

WESTAMERICA BANCORPORATION

Form 10-Q

August 02, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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: 001-9383

WESTAMERICA BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA

(State or Other Jurisdiction of  
Incorporation or Organization)

94-2156203

(I.R.S. Employer  
Identification No.)

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code (707) 863-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

| Title of Class                | Shares outstanding as of July<br>26, 2012 |
|-------------------------------|---|
| Common Stock,<br>No Par Value | 27,564,656                                |

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## FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of current and potential future 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 data processing system failures or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, fire, flood, drought, and other disasters, on the uninsured value of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company's market place, and commodities and asset values, and (13) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2011, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

## PART I - FINANCIAL INFORMATION

## Item 1 Financial Statements

WESTAMERICA BANCORPORATION  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

|   | At June 30,<br>2012 | At December<br>31,<br>2011 |
|---|---------------------|----------------------------|
|   | (In thousands)      |                            |
| <b>Assets:</b>  |                     |                            |
| Cash and due from banks   | \$ 320,925          | \$ 530,045                 |
| Investment securities available for sale  | 708,717             | 638,753                    |
| Investment securities held to maturity, with fair values of: \$1,232,813 at June 30, 2012, \$947,493 at December 31, 2011 | 1,206,646           | 922,803                    |
| Purchased covered loans   | 463,251             | 535,278                    |
| Purchased non-covered loans   | 102,390             | 125,921                    |
| Originated loans  | 1,751,578           | 1,862,607                  |
| Allowance for loan losses   | (31,523 )           | (32,597 )                  |
| Total loans   | 2,285,696           | 2,491,209                  |
| Non-covered other real estate owned   | 17,585              | 26,500                     |
| Covered other real estate owned   | 14,608              | 19,135                     |
| Premises and equipment, net   | 37,867              | 36,548                     |
| Identifiable intangibles, net   | 25,888              | 28,629                     |
| Goodwill  | 121,673             | 121,673                    |
| Other assets  | 213,525             | 226,866                    |
| <b>Total Assets</b>   | <b>\$4,953,130</b>  | <b>\$ 5,042,161</b>        |
| <b>Liabilities:</b>   |                     |                            |
| <b>Deposits:</b>  |                     |                            |
| Noninterest bearing deposits  | \$ 1,573,188        | \$ 1,562,254               |
| <b>Interest bearing deposits:</b>   |                     |                            |
| Transaction   | 742,633             | 734,988                    |
| Savings   | 1,136,876           | 1,148,178                  |
| Time  | 755,802             | 804,501                    |
| Total deposits  | 4,208,499           | 4,249,921                  |
| Short-term borrowed funds   | 81,582              | 115,689                    |
| Federal Home Loan Bank advances   | 25,911              | 26,023                     |
| Term repurchase agreement   | 10,000              | 10,000                     |
| Debt financing  | 15,000              | 15,000                     |
| Other liabilities   | 54,212              | 66,887                     |
| <b>Total Liabilities</b>  | <b>4,395,204</b>    | <b>4,483,520</b>           |
| <b>Shareholders' Equity:</b>  |                     |                            |
| Common stock (no par value), authorized - 150,000 shares  |                     |                            |
| Issued and outstanding: 27,621 at June 30, 2012, 28,150 at December 31, 2011  | 372,631             | 377,775                    |
| Deferred compensation   | 3,101               | 3,060                      |
| Accumulated other comprehensive income  | 13,030              | 11,369                     |

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|  |             |              |
|--|-------------|--------------|
| Retained earnings                          | 169,164     | 166,437      |
| Total Shareholders' Equity                 | 557,926     | 558,641      |
| Total Liabilities and Shareholders' Equity | \$4,953,130 | \$ 5,042,161 |

See accompanying notes to unaudited consolidated financial statements.

