P.O. Box 1200, Suisun City, CA 94585. The Directors have established procedures for the handling of communications from shareholders and other interested parties and have directed the Corporate Secretary to act as their agent in processing any communications received. All communications that relate to matters that are within the responsibility of one of the Board Committees are to be forwarded to the Chair of the appropriate Committee. Communications that relate to ordinary business matters that are not within the scope of the Board's responsibilities, such as customer complaints, are to be sent to Management. Solicitations, junk mail and obviously frivolous or inappropriate communications are not to be forwarded, but will be made available to any Director who wishes to review them.

OTHER MATTERS

The Board of Directors does not know of any matters to be presented at the Annual Meeting other than those specifically referred to in this Proxy Statement. If any other matters should properly come before the meeting or any postponement or adjournment of the meeting, the persons named in the enclosed proxy intend to vote thereon in accordance with their best business judgment. If a nominee for Director becomes unavailable to serve as a Director, the Proxies will vote for any substitute nominated by the Board of Directors.

The Company will pay the cost of proxy solicitation. The Company has retained the services of Georgeson to assist in the proxy distribution at a cost not to exceed $2,000 plus reasonable out-of-pocket expenses. The Company will reimburse banks, brokers and others holding stock in their names or names of nominees or otherwise, for reasonable out-of-pocket expenses incurred in sending proxies and proxy materials to the holders of such stock.

BY ORDER OF THE BOARD OF DIRECTORS



Kris Irvine
VP/Corporate Secretary

March 09, 2020
Fairfield, California

EXHIBIT A

Westamerica Bancorporation
Employee Benefits/Compensation Committee Charter – Reaffirmed January 22, 2020

Purpose

The Employee Benefits Committee (the "Committee") is appointed by the Board of Directors (the "Board") to discharge the Board's responsibilities relating to compensation of the Westamerica Bancorporation (the "Company") Chief Executive Officer (the "CEO") and the Company's other Executive Officers**,** as defined by Rule 3b-7 of the Securities Exchange Act of 1934 as amended (the "Exchange Act") (collectively, including the CEO, the "Executive Officers"). The Committee has overall responsibility for approving and evaluating all compensation plans, policies and procedures of the Company as they affect the Executive Officers.

Committee Membership

The Committee shall consist of no fewer than three members. The members of the Committee shall meet the independence requirements of the Nasdaq Stock Market. At least two members of the Committee also shall qualify as "outside" directors within the meaning of Internal Revenue Code Section 162(m) and as "non-employee" directors within the meaning of Rule 16b-3 under the Exchange Act. The members of the Committee shall be appointed by the Board. One member of the Committee shall be appointed as Committee Chair by the Board. Committee members may be replaced by the Board.

Meetings

The Committee shall meet as often as necessary to carry out its responsibilities, meeting no less than four times each year. The Committee Chair shall preside at each meeting. In the event the Committee Chair is not present at a meeting, the Committee Chair shall designate a member to act as chair of such meeting.

Committee Responsibilities and Authority

1. The Committee shall, at least annually, review and approve the annual base salaries and annual incentive opportunities of the Executive Officers. The CEO shall not be present during any Committee deliberations or voting with respect to his or her compensation.

2. The Committee shall, periodically and as and when appropriate, review and approve the following as they affect the Executive Officers: (a) all other incentive awards and opportunities, including both cash-based and equity-based awards and opportunities; (b) any employment agreements and severance arrangements; (c) any change-in-control agreements and change-in-control provisions affecting any elements of compensation and benefits; and (d) any special or supplemental compensation and benefits for the Executive Officers and individuals who formerly served as Executive Officers, including supplemental retirement benefits and the perquisites provided to them during and after employment.

3. The Committee shall review and discuss the Compensation Discussion and Analysis (the "CD&A") required to be included in the Company's proxy statement and annual report on Form 10-K by the rules and regulations of the Securities and Exchange Commission (the "SEC") with management and, based on such review and discussion, determine whether or not to recommend to the Board that the CD&A be so included.

4. The Committee shall produce the annual Compensation Committees Report for inclusion in the Company's proxy statement in compliance with the rules and regulations promulgated by the SEC.

5. The Committee shall monitor the Company's compliance with the requirements under the Sarbanes-Oxley Act of 2002 relating to loans to directors and officers, and with all other applicable laws affecting employee compensation and benefits.

6. The Committee shall oversee the Company's compliance with SEC rules and regulations regarding shareholder approval of certain executive compensation matters, including advisory votes on executive compensation and the frequency of such votes, and the requirement under the Nasdaq rules that, with limited exceptions, shareholders approve equity compensation plans.

7. The Committee shall receive periodic reports on the Company's compensation programs as they affect all employees.

8. The Committee shall make regular reports to the Board.

9. The Committee shall have the authority, in its sole discretion, to retain and terminate or obtain the advice of any adviser to assist it in performance of its duties, but only after taking into consideration factors relevant to the adviser's independence from management specified in Nasdaq Listing Rule 5605(d)(3). The Committee shall be directly responsible for the appointment, compensation and oversight of the work of any adviser retained by the Committee and shall have sole authority to approve the adviser's fees and the other terms and conditions of the adviser's retention. The Company must provide for appropriate funding, as determined by the Committee, for payment of reasonable compensation to any adviser retained by the Committee.

10. The Committee may form and delegate authority to subcommittees as it deems appropriate.

11. The Committee will annually review and reassess this Charter.

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

FORM 10-K

(Mark one)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______________ to______________.

Commission File Number: 001-09383

WESTAMERICA BANCORPORATION

(Exact name of the registrant as specified in its charter)

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

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901
(Address of principal executive offices) (zip code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	WABC	The Nasdaq Stock Market, LLC

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark if whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) YES ☑ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

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

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2019 as reported on the NASDAQ Global Select Market, was $1,661,107,564.55. Shares of Common Stock held by each executive officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares outstanding of each of the registrant’s classes of common stock, as of the close of business on February 20, 2020: 27,101,866 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to registrant’s Annual Meeting of Shareholders, to be held on April 23, 2020, are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III to the extent described therein.

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of any difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including a failure or breach in data processing or security systems or those of third party vendors and other service providers, including as a result of cyber attacks or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, hurricanes, fire, flood, drought, and other disasters, on the uninsured value of the Company's assets and of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company's market place, and commodities and asset values; (13) changes in the securities markets and (14) the outcome of contingencies, such as legal proceedings. However, the reader should not consider the above-mentioned factors to be a complete set of all potential risks or uncertainties.

Forward-looking statements speak only as of the date they are made. The Company undertakes no obligation to update any forward-looking statements in this report to reflect circumstances or events that occur after the date forward looking statements are made, except as may be required by law. See also "Risk Factors" in Item 1A and other risk factors discussed elsewhere in this report.

PART I

ITEM 1. BUSINESS

Westamerica Bancorporation (the "Company") is a bank holding company registered under the Bank Holding Company Act of 1956, as amended ("BHCA"). Its legal headquarters are located at 1108 Fifth Avenue, San Rafael, California 94901. Principal administrative offices are located at 4550 Mangels Boulevard, Fairfield, California 94534 and its telephone number is (707) 863-6000. The Company provides a full range of banking services to individual and commercial customers in Northern and Central California through its subsidiary bank, Westamerica Bank ("WAB" or the "Bank"). The principal communities served are located in Northern and Central California, from Mendocino, Lake and Nevada Counties in the north to Kern County in the south. The Company's strategic focus is on the banking needs of small businesses. In addition, the Bank owns 100% of the capital stock of Community Banker Services Corporation ("CBSC"), a company engaged in providing the Company and its subsidiaries with data processing services and other support functions.

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

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

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

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

At December 31, 2019, the Company had consolidated assets of approximately $5.6 billion, deposits of approximately $4.8 billion and shareholders' equity of approximately $731 million. The Company and its subsidiaries employed 737 full-time equivalent staff as of December 31, 2019.

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

Westamerica Bancorporation
Corporate Secretary A-2M
Post Office Box 1200
Suisun City, California 94585-1200

Supervision and Regulation

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

Regulation and Supervision of Bank Holding Companies

The Company is a bank holding company subject to the BHCA. The Company reports to, is registered with, and may be examined by, the Board of Governors of the Federal Reserve System ("FRB"). The FRB also has the authority to examine the Company's subsidiaries. The Company is a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, the Company and the Bank are subject to examination by, and may be required to file reports with, the Commissioner of the California Department of Business Oversight (the "Commissioner").

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

The Company is generally prohibited under the BHCA from acquiring ownership or control of more than 5% of any class of voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than banking, managing banks, or providing services to affiliates of the holding company. However, a bank holding company, with the approval of the FRB, may engage, or acquire the voting shares of companies engaged, in activities that the FRB has determined to

be closely related to banking or managing or controlling banks. A bank holding company must demonstrate that the benefits to the public of the proposed activity will outweigh the possible adverse effects associated with such activity.

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

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

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

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

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

Regulation and Supervision of Banks

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

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

In addition, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") imposes limitations on the activities and equity investments of state chartered, federally insured banks. FDICIA also prohibits a state bank from making an investment or

engaging in any activity as a principal that is not permissible for a national bank, unless the Bank is adequately capitalized and the FDIC approves the investment or activity after determining that such investment or activity does not pose a significant risk to the deposit insurance fund.

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

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

Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees may increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Capital Standards

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

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

As of December 31, 2019, the Company's and the Bank's respective ratios exceeded applicable regulatory requirements. See Note 9 to the consolidated financial statements for capital ratios of the Company and the Bank, compared to minimum capital requirements and for the Bank the standards for well capitalized depository institutions.

On July 2, 2013, the Federal Reserve Board approved a final rule that implements changes to the regulatory capital framework for all banking organizations over a transitional period 2015 through 2018. See the sections entitled "Capital Resources and Capital to Risk-Adjusted Assets" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Prompt Corrective Action and Other Enforcement Mechanisms

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

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

Safety and Soundness Standards

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

Federal banking agencies require banks to maintain adequate valuation allowances for potential credit losses. The Company has an internal staff that continually reviews loan quality and reports to the Board of Directors. This analysis includes a detailed review of the classification and categorization of problem loans, assessment of the overall quality and collectability of the loan portfolio, consideration of loan loss experience, trends in problem loans, concentration of credit risk, and current economic conditions, particularly in the Bank's market areas. Based on this analysis, Management, with the review and approval of the Board, determines the adequate level of allowance required. The allowance is allocated to different segments of the loan portfolio, but the entire allowance is available for the loan portfolio in its entirety.

Restrictions on Dividends and Other Distributions

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

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

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

The federal banking agencies also have the authority to prohibit a depository institution or its holding company from engaging in business practices which are considered to be unsafe or unsound, possibly including payment of dividends or other payments under certain circumstances even if such payments are not expressly prohibited by statute. The Federal Reserve Board has issued guidance indicating its expectations that a bank holding company will inform and consult with Federal Reserve supervisory staff sufficiently in advance of (i) declaring and paying a dividend that could raise safety and soundness concerns (e.g., declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid); (ii) redeeming or repurchasing regulatory capital instruments when the bank holding company is experiencing financial weaknesses; or (iii) redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of the quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred.

Premiums for Deposit Insurance

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

In July 2010, Congress in the Dodd-Frank Act increased the minimum for the DIF reserve ratio, the ratio of the amount in the fund to insured deposits, from 1.15% to 1.35% and required that the ratio reach that level by September 30, 2020. Further, the Dodd-Frank Act made banks with $10 billion or more in assets responsible for the increase from 1.15% to 1.35%, among other provisions.

In August, 2016, the FDIC announced the DIF reserve ratio surpassed the 1.15% reserve ratio target, triggering three major changes:

(1) The decline in the range of initial assessment rates for all banks from 5-35 basis points to 3-30 basis points;
(2) The assessment of a quarterly surcharge on large banks equal to an annual rate of 4.5 basis points in addition to regular assessments; and
(3) A revised method to calculate risk-based assessment rates for established small banks (under $1 billion in assets) pursuant to an FDIC final rule issued April, 2016.

In September 2018, the DIF reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35% ahead of the September 30, 2020, deadline required under the Dodd-Frank Act. FDIC regulations provide for two changes to deposit insurance assessments upon reaching the minimum: (1) surcharges on insured depository institutions with total consolidated assets of $10 billion or more (large banks) will cease; and (2) small banks will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15% and 1.35%, to be applied when the reserve ratio is at or above 1.38%. In January 2019, the Bank, which meets the definition of a "small Bank", was advised by the FDIC its assessment credit to be applied when the reserve ratio is at or above 1.38% was $1.4 million. The Bank received notification from the FDIC during the third quarter 2019 that the reserve ratio exceeded 1.38%, and the FDIC applied the Bank's assessment credits against the Bank's second and third quarter 2019 deposit insurance premiums. The Company expects application of FDIC assessment credits against the Bank's fourth quarter 2019 deposit insurance premiums and partial application against the Bank's first quarter 2020 deposit insurance premiums. The Company cannot provide any assurance as to the effect of any future changes in its deposit insurance premium rates.

Community Reinvestment Act and Fair Lending Developments

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

Financial Privacy Legislation and Customer Information Security

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

U.S.A. PATRIOT Act

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

Programs To Mitigate Identity Theft

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

Pending Legislation

Changes to state laws and regulations (including changes in interpretation or enforcement) can affect the operating environment of BHCs and their subsidiaries in substantial and unpredictable ways. From time to time, various legislative and regulatory proposals are introduced. These proposals, if codified, may change banking statutes and regulations and the Company's operating environment in substantial and unpredictable ways. If codified, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon our financial condition or results of operations. It is likely, however, that the current level of enforcement and compliance-related activities of federal and state authorities will continue and potentially increase.

Competition

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

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

ITEM 1A. RISK FACTORS

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

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

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

Market and Interest Rate Risk

Changes in interest rates could reduce income and cash flow.

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

Changes in capital market conditions could reduce asset valuations.

Capital market conditions, including interest rates, liquidity, investor confidence, bond issuer credit worthiness, perceived counter-party risk, the supply of and demand for financial instruments, the financial strength of market participants, and other factors can materially impact the value of the Company's assets. An impairment in the value of the Company's assets could result in asset write-downs, reducing the Company's asset values, earnings, and equity.

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

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

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

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of default of the Company's counterparty or client. In addition, the Company's credit risk may be increased when the collateral the

Company holds cannot be realized or is liquidated at prices not sufficient to recover the full amount of the secured obligation. There is no assurance that any such losses would not materially and adversely affect the Company's results of operations or earnings.

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

The Articles of Incorporation of the Company authorize the issuance of 150 million shares of common stock (and two additional classes of 1 million shares each, denominated "Class B Common Stock" and "Preferred Stock", respectively) of which approximately 27.1 million shares of common stock were outstanding at December 31, 2019. Pursuant to its stock option plans, at December 31, 2019, the Company had outstanding options for 561 thousand shares of common stock, of which 190 thousand were currently exercisable. As of December 31, 2019, 1,327 thousand shares of Company common stock remained available for grants under the Company's equity incentive plans. Sales of substantial amounts of Company common stock in the public market could adversely affect the market price of its common stock.

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

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

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

The Company repurchases and retires its common stock in accordance with Board of Directors-approved share repurchase programs. At December 31, 2019, approximately 1.8 million shares remained available to repurchase under such plans. The Company has been active in repurchasing and retiring shares of its common stock when alternative uses of excess capital, such as acquisitions, have been limited. The Company could repurchase shares of its common stock at price levels considered excessive, thereby spending more cash on such repurchases as deemed reasonable and effectively retiring fewer shares than would be retired if repurchases were effected at lower prices.

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

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

The risk that borrowers may not pay interest or repay their loans as agreed is an inherent risk of the banking business. The company mitigates this risk by adhering to sound and proven underwriting practices, managed by experienced and knowledgeable credit professionals. Nonetheless, the Company may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves. The Company can provide no assurance that the credit quality of the loan portfolio will not deteriorate in the future and that such deterioration will not adversely affect the Company or its results of operations.

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

Substantially all of the Company's business is located in California. A portion of the loan portfolio of the Company is dependent on real estate. At December 31, 2019, real estate served as the principal source of collateral with respect to approximately 57% of the Company's loan portfolio. The Company's financial condition and operating results will be subject to changes in economic conditions in California. The California economy was severely affected by the recessionary period of 2008 to 2009. Much of the California real estate market experienced a decline in values of varying degrees. This decline had an adverse impact on the business of some of the Company's borrowers and on the value of the collateral for many of the Company's loans. Generally, the counties surrounding and near San Francisco Bay have recovered more soundly from the recent recession than counties in the California "Central Valley," from Sacramento in the north to Bakersfield in the south. Approximately 22% of the Company's loans are to borrowers in the California "Central Valley." Economic conditions in California's diverse geographic markets can be vastly different and are subject to various uncertainties, including the condition of the construction and real estate sectors, the effect of drought on the agricultural sector and its infrastructure, and the California state and municipal governments' budgetary and fiscal conditions. The Company can provide no assurance that conditions in any sector or geographic market of the California economy will not deteriorate in the future and that such deterioration will not adversely affect the Company.

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

All of the properties of the Company are located in California. Also, most of the real and personal properties which currently secure a majority of the Company's loans are located in California. Further, the Company invests in securities issued by companies and municipalities operating throughout the United States, and in mortgage-backed securities collateralized by real property located throughout the United States. California and other regions of the United States are prone to earthquakes, brush and wildfires, flooding, drought and other natural disasters. In addition to possibly sustaining uninsured damage to its own properties, if there is a major earthquake, flood, drought, fire or other natural disaster, the Company faces the risk that many of its debtors may experience uninsured property losses, or sustained business or employment interruption and/or loss which may materially impair their ability to meet the terms of their debt obligations. A major earthquake, flood, prolonged drought, fire or other natural disaster in California or other regions of the United States could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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

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

- a decrease in the demand for loans and other products and services offered by the Company;
- an increase or decrease in the usage of unfunded credit commitments;
- an increase or decrease in the amount of deposits;
- a decrease in non-depository funding available to the Company;
- an impairment of certain intangible assets, including goodwill;
- an increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company, which could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses, reduced interest revenue and cash flows, and valuation adjustments on assets;
- an impairment in the value of investment securities;
- an impairment in the value of life insurance policies owned by the Company;
- an impairment in the value of real estate owned by the Company.

The 2008 - 2009 financial crisis led to the failure or merger of a number of financial institutions. Financial institution failures can result in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. The failure of institutions with FDIC insured deposits can cause the DIF reserve ratio to decline, resulting in increased deposit insurance assessments on surviving FDIC insured institutions. Weak economic conditions can significantly weaken the strength and liquidity of financial institutions.

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

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

Regulatory Risks

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

As a holding company, a substantial portion of the Company's cash flow typically comes from dividends paid by the Bank. Various statutory provisions restrict the amount of dividends the Company's subsidiaries can pay to the Company without regulatory

approval. A reduction in subsidiary dividends paid to the Company could limit the capacity of the Company to pay dividends. In addition, if any of the Company's subsidiaries were to liquidate, that subsidiary's creditors will be entitled to receive distributions from the assets of that subsidiary to satisfy their claims against it before the Company, as a holder of an equity interest in the subsidiary, will be entitled to receive any of the assets of the subsidiary.

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

The Company is subject to significant federal and state regulation and supervision, which is primarily for the benefit and protection of the Company's customers and not for the benefit of investors. In the past, the Company's business has been materially affected by these regulations.

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

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

Following the recessions of 2008 and 2009, the FRB provided vast amounts of liquidity into the banking system. The FRB purchased large quantities of U.S. government securities, including agency-backed mortgage securities, increasing the demand for such securities thereby reducing interest rates. Interest rates remained historically low through 2016 as the monetary policy of the Federal Open Market Committee (the "FOMC") was highly accommodative. The FRB began reducing these asset purchase activities in the fourth quarter 2013 and the FOMC began removing monetary stimulus in December 2016 and increased the federal funds rate by 2.00 percent to 2.50 percent through December 2018. During 2019, the FOMC reduced rates from 2.50 percent to 1.75 percent. The changes in the target range for the federal funds rate could reduce or increase liquidity in the markets and cause interest rates to fluctuate. In the rising interest environment, the Bank's funding costs would increase, potentially reducing the availability of funds to the Bank to finance its existing operations, and causing fixed-rate investment securities and loans to decline in value.

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

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

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

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

Systems, Accounting and Internal Control Risks

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

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

A new accounting standard will significantly change the manner in which the Company recognizes credit losses and may have a material impact on the Company's results of operations, financial condition or liquidity.

In June 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting update, FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The ASU changes the accounting for estimates for credit losses related to financial assets measured at amortized cost and certain other contracts. The ASU replaces the incurred loss model with a model based on expected credit loss ("CECL"), which will accelerate recognition of credit losses. Additionally, credit losses relating to debt securities available-for-sale will be recorded through an allowance for credit losses under the new standard. The Company will adopt the ASU provisions effective January 1, 2020. The ASU significantly changed the manner in which the Company determines the adequacy of its allowance for loan losses. The Company is evaluating the impact the CECL model will have, but the Company may recognize a one-time cumulative-effect adjustment to its allowance for loan losses as of January 1, 2020. Any required adjustment to the allowance for loan losses resulting from this change in methodology will be accomplished through an offsetting after-tax-adjustment to shareholders' equity. Moreover, the CECL model may create more volatility in the level of the allowance for loan losses after adoption. If the Company is required to materially increase the level of its allowance for loan losses for any reason, such increase could adversely affect its business, financial condition and results of operations. See Note 1 to the consolidated financial statements, "Recently Issued Accounting Standards" for more information on the CECL methodology.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Branch Offices and Facilities

Westamerica Bank is engaged in the banking business through 80 branch offices in 21 counties in Northern and Central California. WAB believes all of its offices are constructed and equipped to meet prescribed security requirements.

The Company owns 30 banking office locations and one centralized administrative service center facility and leases 56 facilities. Most of the leases contain renewal options and provisions for rental increases, principally for changes in the cost of living index, and for changes in other operating costs such as property taxes and maintenance.

