LUBRIZOL CORP
Form 4
November 13, 2006

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
COOLEY CHARLES P

(Last) (First) (Middle)

LUBRIZOL CORP, 29400 LAKELAND BLVD

(Street)

WICKLIFFE, OH 44092

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LUBRIZOL CORP [LZ]

3. Date of Earliest Transaction (Month/Day/Year)
11/09/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Shares	11/09/2006		M		6,000	A	$ 38.25	30,071.7577 (1)	D	
Common Shares	11/09/2006		F		6,000	D	$ 47.515	24,071.7577 (1)	D	
Common Shares								2,858.6 (2)	I	Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	$ 38.25	11/09/2006		M			6,000	04/01/1998 [(3)]	04/01/2008	Common Shares	6,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
COOLEY CHARLES P LUBRIZOL CORP 29400 LAKELAND BLVD WICKLIFFE, OH 44092			Vice President & CFO	

Signatures

/s/Charles P. Cooley by Andrea A. Zwegat	11/13/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Reflects acquisitions pursuant to a dividend reinvestment plan exempt under Rule 16a-11.

(2) Reflects end-of-period holdings resulting from acquisitions pursuant to a qualified plan, which are exempt under Rule 16b-3(c).

(3) Options vest 50% one year after grant date, 75% two years after grant date and 100% three years after grant date.

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

Summary of Changes in Interest Income and Expense

	For the Three Months Ended March 31, 2018 Compared with For the Three Months Ended March 31, 2017		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	$1,377	$ 1,411	$2,788
Tax-exempt [1]	(611)	(1,514)	(2,125)
Total investments [1]	766	(103)	663
Loans:			
Taxable	(1,245)	225	(1,020)
Tax-exempt [1]	(78)	(149)	(227)
Total loans [1]	(1,323)	76	(1,247)
Total decrease in interest and loan fee income [1]	(557)	(27)	(584)
Increase (decrease) in interest expense:			
Deposits:			
Savings and interest-bearing transaction	7	(5)	2
Time less than $100,000	(10)	(2)	(12)
Time $100,000 or more	(9)	-	(9)
Total interest-bearing deposits	(12)	(7)	(19)
Short-term borrowed funds	(1)	(1)	(2)
Total decrease in interest expense	(13)	(8)	(21)
Decrease in net interest and loan fee income [1]	$(544)	$ (19)	$(563)

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

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Summary of Changes in Interest Income and Expense

	For the Three Months Ended March 31, 2018 Compared with For the Three Months Ended December 31, 2017		
	Volume	Yield/Rate	Total
	(In thousands)		
Increase (decrease) in interest and loan fee income:			
Investment securities:			
Taxable	$515	$ 559	$1,074
Tax-exempt [1]	(142)	(1,272)	(1,414)
Total investments [1]	373	(713)	(340)
Loans:			
Taxable	(751)	51	(700)
Tax-exempt [1]	(23)	(126)	(149)
Total loans [1]	(774)	(75)	(849)
Total decrease in interest and loan fee income [1]	(401)	(788)	(1,189)
(Decrease) increase in interest expense:			
Deposits:			
Savings and interest-bearing transaction	-	(3)	(3)
Time less than $100,000	(4)	-	(4)
Time $100,000 or more	(5)	1	(4)
Total interest-bearing deposits	(9)	(2)	(11)
Short-term borrowed funds	-	(1)	(1)
Total decrease in interest expense	(9)	(3)	(12)
Decrease in net interest and loan fee income [1]	$(392)	$ (785)	$(1,177)

[1] Amounts calculated on an FTE basis using the current statutory federal tax rate.