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WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

|  | For the Three Months                  |                 | For the Six Months |                 |
|--|---------------------------------------|-----------------|--------------------|-----------------|
|  | Ended June 30,                        |                 |                    |                 |
|  | 2012                                  | 2011            | 2012               | 2011            |
|  | (In thousands, except per share data) |                 |                    |                 |
| <b>Interest and Fee Income:</b>                            |                                       |                 |                    |                 |
| Loans  | \$33,745                              | \$41,272        | \$69,401           | \$82,635        |
| Investment securities available for sale                   | 4,938                                 | 5,684           | 9,726              | 10,902          |
| Investment securities held to maturity                     | 8,218                                 | 6,132           | 16,072             | 12,045          |
| <b>Total Interest and Fee Income</b>                       | <b>46,901</b>                         | <b>53,088</b>   | <b>95,199</b>      | <b>105,582</b>  |
| <b>Interest Expense:</b>                                   |                                       |                 |                    |                 |
| Deposits   | 1,107                                 | 1,777           | 2,294              | 3,667           |
| Short-term borrowed funds                                  | 21                                    | 47              | 48                 | 109             |
| Term repurchase agreement                                  | 24                                    | -               | 49                 | -               |
| Federal Home Loan Bank advances                            | 119                                   | 128             | 239                | 279             |
| Debt financing and notes payable                           | 201                                   | 201             | 401                | 401             |
| <b>Total Interest Expense</b>                              | <b>1,472</b>                          | <b>2,153</b>    | <b>3,031</b>       | <b>4,456</b>    |
| <b>Net Interest Income</b>                                 | <b>45,429</b>                         | <b>50,935</b>   | <b>92,168</b>      | <b>101,126</b>  |
| Provision for Loan Losses                                  | 2,800                                 | 2,800           | 5,600              | 5,600           |
| <b>Net Interest Income After Provision For Loan Losses</b> | <b>42,629</b>                         | <b>48,135</b>   | <b>86,568</b>      | <b>95,526</b>   |
| <b>Noninterest Income:</b>                                 |                                       |                 |                    |                 |
| Service charges on deposit accounts                        | 7,027                                 | 7,577           | 14,122             | 15,098          |
| Merchant processing services                               | 2,529                                 | 2,391           | 4,922              | 4,562           |
| Debit card fees  | 1,345                                 | 1,283           | 2,508              | 2,484           |
| ATM processing fees  | 932                                   | 997             | 1,865              | 1,932           |
| Trust fees   | 497                                   | 482             | 986                | 975             |
| Financial services commissions                             | 194                                   | 117             | 365                | 146             |
| Loss on sale of securities                                 | (1,287 )                              | -               | (1,287 )           | -               |
| Other  | 2,296                                 | 2,445           | 4,721              | 4,838           |
| <b>Total Noninterest Income</b>                            | <b>13,533</b>                         | <b>15,292</b>   | <b>28,202</b>      | <b>30,035</b>   |
| <b>Noninterest Expense:</b>                                |                                       |                 |                    |                 |
| Salaries and related benefits                              | 14,494                                | 14,913          | 29,540             | 29,988          |
| Occupancy  | 3,775                                 | 4,050           | 7,709              | 8,075           |
| Outsourced data processing services                        | 2,078                                 | 2,122           | 4,161              | 4,578           |
| Amortization of identifiable intangibles                   | 1,339                                 | 1,480           | 2,741              | 3,028           |
| Furniture and equipment                                    | 1,041                                 | 1,038           | 1,892              | 1,971           |
| Professional fees  | 902                                   | 1,453           | 1,669              | 2,303           |
| Courier service  | 793                                   | 852             | 1,578              | 1,695           |
| Deposit insurance assessments                              | 653                                   | 740             | 1,403              | 1,960           |
| Other real estate owned                                    | 3                                     | 990             | 233                | 1,135           |
| Settlements  | -                                     | 2,100           | -                  | 2,100           |
| Other  | 4,271                                 | 4,571           | 8,457              | 8,799           |
| <b>Total Noninterest Expense</b>                           | <b>29,349</b>                         | <b>34,309</b>   | <b>59,383</b>      | <b>65,632</b>   |
| <b>Income Before Income Taxes</b>                          | <b>26,813</b>                         | <b>29,118</b>   | <b>55,387</b>      | <b>59,929</b>   |
| Provision for income taxes                                 | 5,849                                 | 7,849           | 13,418             | 16,278          |
| <b>Net Income</b>  | <b>\$20,964</b>                       | <b>\$21,269</b> | <b>\$41,969</b>    | <b>\$43,651</b> |
| <b>Average Common Shares Outstanding</b>                   | <b>27,744</b>                         | <b>28,771</b>   | <b>27,897</b>      | <b>28,895</b>   |