ITEM 3. LEGAL PROCEEDINGS

Due to the nature of its business, the Company is subject to various threatened or filed legal cases. Neither the Company nor any of its subsidiaries is a party to any material pending legal proceeding, nor is their property the subject of any material pending legal proceeding, other than ordinary routine legal proceedings arising in the ordinary course of the Company’s business. Based on the advice of legal counsel, the Company does not expect such cases will have a material, adverse effect on its business, financial position or results of operations. Legal liabilities are accrued when obligations become probable and the amount can be reasonably estimated. In the third quarter 2018, the Company achieved a mediated settlement to dismiss a lawsuit and accrued a liability for $3,500 thousand; the liability was paid in the first quarter 2019. In the second quarter 2019, the Company achieved a mediated settlement to dismiss a lawsuit and paid the resulting liability of $252 thousand. The Company determined that it will be obligated to provide refunds of revenue recognized in years prior to 2018 to some customers. The Company initially estimated the probable amount of these obligations to be $5,542 thousand and accrued a liability for such amount in 2017; based on additional information received in the second quarter 2019, the Company increased such liability to $5,843 thousand by recognizing an expense of $301 thousand; the estimated liability is subject to revision.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

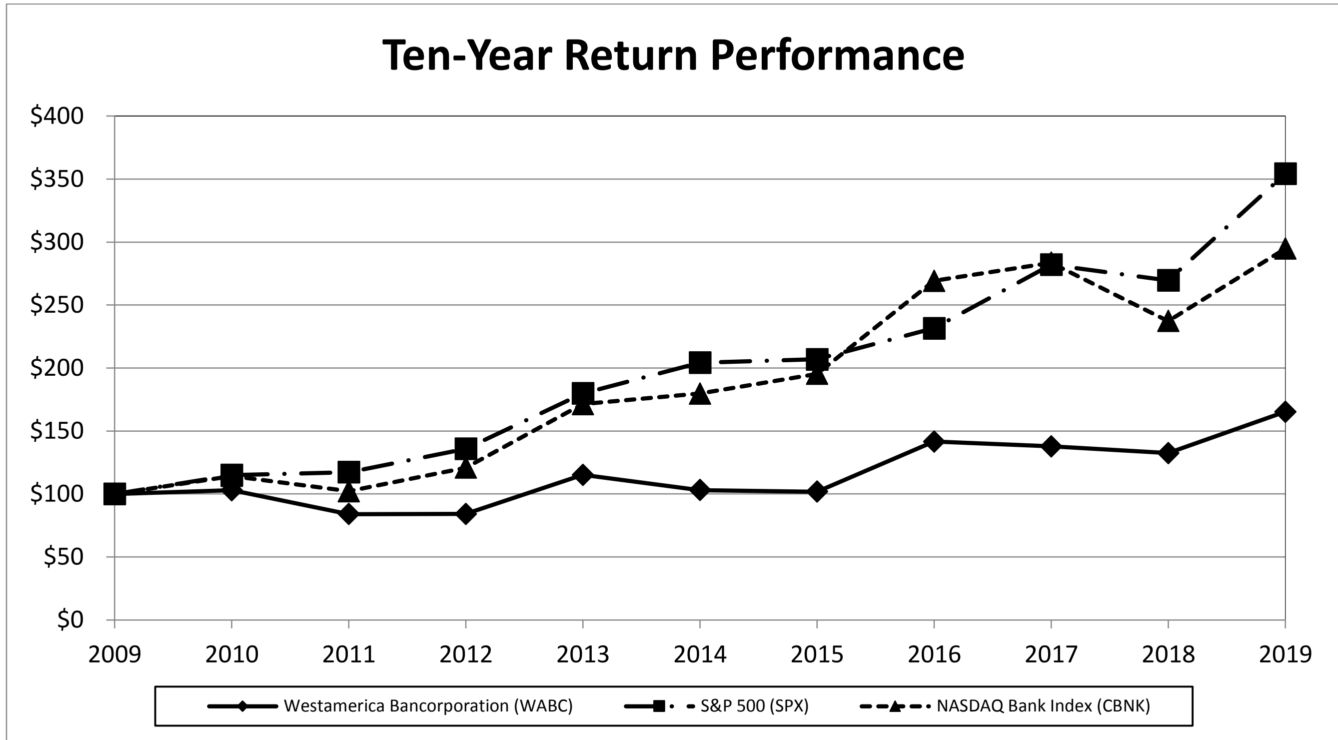
The Company’s common stock is traded on the NASDAQ Stock Market (“NASDAQ”) under the symbol “WABC”. As of January 31, 2020, there were approximately 5,300 shareholders of record of the Company’s common stock.

The Company has paid cash dividends on its common stock in every quarter since its formation in 1972. See Item 8, Financial Statements and Supplementary Data, Note 19 to the consolidated financial statements for recent quarterly dividend information. It is currently the intention of the Board of Directors of the Company to continue payment of cash dividends on a quarterly basis. There is no assurance, however, that any dividends will be paid since they are dependent upon earnings, cash balances, financial condition and capital requirements of the Company and its subsidiaries as well as policies of the FRB pursuant to the BHCA. See Item 1, “Business - Supervision and Regulation.”

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

Stock performance

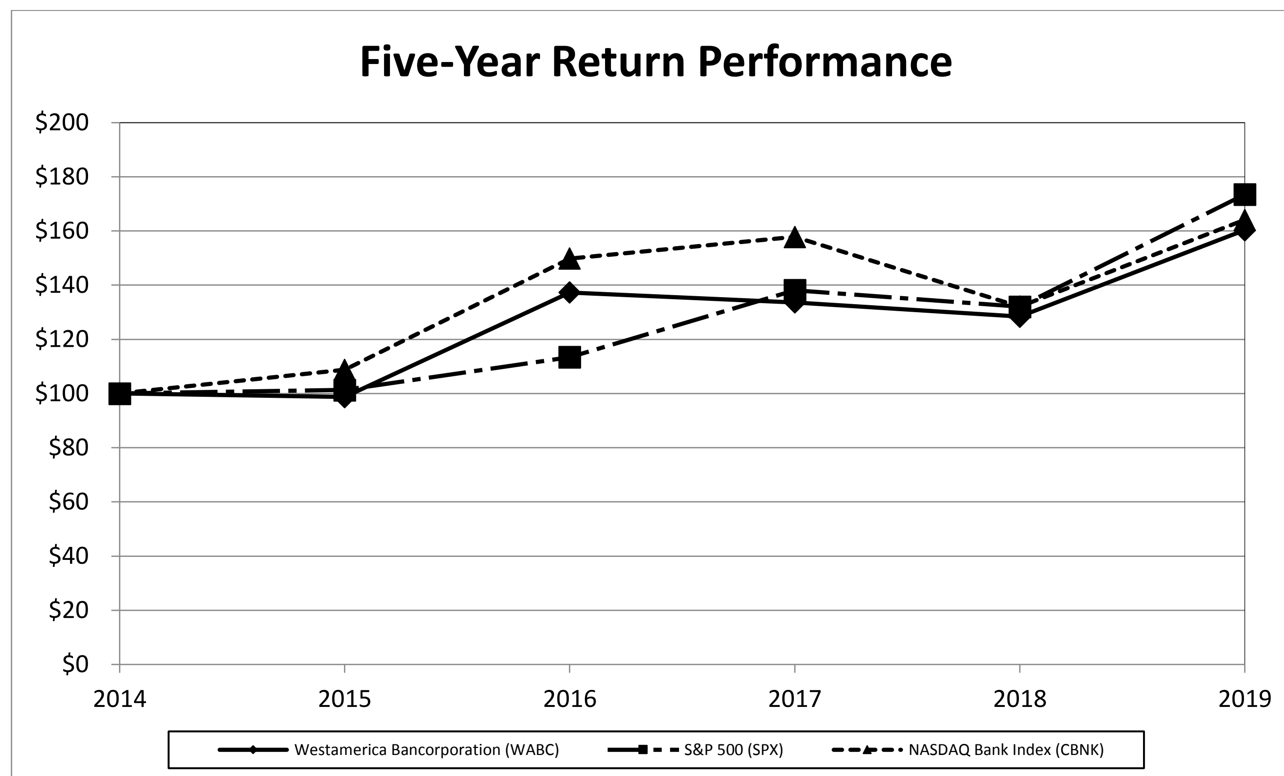
The following chart compares the cumulative return on the Company's stock during the ten years ended December 31, 2019 with the cumulative return on the S&P 500 composite stock index and NASDAQ'S Bank Index. The comparison assumes $100 invested in each on December 31, 2009 and reinvestment of all dividends.



	December 31,					
	2009	2010	2011	2012	2013	2014
Westamerica Bancorporation (WABC)	$100.00	$102.89	$83.95	$84.15	$115.14	$103.08
S&P 500 (SPX)	100.00	115.05	117.34	135.88	179.79	204.19
NASDAQ Bank Index (CBNK)	100.00	114.29	102.20	120.83	171.36	179.68

	December 31,				
	2015	2016	2017	2018	2019
Westamerica Bancorporation (WABC)	$101.76	$141.57	$137.75	$132.37	$165.24
S&P 500 (SPX)	206.93	231.63	282.10	269.60	354.19
NASDAQ Bank Index (CBNK)	195.39	269.25	283.61	237.35	294.81

The following chart compares the cumulative return on the Company's stock during the five years ended December 31, 2019 with the cumulative return on the S&P 500 composite stock index and NASDAQ'S Bank Index. The comparison assumes $100 invested in each on December 31, 2014 and reinvestment of all dividends.



	December 31,					
	2014	2015	2016	2017	2018	2019
Westamerica Bancorporation (WABC)	$100.00	$98.72	$137.33	$133.63	$128.41	$160.30
S&P 500 (SPX)	100.00	101.34	113.44	138.15	132.03	173.46
NASDAQ Bank Index (CBNK)	100.00	108.74	149.85	157.84	132.10	164.07

ISSUER PURCHASES OF EQUITY SECURITIES

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser", as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of common stock during the quarter ended December 31, 2019 (in thousands, except per share data).

	2019			
Period	(a) Total Number of shares Purchased	(b) Average Price Paid per Share	(c) Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
	(In thousands, except exercise price)			
October 1 through October 31	-	$ -	-	1,750
November 1 through November 30	-	-	-	1,750
December 1 through December 31	-	-	-	1,750
Total	-	$ -	-	1,750

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

No shares were repurchased during the period from October 1, 2019 through December 31, 2019. A program approved by the Board of Directors on July 25, 2019 authorizes the purchase of up to 1,750 thousand shares of the Company's common stock from time to time prior to September 1, 2020.

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ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2019 has been derived from the Company's audited consolidated financial statements. This information should be read in conjunction with those statements, notes and other information included elsewhere herein.

WESTAMERICA BANCORPORATION
FINANCIAL SUMMARY

	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share data and ratios)				
Interest and loan fee income	$158,682	$151,723	$138,312	$135,919	$136,529
Interest expense	1,888	1,959	1,900	2,116	2,424
Net interest and loan fee income	156,794	149,764	136,412	133,803	134,105
Provision (reversal) for loan losses	-	-	(1,900)	(3,200)	-
Noninterest income:					
Securities gains (losses)	217	(52)	7,955	-	-
Other noninterest income	47,191	48,201	48,673	46,574	47,867
Total noninterest income	47,408	48,149	56,628	46,574	47,867
Noninterest expense:					
Loss contingency	553	3,500	5,542	3	-
Other noninterest expense	98,433	103,416	102,226	103,617	105,300
Total noninterest expense	98,986	106,916	107,768	103,620	105,300
Income before income taxes	105,216	90,997	87,172	79,957	76,672
Income tax provision	24,827	19,433	37,147	21,104	17,919
Net income	$80,389	$71,564	$50,025	$58,853	$58,753
Average common shares outstanding	26,956	26,649	26,291	25,612	25,555
Average diluted common shares outstanding	27,006	26,756	26,419	25,678	25,577
Common shares outstanding at December 31,	27,062	26,730	26,425	25,907	25,528
Per common share:					
Basic earnings	$2.98	$2.69	$1.90	$2.30	$2.30
Diluted earnings	2.98	2.67	1.89	2.29	2.30
Book value at December 31,	27.03	23.03	22.34	21.67	20.85
Financial ratios:					
Return on assets	1.44%	1.27%	0.92%	1.12%	1.16%
Return on common equity	11.90%	11.35%	8.39%	10.85%	11.32%
Net interest margin (FTE)[1]	3.11%	2.98%	2.95%	3.03%	3.36%
Net loan losses to average loans	0.16%	0.14%	0.08%	0.04%	0.11%
Efficiency ratio[2]	47.4%	52.52%	52.51%	53.55%	53.69%
Equity to assets	13.02%	11.05%	10.71%	10.46%	10.30%
Period end balances:					
Assets	$5,619,555	$5,568,526	$5,513,046	$5,366,083	$5,168,875
Loans	1,126,664	1,207,202	1,287,982	1,352,711	1,533,396
Allowance for loan losses	19,484	21,351	23,009	25,954	29,771
Investment securities	3,816,918	3,641,026	3,352,371	3,237,070	2,886,291
Deposits	4,812,621	4,866,839	4,827,613	4,704,741	4,540,659
Identifiable intangible assets and goodwill	123,064	123,602	125,523	128,600	132,104
Short-term borrowed funds	30,928	51,247	58,471	59,078	53,028
Shareholders' equity	731,417	615,591	590,239	561,367	532,205
Capital ratios at period end:					
Total risk based capital	16.83%	17.03%	16.17%	15.95%	13.39%
Tangible equity to tangible assets	11.07%	9.04%	8.63%	8.26%	7.94%
Dividends paid per common share	$1.63	$1.60	$1.57	$1.56	$1.53
Common dividend payout ratio	55%	60%	83%	68%	67%

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

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion addresses information pertaining to the financial condition and results of operations of Westamerica Bancorporation and subsidiaries (the "Company") that may not be otherwise apparent from a review of the consolidated financial statements and related footnotes. It should be read in conjunction with those statements and notes found on pages 47 through 87, as well as with the other information presented throughout this Report.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the banking industry. Application of these principles requires the Company to make certain estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain accounting policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment writedown or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, Management has identified the allowance for loan losses accounting to be the accounting area requiring the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. A discussion of the factors affecting accounting for the allowance for loan losses and purchased loans is included in the "Loan Portfolio Credit Risk" discussion below.

Financial Overview

Westamerica Bancorporation and subsidiaries' (collectively, the "Company") reported net income of $80.4 million or $2.98 diluted earnings per common share ("EPS") in 2019. Results for 2019 include a tax-exempt life insurance gain of $433 thousand and $553 thousand in loss contingencies. The loss contingencies include a $301 thousand increase in estimated customer refunds of revenue recognized prior to 2018 and a $252 thousand settlement to dismiss a lawsuit. The tax-exempt life insurance gain and loss contingencies did not have a significant impact on the EPS for 2019. Although loss contingencies represent estimated liabilities, which are subject to revision, the Company does not anticipate additional losses for either of these matters. The 2019 results compare to net income of $71.6 million or $2.67 EPS in 2018 and net income of $50.0 million or $1.89 EPS for the year ended December 31, 2017. The 2018 results include a $585 thousand tax-exempt life insurance policy gain and a $3.5 million loss contingency for a mediated settlement to dismiss a lawsuit, which on an aggregate basis reduced EPS $0.07. The liability was paid in January 2019. The 2017 results include $12.3 million in adjustments to net deferred tax asset values triggered by enactment of the Tax Cuts and Jobs Act of 2017 (the "Act") which reduced EPS $0.48, recognition of a $5.5 million loss contingency, which reduced EPS $0.12, and securities gains of $8.0 million, which increased EPS $0.18.

The Company's principal source of revenue is net interest and loan fee income, which represents interest and fees earned on loans and investment securities ("earning assets") reduced by interest paid on deposits and other borrowings ("interest-bearing liabilities"). Market interest rates declined considerably following the recession of 2008 and 2009. Interest rates remained historically low through 2016 as the monetary policy of the Federal Open Market Committee (the "FOMC") was highly accommodative. During this period, Management avoided originating long-dated, low-yielding loans given the potential impact of such assets on forward earning potential; as a result, loans declined and investment securities increased. The changed composition of the earning assets and low market interest rates pressured the net interest margin to lower levels. The FOMC began removing monetary stimulus in December 2016 and increased the federal funds rate by 2.00% to 2.50% through June 2019, although longer-

term rates did not increase by a similar magnitude. The increase in market interest rates benefited the Company's earning asset yields until the FOMC cut the federal funds rate in July 2019 by 0.25%, in September 2019 by 0.25% and in October by 0.25%.

The funding source of the Company's earning assets is primarily customer deposits. The Company's long-term strategy includes maximizing checking and savings deposits as these types of deposits are lower-cost and less sensitive to changes in interest rates compared to time deposits. The average 2019 volume of checking and savings deposits was 96.2% of average total deposits.

Credit quality remained solid with nonperforming assets totaling $4.9 million at December 31, 2019 and net chargeoffs of $1.9 million in 2019. The Company did not recognize a provision for loan losses in 2019.

The Company presents its net interest margin and net interest income on an FTE basis using the current statutory federal tax rate. Management believes the FTE basis is valuable to the reader because the Company's loan and investment securities portfolios contain a relatively large portion of municipal loans and securities that are federally tax exempt. The Company's tax exempt loans and securities composition may not be similar to that of other banks, therefore in order to reflect the impact of the federally tax exempt loans and securities on the net interest margin and net interest income for comparability with other banks, the Company presents its net interest margin and net interest income on an FTE basis. Yields on tax-exempt securities and loans have been adjusted upward to reflect the effect of income exempt from federal income taxation at the federal statutory tax rate of 35% for 2017. Due to the Act, the federal tax rate was 21% for 2019 and 2018; as such, the upward adjustment to reflect the effect of income exempt from federal taxation is lower in 2019 and 2018 than in 2017.

The Company's significant accounting policies (see Note 1 "Summary of Significant Accounting Policies" to the Consolidated Financial Statements below) are fundamental to understanding the Company's results of operations and financial condition. The Company adopted the FASB ASU 2016-02, *Leases (Topic 842)* provisions effective January 1, 2019, and recorded a lease liability of $15.3 million and right-of-use asset of $15.3 million for facilities leases. The change in occupancy and equipment expense was not material. The Company also adopted the FASB ASU 2017-08, *Receivables – Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* on January 1, 2019. The implementing entry reduced the carrying value of investment securities by $3.1 million and reduced retained earnings by $2.8 million, net of tax. The change in premium amortization method was not material to revenue recognition.

Net Income

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

	For the Years Ended December 31,		
	2019	2018	2017
	($ in thousands, except per share data)		
Net interest and loan fee income	$156,794	$149,764	$136,412
FTE adjustment	4,612	5,646	12,182
Net interest and loan fee income (FTE)	161,406	155,410	148,594
Reversal of (provision for) loan losses	-	-	1,900
Noninterest income	47,408	48,149	56,628
Noninterest expense	(98,986)	(106,916)	(107,768)
Income before income taxes (FTE)	109,828	96,643	99,354
Income taxes (FTE)	(29,439)	(25,079)	(49,329)
Net income	$80,389	$71,564	$50,025
Net income per average fully-diluted common share	$2.98	$2.67	$1.89
Net income as a percentage of average shareholders' equity	11.90%	11.35%	8.39%
Net income as a percentage of average total assets	1.44%	1.27%	0.92%

Comparing 2019 with 2018, net income increased $8.8 million. Net interest and loan fee (FTE) income increased $6.0 million due to a higher net yield on earning assets and higher average balances of investments, partially offset by lower average balances of interest-bearing cash and loans. The provision for loan losses remained zero, reflecting Management's evaluation of losses inherent in the loan portfolio. In 2019, noninterest income decreased $741 thousand compared with 2018 due to lower income from service charges on deposit accounts, other service charges and debit card fees, offset in part by an increase in merchant processing services and securities gains in 2019. In 2019 noninterest expense decreased $7.9 million compared with 2018 primarily due to decreases in

loss contingencies, salaries and related benefits, FDIC insurance assessments, and intangible amortization. The effective tax rates (FTE) was 26.8% for 2019 compared with 26.0% for 2018.

Comparing 2018 with 2017, net income increased $21.5 million. Net interest and loan fee income increased in 2018 compared with 2017 mostly attributable to higher average balances of investments and higher yields on earning assets as market interest rates rose. The increase was offset by lower average balances of loans. Net interest and loan fee income (FTE) in 2018 included a lower FTE adjustment than in 2017 due to the reduced federal corporate tax as a result of enactment of the Act. The provision for loan losses remained zero, reflecting Management's evaluation of losses inherent in the loan portfolio. In 2018, noninterest income decreased $8.5 million compared with 2017 because 2017 results included $8.0 million in gains of sale of securities. The non-FTE book tax provision for 2018, which reflected the tax-exempt nature of a $585 thousand life insurance policy gain, was $19.4 million compared with $37.1 million for 2017, representing effective tax rates of 21.4% and 42.6%, respectively. The non-FTE book tax provision for 2017 includes $12.3 million in adjustments to net deferred tax asset values triggered by enactment of the Act. The federal statutory tax rate was reduced from 35% in 2017 to 21% in 2018 due to the Act. The non-FTE book tax provisions for 2018 and 2017 include tax benefits of $737 thousand and $698 thousand, respectively, for tax deductions from the exercise of employee stock options which exceed related compensation expenses recognized in the financial statements.

Net Interest and Loan Fee Income (FTE)

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

Components of Net Interest and Loan Fee Income (FTE)

	For the Years Ended December 31,		
	2019	2018	2017
		($ in thousands)	
Interest and loan fee income	$158,682	$151,723	$138,312
Interest expense	(1,888)	(1,959)	(1,900)
Net interest and loan fee income	156,794	149,764	136,412
FTE adjustment	4,612	5,646	12,182
Net interest and loan fee income (FTE)	$161,406	$155,410	$148,594
Net interest margin (FTE)	3.11%	2.98%	2.95%

Comparing 2019 with 2018, net interest and loan fee (FTE) income increased $6.0 million due to a higher net yield on earning assets (up 0.12%) and higher average balances of investments (up $127 million), partially offset by lower average balances of interest-bearing cash (down $101 million) and loans (down $47 million).

Comparing 2018 with 2017, net interest and loan fee income increased $13.4 million due to higher average balances of investments (up $270 million) and higher yield on interest earning assets (up 0.03%), offset by lower average balances of loans (down $106 million). The FTE adjustment was lower in 2018 compared with 2017 mainly due to the reduced federal corporate tax rate as a result of enactment of the Act.

The yield on earning assets (FTE) was 3.14% in 2019, 3.02% in 2018 and 2.99% in 2017. The net interest margin (FTE) increased in 2019, reflecting earning assets repriced to higher yields. The 2019 yield on earning assets (FTE) reflected higher market interest rates which offset the impact of the reduced FTE adjustment.

The Company’s funding cost was 0.03% in 2019 compared with 0.04% in 2018 and 2017. Average balances of time deposits declined $64 million from 2017 to 2019 while lower-cost checking and savings deposits grew 3% in the same period. Average balances of checking and saving deposits accounted for 96.2% of average total deposits in 2019 compared with 95.6% in 2018 and 94.8% in 2017.

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 federal statutory tax rate of 35 percent for 2017. Due to the Tax Cuts and Jobs Act of 2017, the federal tax rate is 21 percent for 2018 and 2019; as such, the upward adjustment to reflect the effect of income exempt from federal taxation is lower in 2019 and 2018 than in 2017.