Provision for Loan Losses

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

The Company provided no provision for loan losses in the first quarter of 2018 and the first and fourth quarters of 2017. Classified loans declined $13.6 million during the period from March 31, 2017 to March 31, 2018. This development was reflected in Management's evaluation of credit quality, the level of the provision for loan losses, and the adequacy of the allowance for loan losses at March 31, 2018. At March 31, 2018, the Company had $7.1 million in residential real estate secured loans which are indemnified from loss by the FDIC up to eighty percent of principal; the indemnification expires February 6, 2019 For further information regarding credit risk, the FDIC loss-sharing agreements, net credit losses and the allowance for loan losses, see the "Loan Portfolio Credit Risk" and "Allowance for Loan Losses" sections of this Report.

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Noninterest Income

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

	For the Three Months Ended		
	March 31,		December 31,
	2018	2017	2017
	(In thousands)		
Service charges on deposit accounts	$4,752	$4,923	$4,756
Merchant processing services	2,420	1,875	2,346
Debit card fees	1,605	1,481	1,569
Trust fees	743	702	739
ATM processing fees	664	575	696
Other service fees	631	650	620
Financial services commissions	114	195	155
Equity securities (losses) gains	(36)	-	7,955
Other noninterest income	1,062	1,256	1,464
Total	$11,955	$11,657	$20,300

Noninterest income for the first quarter 2018 increased by $298 thousand from the same period in 2017. Merchant processing services fees increased $545 thousand primarily due to successful sales efforts and higher transaction volumes. Debit card fees increased $124 thousand mostly due to increased transaction volumes. Service charges on deposit accounts decreased $171 thousand due to lower fees for overdrafts and checking accounts.

In the first quarter 2018, noninterest income decreased $8.3 million compared with the fourth quarter 2017 primarily because the fourth quarter 2017 included $8.0 million in gains on sale of equity securities.

Noninterest Expense

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

For the Three Months Ended
March 31,

	2018	2017	December 31, 2017
	(In thousands)		
Salaries and related benefits	$13,351	$13,070	$12,652
Occupancy and equipment	4,691	4,887	4,860
Outsourced data processing services	2,340	2,139	2,325
Professional fees	785	611	627
Amortization of identifiable intangibles	570	800	755
Courier service	463	421	423
Loss contingency	-	-	5,542
Impairment of tax credit investments	-	-	625
Other noninterest expense	2,014	2,687	2,358
Total	$24,214	$24,615	$30,167

Noninterest expense decreased $401 thousand in the first quarter 2018 compared with the same period in 2017. Amortization of intangibles decreased $230 thousand as assets are amortized on a declining balance method. Other noninterest expense decreased $673 thousand primarily due to decreases in correspondent bank service charges and operational losses, partially offset by an increase in operating losses on limited partnership investments. Salaries and related benefits increased $281 thousand primarily due to higher employee benefit costs. Outsourced data processing services expense increased $201 thousand due to additional processing services.

In the first quarter 2018, noninterest expense decreased $6.0 million compared with the fourth quarter 2017 primarily because the fourth quarter 2017 included a $5.5 million loss contingency and a $625 thousand impairment charge on tax credit investments. Amortization of intangibles decreased $185 thousand as assets are amortized on a declining balance method. Other noninterest expense decreased $344 thousand primarily due to decreases in correspondent bank service charges. Salaries and related benefits increased $699 thousand primarily due to higher employee benefit costs.

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Provision for Income Tax

The Company's first quarter 2018 income tax provision was $4.3 million compared with $19.7 million for the fourth quarter 2017 and $4.8 million for the first quarter 2017, representing effective tax rates of 19.7%, 82.6% and 24.3%, respectively. The book tax provisions for the first quarter 2018 and the first quarter 2017 include tax benefits of $451 thousand and $671 thousand, respectively, for tax deductions from the exercise of employee stock options which exceed related compensation expenses recognized in the financial statements; these benefits reduced the effective tax rate by 2.0% and 3.4%, respectively. The lower effective tax rate for the first quarter 2018 reflects a reduction in the federal corporate tax rate due to the Act. The book tax provision for the fourth quarter 2017 includes a charge of $12.3 million resulting from re-measurement of the Company's net deferred tax asset triggered by enactment of the Act.