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

	For the Year Ended December 31, 2019		
	Average Balance	Interest Income/ Expense	Yields/ Rates
		($ in thousands)	
Assets			
Investment securities:			
Taxable	$3,089,099	$77,800	2.52%
Tax-exempt [1]	615,665	19,923	3.24%
Total investments [1]	3,704,764	97,723	2.64%
Loans:			
Taxable	1,112,250	56,550	5.08%
Tax-exempt [1]	49,529	2,028	4.10%
Total loans [1]	1,161,779	58,578	5.04%
Total interest bearing cash	324,733	6,993	2.15%
Total interest-earning assets[1]	5,191,276	163,294	3.14%
Other assets	405,833		
Total assets	$5,597,109		
Liabilities and shareholders' equity			
Noninterest-bearing demand	$2,222,876	$-	- %
Savings and interest-bearing transaction	2,396,604	1,274	0.05%
Time less than $100,000	103,399	254	0.25%
Time $100,000 or more	78,925	326	0.41%
Total interest-bearing deposits	2,578,928	1,854	0.07%
Short-term borrowed funds	51,442	34	0.07%
Total interest-bearing liabilities	2,630,370	1,888	0.07%
Other liabilities	68,351		
Shareholders' equity	675,512		
Total liabilities and shareholders' equity	$5,597,109		
Net interest spread [1] [2]			3.07%
Net interest and fee income and interest margin [1] [3]		$161,406	3.11%

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

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

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

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

	For the Year Ended December 31, 2018		
	Average Balance	Interest Income/ Expense	Yields/ Rates
		($ in thousands)	
Assets			
Investment securities:			
Taxable	$2,830,075	$65,330	2.31%
Tax-exempt [(1)]	747,522	24,610	3.29%
Total investments [(1)]	3,577,597	89,940	2.51%
Loans:			
Taxable	1,153,549	57,240	4.96%
Tax-exempt [(1)]	55,618	2,264	4.07%
Total loans [(1)]	1,209,167	59,504	4.92%
Total interest bearing cash	425,871	7,925	1.86%
Total interest-earning assets[(1)]	5,212,635	157,369	3.02%
Other assets	407,983		
Total assets	$5,620,618		
Liabilities and shareholders' equity			
Noninterest-bearing demand	$2,209,924	$-	- %
Savings and interest-bearing transaction	2,447,652	1,275	0.05%
Time less than $100,000	119,586	279	0.23%
Time $100,000 or more	94,919	368	0.39%
Total interest-bearing deposits	2,662,157	1,922	0.07%
Short-term borrowed funds	59,992	37	0.06%
Total interest-bearing liabilities	2,722,149	1,959	0.07%
Other liabilities	57,848		
Shareholders' equity	630,697		
Total liabilities and shareholders' equity	$5,620,618		
Net interest spread [(1) (2)]			2.95%
Net interest and fee income and interest margin [(1) (3)]		$155,410	2.98%

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

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

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

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

	For the Year Ended December 31, 2017		
	Average Balance	Interest Income/ Expense	Yields/ Rates
	($ in thousands)		
Assets			
Investment securities:			
Taxable	$2,498,001	$51,445	2.06%
Tax-exempt [1]	809,136	31,737	3.92%
Total investments [1]	3,307,137	83,182	2.52%
Loans:			
Taxable	1,252,474	59,700	4.77%
Tax-exempt [1]	62,728	3,136	5.00%
Total loans [1]	1,315,202	62,836	4.78%
Total interest bearing cash	406,034	4,476	1.10%
Total interest-earning assets [1]	5,028,373	150,494	2.99%
Other assets	411,309		
Total assets	$5,439,682		
Liabilities and shareholders' equity			
Noninterest-bearing demand	$2,095,522	$-	- %
Savings and interest-bearing transaction	2,380,841	1,123	0.05%
Time less than $100,000	136,324	318	0.23%
Time $100,000 or more	109,563	415	0.38%
Total interest-bearing deposits	2,626,728	1,856	0.07%
Short-term borrowed funds	69,671	44	0.06%
Total interest-bearing liabilities	2,696,399	1,900	0.07%
Other liabilities	51,405		
Shareholders' equity	596,356		
Total liabilities and shareholders' equity	$5,439,682		
Net interest spread [1] [2]			2.92%
Net interest and fee income and interest margin [1] [3]		$148,594	2.95%

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

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

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

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

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

Summary of Changes in Interest Income and Expense

	For the Year Ended December 31, 2019 Compared with For the Year Ended December 31, 2018		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	$5,979	$6,491	$12,470
Tax-exempt [(1)]	(4,341)	(346)	(4,687)
Total investments [(1)]	1,638	6,145	7,783
Loans:			
Taxable	(2,049)	1,359	(690)
Tax-exempt [(1)]	(248)	12	(236)
Total loans [(1)]	(2,297)	1,371	(926)
Total interest bearing cash	(1,882)	950	(932)
Total (decrease) in interest and loan fee income [(1)]	(2,541)	8,466	5,925
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	(27)	26	(1)
Time less than $100,000	(38)	13	(25)
Time $100,000 or more	(62)	20	(42)
Total interest-bearing deposits	(127)	59	(68)
Short-term borrowed funds	(7)	4	(3)
Total (decrease) increase in interest expense	(134)	63	(71)
(Decrease) increase in net interest and loan fee income [(1)]	($2,407)	$8,403	$5,996

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

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Summary of Changes in Interest Income and Expense

	For the Year Ended December 31, 2018 Compared with For the Year Ended December 31, 2017		
	Volume	Yield/Rate	Total
		(In thousands)	
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	$6,839	$7,046	$13,885
Tax-exempt [1]	(2,417)	(4,710)	(7,127)
Total investments [1]	4,422	2,336	6,758
Loans:			
Taxable	(4,715)	2,255	(2,460)
Tax-exempt [1]	(355)	(517)	(872)
Total loans [1]	(5,070)	1,738	(3,332)
Total interest bearing cash	219	3,230	3,449
Total (decrease) in interest and loan fee income [1]	(429)	7,304	6,875
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	32	120	152
Time less than $100,000	(39)	-	(39)
Time $100,000 or more	(55)	8	(47)
Total interest-bearing deposits	(62)	128	66
Short-term borrowed funds	(7)	-	(7)
Total (decrease) increase in interest expense	(69)	128	59
(Decrease) increase in net interest and loan fee income [1]	($360)	$7,176	$6,816

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

Provision for Loan Losses

The Company provided no provision for loan losses in 2019 and 2018. The Company recorded a reversal of the provision for loan losses of $1.9 million in 2017. Classified loans declined $3.8 million in 2019. Nonaccrual loans were $4 million at December 31, 2019 compared with $5 million at December 31, 2018. These factors were reflected in Management's evaluation of credit quality, the level of the provision for loan losses in 2019, and the adequacy of the allowance for loan losses at December 31, 2019. For further information regarding credit risk, net credit losses and the allowance for loan losses, see the "Loan Portfolio Credit Risk" and "Allowance for Loan Losses" sections of this Report.

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Noninterest Income

Components of Noninterest Income

	For the Years Ended December 31,		
	2019	2018	2017
		(In thousands)	
Service charges on deposit accounts	$17,882	$18,508	$19,612
Merchant processing services	10,132	9,630	8,426
Debit card fees	6,357	6,643	6,421
Trust fees	2,963	2,938	2,875
ATM processing fees	2,776	2,752	2,610
Other service fees	2,255	2,567	2,584
Life insurance gains	433	585	-
Financial services commissions	392	499	639
Securities gains (losses)	217	(52)	7,955
Other noninterest income	4,001	4,079	5,506
Total Noninterest Income	$47,408	$48,149	$56,628

In 2019, noninterest income decreased $741 thousand compared with 2018. Income from service charges on deposit accounts decreased due to lower overdraft fees in 2019. Other service charges decreased due to lower income from internet banking. Debit card fees and financial services commissions decreased in 2019. Merchant processing services increased due to successful sales efforts and higher transaction volumes and partially offset the decrease in noninterest income in 2019 compared with 2018.

In 2018, noninterest income decreased $8.5 million compared with 2017 primarily because 2017 results included $8.0 million in gains on sale of securities. Service charges on deposit accounts decreased $1.1 million due to declines in fees for overdrafts, checking accounts and analyzed accounts. The decreases in other noninterest income were partially offset by an increase in merchant processing services fees of $1.2 million due to successful sales efforts and higher transaction volumes and a $585 thousand life insurance gain in 2018.

Noninterest Expense

Components of Noninterest Expense

	For the Years Ended December 31,		
	2019	2018	2017
		(In thousands)	
Salaries and related benefits	$51,054	$53,007	$51,519
Occupancy and equipment	20,240	19,679	19,430
Outsourced data processing services	9,471	9,229	9,035
Professional fees	2,465	2,842	2,161
Courier service	1,878	1,779	1,732
Loss Contingency	553	3,500	5,542
Amortization of identifiable intangibles	538	1,921	3,077
Impairment of tax credit investments	-	-	625
Other noninterest expense	12,787	14,959	14,647
Total Noninterest Expense	$98,986	$106,916	$107,768

In 2019, noninterest expense decreased $7.9 million compared with 2018 primarily due to decreases in loss contingencies, salaries and related benefits, FDIC insurance assessments, and intangible amortization. The 2019 loss contingencies include a $301 thousand increase in estimated customer refunds of revenue recognized prior to 2018 and a $252 thousand settlement to dismiss a lawsuit. Although loss contingencies represent estimated liabilities, which are subject to revision, the Company does not anticipate additional losses for either of these matters. Salaries and related benefits decreased $1.9 million primarily due to employee attrition and lower incentives and employee benefit costs. Amortization of intangibles decreased $1.4 million as assets are amortized on a declining

balance method. FDIC insurance assessments (included in "other noninterest expense") decreased primarily due to application of the Bank's assessment credit described in Part 1, Item 1, "Premiums for Deposit Insurance".

In 2018, noninterest expense decreased $852 thousand compared with 2017. The 2018 noninterest expense included a $3.5 million mediated settlement to dismiss a lawsuit. The 2017 noninterest expense included a $5.5 million loss contingency and a $625 thousand impairment of low income housing limited partnership investments due to enactment of the Act. The 2017 loss contingency represents the Company's estimated refunds to customers of revenue recognized in prior years. Salaries and related benefits increased $1.5 million primarily due to the annual merit increase cycle and higher incentives and employee benefit costs. Professional fees increased $681 thousand due to higher legal and consulting fees. Amortization of intangibles decreased $1.2 million as assets are amortized on a declining balance method.

Provision for Income Tax

The Company's income tax provision was $24.8 million in 2019 compared with $19.4 million in 2018 and $37.1 million in 2017, representing effective tax rates of 23.6%, 21.4% and 42.6%, respectively. The effective tax rate (FTE) was 26.8% in 2019, 26.0% in 2018 and 49.7% in 2017.

The higher effective tax rate (FTE) in 2019 compared with 2018 is due to lower levels of tax-exempt interest income and stock compensation tax deductions in 2019. The tax provisions (FTE) for 2019 and 2018 include tax benefits of $435 thousand and $737 thousand, respectively, for tax deductions from the exercise of employee stock options which exceed related compensation expenses recognized in the financial statements. In 2019, the Company decreased unrecognized tax benefits by $909 thousand related to settlements with taxing authorities. The settlements incorporated amended tax returns for which the Company had recognized a deferred tax asset in the amount of $1,003 thousand.

The 2017 income tax provision included a $12.3 million charge to re-measure the Company's net deferred tax asset triggered by enactment of the Tax Cuts and Jobs Act of 2017. The book tax provisions for 2018 and 2017 include tax benefits of $737 thousand and $698 thousand, respectively, for tax deductions from the exercise of employee stock options which exceed related compensation expenses recognized in the financial statements. The lower effective tax rate for 2018 compared with 2017 reflects a reduction in the federal corporate tax rate as a result of enactment of the Act and the tax-exempt nature of a $585 thousand life insurance policy gain.

Investment Securities Portfolio

The Company maintains an investment securities portfolio consisting of securities issued by the U.S. Treasury, U.S. Government sponsored entities, agency and non-agency mortgage backed securities, state and political subdivisions, corporations, and other securities.

Management has managed the investment securities portfolio in response to changes in deposit and loan volumes. The carrying value of the Company's investment securities portfolio was $3.8 billion at December 31, 2019 and $3.6 billion at December 31, 2018.

Management continually evaluates the Company's investment securities portfolio in response to established asset/liability management objectives, changing market conditions that could affect profitability, liquidity, and the level of interest rate risk to which the Company is exposed. These evaluations may cause Management to change the level of funds the Company deploys into investment securities and change the composition of the Company's investment securities portfolio.

At December 31, 2019, substantially all of the Company's investment securities continue to be investment grade rated by one or more major rating agencies. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset-backed securities. The Company's procedures for evaluating investments in securities are in accordance with guidance issued by the Board of Governors of the Federal Reserve System, "Investing in Securities without Reliance on Nationally Recognized Statistical Rating Agencies" (SR 12-15) and other regulatory guidance. There have been no significant differences in the Company's internal analyses compared with the ratings assigned by the third party credit rating agencies.

The Company had no equity securities at December 31, 2019. All of the equity securities were sold with no gains or losses from the sale during the third quarter 2019. The market value of the equity securities was $1,747 thousand at December 31, 2018. The Company recognized gross unrealized holding gains of $50 thousand in earnings in 2019.

The following table shows the fair value carrying amount of the Company's equity securities and debt securities available for sale as of the dates indicated:

	At December 31,		
	2019	2018	2017
	(In thousands)		
Equity securities:			
Mutual funds	$ -	$1,747	$1,800
Total equity securities	-	1,747	1,800
Debt securities available for sale:			
U.S. Treasury securities	20,000	139,574	-
Securities of U.S. Government sponsored entities	111,167	164,018	119,319
Agency residential mortgage-backed securities (MBS)	939,750	853,871	767,706
Non-agency residential MBS	-	114	154
Agency commercial MBS	3,708	1,842	2,219
Securities of U.S. Government entities	544	1,119	1,590
Obligations of states and political subdivisions	163,139	179,091	185,221
Corporate securities	1,833,783	1,315,041	1,115,498
Collateralized Loan Obligations	6,755	-	-
Total debt securities available for sale	3,078,846	2,654,670	2,191,707
Total	$3,078,846	$2,656,417	$2,193,507

The following table sets forth the relative maturities and contractual yields of the Company's debt securities available for sale (stated at fair value) at December 31, 2019. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate. Mortgage-backed securities are shown separately because they are typically paid in monthly installments over a number of years.

Debt Securities Available for Sale Maturity Distribution

	At December 31, 2019					
	Within one year	After one but within five years	After five but within ten years	After ten years	Mortgage-backed	Total
	($ in thousands)					
U.S. Treasury securities	$20,000	$ -	$ -	$ -	$ -	$20,000
Interest rate	2.56%	- %	- %	- %	- %	2.56%
Securities of U.S. Government sponsored entities	1,001	110,166	-	-	-	111,167
Interest rate	2.00%	1.92%	- %	- %	- %	1.93%
Securities of U.S. Government entities	-	-	544	-	-	544
Interest rate	- %	- %	3.61%	- %	- %	3.61%
Obligations of states and political subdivisions	18,852	45,770	64,052	34,465	-	163,139
Interest rate	2.91%	4.15%	4.00%	2.96%	- %	3.58%
Corporate securities	255,402	966,455	611,926	-	-	1,833,783
Interest rate	2.65%	2.69%	3.22%	- %	- %	2.85%
Collaterized loan obligations	-	-	6,755	-	-	6,755
Interest rate	- %	- %	2.78%	- %	- %	2.78%
Subtotal	295,255	1,122,391	683,277	34,465	-	2,135,388
Interest rate	2.66%	2.67%	3.29%	2.96%	- %	2.85%
MBS	-	-	-	-	943,458	943,458
Interest rate	- %	- %	- %	- %	2.36%	2.36%
Total	$295,255	$1,122,391	$683,277	$34,465	$943,458	$3,078,846
Interest rate	2.66%	2.67%	3.29%	2.96%	2.36%	2.70%

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

	At December 31,		
	2019	2018	2017
	(In thousands)		
Agency residential MBS	$353,937	$447,332	$545,883
Non-agency residential MBS	2,354	3,387	4,462
Agency commercial MBS	-	-	9,041
Obligations of states and political subdivisions	381,781	533,890	599,478
Total	$738,072	$984,609	$1,158,864
Fair value	$744,296	$971,445	$1,155,342

The following table sets forth the relative maturities and contractual yields of the Company's debt securities held to maturity at December 31, 2019. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate. Mortgage-backed securities are shown separately because they are typically paid in monthly installments over a number of years.

Debt Securities Held to Maturity Maturity Distribution

	At December 31, 2019					
	Within one year	After one but within five years	After five but within ten years	After ten years	Mortgage-backed	Total
	($ in thousands)					
Obligations of states and political subdivisions	$70,378	$161,911	$149,492	$ -	$ -	$381,781
Interest rate	2.24%	2.98%	3.54%	- %	- %	3.04%
MBS	-	-	-	-	356,291	356,291
Interest rate	- %	- %	- %	- %	1.94%	1.94%
Total	$70,378	$161,911	$149,492	$ -	$356,291	$738,072
Interest rate	2.24%	2.98%	3.54%	- %	1.94%	2.51%

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

	At December 31, 2019		At December 31, 2018	
	Market value	As a percent of total corporate securities	Market value	As a percent of total corporate securities
	($ in thousands)			
Financial	$772,852	42%	$531,512	40%
Utilities	222,951	12%	197,568	15%
Consumer, Non-cyclical	185,784	10%	169,851	13%
Industrial	177,051	10%	152,636	12%
Communications	128,635	7%	49,642	4%
Technology	107,632	6%	105,324	8%
Energy	86,883	5%	19,668	1%
Basic Materials	76,434	4%	30,410	2%
Consumer, Cyclical	75,561	4%	58,430	5%
Total Corporate securities	$1,833,783	100%	$1,315,041	100%

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

At December 31, 2019, the Company's investment securities portfolios included securities issued by 451 state and local government municipalities and agencies located within 42 states. The largest exposure to any one municipality or agency was $9.0 million (fair value) represented by one general obligation bond.

	At December 31, 2019	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	$83,984	$86,527
Texas	36,396	36,815
New Jersey	29,347	29,688
Washington	23,862	24,516
Minnesota	20,624	20,871
Other (33 states)	189,286	193,302
Total general obligation bonds	$383,499	$391,719
Revenue bonds:		
California	$31,829	$32,278
Kentucky	16,384	16,680
Colorado	12,176	12,479
Washington	11,208	11,509
Indiana	9,935	10,145
Virginia	8,027	8,328
Arizona	7,912	8,106
Other (25 states)	60,338	61,347
Total revenue bonds	$157,809	$160,872
Total obligations of states and political subdivisions	$541,308	$552,591

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At December 31, 2018, the Company's investment securities portfolios included securities issued by 583 state and local government municipalities and agencies located within 43 states. The largest exposure to any one municipality or agency was $9.3 million (fair value) represented by eight general obligation bonds.

	At December 31, 2018	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	$104,607	$105,730
Texas	56,653	56,286
New Jersey	35,501	35,527
Minnesota	29,609	29,593
Other (35 states)	267,402	266,136
Total general obligation bonds	$493,772	$493,272
Revenue bonds:		
California	$35,164	$35,399
Kentucky	19,320	19,328
Colorado	14,564	14,539
Washington	13,034	13,228
Iowa	13,202	13,052
Indiana	12,007	12,034
Other (28 states)	113,047	112,805
Total revenue bonds	$220,338	$220,385
Total obligations of states and political subdivisions	$714,110	$713,657

At December 31, 2019 and December 31, 2018, 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 20 revenue sources at December 31, 2019 and 22 revenue sources December 31, 2018. The revenue sources that represent 5% or more individually of the total revenue bonds are summarized in the following tables.

	At December 31, 2019	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	$36,960	$37,699
Sewer	19,039	19,545
Sales tax	15,695	16,101
Lease (renewal)	15,230	15,539
Lease (abatement)	10,913	11,160
Other (15 sources)	59,972	60,828
Total revenue bonds by revenue source	$157,809	$160,872

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	At December 31, 2018	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	$46,326	$46,671
Sales tax	28,264	28,517
Sewer	28,335	28,502
Lease (renewal)	17,013	17,051
College & University	13,919	13,714
Other (17 sources)	86,481	85,930
Total revenue bonds by revenue source	$220,338	$220,385

See Note 2 to the consolidated financial statements for additional information related to the investment securities.

Loan Portfolio

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

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

Commercial loans represent term loans used to acquire durable business assets or revolving lines of credit used to finance working capital. Underwriting practices evaluate each borrower's cash flow as the principal source of loan repayment. Commercial loans are generally secured by the borrower's business assets as a secondary source of repayment. Commercial loans are evaluated for credit-worthiness based on prior loan performance and borrower financial information including cash flow, borrower net worth and aggregate debt.

Commercial real estate loans represent term loans used to acquire or refinance 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. A first lien on the real estate serves as collateral to secure the loan.

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

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

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

Loan volumes have declined due to payoffs and problem loan workout activities, particularly with purchased loans, and reduced volumes of loan originations. The Company did not take an aggressive posture relative to loan portfolio growth during the post-recession period of historically low interest rates. Management increased investment securities as loan volumes declined.

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

Loan Portfolio

	At December 31,				
	2019	2018	2017	2016	2015
	(In thousands)				
Commercial	$222,085	$275,080	$335,996	$354,697	$382,748
Commercial real estate	578,758	580,480	568,584	542,171	637,456
Construction	1,618	3,982	5,649	2,555	3,951
Residential real estate	32,748	44,866	65,183	87,724	120,091
Consumer installment and other	291,455	302,794	312,570	365,564	389,150
Total loans	$1,126,664	$1,207,202	$1,287,982	$1,352,711	$1,533,396

The following table shows the maturity distribution and interest rate sensitivity of commercial, commercial real estate, and construction loans at December 31, 2019. Balances exclude residential real estate loans and consumer loans totaling $324.2 million. These types of loans are typically paid in monthly installments over a number of years.

Loan Maturity Distribution

	At December 31, 2019			
	Within One Year	One to Five Years	After Five Years	Total
	(In thousands)			
Commercial and Commercial real estate	$81,528	$153,156	$566,159	$800,843
Construction	1,618	-	-	1,618
Total	$83,146	$153,156	$566,159	$802,461
Loans with fixed interest rates	$36,610	$64,427	$32,451	$133,488
Loans with floating or adjustable interest rates	46,536	88,729	533,708	668,973
Total	$83,146	$153,156	$566,159	$802,461

Commitments and Letters of Credit

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

Loan Portfolio Credit Risk

The Company extends loans to commercial and consumer customers which expose the Company to the risk borrowers will default, causing loan losses. The Company's lending activities are exposed to various qualitative risks. All loan segments are exposed to risks inherent in the economy and market conditions. Significant risk characteristics related to the commercial loan segment include the borrowers' business performance and financial condition, and the value of collateral for secured loans. Significant risk characteristics related to the commercial real estate segment include the borrowers' business performance and the value of properties collateralizing the loans. Significant risk characteristics related to the construction loan segment include the borrowers' performance in successfully developing the real estate into the intended purpose and the value of the property collateralizing the loans. Significant risk characteristics related to the residential real estate segment include the borrowers' financial wherewithal to service the mortgages and the value of the property collateralizing the loans. Significant risk characteristics related to the consumer loan segment include the financial condition of the borrowers and the value of collateral securing the loans.

The preparation of the financial statements requires Management to estimate the amount of losses inherent in the loan portfolio and establish an allowance for credit losses. The allowance for credit losses is maintained by assessing or reversing a provision for loan losses through the Company's earnings. In estimating credit losses, Management must exercise judgment in evaluating information deemed relevant, such as financial information regarding individual borrowers, overall 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 audit committee of the Board of Directors. The Loan Review Department performs independent evaluations of loans to challenge the credit risk grades assigned by Management using grading standards employed by bank regulatory agencies. Those loans judged to carry higher risk attributes are referred to as "classified loans." Classified loans receive elevated Management attention to maximize collection.

- The Bank maintains two loan administration offices whose sole responsibility is to manage and collect classified loans.

Classified loans with higher levels of credit risk are further designated as "nonaccrual loans." Management places classified loans on nonaccrual status when full collection of contractual interest and principal payments is in doubt. Uncollected interest previously accrued on loans placed on nonaccrual status is reversed as a charge against interest income. The Company does not accrue interest income on loans following placement on nonaccrual status. Interest payments received on nonaccrual loans are applied to reduce the carrying amount of the loan unless the carrying amount is well secured by loan collateral. "Nonperforming assets" include nonaccrual loans, loans 90 or more days past due and still accruing, and repossessed loan collateral (commonly referred to as "Other Real Estate Owned").

Nonperforming Assets

	At December 31,				
	2019	2018	2017	2016	2015
	(In thousands)				
Nonperforming nonaccrual loans	$659	$998	$1,641	$3,956	$14,648
Performing nonaccrual loans	3,781	3,870	4,285	4,429	350
Total nonaccrual loans	4,440	4,868	5,926	8,385	14,998
Accruing loans 90 or more days past due	440	551	531	497	295
Total nonperforming loans	4,880	5,419	6,457	8,882	15,293
Other real estate owned	43	350	1,426	3,095	9,264
Total nonperforming assets	$4,923	$5,769	$7,883	$11,977	$24,557

Nonperforming assets have declined during 2019 due to payoffs, chargeoffs and sale of Other Real Estate Owned. At December 31, 2019, one loan secured by commercial real estate with a balance of $3.7 million was on nonaccrual status. The remaining eight nonaccrual loans held at December 31, 2019 had an average carrying value of $96 thousand.

Management believes the overall credit quality of the loan portfolio is reasonably stable; however, classified and nonperforming assets could fluctuate from period to period. The performance of any individual loan can be affected by external factors such as the interest rate environment, economic conditions, and collateral values or factors particular to the borrower. No assurance can be given that additional increases in nonaccrual and delinquent loans will not occur in the future.

Allowance for Credit Losses

The Company's allowance for loan losses represents Management's estimate of loan losses inherent in the loan portfolio. In evaluating credit risk for loans, Management measures loss potential of the carrying value of loans. As described above, payments received on nonaccrual loans may be applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected.

The following table summarizes the allowance for loan losses, chargeoffs and recoveries for the periods indicated:

	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
			($ in thousands)		
Analysis of the Allowance for Loan Losses					
Balance, beginning of period	$21,351	$23,009	$25,954	$29,771	$31,485
(Reversal of) provision for loan losses	-	-	(1,900)	(3,200)	-
Loans charged off:					
Commercial	(97)	(513)	(961)	(2,023)	(756)
Commercial real estate	-	(240)	-	-	(449)
Construction	-	-	-	-	(431)
Residential real estate	-	-	-	-	-
Consumer and other installment	(4,473)	(4,124)	(4,957)	(4,749)	(3,493)
Total chargeoffs	(4,570)	(4,877)	(5,918)	(6,772)	(5,129)
Recoveries of loans previously charged off:					
Commercial	768	1,447	762	4,028	1,174
Commercial real estate	196	-	88	554	290
Construction	-	-	1,899	-	45
Consumer and other installment	1,739	1,772	2,124	1,573	1,906
Total recoveries	2,703	3,219	4,873	6,155	3,415
Net loan losses	(1,867)	(1,658)	(1,045)	(617)	(1,714)
Balance, end of period	$19,484	$21,351	$23,009	$25,954	$29,771
Net loan losses as a percentage of average loans	0.16%	0.14%	0.08%	0.04%	0.11%

The Company's allowance for loan losses is maintained at a level considered appropriate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall loan loss experience, the amount of past due, nonperforming and classified loans, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is individually allocated to impaired loans whose full collectability of principal is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. The Company evaluates all loans with outstanding principal balances in excess of $500 thousand that are classified or on nonaccrual status and all "troubled debt restructured" loans for impairment. The remainder of the loan portfolio is collectively evaluated for impairment based in part on quantitative analyses of historical loan loss experience of loan portfolio segments to determine standard loss rates for each segment. The loss rate for each loan portfolio segment reflects both the historical loss experience during a look-back period and a loss emergence period. Liquidating purchased consumer installment loans are evaluated separately by applying historical loss rates to forecasted liquidating principal balances to measure losses inherent in this portfolio segment. The loss rates are applied to segmented loan balances to allocate the allowance to the segments of the loan portfolio.

The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. The unallocated allowance addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in loan chargeoff history (external factors). The primary external factor evaluated by the Company and the judgmental amount of unallocated reserve assigned by Management as of December 31, 2019 is economic and business conditions $0.5 million. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company and the judgmental amount of unallocated reserve assigned by Management are: concentrations of credit at $1.2 million, adequacy of lending Management and staff at $0.9 million, and loan review system at $1.1 million.

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

	At December 31, 2019		2018		2017		2016		2015	
	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans
	($ in thousands)									
Commercial	$4,959	20%	$6,311	23%	$7,746	26%	$8,327	26%	$9,559	25%
Commercial real estate	4,064	51%	3,884	48%	3,849	44%	3,330	40%	4,212	42%
Construction	109	- %	1,465	- %	335	1%	152	- %	235	- %
Residential real estate	206	3%	869	4%	995	5%	1,330	7%	1,801	8%
Consumer installment and other	6,445	26%	5,645	25%	6,418	24%	7,980	27%	8,001	25%
Unallocated portion	3,701	- %	3,177	- %	3,666	- %	4,835	- %	5,963	- %
Total	$19,484	100%	$21,351	100%	$23,009	100%	$25,954	100%	$29,771	100%

The portion of the allowance for loan losses ascribed to loan segments changed from December 31, 2018 to December 31, 2019 based on Management's evaluation of credit risk. The allowance for loan losses ascribed to commercial loans, construction loans and residential real estate loans declined primarily due to lower levels of credit exposure. The allowance for loan losses ascribed to consumer installment loans increased based on Management's assessment of delinquency rates.

	Allowance for Loan Losses For the Twelve Months Ended December 31, 2019						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Balance at beginning of period	$6,311	$3,884	$1,465	$869	$5,645	$3,177	$21,351
(Reversal) provision	(2,023)	(16)	(1,356)	(663)	3,534	524	-
Chargeoffs	(97)	-	-	-	(4,473)	-	(4,570)
Recoveries	768	196	-	-	1,739	-	2,703
Total allowance for loan losses	$4,959	$4,064	$109	$206	$6,445	$3,701	$19,484

	Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment At December 31, 2019						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Individually evaluated for impairment	$2,413	$-	$-	$-	$-	$-	$2,413
Collectively evaluated for impairment	2,546	4,064	109	206	6,445	3,701	17,071
Total	$4,959	$4,064	$109	$206	$6,445	$3,701	$19,484
Carrying value of loans:							
Individually evaluated for impairment	$8,182	$7,409	$-	$190	$43	$-	$15,824
Collectively evaluated for impairment	213,903	571,349	1,618	32,558	291,412	-	1,110,840
Total	$222,085	$578,758	$1,618	$32,748	$291,455	$-	$1,126,664

Management considers the $19.4 million allowance for loan losses to be adequate as a reserve against probable incurred loan losses in the loan portfolio as of December 31, 2019.

See Note 3 to the consolidated financial statements for additional information related to the loan portfolio, loan portfolio credit risk, and allowance for loan losses.

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Asset/Liability and Market Risk Management

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

Interest Rate Risk

Interest rate risk is a significant market risk affecting the Company. Many factors affect the Company's exposure to interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Financial instruments may mature or re-price at different times. Financial instruments may re-price at the same time but by different amounts. Short-term and long-term market interest rates may change by different amounts. The timing and amount of cash flows of various financial instruments may change as interest rates change. In addition, the changing levels of interest rates may have an impact on loan demand and demand for various deposit products.

The Company's earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the United States government and its agencies, particularly the FOMC. The monetary policies of the FOMC can influence the overall growth of loans, investment securities, and deposits and the level of interest rates earned on loans and investment securities and paid for deposits and other borrowings. The nature and impact of future changes in monetary policies are generally not predictable.

Management attempts to manage interest rate risk while enhancing the net interest margin and net interest income. At times, depending on expected increases or decreases in market interest rates, the relationship between long and short-term interest rates, market conditions and competitive factors, Management may adjust the Company's interest rate risk position. The Company's results of operations and net portfolio values remain subject to changes in interest rates and to fluctuations in the difference between long and short-term interest rates.

Management monitors the Company's interest rate risk using a purchased simulation model, which is periodically validated using supervisory guidance issued by the Board of Governors of the Federal Reserve System, SR 11-7 "Guidance on Model Risk Management." Management measures its exposure to interest rate risk using both a static and dynamic composition of financial instruments. Within the static composition simulation, cash flows are assumed redeployed into like financial instruments at prevailing rates and yields. Within the dynamic composition simulation, Management makes assumptions regarding the expected change in the volume of financial instruments given the assumed change in market interest rates. Both simulations are used to measure expected changes in net interest income assuming various levels of change in market interest rates.

The Company's asset and liability position was slightly "asset sensitive" at December 31, 2019, depending on the interest rate assumptions applied to each simulation model. An "asset sensitive" position results in a slightly larger change in interest income than in interest expense resulting from application of assumed interest rate changes.

At December 31, 2019, Management's most recent measurements of estimated changes in net interest income were:

Static Simulation (balance sheet composition unchanged):			
Assumed Immediate Parallel Shift in Interest Rates	-1.00%	0.00%	+1.00%
First Year Change in Net Interest Income	-8.20%	0.00%	+5.10%
Dynamic Simulation (balance sheet composition changes):			
Assumed Change in Interest Rates Over 1 Year	-1.00%	0.00%	+1.00%
First Year Change in Net Interest Income	-4.10%	0.00%	+1.90%

Simulation estimates depend on, and will change with, the size and mix of the actual and projected composition of financial instruments at the time of each simulation.

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

Market Risk - Equity Markets

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

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

Market Risk - Other

Market values of loan collateral can directly impact the level of loan chargeoffs and the provision for 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 securities portfolio requiring the Company to recognize other than temporary impairment charges. Other types of market risk, such as foreign currency exchange risk, are not significant in the normal course of the Company's business activities.

Liquidity and Funding

The objective of liquidity management is to manage cash flow and liquidity reserves so that they are adequate to fund the 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 98% of funding for average total assets in the twelve months ended December 31, 2019 and December 31, 2018. 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.

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 source of liquidity. The Company held $3.8 billion in total investment securities at December 31, 2019. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At December 31, 2019, such collateral requirements totaled approximately $760 million.

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

Management continually monitors the Company’s cash levels. 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, liquidity management and a variety of other conditions, deposit growth may be used to fund loans or purchase investment securities. However, due to possible volatility in economic conditions, competition and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

Westamerica Bancorporation ("Parent Company") is a separate entity apart from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for the payment of dividends declared for its shareholders, and interest and principal on any outstanding debt. The Parent Company currently has no 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, proceeds from the exercise of stock options, and Parent Company cash balances provided adequate cash for the Parent Company to pay shareholder dividends of $44 million and $43 million in the years ended December 31, 2019 and December 31, 2018, respectively, and retire common stock in the amount of $488 thousand and $524 thousand, respectively. Payment of dividends to the Parent Company by the Bank is limited under California and Federal laws. The Company believes these regulatory dividend restrictions will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

Contractual Obligations

Deposits and sort-term borrowings are detailed on pages 42, 43 and 44. The following table sets forth the known contractual obligations, except deposits, short-term borrowing arrangements and post-retirement benefit plans, of the Company:

	At December 31, 2019				
	Within One Year	Over One to Three Years	Over Three to Five Years	After Five Years	Total
			(In thousands)		
Operating Lease Obligations	$6,048	$7,683	$3,838	$637	$18,206
Purchase Obligations	8,457	8,584	-	-	17,041
Total	$14,505	$16,267	$3,838	$637	$35,247

Operating lease obligations have not been reduced by minimum sublease rentals of $1.5 million due in the future under noncancelable subleases. Operating lease obligations may be retired prior to the contractual maturity as discussed in the notes to the consolidated financial statements. The purchase obligation consists of the Company's minimum liabilities under contracts with third-party automation services providers.

Capital Resources

The Company has historically generated high levels of earnings, which provide a means of accumulating capital. The Company's net income as a percentage of average shareholders' equity ("return on equity" or "ROE") has been 11.9% in the year ended December 31, 2019 and 11.3% in the year ended December 31, 2018. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options was $14 million in the year ended December 31, 2019 and $13 million in the year ended December 31, 2018.

The Company paid common dividends totaling $44 million in the year ended December 31, 2019 and $43 million in the year ended December 31, 2018, which represent dividends per common share of $1.63 and $1.60, respectively. The Company's earnings have historically exceeded dividends paid to shareholders. The amount of earnings in excess of dividends provides the Company resources to finance growth and maintain appropriate levels of shareholders' equity. In the absence of profitable growth opportunities, the Company has at times repurchased and retired its common stock as another means to return earnings to shareholders. The Company repurchased and retired 8 thousand shares valued at $488 thousand in the year ended December 31, 2019 and 9 thousand shares valued at $524 thousand in the year ended December 31, 2018.

The Company's primary capital resource is shareholders' equity, which was $731 million at December 31, 2019 compared with $616 million at December 31, 2018. The Company's ratio of equity to total assets was 13.0% at December 31, 2019 and 11.1% at December 31, 2018.

The Company performs capital stress tests on a periodic basis to evaluate the sustainability of its capital. Under the stress testing, the Company assumes various scenarios such as deteriorating economic and operating conditions, unanticipated asset devaluations,

and significant operational lapses. The Company measures the impact of these scenarios on its earnings and capital. Based on the results of the most recent stress tests, Management is satisfied with the capital condition of the Bank and the Company. However, no assurance can be given the Bank or Company will not experience a period of reduced earnings or a reduction in capital from unanticipated events and circumstances.

Capital to Risk-Adjusted Assets

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

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

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

Banking organizations that are not subject to the "advanced approaches rule" began complying with the final rule on January 1, 2015; on such date, the Company and the Bank became subject to the revised definitions of regulatory capital, the new minimum regulatory capital ratios, and various regulatory capital adjustments and deductions according to transition provisions and timelines. All banking organizations began calculating standardized total risk-weighted assets on January 1, 2015. The transition period for the capital conservation buffer for all banking organizations began on January 1, 2016 and ended January 1, 2019, when the 2.5% capital conservation buffer was fully implemented. Any banking organization subject to the rule which is unable to maintain its "capital conservation buffer" above the minimum regulatory capital ratios will be restricted in the payment of discretionary executive compensation and shareholder distributions, such as dividends and share repurchases.

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

The capital ratios for the Company and the Bank under the new capital framework are presented in the tables below, on the dates indicated.

	At December 31, 2019		Required for Capital Adequacy Purposes	To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank		
Common Equity Tier I Capital	16.22%	11.80%	7.00%[1]	6.50%
Tier I Capital	16.22%	11.80%	8.50%[1]	8.00%
Total Capital	16.83%	12.58%	10.50%[1]	10.00%
Leverage Ratio	10.50%	7.60%	4.00%	5.00%

[1] Includes 2.5% capital conservation buffer.

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	At December 31, 2018		Required for Capital Adequacy Purposes		To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank	Effective January 1, 2018	Effective January 1, 2019	
Common Equity Tier I Capital	16.30%	13.01%	6.375%[1]	7.00%[2]	6.50%
Tier I Capital	16.30%	13.01%	7.875%[1]	8.50%[2]	8.00%
Total Capital	17.03%	13.94%	9.875%[1]	10.50%[2]	10.00%
Leverage Ratio	9.51%	7.55%	4.000%	4.00%	5.00%

[1] Includes 1.875% capital conservation buffer.
[2] Includes 2.5% capital conservation buffer.

In June 2016, the Financial Accounting Standards Board issued an update to the accounting standards for credit losses known as the "Current Expected Credit Losses" (CECL) methodology, which replaces the existing incurred loss methodology for certain financial assets. The Company will adopt the CECL methodology effective January 1, 2020, which involves an implementing accounting entry to retained earnings on a net-of-tax basis. In December 2018, the federal bank regulatory agencies approved a final rule which became effective April 1, 2019, modifying their regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of implementing the CECL methodology. The Company does not expect the adoption of the CECL methodology to have a material adverse day-one impact to capital ratios and does not plan to adopt the phase in regulatory capital relief. See Note 1 to the consolidated financial statements, “Recently Issued Accounting Standards” for more information on the CECL methodology.

The Company and the Bank routinely project capital levels by analyzing forecasted earnings, credit quality, shareholder dividends, asset volumes, share repurchase activity, stock option exercise proceeds, and other factors. Based on current capital projections, the 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.

Deposit Categories

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

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

Deposit Distribution and Average Rates Paid

	For the Years Ended December 31,								
	2019			2018			2017		
	Average Balance	Percentage of Total Deposits	Rate	Average Balance	Percentage of Total Deposits	Rate	Average Balance	Percentage of Total Deposits	Rate
	($ In thousands)								
Noninterest-bearing demand	$2,222,876	46.3%	- %	$2,209,924	45.4%	- %	$2,095,522	44.4%	- %
Interest bearing:									
Transaction	932,524	19.4%	0.05%	928,277	19.0%	0.04%	888,116	18.8%	0.03%
Savings	1,464,080	30.5%	0.06%	1,519,375	31.2%	0.06%	1,492,725	31.6%	0.02%
Time less than $100 thousand	103,399	2.2%	0.25%	119,586	2.5%	0.23%	136,324	2.9%	0.17%
Time $100 thousand or more	78,925	1.6%	0.41%	94,919	1.9%	0.39%	109,563	2.3%	0.38%
Total [1]	$4,801,804	100.0%	0.07%	$4,872,081	100.0%	0.04%	$4,722,250	100.0%	0.04%

[1] The rates for total deposits reflect the value of noninterest-bearing deposits.

The Company’s strategy includes building the value of its deposit base by building balances of lower-costing deposits and avoiding reliance on higher-costing time deposits. Average balances of higher costing time deposits declined 26% to $182 million from 2017 to 2019. The Company’s average balances of checking and savings accounts represented 96% of average balances of total deposits in 2019 compared with 96% in 2018 and 95% in 2017.

Total time deposits were $169 million and $195 million at December 31, 2019 and 2018, respectively. The following table sets forth, by time remaining to maturity, the Company's total domestic time deposits. The Company has no foreign time deposits.

Time Deposits Maturity Distribution

	At December 31, 2019
	(In thousands)
2020	$126,859
2021	20,375
2022	9,300
2023	5,871
2024	6,892
Thereafter	40
Total	$169,337

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

Time Deposits $100,000 or more Maturity Distribution

	At December 31, 2019
	(In thousands)
Three months or less	$26,739
Over three through six months	14,263
Over six through twelve months	17,257
Over twelve months	22,723
Total	$80,982

Short-term Borrowings

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

Short-Term Borrowings Distribution

	At December 31,		
	2019	2018	2017
		(In thousands)	
Securities sold under agreements to repurchase the securities	$30,928	$51,247	$58,471
Total short-term borrowings	$30,928	$51,247	$58,471

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

	For the Years Ended December 31,		
	2019	2018	2017
	($ in thousands)		
Federal funds purchased balances and rates paid on outstanding amount:			
Average balance for the year	$1	$1	$5
Maximum month-end balance during the year	-	-	-
Average interest rate for the year	1.98%	2.56%	1.53%
Average interest rate at period end	- %	- %	- %
Securities sold under agreements to repurchase the securities balances and rates paid on outstanding amount:			
Average balance for the year	$51,441	$59,991	$69,666
Maximum month-end balance during the year	61,411	68,894	82,126
Average interest rate for the year	0.07%	0.06%	0.06%
Average interest rate at period end	0.06%	0.06%	0.06%

Financial Ratios

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

	At and For the Years Ended December 31,		
	2019	2018	2017
Return on average total assets	1.44%	1.27%	0.92%
Return on average common shareholders' equity	11.90%	11.35%	8.39%
Average shareholders' equity as a percentage of:			
Average total assets	12.07%	11.22%	10.96%
Average total loans	58.14%	52.16%	45.34%
Average total deposits	14.07%	12.95%	12.63%
Common dividend payout ratio	55%	60%	83%

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Westamerica Bancorporation and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 based upon criteria in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, Management determined that the Company's internal control over financial reporting was effective as of December 31, 2019 based on the criteria in Internal Control - Integrated Framework (2013) issued by COSO.

The Company's independent registered public accounting firm has issued an attestation report on the Company's internal control over financial reporting. Their opinion and attestation on internal control over financial reporting appear on page 88.