Investment Portfolio

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

Management has increased the investment securities portfolio in response to deposit growth and loan volume declines. The carrying value of the Company's investment securities portfolio was $3.5 billion at March 31, 2018 and $3.4 billion at December 31, 2017.

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. In the first quarter 2018 corporate securities increased in order to improve yields without extending the duration of the bond portfolio.

At March 31, 2018, 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 our internal analyses compared with the ratings assigned by the third party credit rating agencies.

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

	At March 31, 2018			At December 31, 2017		
	Market value	As a percent of total corporate securities		Market value	As a percent of total corporate securities	
	($ in thousands)					
Basic materials	$34,445	3	%	$35,219	3	%
Communications	49,814	4	%	50,763	5	%
Consumer, cyclical	22,513	2	%	12,592	1	%
Consumer, non-cyclical	160,164	13	%	133,476	12	%
Financial	488,173	41	%	525,932	47	%
Industrial	165,052	14	%	129,989	12	%
Technology	109,670	9	%	71,708	6	%
Utilities	172,068	14	%	155,819	14	%
Total corporate securities	$1,201,899	100	%	$1,115,498	100	%

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 March 31, 2018, the Company’s investment securities portfolios included securities issued by 635 state and local government municipalities and agencies located within 44 states. None of the Company’s investment securities were issued by Puerto Rican government entities. The largest exposure to any one municipality or agency was $9.8 million (fair value) represented by nine general obligation bonds.

	At March 31, 2018	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	$105,741	$106,722
Texas	63,630	63,202
New Jersey	38,023	37,999
Minnesota	29,819	29,831
Other (36 states)	287,885	286,822
Total general obligation bonds	$525,098	$524,576

Revenue bonds:		
California	$38,822	$39,314
Kentucky	20,806	20,808
Iowa	17,287	17,184
Colorado	14,936	14,924
Washington	13,084	13,411
Indiana	12,890	12,884
Other (29 states)	126,564	126,578
Total revenue bonds	$244,389	$245,103
Total obligations of states and political subdivisions	$769,487	$769,679

At December 31, 2017, the Company’s investment securities portfolios included securities issued by 647 state and local government municipalities and agencies located within 44 states. None of the Company’s investment securities were issued by Puerto Rican government entities. The largest exposure to any one municipality or agency was $10.0 million (fair value) represented by nine general obligation bonds.

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Explanation of Responses:

	At December 31, 2017	
	Amortized Cost	Fair Value
	(In thousands)	
Obligations of states and political subdivisions:		
General obligation bonds:		
California	$104,330	$106,311
Texas	66,636	66,699
New Jersey	39,387	39,612
Minnesota	30,485	30,707
Other (36 states)	292,102	294,779
Total general obligation bonds	$532,940	$538,108
Revenue bonds:		
California	$38,838	$39,660
Kentucky	21,731	21,958
Iowa	17,304	17,287
Colorado	14,956	15,086
Washington	13,506	13,963
Indiana	12,914	13,054
Other (29 states)	130,196	131,301
Total revenue bonds	$249,445	$252,309
Total obligations of states and political subdivisions	$782,385	$790,417

At March 31, 2018 and December 31, 2017, the revenue bonds in the Company's investment securities portfolios were issued by state and local government municipalities and agencies to fund public services such as water utility, sewer utility, recreational and school facilities, and general public and economic improvements. The revenue bonds were payable from 22 revenue sources at March 31, 2018 and at December 31, 2017. The revenue sources that represent 5% or more individually of the total revenue bonds are summarized in the following tables.