Dated: February 27, 2020

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2019	2018
	(In thousands)	
Assets:		
Cash and due from banks	$373,421	$420,284
Equity securities	-	1,747
Debt securities available for sale	3,078,846	2,654,670
Debt securities held to maturity, with fair values of:		
$744,296 at December 31, 2019 and $971,445 at December 31, 2018	738,072	984,609
Loans	1,126,664	1,207,202
Allowance for loan losses	(19,484)	(21,351)
Loans, net of allowance for loan losses	1,107,180	1,185,851
Other real estate owned	43	350
Premises and equipment, net	34,597	34,507
Identifiable intangibles, net	1,391	1,929
Goodwill	121,673	121,673
Other assets	164,332	162,906
Total Assets	$5,619,555	$5,568,526
Liabilities:		
Noninterest-bearing deposits	$2,240,112	$2,243,251
Interest-bearing deposits	2,572,509	2,623,588
Total deposits	4,812,621	4,866,839
Short-term borrowed funds	30,928	51,247
Other liabilities	44,589	34,849
Total Liabilities	4,888,138	4,952,935
Contingencies (Note 12)		
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares		
Issued and outstanding: 27,062 at December 31, 2019 and 26,730 at December 31, 2018	465,460	448,351
Deferred compensation	771	1,395
Accumulated other comprehensive income (loss)	26,051	(39,996)
Retained earnings	239,135	205,841
Total Shareholders' Equity	731,417	615,591
Total Liabilities and Shareholders' Equity	$5,619,555	$5,568,526

See accompanying notes to consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands, except per share data)		
Interest and Loan Fee Income:			
Loans	$58,153	$59,030	$61,740
Equity securities	392	354	293
Debt securities available for sale	74,147	60,383	44,371
Debt securities held to maturity	18,997	24,031	27,432
Interest-bearing cash	6,993	7,925	4,476
Total Interest and Loan Fee Income	158,682	151,723	138,312
Interest Expense:			
Deposits	1,854	1,922	1,856
Short-term borrowed funds	34	37	44
Total Interest Expense	1,888	1,959	1,900
Net Interest and Loan Fee Income	156,794	149,764	136,412
Reversal of Provision for Loan Losses	-	-	(1,900)
Net Interest and Loan Fee Income After Reversal of Provision For Loan Losses	156,794	149,764	138,312
Noninterest Income:			
Service charges on deposit accounts	17,882	18,508	19,612
Merchant processing services	10,132	9,630	8,426
Debit card fees	6,357	6,643	6,421
Trust fees	2,963	2,938	2,875
ATM processing fees	2,776	2,752	2,610
Other service fees	2,255	2,567	2,584
Life insurance gains	433	585	-
Financial services commissions	392	499	639
Securities gains (losses)	217	(52)	7,955
Other noninterest income	4,001	4,079	5,506
Total Noninterest Income	47,408	48,149	56,628
Noninterest Expense:			
Salaries and related benefits	51,054	53,007	51,519
Occupancy and equipment	20,240	19,679	19,430
Outsourced data processing services	9,471	9,229	9,035
Professional fees	2,465	2,842	2,161
Courier service	1,878	1,779	1,732
Loss contingency	553	3,500	5,542
Amortization of identifiable intangibles	538	1,921	3,077
Impairment of tax credit investments	-	-	625
Other noninterest expense	12,787	14,959	14,647
Total Noninterest Expense	98,986	106,916	107,768
Income Before Income Taxes	105,216	90,997	87,172
Provision for income taxes	24,827	19,433	37,147
Net Income	$80,389	$71,564	$50,025
Average Common Shares Outstanding	26,956	26,649	26,291
Diluted Average Common Shares Outstanding	27,006	26,756	26,419
Per Common Share Data:			
Basic earnings	$2.98	$2.69	$1.90
Diluted earnings	2.98	2.67	1.89
Dividends paid	1.63	1.60	1.57

See accompanying notes to consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2019	2018	2017
		(In thousands)	
Net Income	$80,389	$71,564	$50,025
Other comprehensive income (loss):			
Changes in net unrealized gains (losses) on debt securities available for sale	93,936	(27,939)	(3,767)
Deferred tax (expense) benefit	(27,771)	8,258	1,585
Reclassification of gains included in net income	(167)	-	(7,955)
Deferred tax expense on gains included in net income	49	-	3,345
Changes in unrealized gains (losses) on debt securities available for sale, net of tax	66,047	(19,681)	(6,792)
Post-retirement benefit transition obligation amortization	-	-	59
Deferred tax expense	-	-	(25)
Post-retirement benefit transition obligation amortization, net of tax	-	-	34
Total Other Comprehensive Income (Loss)	66,047	(19,681)	(6,758)
Total Comprehensive Income	$146,436	$51,883	$43,267

See accompanying notes to consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares Outstanding	Common Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
			(In thousands, except per share data)			
Balance, December 31, 2016	25,907	$404,606	$1,533	($10,074)	$165,302	$561,367
Net income for the year 2017					50,025	50,025
Other comprehensive loss				(6,758)		(6,758)
Exercise of stock options	509	24,583				24,583
Restricted stock activity	13	707				707
Stock based compensation		1,824				1,824
Stock awarded to employees	2	104				104
Retirement of common stock	(6)	(90)			(224)	(314)
Dividends ($1.57 per share)					(41,299)	(41,299)
Balance, December 31, 2017	26,425	431,734	1,533	(16,832)	173,804	590,239
Cumulative effect of equity securities losses reclassified				142	(142)	-
Adjusted Balance, January 1, 2018	26,425	431,734	1,533	(16,690)	173,662	590,239
Reclass stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017				(3,625)	3,625	-
Net income for the year 2018					71,564	71,564
Other comprehensive loss				(19,681)		(19,681)
Exercise of stock options	292	13,373				13,373
Restricted stock activity	20	1,281	(138)			1,143
Stock based compensation		1,988				1,988
Stock awarded to employees	2	124				124
Retirement of common stock	(9)	(149)			(375)	(524)
Dividends ($1.60 per share)					(42,635)	(42,635)
Balance, December 31, 2018	26,730	448,351	1,395	(39,996)	205,841	615,591
Cumulative effect of bond premium amortization adjustment, net of tax					(2,801)	(2,801)
Adjusted Balance, January 1, 2019	26,730	448,351	1,395	(39,996)	203,040	612,790
Net income for the year 2019					80,389	80,389
Other comprehensive income				66,047		66,047
Shares issued from stock warrant exercise, net of repurchase	51	-				-
Exercise of stock options	269	13,699				13,699
Restricted stock activity	18	1,697	(624)			1,073
Stock based compensation	-	1,744				1,744
Stock awarded to employees	2	105				105
Retirement of common stock	(8)	(136)			(352)	(488)
Dividends ($1.63 per share)					(43,942)	(43,942)
Balance, December 31, 2019	27,062	$465,460	$771	$26,051	$239,135	$731,417

See accompanying notes to consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2019	**2018**	**2017**
		(In thousands)	
Operating Activities:			
Net income	$80,389	$71,564	$50,025
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization/accretion	20,626	24,402	26,082
Reversal of provision for loan losses	-	-	(1,900)
Net amortization of deferred loan fees	(260)	(203)	(46)
Increase in interest income receivable	(2,963)	(2,277)	(2,068)
Decrease (increase) in net deferred tax asset	3,662	(943)	27,018
Increase in other assets	(14,806)	(4,017)	(1,732)
Stock option compensation expense	1,744	1,988	1,824
(Decrease) increase in income taxes payable	(1,733)	7,554	(6,650)
Decrease in interest expense payable	(9)	(27)	(31)
(Decrease) increase in other liabilities	(5,298)	(580)	(3,016)
Life insurance gains	(433)	(585)	-
Securities (gains) losses	(217)	52	(7,955)
Gain on sale of other assets	-	-	(1,004)
(Gain) loss on disposal of premises and equipment	-	(216)	60
Net (gain) loss on sale of or write-down of foreclosed assets	-	(83)	147
Net Cash Provided by Operating Activities	80,702	96,629	80,754
Investing Activities:			
Net repayments of loans	79,396	80,985	66,065
Net payments under FDIC[1] indemnification agreements	-	-	(63)
Proceeds from life insurance policies	1,273	1,169	-
Purchases of debt securities available for sale	(970,542)	(854,555)	(635,814)
Proceeds from sale/maturity/calls of debt securities available for sale	631,016	353,327	319,324
Proceeds from maturity/calls of debt securities held to maturity	238,450	167,029	178,429
Proceeds from sale of equity securities	1,797	-	-
Purchases of premises and equipment	(3,994)	(3,123)	(2,720)
Proceeds from sale of premises and equipment	-	446	-
Proceeds from sale of foreclosed assets	307	1,159	1,521
Net Cash Used in Investing Activities	(22,297)	(253,563)	(73,258)
Financing Activities:			
Net change in deposits	(54,218)	39,226	122,872
Net change in short-term borrowings	(20,319)	(7,224)	(607)
Exercise of stock options	13,699	13,373	24,583
Retirement of common stock	(488)	(524)	(314)
Common stock dividends paid	(43,942)	(42,635)	(41,299)
Net Cash (Used in) Provided by Financing Activities	(105,268)	2,216	105,235
Net Change In Cash and Due from Banks	(46,863)	(154,718)	112,731
Cash and Due from Banks at Beginning of Period	420,284	575,002	462,271
Cash and Due from Banks at End of Period	$373,421	$420,284	$575,002
Supplemental Cash Flow Disclosures:			
Supplemental disclosure of noncash activities:			
Right-of-use assets acquired in exchange for operating lease liabilities	$23,587	$ -	$ -
Amount recognized upon initial adoption of ASU 2016-02	15,325	-	-
Supplemental disclosure of cash flow activities:			
Cash paid for amounts included in operating lease liabilities	5,123	-	-
Interest paid for the period	1,898	1,932	1,931
Income tax payments for the period	24,491	13,627	17,351

See accompanying notes to consolidated financial statements.

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

WESTAMERICA BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Business and Accounting Policies

Westamerica Bancorporation, a registered bank holding company (the "Company"), provides a full range of banking services to corporate and individual customers in Northern and Central California through its wholly-owned subsidiary bank, Westamerica Bank (the "Bank"). The Bank is subject to competition from both financial and nonfinancial institutions and to the regulations of certain agencies and undergoes periodic examinations by those regulatory authorities. All of the financial service operations are considered by management to be aggregated in one reportable operating segment.

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

Summary of Significant Accounting Policies

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

Accounting Estimates. Certain accounting policies underlying the preparation of these financial statements require Management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in fair value of an asset not carried on the financial statements at fair value warrants an impairment writedown or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. The allowance for loan losses accounting is an area requiring the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. A discussion of the factors affecting the accounting for the allowance for loan losses is included in the following "Loans" and "Allowance for Credit Losses" sections. Carrying assets and liabilities at fair value inherently results in financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third party sources, when available. The "Securities" section discusses the factors that may affect the valuation of the Company's securities. Although the estimates contemplate current conditions and how Management expects them to change in the future, it is reasonably possible that in 2020 actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition.

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

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

Equity Securities. Equity securities consist of marketable equity securities and mutual funds which are recorded at fair value. Unrealized gains and losses are included in net income effective January 1, 2018. Prior to such date unrealized gains and losses were included in other comprehensive income.

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

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

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

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

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

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

Loans. Loans are stated at the principal amount outstanding, net of unearned discount and unamortized deferred fees and costs. Interest is accrued daily on the outstanding principal balances. Loans which are more than 90 days delinquent with respect to interest or principal, unless they are well secured and in the process of collection, and other loans on which full recovery of principal or interest is in doubt, are placed on nonaccrual status. Interest previously accrued on loans placed on nonaccrual status is charged against interest income. In addition, some loans secured by real estate with temporarily impaired values and commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status ("performing nonaccrual loans") even though the borrowers continue to repay the loans as scheduled. When the ability to fully collect nonaccrual loan principal is in doubt, payments received are applied against the principal balance of the loans on a cost-recovery method until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Performing nonaccrual loans are reinstated to accrual status when improvements in credit quality eliminate the doubt as to the full collectability of both interest and principal. Certain consumer loans or auto receivables are charged off against the allowance for credit losses when they become 120 days past due.

The Company evaluates all classified loans and nonaccrual loans with outstanding principal balances in excess of $500 thousand, and all "troubled debt restructured" loans for impairment. The Company recognizes a loan as impaired when, based on current

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

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

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

Covered Loans. Loans covered under loss-sharing or similar credit protection agreements with the FDIC are reported in loans exclusive of the expected reimbursement cash flows from the FDIC. Covered loans are initially recorded at fair value at the acquisition date. Subsequent decreases in the amount expected to be collected results in a provision for loan losses and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss impacting earnings. Interest previously accrued on covered loans placed on nonaccrual status is charged against interest income, net of estimated FDIC reimbursements of such accrued interest. The FDIC reimburses the Company up to 80% of 90 days interest on covered loans. The indemnification expired February 6, 2019.

Allowance for Credit Losses. The Company extends loans to commercial and consumer customers primarily in Northern and Central California. These lending activities expose the Company to the risk borrowers will default, causing loan losses. The Company's lending activities are exposed to various qualitative risks. All loan segments are exposed to risks inherent in the economy and market conditions. Significant risk characteristics related to the commercial loan segment include the borrowers' business performance and financial condition, and the value of collateral for secured loans. Significant risk characteristics related to the commercial real estate segment include the borrowers' business performance and the value of properties collateralizing the loans. Significant risk characteristics related to the construction loan segment include the borrowers' performance in successfully developing the real estate into the intended purpose and the value of the property collateralizing the loans. Significant risk characteristics related to the residential real estate segment include the borrowers' financial wherewithal to service the mortgages and the value of the property collateralizing the loans. Significant risk characteristics related to the consumer loan segment include the financial condition of the borrowers and the value of collateral securing the loans.

The preparation of these financial statements requires Management to estimate the amount of probable incurred losses inherent in the loan portfolio and establish an allowance for credit losses. In estimating credit losses, Management must exercise significant judgment in evaluating information deemed relevant. The amount of ultimate losses on the loan portfolio can vary from the estimated amounts. Management follows a systematic methodology to estimate loss potential in an effort to reduce the differences between estimated and actual losses.

The allowance for credit losses is established through provisions for credit losses charged to income. Losses on loans, including impaired loans, are charged to the allowance for loan losses when all or a portion of the recorded amount of a loan is deemed to be

uncollectible. Recoveries of loans previously charged off are credited to the allowance when realized. The Company's allowance for credit losses is maintained at a level considered adequate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming and classified loans, recommendations of regulatory authorities, prevailing economic conditions, FDIC loss-sharing or similar credit protection agreements and other factors. A portion of the allowance is specifically allocated to impaired loans whose full collectability is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. The Company evaluates all classified loans and nonaccrual loans with outstanding principal balances in excess of $500 thousand, and all "troubled debt restructured" loans for impairment. A second allocation is based in part on quantitative analyses of historical credit loss experience. The results of this analysis are applied to current loan balances to allocate the reserve to the respective segments of the loan portfolio exclusive of loans individually evaluated for impairment. In addition, consumer installment loans which have similar characteristics and are not usually criticized using regulatory guidelines are analyzed and reserves established based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. The remainder of the reserve is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. It addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in past loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses that are attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific segment of the loan portfolio in a statistically meaningful manner.

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

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

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

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

Life Insurance Cash Surrender Value. The Company has purchased life insurance policies on certain directors and officers as well as acquired such assets as part of the acquisition of other banks. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. These assets are included in other assets on the consolidated balance sheets.

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

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

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

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

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

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

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

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

Recently Adopted Accounting Standards

In 2019, the Company adopted the following new accounting guidance:

FASB ASU 2016-02, *Leases (Topic 842),* was issued February 25, 2016. The provisions of the new standard require lessees to recognize most leases on-balance sheet, increasing reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP.

The Company adopted the ASU provisions effective January 1, 2019, and elected the modified retrospective transition approach. The Company elected the package of practical expedients provided in the ASU, which allowed the Company to rely on lease classification determinations made under prior accounting guidance and forego reevaluation of (i) whether any existing contracts are or contain a lease, (ii) whether existing leases are operating or finance leases, and (iii) the initial direct cost for any existing leases. The Company also elected to combine lease and non-lease components and exempt short-term leases with an original term of one year or less from on-balance sheet recognition. The implementing entry recognized a lease liability of $15.3 million and right-of-use asset of $15.3 million for facilities leases. The change in occupancy and equipment expense was not material.

FASB ASU 2017-08, *Receivables – Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, was issued March 2017. The ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the ASU requires the premium to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.

The Company adopted the ASU provisions on January 1, 2019. The implementing entry reduced the carrying value of investment securities, specifically obligations of states and political subdivisions, by $3.1 million and reduced retained earnings by $2.8 million, net of tax. The change in premium amortization method was not material to revenue recognition.

FASB ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, was issued August 2017. The ASU expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU also provides for a one-time reclassification of prepayable assets from held-to-maturity (HTM) to available for sale (AFS) regardless of derivative use.

The Company adopted the ASU provisions on January 1, 2019. 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. The Company evaluated the prepayable assets in the HTM portfolio and did not affect a one-time reclassification of prepayable assets from HTM to the AFS upon implementation.

Recently Issued Accounting Standards

FASB ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* was issued on June 16, 2016. The ASU significantly changes estimates for credit losses related to financial assets measured at amortized cost and certain other contracts. For estimating credit losses, the FASB is replacing the incurred loss model with the current expected credit loss (CECL) model, which will accelerate recognition of credit losses. Additionally, credit losses relating to debt securities available-for-sale will be recorded through an allowance for credit losses under the new standard. The Company will also be required to provide additional disclosures related to the financial assets within the scope of the new standard.

The Company will adopt the ASU provisions effective January 1, 2020. Management has evaluated available data, defined portfolio segments of loans with similar attributes, and selected loss estimate models for each identified loan portfolio segment. Management has measured historical loss rates for each portfolio segment. Management has also segmented debt securities held to maturity, selected methods to estimate losses for each segment, and preliminarily measured a loss estimate. Internal controls over financial reporting have been designed but have not completely operated. The company is reviewing and validating the most recent loss estimates and is completing the formal governance and approval processes. The Company expects the cumulative effect adjustment to have an immaterial impact on the allowance for loan losses, other liabilities, shareholders' equity, deferred taxes, and debt securities held to maturity.

FASB ASU 2018-13, *Fair Value Measurements (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, was issued August 2018. The ASU is part of the disclosure framework project, where the primary focus is to improve the effectiveness of disclosures in the financial statements. The ASU removes, modifies and adds disclosure requirements related to Fair Value Measurements.

The provisions of the ASU are effective January 1, 2020 with the option to early adopt any removed or modified disclosures upon issuance of the ASU. The Company early adopted the provisions to remove and/or modify relevant disclosures in the "Fair Value Measurements" note to the unaudited consolidated financial statements. The requirement to include additional disclosures will be adopted by the Company effective January 1, 2020. The additional disclosures will not affect the financial results upon adoption.

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Note 2: Investment Securities

Effective January 1, 2018, upon adoption of ASU 2016-01, equity securities included in the Company's available for sale portfolio of $1,800 thousand were reclassified to equity securities. The reclassification of equity securities resulted in recording a cumulative effect adjustment to decrease retained earnings by $142 thousand, net of tax.

The Company had no equity securities at December 31, 2019 due to the sales of such securities during the third quarter 2019. The market value of equity securities was $1,747 thousand at December 31, 2018. During the twelve months ended December 31, 2019, the Company recognized gross unrealized holding gains of $50 thousand in earnings. During the twelve months ended December 31, 2018, the Company recognized gross unrealized holding losses of $52 thousand in earnings.

An analysis of the amortized cost and fair value by major categories of debt securities available for sale, which are carried at fair value with net unrealized gains (losses) reported on an after-tax basis as a component of cumulative other comprehensive income, and debt securities held to maturity, which are carried at amortized cost, follows:

	At December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities available for sale				
U.S. Treasury securities	$19,999	$1	$ -	$20,000
Securities of U.S. Government sponsored entities	111,251	14	(98)	111,167
Agency residential mortgage-backed securities (MBS)	934,592	10,996	(5,838)	939,750
Agency commercial MBS	3,711	-	(3)	3,708
Securities of U.S. Government entities	553	-	(9)	544
Obligations of states and political subdivisions	159,527	3,656	(44)	163,139
Corporate securities	1,805,479	29,183	(879)	1,833,783
Collateralized Loan Obligations	6,748	7	-	6,755
Total debt securities available for sale	3,041,860	43,857	(6,871)	3,078,846
Debt securities held to maturity				
Agency residential MBS	353,937	766	(2,235)	352,468
Non-agency residential MBS	2,354	22	-	2,376
Obligations of states and political subdivisions	381,781	7,672	(1)	389,452
Total debt securities held to maturity	738,072	8,460	(2,236)	744,296
Total	$3,779,932	$52,317	($9,107)	$3,823,142

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	At December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Debt securities available for sale				
U.S. Treasury securities	$139,572	$5	($3)	$139,574
Securities of U.S. Government sponsored entities	167,228	65	(3,275)	164,018
Agency residential MBS	883,715	595	(30,439)	853,871
Non-agency residential MBS	113	1	-	114
Agency commercial MBS	1,869	-	(27)	1,842
Securities of U.S. Government entities	1,128	-	(9)	1,119
Obligations of states and political subdivisions	180,220	1,856	(2,985)	179,091
Corporate securities	1,337,608	1,075	(23,642)	1,315,041
Total debt securities available for sale	2,711,453	3,597	(60,380)	2,654,670
Debt securities held to maturity				
Agency residential MBS	447,332	249	(14,129)	433,452
Non-agency residential MBS	3,387	40	-	3,427
Obligations of states and political subdivisions	533,890	3,403	(2,727)	534,566
Total debt securities held to maturity	984,609	3,692	(16,856)	971,445
Total	$3,696,062	$7,289	($77,236)	$3,626,115

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

	At December 31, 2019			
	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$294,698	$295,255	$70,378	$70,602
Over 1 to 5 years	1,104,775	1,122,391	161,911	165,126
Over 5 to 10 years	670,595	683,277	149,492	153,724
Over 10 years	33,489	34,465	-	-
Subtotal	2,103,557	2,135,388	381,781	389,452
MBS	938,303	943,458	356,291	354,844
Total	$3,041,860	$3,078,846	$738,072	$744,296

	At December 31, 2018			
	Debt Securities Available for Sale		Debt Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$262,418	$261,976	$86,172	$86,148
Over 1 to 5 years	1,438,849	1,414,020	214,137	213,829
Over 5 to 10 years	85,817	85,877	232,544	233,515
Over 10 years	38,672	36,970	1,037	1,074
Subtotal	1,825,756	1,798,843	533,890	534,566
MBS	885,697	855,827	450,719	436,879
Total	$2,711,453	$2,654,670	$984,609	$971,445

Expected maturities of mortgage-related securities can differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. In addition, such factors as prepayments and interest rates may

affect the yield on the carrying value of mortgage-related securities. At December 31, 2019 and December 31, 2018, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

	Debt Securities Available for Sale At December 31, 2019								
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total	
	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value	Unrealized Losses
					($ in thousands)				
Securities of U.S. Government sponsored entities	1	$9,951	($49)	3	$45,877	($49)	4	$55,828	($98)
Agency residential MBS	6	11,674	(100)	47	347,384	(5,738)	53	359,058	(5,838)
Agency commercial MBS	1	3,708	(3)	-	-	-	1	3,708	(3)
Securities of U.S. Government entities	-	-	-	2	544	(9)	2	544	(9)
Obligations of states and political subdivisions	-	-	-	7	4,163	(44)	7	4,163	(44)
Corporate securities	8	71,577	(162)	11	64,380	(717)	19	135,957	(879)
Total	16	$96,910	($314)	70	$462,348	($6,557)	86	$559,258	($6,871)

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

	Debt Securities Held to Maturity At December 31, 2019								
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total	
	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unrecognized Losses
					($ in thousands)				
Agency residential MBS	6	$12,098	($87)	54	$277,203	($2,148)	60	$289,301	($2,235)
Obligations of states and political subdivisions	-	-	-	1	251	(1)	1	251	(1)
Total	6	$12,098	($87)	55	$277,454	($2,149)	61	$289,552	($2,236)

The unrealized losses on the Company's debt securities were caused by market conditions for these types of investments, particularly changes in risk-free interest rates. The Company evaluates debt securities on a quarterly basis including changes in security ratings issued by rating agencies, changes in the financial condition of the issuer, and, for mortgage-backed and asset-backed securities, delinquency and loss information with respect to the underlying collateral, changes in the levels of subordination for the Company's particular position within the repayment structure and remaining credit enhancement as compared to expected credit losses of the security. Substantially all of these securities continue to be investment grade rated by a major rating agency. One corporate bond with an amortized cost of $15.0 million and a fair value of $14.5 million at December 31, 2019, is rated below investment grade. 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 debt securities and has concluded that it is more likely than not that it will not be required to sell the debt securities prior to recovery of the amortized cost basis. Therefore, the Company does not consider these debt securities to be other-than-temporarily impaired as of December 31, 2019.