	At March 31, 2018	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	$50,680	$51,374
Sales tax	30,212	30,497
Sewer	28,696	28,965
Lease (renewal)	19,090	19,097
College & University	17,179	16,938
Other (17 sources)	98,532	98,232
Total revenue bonds by revenue source	$244,389	$245,103

	At December 31, 2017	
	Amortized Cost	Fair Value
	(In thousands)	
Revenue bonds by revenue source:		
Water	$50,737	$51,854
Sewer	30,427	31,030
Sales tax	30,233	30,777
Lease (renewal)	20,007	20,235
College & University	17,230	17,087
Other (17 sources)	100,811	101,326
Total revenue bonds by revenue source	$249,445	$252,309

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

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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”).

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Nonperforming Assets

	At March 31,		At December 31,
	2018	2017	2017
	(In thousands)		
Nonperforming nonaccrual loans	$2,030	$2,382	$ 1,641
Performing nonaccrual loans	4,110	4,285	4,285
Total nonaccrual loans	6,140	6,667	5,926
Accruing loans 90 or more days past due	255	373	531
Total nonperforming loans	6,395	7,040	6,457
Other real estate owned	1,376	2,136	1,426
Total nonperforming assets	$7,771	$9,176	$ 7,883

Nonperforming assets have declined during 2017 and the first quarter 2018 due to payoffs, chargeoffs and sale of Other Real Estate Owned. At March 31, 2018, one loan secured by commercial real estate with a balance of $4.1 million was on nonaccrual status. The remaining six nonaccrual loans held at March 31, 2018 had an average carrying value of $338 thousand and the largest carrying value was $1.0 million.

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 Three Months Ended

	March 31,		December 31,
	2018	2017	2017
	(In thousands)		
Analysis of the Allowance for Loan Losses			
Balance, beginning of period	$23,009	$25,954	$23,628
Provision (reversal) for loan losses	-	-	-
Loans charged off			
Commercial	(41)	(103)	-
Consumer installment and other	(1,365)	(1,739)	(1,174)
Total chargeoffs	(1,406)	(1,842)	(1,174)
Recoveries of loans previously charged off			
Commercial	829	160	136
Commercial real estate	-	10	-
Consumer installment and other	649	637	419
Total recoveries	1,478	807	555
Net loan recoveries (losses)	72	(1,035)	(619)
Balance, end of period	$23,081	$24,919	$23,009
Net loan (recoveries) losses as a percentage of average total loans (annualized)	(0.02)%	0.31%	0.19%

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 for impairment all loans with outstanding principal balances in excess of $500 thousand which are classified or on nonaccrual status and all “troubled debt restructured” loans. 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 March 31, 2018 is economic and business conditions $0.7 million. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company and the judgmental amount of unallocated reserve assigned by Management are: loan review system $1.0 million, adequacy of lending Management and staff $0.9 million and concentrations of credit $1.3 million.

	Allowance for Loan Losses For the Three Months Ended March 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
Additions:							
(Reversal) provision	(17)	(25)	(160)	(87)	37	252	-
Deductions:							
Chargeoffs	(41)	-	-	-	(1,365)	-	(1,406)
Recoveries	829	-	-	-	649	-	1,478
Net loan recoveries (losses)	788	-	-	-	(716)	-	72
Total allowance for loan losses	$8,517	$ 3,824	$ 175	$ 908	$ 5,739	$ 3,918	$23,081

	Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment At March 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	$4,777	$214	$ -	$ -	$ -	$ -	$4,991
Collectively evaluated for impairment	3,740	3,610	175	908	5,739	3,918	18,090
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-

Total	$8,517	$3,824	$ 175	$908	$5,739	$ 3,918	$23,081
Carrying value of loans:							
Individually evaluated for impairment	$10,513	$11,393	$ -	$206	$-	$ -	$22,112
Collectively evaluated for impairment	296,432	541,327	2,941	59,278	305,705	-	1,205,683
Purchased loans with evidence of credit deterioration	33	598	-	-	158	-	789
Total	$306,978	$553,318	$ 2,941	$59,484	$305,863	$ -	$1,228,584

The portion of the allowance for loan losses ascribed to loan segments declined from March 31, 2017 to March 31, 2018 due to declines in classified loans, delinquent loans, and the overall loan portfolio. The decline in the unallocated portion was due to improved economic conditions within the Company's geographic markets and credit quality metrics.