The fair values of the debt 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 debt securities declines. As a result, other than temporary impairments may occur in the future.

As of December 31, 2019 and December 31, 2018, the Company had debt securities pledged to secure public deposits and short-term borrowed funds of $760,365 thousand and $728,161 thousand, respectively.

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

	Debt Securities Available for Sale At December 31, 2018								
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total	
	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value	Unrealized Losses
					($ in thousands)				
U.S. Treasury securities	2	$54,805	($3)	-	$ -	$ -	2	$54,805	($3)
Securities of U.S. Government sponsored entities	1	990	(5)	9	117,963	(3,270)	10	118,953	(3,275)
Agency residential MBS	8	107,497	(507)	58	640,210	(29,932)	66	747,707	(30,439)
Agency commercial MBS	1	1,842	(27)	-	-	-	1	1,842	(27)
Securities of U.S. Government entities	-	-	-	2	1,119	(9)	2	1,119	(9)
Obligations of states and political subdivisions	32	26,452	(166)	71	67,121	(2,819)	103	93,573	(2,985)
Corporate securities	38	308,157	(3,403)	79	722,740	(20,239)	117	1,030,897	(23,642)
Total	82	$499,743	($4,111)	219	$1,549,153	($56,269)	301	$2,048,896	($60,380)

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

	Debt Securities Held to Maturity At December 31, 2018								
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total	
	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unrecognized Losses
					($ in thousands)				
Agency residential MBS	16	$8,495	($34)	78	$412,574	($14,095)	94	$421,069	($14,129)
Non-agency residential MBS	1	26	-	-	-	-	1	26	-
Obligations of states and political subdivisions	97	83,633	(271)	142	151,546	(2,456)	239	235,179	(2,727)
Total	114	$92,154	($305)	220	$564,120	($16,551)	334	$656,274	($16,856)

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

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Taxable	$77,800	$65,330	$51,445
Tax-exempt from regular federal income tax	15,736	19,438	20,651
Total interest income from investment securities	$93,536	$84,768	$72,096

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Note 3: Loans and Allowance for Credit Losses

At December 31, 2018, the Company had $5,713 thousand in loans secured by residential real estate which are indemnified from loss by the FDIC up to 80% of principal; the indemnification expired February 6, 2019.

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

	At December 31, 2019	2018
	(In thousands)	
Commercial	$222,085	$275,080
Commercial Real Estate	578,758	580,480
Construction	1,618	3,982
Residential Real Estate	32,748	44,866
Consumer Installment & Other	291,455	302,794
Total	$1,126,664	$1,207,202

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

	For the twelve months ended December 31, 2019	2018
Accretable yield:	(In thousands)	
Balance at the beginning of the period	$182	$738
Reclassification from nonaccretable difference	1,103	1,119
Accretion	(472)	(1,675)
Balance at the end of the period	$813	$182
Accretion	($472)	($1,675)
Change in FDIC indemnification	-	2
(Increase) in interest income	($472)	($1,673)

The following summarizes activity in the allowance for loan losses:

	Allowance for Loan Losses For the Twelve Months Ended December 31, 2019						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Balance at beginning of period	$6,311	$3,884	$1,465	$869	$5,645	$3,177	$21,351
(Reversal) provision	(2,023)	(16)	(1,356)	(663)	3,534	524	-
Chargeoffs	(97)	-	-	-	(4,473)	-	(4,570)
Recoveries	768	196	-	-	1,739	-	2,703
Total allowance for loan losses	$4,959	$4,064	$109	$206	$6,445	$3,701	$19,484

	Allowance for Loan Losses For the Twelve Months Ended December 31, 2018						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Balance at beginning of period	$7,746	$3,849	$335	$995	$6,418	$3,666	$23,009
(Reversal) provision	(2,369)	275	1,130	(126)	1,579	(489)	-
Chargeoffs	(513)	(240)	-	-	(4,124)	-	(4,877)
Recoveries	1,447	-	-	-	1,772	-	3,219
Total allowance for loan losses	$6,311	$3,884	$1,465	$869	$5,645	$3,177	$21,351

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Allowance for Loan Losses
For the Twelve Months Ended December 31, 2017

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Balance at beginning of period	$8,327	$3,330	$152	$1,330	$7,980	$4,835	$25,954
(Reversal) provision	(382)	431	(1,716)	(335)	1,271	(1,169)	(1,900)
Chargeoffs	(961)	-	-	-	(4,957)	-	(5,918)
Recoveries	762	88	1,899	-	2,124	-	4,873
Total allowance for loan losses	$7,746	$3,849	$335	$995	$6,418	$3,666	$23,009

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

Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment
At December 31, 2019

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Individually evaluated for impairment	$2,413	$-	$-	$-	$-	$-	$2,413
Collectively evaluated for impairment	2,546	4,064	109	206	6,445	3,701	17,071
Total	$4,959	$4,064	$109	$206	$6,445	$3,701	$19,484
Carrying value of loans:							
Individually evaluated for impairment	$8,182	$7,409	$-	$190	$43	$-	$15,824
Collectively evaluated for impairment	213,903	571,349	1,618	32,558	291,412	-	1,110,840
Total	$222,085	$578,758	$1,618	$32,748	$291,455	$-	$1,126,664

Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment
At December 31, 2018

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Individually evaluated for impairment	$2,752	$-	$-	$-	$-	$-	$2,752
Collectively evaluated for impairment	3,559	3,884	1,465	869	5,645	3,177	18,599
Total	$6,311	$3,884	$1,465	$869	$5,645	$3,177	$21,351
Carrying value of loans:							
Individually evaluated for impairment	$9,944	$8,438	$-	$717	$143	$-	$19,242
Collectively evaluated for impairment	265,136	572,042	3,982	44,149	302,651	-	1,187,960
Total	$275,080	$580,480	$3,982	$44,866	$302,794	$-	$1,207,202

The Company'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 Company's subsidiary, Westamerica Bank (the "Bank") maintains a Loan Review Department which reports directly to the Audit Committee of the Board of Directors. The Loan Review Department performs independent evaluations of loans and validates management assigned credit risk grades on evaluated loans using grading standards employed by bank regulatory agencies. Loans judged to carry lower-risk attributes are assigned a "pass" grade, with a minimal likelihood of loss. Loans judged to carry higher-risk attributes are referred to as "classified loans," and are further disaggregated, with increasing expectations for loss recognition, as "substandard," "doubtful," and "loss." Loan Review Department performs continuous evaluations throughout the year. If the Bank becomes aware of deterioration in a borrower's performance or financial condition between Loan Review Department examinations, assigned risk grades are re-evaluated promptly. Credit risk grades assigned by management and validated by the Loan Review Department are subject to review by the Bank's regulatory authorities during regulatory examinations.

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

Credit Risk Profile by Internally Assigned Grade At December 31, 2019						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Grade:						
Pass	$213,542	$567,525	$1,618	$31,055	$289,424	$1,103,164
Substandard	8,543	11,233	-	1,693	1,329	22,798
Doubtful	-	-	-	-	308	308
Loss	-	-	-	-	394	394
Total	$222,085	$578,758	$1,618	$32,748	$291,455	$1,126,664

Credit Risk Profile by Internally Assigned Grade At December 31, 2018						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Grade:						
Pass	$264,634	$567,578	$3,982	$43,112	$300,553	$1,179,859
Substandard	10,446	12,902	-	1,754	1,556	26,658
Doubtful	-	-	-	-	135	135
Loss	-	-	-	-	550	550
Total	$275,080	$580,480	$3,982	$44,866	$302,794	$1,207,202

Credit risk profile reflects internally assigned grades of purchased covered loans without regard to FDIC indemnification on $5,713 thousand in loans secured by residential real estate at December 31, 2018. The indemnification expired February 6, 2019.

The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status At December 31, 2019						
	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	$221,199	$531	$158	$ -	$197	$222,085
Commercial real estate	573,809	432	421	-	4,096	578,758
Construction	1,618	-	-	-	-	1,618
Residential real estate	31,934	274	540	-	-	32,748
Consumer installment and other	286,391	2,960	1,517	440	147	291,455
Total	$1,114,951	$4,197	$2,636	$440	$4,440	$1,126,664

Summary of Loans by Delinquency and Nonaccrual Status At December 31, 2018						
	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	$274,045	$781	$254	$ -	$ -	$275,080
Commercial real estate	574,853	617	785	-	4,225	580,480
Construction	3,982	-	-	-	-	3,982
Residential real estate	43,372	789	189	-	516	44,866
Consumer installment and other	297,601	3,408	1,107	551	127	302,794
Total	$1,193,853	$5,595	$2,335	$551	$4,868	$1,207,202

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2019 and December 31, 2018.

The following summarizes impaired loans:

	Impaired Loans At December 31, 2019			2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With no related allowance recorded:						
Commercial	$21	$21	$-	$755	$759	$-
Commercial real estate	7,408	8,856	-	8,438	10,373	-
Residential real estate	190	220	-	717	747	-
Consumer installment and other	43	43	-	270	377	-
Total with no related allowance recorded	7,662	9,140	-	10,180	12,256	-
With an allowance recorded:						
Commercial	8,160	8,160	2,413	9,189	9,189	2,752
Total with an allowance recorded	8,160	8,160	2,413	9,189	9,189	2,752
Total	$15,822	$17,300	$2,413	$19,369	$21,445	$2,752

Impaired loans include troubled debt restructured loans. Impaired loans at December 31, 2019, included $6,713 thousand of restructured loans, $3,670 thousand of which were on nonaccrual status. Impaired loans at December 31, 2018, included $8,579 thousand of restructured loans, $4,225 thousand of which were on nonaccrual status.

	Impaired Loans For the Twelve Months Ended December 31, 2019		2018		2017	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
	(In thousands)					
Commercial	$8,412	$140	$10,532	$667	$11,156	$508
Commercial real estate	7,428	139	11,703	758	14,806	884
Residential real estate	191	3	269	19	423	17
Consumer installment and other	44	1	254	14	415	20
Total	$16,075	$283	$22,758	$1,458	$26,800	$1,429

The following tables provide information on troubled debt restructurings:

	Troubled Debt Restructurings At December 31, 2019			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
	($ in thousands)			
Commercial	2	$278	$32	$11
Commercial real estate	6	8,367	6,492	-
Residential real estate	1	241	189	-
Total	9	$8,886	$6,713	$11

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	Troubled Debt Restructurings			
	At December 31, 2018			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
		($ in thousands)		
Commercial	4	$2,274	$811	$19
Commercial real estate	8	9,237	7,568	-
Residential real estate	1	241	200	-
Total	13	$11,752	$8,579	$19

During the twelve months ended December 31, 2019 and December 31, 2018, the Company did not modify any loans that were considered troubled debt restructurings.

During the year ended December 31, 2017, the Company modified four loans with a carrying value of $699 thousand that were considered troubled debt restructurings. The four concessions granted in 2017 consisted of modifications of payment terms to extend the maturity date to allow for deferred principal repayment and under-market terms.

There were no chargeoffs related to troubled debt restructurings made during the year ended December 31, 2019. During the year ended December 31, 2018, one troubled debt restructured loan with a carrying value of $41 thousand was charged off. During the year ended December 31, 2017, one troubled debt restructured loan with a carrying value of $58 thousand was charged off. During the years ended December 31, 2019, 2018 and 2017, no troubled debt restructured loans defaulted within 12 months of the modification date. A troubled debt restructuring is considered to be in default when payments are ninety days or more past due.

There were no loans restricted due to collateral requirements at December 31, 2019 and December 31, 2018.

There were no loans held for sale at December 31, 2019 and December 31, 2018.

At December 31, 2019 and December 31, 2018, the Company held total other real estate owned (OREO) of $43 thousand and $350 thousand, respectively. There was no reserve applied against OREO at December 31, 2019 and December 31, 2018. There were no foreclosed residential real estate properties at December 31, 2019 and December 31, 2018. There was no covered OREO at December 31, 2018. The amount of consumer mortgage loans outstanding secured by residential real estate properties for which formal foreclosure proceedings were in process was $124 thousand at December 31, 2019 and $516 thousand at December 31, 2018.

Note 4: Concentration of Credit Risk

Under the California Financial Code, credit extended to any one person owing to a commercial bank at any one time shall not exceed the following limitations: (a) unsecured loans shall not exceed 15 percent of the sum of the shareholders' equity, allowance for loan losses, capital notes, and debentures of the bank, or (b) secured and unsecured loans in all shall not exceed 25 percent of the sum of the shareholders' equity, allowance for loan losses, capital notes, and debentures of the bank. At December 31, 2019, the Bank did not have credit extended to any one entity exceeding these limits. At December 31, 2019, the Bank had 34 lending relationships each with aggregate amounts of $5 million or more. The Company has significant credit arrangements that are secured by real estate collateral. In addition to real estate loans outstanding as disclosed in Note 3, the Company had loan commitments related to real estate loans of $43,129 thousand and $53,891 thousand at December 31, 2019 and December 31, 2018, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios at origination generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans. At December 31, 2019, the Bank held corporate bonds in 92 issuing entities that exceeded $5 million for each issuer.

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Note 5: Premises, Equipment, Other Assets and Other Liabilities

Premises and equipment consisted of the following:

	At December 31,		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
		(In thousands)	
2019			
Land	$11,691	$ -	$11,691
Building and improvements	42,529	(28,353)	14,176
Leasehold improvements	6,219	(5,405)	814
Furniture and equipment	26,793	(18,877)	7,916
Total	$87,232	($52,635)	$34,597
2018			
Land	$11,691	$ -	$11,691
Building and improvements	41,912	(27,178)	14,734
Leasehold improvements	6,174	(4,968)	1,206
Furniture and equipment	23,845	(16,969)	6,876
Total	$83,622	($49,115)	$34,507

Depreciation and amortization of premises and equipment included in noninterest expense amounted to $3,879 thousand in 2019, $3,677 thousand in 2018 and $3,925 thousand in 2017.

Other assets consisted of the following:

	At December 31,	
	2019	2018
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock [1]	$14,069	$14,069
Other investments	158	158
Total cost method equity investments	14,227	14,227
Life insurance cash surrender value	57,810	56,083
Net deferred tax asset	11,085	42,256
Right-of-use asset	17,136	-
Limited partnership investments	20,773	10,219
Interest receivable	28,797	25,834
Prepaid assets	3,737	4,658
Other assets	10,767	9,629
Total other assets	$164,332	$162,906

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

The net deferred tax asset at December 31, 2019 of $11,085 thousand was net of deferred tax obligations of $10,934 thousand related to available for sale debt securities unrealized gains. The net deferred tax asset at December 31, 2018 of $42,256 thousand included deferred tax benefits of $16,787 thousand related to available for sale debt securities unrealized losses.

The Company owns 211 thousand shares of Visa Inc. class B common stock which have transfer restrictions; the carrying value is $-0- thousand. On September 30, 2019, Visa Inc. announced a revised conversion rate applicable to its class B common stock resulting from its September 27, 2019 deposit of funds into its litigation escrow account. This funding reduced the conversion rate of class B common stock into class A common stock, which is unrestricted and trades actively on the New York Stock Exchange, from 1.6298 to 1.6228 per share, effective as of September 27, 2019. Visa Inc. class A common stock had a closing price of $187.90 per share on December 31, 2019, the last day of stock market trading for the fourth quarter 2019. The ultimate value of the

Company's Visa Inc. class B shares is subject to the extent of Visa Inc.'s future litigation escrow fundings, the resulting conversion rate to class A common stock, and current and future trading restrictions on the class B common stock.

The Company invests in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for low-income housing tax credits. At December 31, 2019, this investment totaled $20,773 thousand and $16,231 thousand of this amount represents outstanding equity capital commitments that are included in other liabilities. At December 31, 2018, this investment totaled $10,219 thousand and $4,799 thousand of this amount represented outstanding equity capital commitments. At December 31, 2019, the $16,231 thousand of outstanding equity capital commitments are expected to be paid as follows, $5,009 thousand in 2020, $4,075 thousand in 2021, $5,980 thousand in 2022, $295 thousand in 2023, $24 thousand in 2024, $301 thousand in 2025 and $547 thousand in 2026 or thereafter.

The amounts recognized in net income for these investments include:

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Investment loss included in pre-tax income	$2,400	$2,900	$1,800
Valuation impairment included in pre-tax income	-	-	625
Tax credits recognized in provision for income taxes	875	1,121	1,850

The $625 thousand valuation impairment recognized in 2017 was due to a decline in future expected federal tax benefits due to the reduction in the federal corporate tax rate upon enactment of the Tax Cuts and Jobs Act of 2017.

Other liabilities consisted of the following:

	At December 31,	
	2019	2018
	(In thousands)	
Operating lease liability	$17,136	$ -
Other liabilities	27,453	34,849
Total other liabilities	$44,589	$34,849

The Company has entered into leases for most branch locations and certain other offices that were classified as operating leases primarily with original terms of 5 years. Certain lease arrangements contain extension options, which can be exercised at the Company's option, for one or more additional 5 year terms. Unexercised extension options are not considered reasonably certain of exercise and have not been included in the lease term used to determine the lease liability or right-of-use asset. The Company did not have any finance leases as of December 31, 2019.

As of December 31, 2019, the Company recorded a lease liability of $17,136 thousand and a right-of-use asset of $17,136 thousand, respectively. The weighted average remaining life of operating leases and weighted average discount rate used to determine operating lease liabilities were 3.9 years and 2.92%, respectively, at December 31, 2019. The Company did not have any material lease incentives, unamortized initial direct costs, prepaid lease expense, or accrued lease expense as of December 31, 2019.

Total lease costs during the twelve months ended December 31, 2019, of $6,880 thousand was recorded within occupancy and equipment expense. The Company did not have any material short-term or variable leases costs or sublease income during the twelve months ended December 31, 2019.

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

	Minimum future lease payments At December 31, 2019
	(In thousands)
2020	$6,048
2021	4,317
2022	3,366
2023	2,633
2024	1,205
Thereafter	637
Total minimum lease payments	18,206
Less: discount	(1,070)
Present value of lease liability	$17,136

Note 6: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is evaluated for impairment at least annually. The Company did not recognize impairment during the twelve months ended December 31, 2019 and December 31, 2018. 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 twelve months ended December 31, 2019 and year ended December 31, 2018 no such adjustments were recorded.

The carrying values of goodwill were:

	At December 31,	
	2019	2018
	(In thousands)	
Goodwill	$121,673	$121,673

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

	At December 31,			
	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core deposit intangibles	$56,808	($55,417)	$56,808	($54,879)

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As of December 31, 2019, the current period and estimated future amortization expense for identifiable intangible assets was:

	Total Core Deposit Intangibles
	(In thousands)
For the Twelve months ended December 31, 2019 (actual)	$538
Estimate for year ending December 31, 2020	287
2021	269
2022	252
2023	236
2024	222

Note 7: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits.

	Deposits At December 31, 2019	2018
	(In thousands)	
Noninterest-bearing	$2,240,112	$2,243,251
Interest-bearing:		
Transaction	931,888	929,346
Savings	1,471,284	1,498,991
Time deposits less than $100 thousand	88,355	102,654
Time deposits $100 thousand through $250 thousand	54,874	64,512
Time deposits more than $250 thousand	26,108	28,085
Total deposits	$4,812,621	$4,866,839

Demand deposit overdrafts of $1,055 thousand and $980 thousand were included as loan balances at December 31, 2019 and December 31, 2018, respectively. Interest expense for aggregate time deposits with individual account balances in excess of $100 thousand was $326 thousand in 2019, $368 thousand in 2018 and $415 thousand in 2017.

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

	Repurchase Agreements (Sweep) Accounted for as Secured Borrowings	
	Remaining Contractual Maturity of the Agreements Overnight and Continuous	
	At December 31, 2019	2018
Repurchase agreements:	(In thousands)	
Collateral securing borrowings:		
Securities of U.S. Government sponsored entities	$65,833	$73,803
Agency residential MBS	52,485	58,380
Corporate securities	146,253	91,837
Total collateral carrying value	$264,571	$224,020
Total short-term borrowed funds	$30,928	$51,247

	For the Years Ended December 31, 2019	2018
	Highest Balance at Any Month-end	
	(In thousands)	
Securities sold under repurchase agreements	$61,411	$68,894

Note 8: Shareholders' Equity

The Company grants stock options and restricted performance shares to employees in exchange for employee services, pursuant to the shareholder-approved 1995 Stock Option Plan, which was last amended and restated in 2012. Nonqualified stock option grants ("NQSO") are granted with an exercise price equal to the fair market value of the related common stock on the grant date. NQSO generally become exercisable in equal annual installments over a three-year period with each installment vesting on the anniversary date of the grant. Each NQSO has a maximum ten-year term. A restricted performance share grant becomes vested after three years of being awarded, provided the Company has attained its performance goals for such three-year period. 2019 Omnibus Equity Incentive Plan was approved by the Company's shareholders on April 25, 2019 and became effective for grants and stock issuance on or after January 1, 2020.