Management considers the $23.1 million allowance for loan losses to be adequate as a reserve against loan losses inherent in the loan portfolio as of March 31, 2018.

See Note 4 to the unaudited 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. Assets and liabilities may mature or re-price at different times. Assets and liabilities may re-price at the same time but by different amounts. Short-term and long-term market interest rates may change by different amounts. The timing and amount of cash flows of various assets or liabilities may shorten or lengthen as interest rates change. In addition, the changing levels of interest rates may have an impact on loan demand, demand for various deposit products, credit losses, and other elements of earnings such as account analysis fees on commercial deposit accounts and correspondent bank service charges.

The Company’s earnings are affected not only by general economic conditions, but also by the monetary and fiscal policies of the United States government and its agencies, particularly the Federal Open Market Committee (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 assets and paid for liabilities. The nature and impact of future changes in monetary policies are generally not predictable.

Management’s most likely earnings forecast for the twelve months ending March 31, 2019 assumes market interest rates will gradually rise, with short-term rates rising more than long-term rates.

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

The Company’s asset and liability position was slightly “asset sensitive” at March 31, 2018, depending on the interest rate assumptions applied to the simulation model employed by Management to measure interest rate risk. An “asset sensitive” position results in a slightly larger change in interest income than in interest expense resulting from

application of assumed interest rate changes. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate risk.

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

Market Risk - Equity Markets

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

Fluctuations in the Company's common stock price can impact the Company's financial results in several ways. First, the Company has regularly repurchased and retired its common stock; the market price paid to retire the Company's common stock 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 associated with share based compensation fluctuates with changes in and the volatility of the Company's common stock price.

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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 percent of funding for average total assets in the first quarter 2018 and in 2017. The stability of the Company’s funding from customer deposits is in part reliant on the confidence clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining an appropriate level of liquidity reserves.

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. The Company's investment securities portfolio provides a substantial secondary liquidity reserve. The Company held $3.5 billion in total investment securities at March 31, 2018. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At March 31, 2018, such collateral requirements totaled approximately $696 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 Westamerica Bank ("Bank") and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for the payment of dividends declared for its shareholders, and interest and principal on any outstanding debt. 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 $11 million in the first quarter 2018 and $41 million in 2017, and retire common stock in the amount of $-0- in the first quarter 2018 and $314 thousand in 2017. Payment of dividends to the Parent Company by the Bank is limited under California and Federal laws. The Company believes these regulatory dividend restrictions will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

Capital Resources

The Company has historically generated high levels of earnings, which 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 11.6% in the first quarter 2018 and 8.4% in 2017. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options was $8 million in the first quarter 2018 and $25 million in 2017.

The Company paid common dividends totaling $11 million in the first quarter 2018 and $41 million in 2017, which represent dividends per common share of $0.40 and $1.57, 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 -0- shares in the first quarter 2018 and 6 thousand shares valued at $314 thousand in 2017.

The Company's primary capital resource is shareholders' equity, which was $582 million at March 31, 2018 compared with $590 million at December 31, 2017. The Company's ratio of equity to total assets was 10.49% at March 31, 2018 and 10.71% at December 31, 2017.

The Company performs capital stress tests on a periodic basis to evaluate the sustainability of its capital. Under the stress testing, the Company assumes various scenarios such as deteriorating economic and operating conditions, unanticipated asset devaluations, and significant operational lapses. The Company measures the impact of these scenarios on its earnings and capital. Based on the results of the most recent stress tests, Management is satisfied with the capital condition of the Bank and the Company. However, no assurance can be given the Bank or Company will not experience a period of reduced earnings or a reduction in capital from unanticipated events and circumstances.