The following table summarizes information about stock options granted under the Plan as of December 31, 2019. The intrinsic value is calculated as the difference between the market value as of December 31, 2019 and the exercise price of the shares. The market value as of December 31, 2019 was $67.77 as reported by the NASDAQ Global Select Market:

	Options Outstanding				Options Exercisable			
	At December 31, 2019			For the Twelve Months Ended December 31, 2019	At December 31, 2019			For the Twelve Months Ended December 31, 2019
Range of Exercise Price	Number Outstanding	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
	(In thousands)		(Years)		(In thousands)		(Years)	
$40 - 45	60	$1,512	5.7	$42	60	$1,512	5.7	$42
45 - 50	-	-	-	-	-	-	-	-
50 - 55	28	428	3.1	53	28	428	3.1	53
55 - 60	113	1,203	7.1	57	54	568	7.1	57
60 - 65	360	1,921	8.6	62	48	270	8.1	62
$40 - 65	561	$5,064	7.7	59	190	$2,778	6.3	53

The Company applies the Roll-Geske option pricing model (Modified Roll) to determine grant date fair value of stock option grants. This model modifies the Black-Scholes Model to take into account dividends and American options. During the twelve months ended December 31, 2019, 2018 and 2017, the Company granted 250 thousand, 249 thousand and 266 thousand stock options, respectively. The following weighted average assumptions were used in the option pricing to value stock options granted in the periods indicated:

	For the Years Ended December 31,		
	2019	2018	2017
Expected volatility [(1)]	20%	20%	20%
Expected life in years [(2)]	4.7	4.8	4.8
Risk-free interest rate [(3)]	2.67%	2.50%	1.97%
Expected dividend yield	2.55%	2.65%	3.28%
Fair value per award	$10.19	$9.98	$8.27

[(1)] Measured using daily price changes of Company's stock over respective expected term of the option and the implied volatility derived from the market prices of the Company's stock and traded options.
[(2)] The number of years that the Company estimates that the options will be outstanding prior to exercise.
[(3)] The risk-free rate over the expected life based on the US Treasury yield curve in effect at the time of the grant.

Employee stock option grants are being expensed by the Company over the grants' three year vesting period. The Company issues new shares upon the exercise of options. The number of shares authorized to be issued for options at December 31, 2019 is 1,327 thousand.

A summary of option activity during the year ended December 31, 2019 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
	(In thousands)		(Years)
Outstanding at January 1, 2018	946	$53.78	
Granted	250	62.67	
Exercised	(516)	50.88	
Forfeited or expired	(119)	61.65	
Outstanding at December 31, 2018	561	58.75	7.7
Exercisable at December 31, 2018	190	53.11	6.3

A summary of the Company's nonvested option activity during the twelve months ended December 31, 2019 is presented below:

	Shares	Weighted Average Grant Date Fair Value
	(In thousands)	
Nonvested at January 1, 2019	489	$8.71
Granted	250	10.19
Vested	(247)	8.01
Forfeited	(120)	9.82
Nonvested at December 31, 2019	372	$9.81

The weighted average estimated grant date fair value for options granted under the Company's stock option plan during the twelve months ended December 31, 2019, 2018 and 2017 was $10.19, $9.98 and $8.27 per share, respectively. The total remaining unrecognized compensation cost related to nonvested awards as of December 31, 2019 is $2,842 thousand and the weighted average period over which the cost is expected to be recognized is 1.7 years.

The total intrinsic value of options exercised during the twelve months ended December 31, 2019, 2018 and 2017 was $3,398 thousand, $4,264 thousand and $4,642 thousand, respectively. The total fair value of Restricted Performance Shares ("RPSs") that vested during the twelve months ended December 31, 2019, 2018 and 2017 was $1,073 thousand, $1,143 thousand and $708 thousand, respectively. The total fair value of options vested during the twelve months ended December 31, 2019, 2018 and 2017 was $1,980 thousand, $1,835 thousand and $1,493 thousand, respectively. The Company adopted the ASU 2016-09 provisions effective January 1, 2017, which has the potential to create volatility in the book tax provision at the time nonqualified stock options are exercised or expire. During the twelve months of 2019, 516 thousand shares were issued due to the exercise of nonqualified stock options resulting in a tax deduction exceeding related share based compensation by $1,485 thousand. During the twelve months of 2018, 292 thousand shares were issued due to the exercise of nonqualified stock options resulting in a tax deduction exceeding related share based compensation by $2,516 thousand. During the twelve months of 2017, 509 thousand shares were issued due to the exercise of nonqualified stock options resulting in a tax deduction exceeding related share based compensation by $1,667 thousand. The income tax provision was $435 thousand lower in 2019 and $737 thousand lower in 2018 lower than would have been under accounting standards prior to the adoption of ASU 2016-09.

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A summary of the status of the Company's restricted performance shares as of December 31, 2019 and 2018 and changes during the twelve months ended on those dates, follows:

	2019	2018
	(In thousands)	
Outstanding at January 1,	39	49
Granted	10	11
Issued upon vesting	(17)	(19)
Forfeited	(5)	(2)
Outstanding at December 31,	27	39

As of December 31, 2019 and 2018, the restricted performance shares had a weighted-average contractual life of 1.0 year and 1.2 years, respectively. The compensation cost that was charged against income for the Company's restricted performance shares granted was $758 thousand, $660 thousand and $827 thousand for the year ended December 31, 2019, 2018 and 2017, respectively. There were no stock appreciation rights or incentive stock options granted in the year ended December 31, 2019 and 2018.

On February 13, 2009, the Company issued a warrant to purchase 246,640 shares of the Company's common stock at an exercise price of $50.92 per share. The warrants may be exercised in a manner wherein the Company withholds shares of common stock issuable upon exercise of the warrant equal in value to the aggregate exercise price, in which case the warrant holder would not deliver cash for the aggregate exercise price and the Company would issue a number of shares equal to the intrinsic value on the exercise date. On January 29, 2019, the warrants were exercised in a cashless transaction resulting in the issuance of 50,788 shares of the Company's common stock.

The Company repurchases and retires its common stock in accordance with Board of Directors approved share repurchase programs. At December 31, 2019, approximately 1,750 thousand shares remained available to repurchase under such plans.

Shareholders have authorized two additional classes of stock of one million shares each, to be denominated "Class B Common Stock" and "Preferred Stock," respectively, in addition to the 150 million shares of common stock presently authorized. At December 31, 2019, no shares of Class B Common Stock or Preferred Stock were outstanding.

Note 9: Regulatory Capital

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can result in regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0.0% for 2015 to 2.50% in 2019. The capital conservation buffer was 2.5% for 2019 and 1.875% for 2018. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2019, the Company and Bank met all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

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

	At December 31, 2019		Required for Capital Adequacy Purposes Effective January 1, 2019		To Be Well-capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			($ in thousands)			
Common Equity Tier 1 Capital						
Company	$579,216	16.22%	$249,976	7.000%[1]	N/A	N/A
Bank	415,730	11.80%	246,671	7.000%[1]	$229,052	6.50%
Tier 1 Capital						
Company	579,216	16.22%	303,542	8.500%[1]	N/A	N/A
Bank	415,730	11.80%	299,529	8.500%[1]	281,910	8.00%
Total Capital						
Company	600,860	16.83%	374,964	10.500%[1]	N/A	N/A
Bank	443,374	12.58%	370,007	10.500%[1]	352,388	10.00%
Leverage Ratio [2]						
Company	579,216	10.50%	220,755	4.000%	N/A	N/A
Bank	415,730	7.60%	218,851	4.000%	273,564	5.00%

[1] Includes 2.5% capital conservation buffer.
[2] The leverage ratio consists of Tier 1capital divided by the most recent quarterly average total assets, excluding certain intangible assets.

	At December 31, 2018		Required for Capital Adequacy Purposes Effective January 1, 2018		To Be Well-capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			($ in thousands)			
Common Equity Tier 1 Capital						
Company	$528,042	16.30%	$206,576	6.375%[3]	N/A	N/A
Bank	415,575	13.01%	203,664	6.375%[3]	$207,658	6.50%
Tier 1 Capital						
Company	528,042	16.30%	255,182	7.875%[3]	N/A	N/A
Bank	415,575	13.01%	251,585	7.875%[3]	255,579	8.00%
Total Capital						
Company	551,701	17.03%	319,990	9.875%[3]	N/A	N/A
Bank	445,234	13.94%	315,480	9.875%[3]	319,474	10.00%
Leverage Ratio [2]						
Company	528,042	9.51%	222,111	4.000%	N/A	N/A
Bank	415,575	7.55%	220,312	4.000%	275,390	5.00%

[2] The leverage ratio consists of Tier 1capital divided by the most recent quarterly average total assets, excluding certain intangible assets.
[3] Includes 1.875% capital conservation buffer.

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Note 10: Income Taxes

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

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

	At December 31,	
	2019	2018
	(In thousands)	
Deferred tax asset		
Allowance for credit losses	$6,326	$6,868
State franchise taxes	1,948	3,026
Securities available for sale	-	16,787
Deferred compensation	5,118	5,229
Real estate owned	400	553
Purchased assets and assumed liabilities	406	935
Post-retirement benefits	517	555
Employee benefit accruals	1,875	2,104
VISA Class B shares	263	167
Limited partnership investments	1,228	708
Impaired capital assets	2,875	3,070
Accrued liabilities	1,606	2,554
Premises and equipment	261	31
Other	377	721
Sub total deferred tax asset	23,200	43,308
Tax valuation	(269)	-
Total deferred tax asset	22,931	43,308
Deferred tax liability		
Net deferred loan fees	239	291
Securities available for sale	10,934	-
Intangible assets	673	761
Total deferred tax liability	11,846	1,052
Net deferred tax asset	$11,085	$42,256

At December 31, 2019 and December 31, 2018, the Company had $2,875 thousand and $3,070 thousand, respectively, deferred tax asset related to California capital loss carryforwards which will expire if unutilized within five years of the year incurred. In the second quarter 2019, the Company re-assessed its ability to realize benefits from California capital loss carryforwards. The Company established a $269 thousand valuation allowance to reflect the expiring California capital loss carryforwards of $1,607 thousand for 2014, $916 thousand for 2015 and $821 thousand for 2016, for a total of $3,344 thousand.

In the second quarter 2019, the Company decreased unrecognized tax benefits by $909 thousand related to settlements with taxing authorities. The settlements incorporated amended tax returns for which the Company had recognized a deferred tax asset in the amount of $1,003 thousand.

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

	For the Years Ended December 31,		
	2019	2018	2017
		(In thousands)	
Current income tax expense:			
Federal	$11,570	$10,560	$1,778
State	9,595	9,816	7,810
Total current	21,165	20,376	9,588
Deferred income tax (benefit) expense:			
Federal	2,340	(206)	14,461
State	1,322	(737)	783
Total deferred	3,662	(943)	15,244
Adjustment of net deferred tax asset for enacted changes in tax rates:			
Federal	-	-	12,315
State	-	-	-
Total adjustments	-	-	12,315
Provision for income taxes	$24,827	$19,433	$37,147

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

	For the Years Ended December 31,		
	2019	2018	2017
		(In thousands)	
Federal income taxes due at statutory rate	$22,095	$19,109	$30,509
Additions (reductions) in income taxes resulting from:			
Interest on state and municipal securities and loans not taxable for federal income tax purposes	(3,584)	(4,375)	(7,794)
State franchise taxes, net of federal income tax benefit	8,625	7,173	5,586
Re-measurement of net deferred tax asset due to enactment of new federal tax rate	-	-	12,315
Stock compensation deduction in excess of book expense	(312)	(528)	(583)
Tax credits	(1,040)	(1,291)	(1,850)
Dividend received deduction	(38)	(32)	(60)
Cash value life insurance	(464)	(490)	(603)
Other	(455)	(133)	(373)
Provision for income taxes	$24,827	$19,433	$37,147

The 2017 income tax provision includes a $12.3 million dollar charge to re-measure the Company's net deferred tax asset as a result of the enactment of the Tax Cuts and Jobs Act of 2017.

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

	2019	2018
	(In thousands)	
Balance at January 1,	$909	$909
Additions for tax positions taken in the current period	-	-
Reductions for tax positions taken in the current period	-	-
Additions for tax positions taken in prior years	-	-
Reductions for tax positions taken in prior years	-	-
Decrease related to settlements with taxing authorities	(909)	-
Decrease as a result of a lapse in statute of limitations	-	-
Balance at December 31,	$ -	$909

In 2019 the Company settled in full by signed agreement with the state taxing authorities and had no uncertain tax positions at December 31, 2019, related to positions taken on tax returns which were previously under examination.

The Company classifies interest and penalties as a component of the provision for income taxes. At December 31, 2019, the tax years ended December 31, 2018, 2017 and 2016 remain subject to examination by the Internal Revenue Service and the tax years ended December 31, 2018, 2017 and 2016 remain subject to examination by the California Franchise Tax Board.

Note 11: Fair Value Measurements

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

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

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

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

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

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

The Company relies on independent vendor pricing services to measure fair value for equity securities, debt securities available for sale and debt securities held to maturity. The Company employs three pricing services. To validate the pricing of these vendors, the Company compares vendors' pricing for each of the securities for consistency; significant pricing differences, if any, are evaluated using all available independent quotes with the quote most closely reflecting the market generally used as the fair value estimate. In addition, the Company conducts "other than temporary impairment (OTTI)" analysis on a quarterly basis; debt securities selected for OTTI analysis include all debt securities at a market price below 95% of par value. As with any valuation technique used to estimate fair value, changes in underlying assumptions used could significantly affect the results of current and future values. Accordingly, these fair value estimates may not be realized in an actual sale of the securities.

The Company regularly reviews the valuation techniques and assumptions used by its vendors and determines which valuation techniques are utilized based on observable market inputs for the type of securities being measured. The Company uses the information to determine the placement in the fair value hierarchy as level 1, 2 or 3.

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Assets Recorded at Fair Value on a Recurring Basis

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

	At December 31, 2019			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) [1]
	(In thousands)			
Debt securities available for sale				
U.S. Treasury securities	$20,000	$20,000	$ -	$ -
Securities of U.S. Government sponsored entities	111,167	-	111,167	-
Agency residential mortgage-backed securities (MBS)	939,750	-	939,750	-
Agency commercial MBS	3,708	-	3,708	-
Securities of U.S. Government entities	544	-	544	-
Obligations of states and political subdivisions	163,139	-	163,139	-
Corporate securities	1,833,783	-	1,833,783	-
Collateralized Loan Obligations	6,755	-	6,755	-
Total debt securities available for sale	$3,078,846	$20,000	$3,058,846	$ -

[1] There were no transfers in to or out of level 3 during the twelve months ended December 31, 2019.

	At December 31, 2018			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) [1]
	(In thousands)			
Equity securities				
Mutual funds	$1,747	$ -	$1,747	$ -
Total equity securities	1,747	-	1,747	-
Debt securities available for sale				
U.S. Treasury securities	139,574	139,574	-	-
Securities of U.S. Government sponsored entities	164,018	-	164,018	-
Agency residential MBS	853,871	-	853,871	-
Non-agency residential MBS	114	-	114	-
Agency commercial MBS	1,842	-	1,842	-
Securities of U.S. Government entities	1,119	-	1,119	-
Obligations of states and political subdivisions	179,091	-	179,091	-
Corporate securities	1,315,041	-	1,315,041	-
Total debt securities available for sale	2,654,670	139,574	2,515,096	-
Total	$2,656,417	$139,574	$2,516,843	$ -

[1] There were no transfers in to or out of level 3 during the twelve months ended December 31, 2018.

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Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or fair value accounting of individual assets. For assets measured at fair value on a nonrecurring basis that were recorded in the balance sheet at December 31, 2019 and December 31, 2018, the following tables provide the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at period end.

	At December 31, 2019				For the Twelve Months Ended December 31, 2019
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
			(In thousands)		
Other real estate owned	$43	$ -	$ -	$43	$ -
Impaired loans:					
Commercial	5,747	-	-	5,747	-
Commercial real estate	4,091	-	-	4,091	-
Residential real estate	190	-	-	190	-
Total assets measured at fair value on a nonrecurring basis	$10,071	$ -	$ -	$10,071	$ -

	At December 31, 2018				For the Twelve Months Ended December 31, 2018
	Carrying Value	Level 1	Level 2	Level 3	Total Losses
			(In thousands)		
Other real estate owned	$350	$ -	$ -	$350	$ -
Impaired loans:					
Commercial	6,437	-	-	6,437	-
Commercial real estate	3,870	-	-	3,870	(240)
Total assets measured at fair value on a nonrecurring basis	$10,657	$ -	$ -	$10,657	($240)

Level 3 – Valuation is based upon present value of expected future cash flows, independent market prices, estimated liquidation values of loan collateral or appraised value of the collateral as determined by third-party independent appraisers, less 10% for selling costs, generally. Level 3 includes other real estate owned that has been measured at fair value upon transfer to foreclosed assets and impaired loans collateralized by real property and other business asset collateral where a specific reserve has been established or a chargeoff has been recorded. Losses on other real estate owned represent losses recognized in earnings during the period subsequent to its initial classification as foreclosed assets. The unobservable inputs and qualitative information about the unobservable inputs are not presented as the inputs were not developed by the Company.

Disclosures about Fair Value of Financial Instruments

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

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

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	At December 31, 2019				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
Financial Assets:					
Cash and due from banks	$373,421	$373,421	$373,421	$ -	$ -
Debt securities held to maturity	738,072	744,296	-	744,296	-
Loans	1,107,180	1,152,949	-	-	1,152,949
Financial Liabilities:					
Deposits	$4,812,621	$4,810,934	$ -	$4,643,284	$167,650
Short-term borrowed funds	30,928	30,928	-	30,928	-

	At December 31, 2018				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
Financial Assets:					
Cash and due from banks	$420,284	$420,284	$420,284	$ -	$ -
Debt securities held to maturity	984,609	971,445	-	971,445	-
Loans	1,185,851	1,184,770	-	-	1,184,770
Financial Liabilities:					
Deposits	$4,866,839	$4,862,668	$ -	$4,671,588	$191,080
Short-term borrowed funds	51,247	51,247	-	51,247	-

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

Note 12: 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 $265,311 thousand at December 31, 2019 and $278,598 thousand at December 31, 2018. 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 $3,099 thousand at December 31, 2019 and $2,772 thousand at December 31, 2018. The Company had no commitments outstanding for commercial and similar letters of credit at December 31, 2019 and December 31, 2018. The Company had $550 thousand and $75 thousand in outstanding full recourse guarantees to a 3rd party credit card company at December 31, 2019 and December 31, 2018, respectively. The Company had a reserve for unfunded commitments of $2,160 thousand at December 31, 2019 and $2,308 thousand at December 31, 2018, included in other liabilities.

Due to the nature of its business, the Company is subject to various threatened or filed legal cases. Based on the advice of legal counsel, the Company does not expect such cases will have a material, adverse effect on its financial position or results of operations. Legal liabilities are accrued when obligations become probable and the amount can be reasonably estimated. In the second quarter 2019, the Company achieved a mediated settlement to dismiss a lawsuit and paid the resulting liability of $252 thousand.

The Company determined that it will be obligated to provide refunds of revenue recognized in years prior to 2018 to some customers. The Company initially estimated the probable amount of these obligations to be $5,542 thousand and accrued a liability for such amount in 2017; based on additional information received in the second quarter 2019, the Company increased such liability to $5,843 thousand by recognizing an expense of $301 thousand.

Note 13: Retirement Benefit Plans

The Company sponsors a qualified defined contribution Deferred Profit-Sharing Plan covering substantially all of its salaried employees with one or more years of service. The costs charged to noninterest expense related to discretionary Company contributions to the Deferred Profit-Sharing Plan were $1,000 thousand in 2019, $1,057 thousand in 2018 and $944 thousand in 2017.

The Company also sponsors a qualified defined contribution Tax Deferred Savings/Retirement Plan (ESOP) covering salaried employees who become eligible to participate upon completion of a 90-day introductory period. The Tax Deferred Savings/ Retirement Plan (ESOP) allows employees to defer, on a pretax or after-tax basis, a portion of their salaries as contributions to this Plan. Participants may invest in several funds, including one fund that invests primarily in Westamerica Bancorporation common stock. The Company funds contributions to match participating employees' contributions, subject to certain limits. The matching contributions charged to compensation expense were $986 thousand in 2019, $1,052 thousand in 2018 and $1,098 thousand in 2017.

The Company offers a continuation of group insurance coverage to eligible employees electing early retirement, for the period from the date of retirement until age 65. For eligible employees the Company pays a portion of these early retirees' group insurance premiums. The Company also reimburses a portion of Medicare Part B premiums for all qualifying retirees over age 65 and, if eligible, their spouses. Eligibility for post-retirement medical benefits is based on age and years of service, and restricted to employees hired prior to February 1, 2006 who elect early retirement prior to January 1, 2021. The Company uses an actuarial-based accrual method of accounting for post-retirement benefits. The Company used a December 31 measurement date for determining post-retirement medical benefit calculations.

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

Net Periodic Benefit Cost

	At December 31,		
	2019	2018	2017
		(In thousands)	
Service (benefit) cost	($57)	$24	($311)
Interest cost	72	72	95
Amortization of unrecognized transition obligation	-	-	61
Net periodic cost (benefit)	$15	$96	($155)

Other Changes in Benefit Obligations Recognized in Other Comprehensive Income

Amortization of unrecognized transition obligation, net of tax	-	-	(34)
Total recognized in net periodic cost (benefit) and accumulated other comprehensive income	$15	$96	($189)

The transition obligation for this post-retirement benefit plan became fully amortized during the year ended December 31, 2017.

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Obligation and Funded Status

	At December 31,		
	2019	2018	2017
Change in benefit obligation		(In thousands)	
Benefit obligation at beginning of year	$1,913	$1,958	$2,319
Service (benefit) cost	(57)	24	(311)
Interest cost	72	72	95
Benefits paid	(146)	(141)	(145)
Benefit obligation at end of year	$1,782	$1,913	$1,958
Accumulated post-retirement benefit obligation attributable to:			
Retirees	$1,782	$1,913	$1,575
Fully eligible participants	-	-	382
Other	-	-	1
Total	$1,782	$1,913	$1,958
Fair value of plan assets	-	-	-
Accumulated post-retirement benefit obligation in excess of plan assets	$1,782	$1,913	$1,958

Additional Information

Assumptions

	At December 31,		
	2019	2018	2017
Weighted-average assumptions used to determine benefit obligations			
Discount rate	2.90%	3.76%	3.70%
Weighted-average assumptions used to determine net periodic benefit cost			
Discount rate	3.76%	3.70%	4.10%

The above discount rate is based on the expected return of a portfolio of Corporate Aa debt, the term of which approximates the term of the benefit obligations. The Company reserves the right to terminate or alter post-employment health benefits. Post-retirement medical benefits are currently fixed amounts without provision for future increases; as a result, the assumed annual average rate of inflation used to measure the expected cost of benefits covered by this program is zero percent for 2020 and beyond.