Capital to Risk-Adjusted Assets

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

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

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

Under the final rule, a banking organization that is not subject to the “advanced approaches rule” may make a one-time election not to include most elements of Accumulated Other Comprehensive Income, including net-of-tax unrealized gains and losses on available for sale investment securities, in regulatory capital. Neither the Company nor the Bank 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 will end January 1, 2019. Any bank subject to the rule which is unable to maintain its “capital conservation buffer” will be restricted in the payment of discretionary executive compensation and shareholder distributions, such as dividends and share repurchases.

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

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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 March 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	15.72%	12.97%	6.375%(1)	7.00 %(2)	6.50 %
Tier I Capital	15.72%	12.97%	7.875%(1)	8.50 %(2)	8.00 %
Total Capital	16.53%	13.98%	9.875%(1)	10.50%(2)	10.00 %
Leverage Ratio	9.12 %	7.48 %	4.000%	4.00 %	5.00 %

(1) Includes 1.875% capital conservation buffer.
(2) Includes 2.5% capital conservation buffer.

	At December 31, 2017		Required for Capital Adequacy Purposes		To Be Well-capitalized Under Prompt Corrective Action Regulations (Bank)
	Company	Bank	Effective January 1, 2017	Effective January 1, 2019	
Common Equity Tier I Capital	15.36%	12.50%	5.75%(3)	7.00 %(4)	6.50 %
Tier I Capital	15.36%	12.50%	7.25%(3)	8.50 %(4)	8.00 %
Total Capital	16.17%	13.52%	9.25%(3)	10.50%(4)	10.00 %
Leverage Ratio	8.86 %	7.16 %	4.00%	4.00 %	5.00 %

(3) Includes 1.25% capital conservation buffer.
(4) Includes 2.5% capital conservation buffer.

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

exceeding the highest effective regulatory standard and pay quarterly dividends to shareholders. No assurance can be given that changes in capital management plans will not occur.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of March 31, 2018.

Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company's management, including the principal executive officer and the principal financial officer, to allow for timely decisions regarding required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Neither the Company nor any of its subsidiaries is a party to any material pending legal proceeding, nor is their property the subject of any material pending legal proceeding, other than ordinary routine legal proceedings arising in the ordinary course of the Company's business. None of these proceedings is expected to have a material adverse impact upon the Company's business, financial position or results of operations.

Item 1A. Risk Factors

The Company's Form 10-K as of December 31, 2017 includes detailed disclosure about the risks faced by the Company's business; such risks have not materially changed since the Form 10-K was filed.

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

(a) Previously reported on Form 8-K.

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended March 31, 2018 (in thousands, except per share data).

Period	2018 (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 price paid)			
January 1 through January 31	-	$ -	-	1,750
February 1 through February 28	-	-	-	1,750
March 1 through March 31	-	-	-	1,750
Total	-	$ -	-	1,750

The Company repurchases shares of its common stock in the open market on a discretionary basis 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.

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No shares were repurchased during the period from January 1, 2018 through March 31, 2018. A program approved by the Board of Directors on July 27, 2017 authorizes the purchase of up to 1,750 thousand shares of the Company's common stock from time to time prior to September 1, 2018.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

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

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SIGNATURES

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

WESTAMERICA BANCORPORATION

(Registrant)

/s/ JOHN "ROBERT" THORSON

John "Robert" Thorson

Senior Vice President and Chief Financial Officer

(Principal Financial and Chief Accounting Officer)

Date: May 4, 2018

EXHIBIT INDEX

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

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

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

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

Exhibit 101.INS: XBRL Instance Document

Exhibit 101.SCH: XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL: XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF: XBRL Taxonomy Extension Definitions Linkbase Document

Exhibit 101.LAB: XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE: XBRL Taxonomy Extension Presentation Linkbase Document

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