Assumed benefit inflation rates are not applicable for this program.

	Estimated future benefit payments
	(In thousands)
2020	$152
2021	152
2022	150
2023	149
2024	145
Years 2025-2029	604

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Note 14: Related Party Transactions

Certain of the Directors, executive officers and their associates have had banking transactions with subsidiaries of the Company in the ordinary course of business. The table below reflects information concerning loans to certain directors and executive officers and/or family members during 2019 and 2018:

	2019	2018
	(In thousands)	
Balance at January 1,	$577	$622
Originations	-	-
Principal reductions	(44)	(45)
Balance at December 31,	$533	$577
Percent of total loans outstanding.	0.05%	0.05%

Note 15: Regulatory Matters

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

The Bank is required to maintain reserves with the Federal Reserve Bank equal to a percentage of its reservable deposits. The Bank's daily average on deposit at the Federal Reserve Bank was $374,572 thousand in 2019 and $473,250 thousand in 2018, which amounts exceed the Bank's required reserves.

Note 16: Other Comprehensive Income (loss)

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

	2019		
	Before tax	Tax effect	Net of tax
		(In thousands)	
Debt securities available for sale:			
Net unrealized gains arising during the year	$93,936	($27,771)	$66,165
Reclassification of gains included in net income	(167)	49	(118)
Net unrealized gains arising during the year	93,769	(27,722)	66,047
Post-retirement benefit obligation	-	-	-
Other comprehensive income	$93,769	($27,722)	$66,047

	2018		
	Before tax	Tax effect	Net of tax
		(In thousands)	
Debt securities available for sale:			
Net unrealized losses arising during the year	($27,939)	$8,258	($19,681)
Reclassification of losses included in net income	-	-	-
Net unrealized losses arising during the year	(27,939)	8,258	(19,681)
Post-retirement benefit obligation	-	-	-
Other comprehensive loss	($27,939)	$8,258	($19,681)

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	2017		
	Before tax	Tax effect	Net of tax
		(In thousands)	
Debt securities available for sale:			
Net unrealized losses arising during the year	($3,767)	$1,585	($2,182)
Reclassification of gains included in net income	(7,955)	3,345	(4,610)
Net unrealized losses arising during the year	(11,722)	4,930	(6,792)
Post-retirement benefit obligation	59	(25)	34
Other comprehensive loss	($11,663)	$4,905	($6,758)

Accumulated other comprehensive income (loss) balances were:

	Post-retirement Benefit Obligation	Net Unrealized (Losses) Gains on Securities	Accumulated Other Comprehensive (Loss) Income
		(In thousands)	
Balance, December 31, 2016	($34)	($10,040)	($10,074)
Net change	34	(6,792)	(6,758)
Balance, December 31, 2017	-	(16,832)	(16,832)
Cumulative effect of equity securities losses reclassified	-	142	142
Adjusted Balance, January 1, 2018	-	(16,690)	(16,690)
Reclass stranded tax effects resulting from the Tax Cuts and Jobs Act of2017	-	(3,625)	(3,625)
Net change	-	(19,681)	(19,681)
Balance, December 31, 2018	-	(39,996)	(39,996)
Net change	-	66,047	66,047
Balance, December 31, 2019	$ -	26,051	$26,051

The transition obligation for this post-retirement benefit plan became fully amortized during the year ended December 31, 2017.

Note 17: Earnings Per Common Share

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

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands, except per share data)		
Net income (numerator)	$80,389	$71,564	$50,025
Basic earnings per common share			
Weighted average number of common shares outstanding - basic (denominator)	26,956	26,649	26,291
Basic earnings per common share	$2.98	$2.69	$1.90
Diluted earnings per common share			
Weighted average number of common shares outstanding - basic	26,956	26,649	26,291
Add common stock equivalents for options	50	107	128
Weighted average number of common shares outstanding - diluted (denominator)	27,006	26,756	26,419
Diluted earnings per common share	$2.98	$2.67	$1.89

For the years ended December 31, 2019, 2018 and 2017, options to purchase 382 thousand, 423 thousand and 323 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

Note 18: Westamerica Bancorporation (Parent Company Only Condensed Financial Information)

Statements of Income and Comprehensive Income

	For the Years Ended December 31,		
	2019	2018	2017
		(In thousands)	
Dividends from subsidiaries	$80,067	$43,892	$12,728
Interest income	54	33	43
Other income	8,778	9,447	8,590
Total income	88,899	53,372	21,361
Salaries and benefits	6,978	7,575	7,163
Other expense	3,729	3,181	3,416
Total expense	10,707	10,756	10,579
Income before taxes and equity in undistributed income of subsidiaries	78,192	42,616	10,782
Income tax benefit	636	919	241
Earnings of subsidiaries greater than subsidiary dividends	1,561	28,029	39,002
Net income	80,389	71,564	50,025
Other comprehensive loss, net of tax	66,047	(19,681)	(6,758)
Comprehensive income	$146,436	$51,883	$43,267

Balance Sheets

	At December 31,	
	2019	2018
	(In thousands)	
Assets		
Cash	$122,663	$72,878
Investment in Westamerica Bank	573,931	509,125
Investment in non-bank subsidiaries	455	455
Premises and equipment, net	11,006	10,400
Accounts receivable from Westamerica Bank	231	580
Other assets	37,645	36,990
Total assets	$745,931	$630,428
Liabilities		
Accounts payable to Westamerica Bank	$33	$46
Other liabilities	14,481	14,791
Total liabilities	14,514	14,837
Shareholders' equity	731,417	615,591
Total liabilities and shareholders' equity	$745,931	$630,428

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Statements of Cash Flows

	For the Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Operating Activities			
Net income	$80,389	$71,564	$50,025
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	449	361	319
(Increase) decrease in accounts receivable from affiliates	80	(43)	(16)
Increase in other assets	(71)	(2,638)	(2,203)
Stock option compensation expense	1,744	1,988	1,824
Provision (benefit) for deferred income tax	(315)	5,028	(3,971)
Increase in other liabilities	856	978	202
Earnings of subsidiaries greater than subsidiary dividends	(1,561)	(28,029)	(39,002)
Life insurance gains	-	(585)	-
Gain on sales of premises and equipment	(1,055)	(538)	(793)
Net Cash Provided by Operating Activities	80,516	48,086	6,385
Investing Activities			
Proceeds from life insurance	-	1,169	-
Net Cash Provided by Investing Activities	-	1,169	-
Financing Activities			
Exercise of stock options/issuance of shares	13,699	13,373	24,583
Retirement of common stock	(488)	(524)	(314)
Dividends	(43,942)	(42,635)	(41,299)
Net Cash Used in Financing Activities	(30,731)	(29,786)	(17,030)
Net change in cash	49,785	19,469	(10,645)
Cash at Beginning of Period	72,878	53,409	64,054
Cash at End of Period	$122,663	$72,878	$53,409
Supplemental Cash Flow Disclosures:			
Supplemental disclosure of cash flow activities:			
Interest paid for the period	$-	$-	$-
Income tax payments for the period	24,491	13,627	17,351

Note 19: Quarterly Financial Information (Unaudited)

	For the Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share data and price range of common stock)			
2019				
Interest and loan fee income	$39,483	$39,626	$39,695	$39,878
Net interest income	38,989	39,139	39,240	39,427
Provision for loan losses	-	-	-	-
Noninterest income	11,579	12,288	11,809	11,732
Noninterest expense	25,183	25,561	24,033	24,209
Income before taxes	25,385	25,866	27,016	26,950
Net income	19,646	19,625	20,390	20,728
Basic earnings per common share	0.73	0.73	0.76	0.77
Diluted earnings per common share	0.73	0.73	0.75	0.77
Dividends paid per common share	0.40	0.41	0.41	0.41
Price range, common stock	56.82 - 64.48	59.51 - 64.82	59.26 - 64.56	60.65 - 68.58
2018				
Interest and loan fee income	$36,315	$37,346	$38,614	$39,448
Net interest income	35,856	36,887	38,087	38,934
Provision for loan losses	-	-	-	-
Noninterest income	11,955	11,769	12,528	11,897
Noninterest expense	26,022	25,741	29,366	25,787
Income before taxes	21,789	22,915	21,249	25,044
Net income	17,506	18,010	16,993	19,055
Basic earnings per common share	0.66	0.68	0.64	0.71
Diluted earnings per common share	0.66	0.67	0.63	0.71
Dividends paid per common share	0.40	0.40	0.40	0.40
Price range, common stock	55.72 - 62.52	55.81 - 60.68	57.56 - 64.52	52.75 - 63.20
2017				
Interest and loan fee income	$34,128	$34,083	$34,623	$35,478
Net interest income	33,648	33,607	34,150	35,007
(Reversal of) provision for loan losses	-	(1,900)	-	-
Noninterest income	11,657	12,123	12,548	20,300
Noninterest expense	25,419	25,316	25,592	31,441
Income before taxes	19,886	22,314	21,106	23,866
Net income	15,049	15,799	15,017	4,160
Basic earnings per common share	0.58	0.60	0.57	0.16
Diluted earnings per common share	0.57	0.60	0.57	0.16
Dividends paid per common share	0.39	0.39	0.39	0.40
Price range, common stock	54.12 - 64.07	51.31 - 57.78	49.54 - 59.54	53.96 - 63.03

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of
Westamerica Bancorporation
San Rafael, California

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Westamerica Bancorporation (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

(Continued)

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Unallocated Allowance / Qualitative Factors

As disclosed in Note 1 (Business and Accounting Policies) and Note 3 (Loans and Allowance for Credit Losses) to the financial statements, the Company's total allowance for loan losses balance was $19,484,000 at December 31, 2019, which consists of specific reserves for individually evaluated impaired loans, general reserves for loans collectively evaluated for impairment, and an unallocated allowance based on additional qualitative factors. The allowance for loan losses is the estimated amount of probable incurred losses inherent in the loan portfolio at the balance sheet date. The Company has established an unallocated allowance, which totals $3,701,000 at December 31, 2019, to provide for probable incurred losses not readily allocable to any specific segment of the loan portfolio. 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 past loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses that are attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors.

We identified auditing the estimate of the unallocated allowance for loan losses as a critical audit matter as it involved especially subjective auditor judgment. Auditing management's unallocated allowance involved especially subjective auditor judgment because management's estimate involves significant and subjective assumptions relating to establishing qualitative factors, which require a high degree of judgment relating to the Company's loan portfolio, operations, and external operating environment and how those items impact probable incurred losses inherent within the loan portfolio.

(Continued)

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the evaluation of the qualitative factors used to estimate the unallocated allowance for loan losses, including controls addressing:
  - Management's review controls over the completeness and accuracy of data used as the basis for the adjustments relating to qualitative factors.
  - Management's judgments related to the qualitative and quantitative assessment of the data used in the determination of qualitative factors and the resulting unallocated allowance for loan losses.
- Substantively testing management's process, including evaluating their judgments and assumptions, for developing the unallocated allowance which included:
  - Evaluating the completeness and accuracy of data used as a basis for the adjustments relating to qualitative reserve factors by corroborating data obtained from external sources and reconciling and vouching internally generated data to system reports.
  - Evaluating that management's assessment of the data used in the calculation of qualitative factors and the resulting reserves is supported by the data and is reasonable both in direction and magnitude.
  - Analytically evaluating the unallocated allowance for loan losses year over year and testing changes, or lack thereof, for reasonableness compared to credit quality and other relevant trends.

/s/ Crowe LLP
Crowe LLP

We have served as the Company's auditor since 2015.

Sacramento, California
February 27, 2020

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of December 31, 2019.

Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company's management, including the principal executive officer and the principal financial officer, to allow for timely decisions regarding required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management's Report on Internal Control Over Financial Reporting and the attestation Report of Independent Registered Public Accounting Firm are found on pages 46 and 88, respectively.

ITEM 9B. OTHER INFORMATION

None.

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PART III

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

The information regarding Directors of the Registrant and compliance with Section 16(a) of the Exchange Act required by this Item 10 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the captions "Board of Directors and Committees", "Proposal 1 — Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for its 2020 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Exchange Act.

Executive Officers

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

Name of Executive	Position	Held Since
David L. Payne	Mr. Payne, born in 1955, is the Chairman of the Board, President and Chief Executive Officer of the Company. Mr. Payne is President and Chief Executive Officer of Gibson Printing and Publishing Company and Gibson Radio and Publishing Company which are newspaper, commercial printing and real estate investment companies headquartered in Vallejo, California.	1984
Jesse Leavitt	Mr. Leavitt, born in 1985, is Senior Vice President and Chief Financial Officer of the Company. Mr. Leavitt joined Westamerica Bancorporation as Vice President and Controller in March 2019.	2020
John "Robert" Thorson	Mr. Thorson, born in 1960, is Senior Vice President and Treasury Division Manager of the Company. Mr. Thorson joined Westamerica Bancorporation in 1989, was Vice President and Manager of Human Resources from 1995 until 2001, Senior Vice President and Treasurer from 2002 until 2005, and Senior Vice President and Chief Financial Officer from 2005 until 2019.	2020
Russell W. Rizzardi	Mr. Rizzardi, born in 1955, is Senior Vice President and Chief Credit Administrator of Westamerica Bank. Mr. Rizzardi joined Westamerica Bank in 2007. He has been in the banking industry since 1979 and was previously with Wells Fargo Bank and U.S. Bank.	2008
Brian J. Donohoe	Mr. Donohoe, born in 1981, is Senior Vice President and Manager of the Operations & Systems Administration of Community Banker Services Corporation. Mr. Donohoe joined Westamerica Bancorporation in 1999 and has held a variety of positions in the Banking Division and the Operations & Systems Division, most recently, Vice President and Manager of Business Services until 2018.	2019

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the captions "Executive Compensation" in the Company's Proxy Statement for its 2020 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Exchange Act.

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

The information required by this Item 12 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the caption "Stock Ownership" in the Company's Proxy Statement for its 2020 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Exchange Act.

Securities Authorized For Issuance Under Equity Compensation Plans

The following table summarizes the status of the Company's equity compensation plans as of December 31, 2019:

Plan category	At December 31, 2019		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(In thousands, except exercise price)		
	(a)	(b)	(c)
Equity compensation plans approved by security holders	561	$59	1,327
Equity compensation plans not approved by security holders	-	N/A	-
Total	561	$59	1,327

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item 13 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the caption "Certain Relationships and Related Party Transactions" in the Company's Proxy Statement for its 2020 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 of this Annual Report on Form 10-K is incorporated by reference from the information contained under the caption "Proposal 3 – Ratification of Independent Auditor" in the Company's Proxy Statement for its 2020 Annual Meeting of Shareholders which will be filed pursuant to Regulation 14A of the Exchange Act.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements:

See Index to Financial Statements on page 45. The consolidated financial statements included in Item 8 are filed as part of this Report.

(a) 2. Financial statement schedules required. No financial statement schedules are filed as part of this Report since the required information is included in the consolidated financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

(a) 3. 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 Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTAMERICA BANCORPORATION

/s/ Jesse Leavitt
Jesse Leavitt
Senior Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 27, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ David L. Payne David L. Payne	Chairman of the Board and Directors President and Chief Executive Officer (Principal Executive Officer)	February 27, 2020
/s/ Jesse Leavitt Jesse Leavitt	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 27, 2020
/s/ Etta Allen Etta Allen	Director	February 27, 2020
/s/ Louis E. Bartolini Louis E. Bartolini	Director	February 27, 2020
/s/ E. Joseph Bowler E. Joseph Bowler	Director	February 27, 2020
/s/ Melanie Martella Chiesa Melanie Martella Chiesa	Director	February 27, 2020
/s/ Michele Hassid Michele Hassid	Director	February 27, 2020
/s/ Catherine C. MacMillan Catherine C. MacMillan	Director	February 27, 2020
/s/ Ronald A. Nelson Ronald A. Nelson	Director	February 27, 2020
/s/ Edward B. Sylvester Edward B. Sylvester	Lead Independent Director	February 27, 2020

EXHIBIT INDEX

Exhibit Number	
3(a)	Restated Articles of Incorporation (composite copy), incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, filed with the Securities and Exchange Commission on March 30, 1998. https://www.sec.gov/Archives/edgar/data/311094/0000311094-98-000004.txt
3(b)	By-laws, as amended (composite copy), incorporated by reference to Exhibit 3.2 to the Registrant's Form 8-K, filed with the Securities and Exchange Commission on March 26, 2018. https://www.sec.gov/Archives/edgar/data/311094/000117184318002262/exh_32.htm
3(c)	Certificate of Determination of Fixed Rate Cumulative Perpetual Preferred Stock, Series A of Westamerica Bancorporation dated February 10, 2009, incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K, filed with the Securities and Exchange Commission on February 13, 2009. https://www.sec.gov/Archives/edgar/data/311094/000095013409002844/f51541exv99w1.htm
4.1	Description of registered securities
10(a)*	Amended and Restated Stock Option Plan of 1995, incorporated by reference to Exhibit A to the Registrant's definitive Proxy Statement pursuant to Regulation 14(a) filed with the Securities and Exchange Commission on March 17, 2003. https://www.sec.gov/Archives/edgar/data/311094/000102140803004311/ddef14a.htm
10(d)*	Westamerica Bancorporation Chief Executive Officer Deferred Compensation Agreement by and between Westamerica Bancorporation and David L. Payne, dated December 18, 1998 incorporated by reference to Exhibit 10(e) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, filed with the Securities and Exchange Commission on March 29, 2000. https://www.sec.gov/Archives/edgar/data/311094/000031109400000002/0000311094-00-000002.txt
10(e)*	Description of Executive Cash Bonus Program incorporated by reference to Exhibit 10(e) to Exhibit 2.1 of Registrant's Form 8-K filed with the Securities and Exchange Commission on March 14, 2005. https://www.sec.gov/Archives/edgar/data/311094/000031109405000008/mar8k05c.txt
10(f)*	Non-Qualified Annuity Performance Agreement with David L. Payne dated November 19, 1997 incorporated by reference to Exhibit 10(f) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 15, 2005. https://www.sec.gov/Archives/edgar/data/311094/000095013405005077/f06799exv10wxfy.htm
10(g)*	Amended and Restated Westamerica Bancorporation Stock Option Plan of 1995 Nonstatutory Stock Option Agreement Form incorporated by reference to Exhibit 10(g) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 15, 2005. https://www.sec.gov/Archives/edgar/data/311094/000095013405005077/f06799exv10wxgy.htm
10(h)*	Amended and Restated Westamerica Bancorporation Stock Option Plan of 1995 Restricted Performance Share Grant Agreement Form incorporated by reference to Exhibit 10(h) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 15, 2005. https://www.sec.gov/Archives/edgar/data/311094/000095013405005077/f06799exv10wxhy.htm
10(i)*	Amended Westamerica Bancorporation and Subsidiaries Deferred Compensation Plan (As restated effective January 1, 2005) dated December 31, 2008 incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the Securities and Exchange Commission on February 27, 2009. https://www.sec.gov/Archives/edgar/data/311094/000095013409004041/f51636exv10wxiy.htm
10(j)*	Amended and Restated Westamerica Bancorporation Deferral Plan (Adopted October 26, 1995) dated December 31, 2008 incorporated by reference to Exhibit 10(j) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the Securities and Exchange Commission on February 27, 2009. https://www.sec.gov/Archives/edgar/data/311094/000095013409004041/f51636exv10wxjy.htm
10(k)*	Form of Restricted Performance Share Deferral Election pursuant to the Westamerica Bancorporation Deferral Plan incorporated by reference to Exhibit 10(i) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission on March 10, 2006. https://www.sec.gov/Archives/edgar/data/311094/000095013406004693/f18098exv10wxky.htm
10(l)	Purchase and Assumption Agreement by and between Federal Deposit Insurance Corporation and Westamerica Bank dated February 6, 2009, incorporated by reference to Exhibit 99.2 to the Registrant's Form 8-K, filed with the Securities and Exchange Commission on February 11, 2009. https://www.sec.gov/Archives/edgar/data/311094/000095013409002471/f51462exv99w2.htm
10(s)*	Amended and Restated Stock Option Plan of 1995, incorporated by reference to Exhibit A to the Registrant's definitive Proxy Statement pursuant to Regulation 14(a) filed with the Securities and Exchange Commission on March 13, 2012. https://www.sec.gov/Archives/edgar/data/311094/000120677412001027/westamerica_def14a.htm
10(t)	Data Processing Agreement by and between Fidelity Information Services and Westamerica Bancorporation incorporated by reference to Exhibit 10(t) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission on February 28, 2017. https://www.sec.gov/Archives/edgar/data/311094/000117184317001171/exh_10t.htm
10(u)*	Westamerica Bancorporation 2019 Omnibus Equity Incentive Plan, incorporated by reference to Exhibit 4 to the Registrant's Form S-8, filed with the Securities and Exchange Commission on September 27, 2019. https://sec.gov/Archives/edgar/data/311094/000117184319006163/exh_4.htm

10(v)*	Westamerica Bancorporation 2019 Omnibus Equity Incentive Plan Stock Option Agreement Form, incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q, filed with the Securities and Exchange Commission on November 4, 2019. https://sec.gov/Archives/edgar/data/311094/000117184319007133/ex_161876.htm
10(w)*	Westamerica Bancorporation 2019 Omnibus Equity Incentive Plan Restricted Stock Unit Award Agreement Form, incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q, filed with the Securities and Exchange Commission on November 4, 2019. https://sec.gov/Archives/edgar/data/311094/000117184319007133/ex_161877.htm
11.1	Statement re computation of per share earnings incorporated by reference to Note 17 of the notes to the consolidated financial statements of this Report.
14	Code of Ethics incorporated by reference to Exhibit 14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Securities and Exchange Commission on March 10, 2004. https://www.sec.gov/Archives/edgar/data/311094/000095014904000595/f97139exv14.txt
21	Subsidiaries of the registrant.
23.1	Consent of Crowe LLP
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
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
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
101.INS	XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates management contract or compensatory plan or arrangement.

The exhibits listed above are available through the SEC's website (https://www.sec.gov). Alternatively, the Company will furnish to shareholders a copy of any exhibit listed above, but not contained herein, upon written request to the Office of the Corporate Secretary A-2M, Westamerica Bancorporation, P.O. Box 1200, Suisun City, California 94585-1200, and payment to the Company of $.25 per page.

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