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|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Diluted Average Common Shares Outstanding | 27,790 | 28,923 | 27,951 | 29,073 |
| Per Common Share Data:                    |        |        |        |        |
| Basic earnings                            | \$0.76 | \$0.74 | \$1.50 | \$1.51 |
| Diluted earnings                          | 0.75   | 0.74   | 1.50   | 1.50   |
| Dividends paid                            | 0.37   | 0.36   | 0.74   | 0.72   |

See accompanying notes to unaudited condensed consolidated financial statements.

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WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

|  | For the Three Months |          | For the Six Months |          |
|--|----------------------|----------|--------------------|----------|
|  | 2012                 | 2011     | 2012               | 2011     |
|  | Ended June 30,       |          |                    |          |
|  | (In thousands)       |          |                    |          |
| Net income   | \$20,964             | \$21,269 | \$41,969           | \$43,651 |
| Other comprehensive income:  |                      |          |                    |          |
| Increase in net unrealized gains on securities available for sale                | 1,451                | 9,861    | 2,835              | 13,931   |
| Deferred tax expense   | (610 )               | (4,145 ) | (1,192 )           | (5,857 ) |
| Increase in net unrealized gains on securities available for sale,<br>net of tax | 841                  | 5,716    | 1,643              | 8,074    |
| Post-retirement benefit transition obligation amortization                       | 15                   | 15       | 30                 | 30       |
| Deferred tax expense   | (6 )                 | (6 )     | (12 )              | (12 )    |
| Post-retirement benefit transition obligation amortization, net of<br>tax        | 9                    | 9        | 18                 | 18       |
| Total other comprehensive income   | 850                  | 5,725    | 1,661              | 8,092    |
| Total comprehensive income   | \$21,814             | \$26,994 | \$43,630           | \$51,743 |

See accompanying notes to unaudited consolidated financial statements.

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

|  | Common<br>Shares<br>Outstanding | Common<br>Stock | Accumulated<br>Deferred<br>Compensation | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total     |
|--|---------------------------------|-----------------|---|---|----------------------|-----------|
|  | (In thousands)                  |                 |   |   |                      |           |
| Balance, December 31, 2010                             | 29,090                          | \$378,885       | \$ 2,724                                | \$ 159  | \$163,519            | \$545,287 |
| Net income for the period                              |                                 |                 |   |   | 43,651               | 43,651    |
| Other comprehensive income                             |                                 |                 |   | 8,092   |                      | 8,092     |
| Exercise of stock options                              | 74                              | 3,273           |   |   |                      | 3,273     |
| Tax benefit increase upon exercise of<br>stock options |                                 | 28              |   |   |                      | 28        |
| Restricted stock activity                              | 15                              | 455             | 336                                     |   |                      | 791       |
| Stock based compensation                               |                                 | 720             |   |   |                      | 720       |
| Stock awarded to employees                             | 1                               | 58              |   |   |                      | 58        |
| Purchase and retirement of stock                       | (640 )                          | (8,142 )        |   |   | (23,542 )            | (31,684 ) |
| Dividends  |                                 |                 |   |   | (20,876 )            | (20,876 ) |
| Balance, June 30, 2011                                 | 28,540                          | \$375,277       | \$ 3,060                                | \$ 8,251  | \$162,752            | \$549,340 |
| Balance, December 31, 2011                             | 28,150                          | \$377,775       | \$ 3,060                                | \$ 11,369                                       | \$166,437            | \$558,641 |
| Net income for the period                              |                                 |                 |   |   | 41,969               | 41,969    |
| Other comprehensive income                             |                                 |                 |   | 1,661   |                      | 1,661     |
| Exercise of stock options                              | 25                              | 1,030           |   |   |                      | 1,030     |
| Tax benefit increase upon exercise of<br>stock options |                                 | 2               |   |   |                      | 2         |
| Restricted stock activity                              | 11                              | 482             | 41                                      |   |                      | 523       |
| Stock based compensation                               |                                 | 805             |   |   |                      | 805       |
| Stock awarded to employees                             | 1                               | 63              |   |   |                      | 63        |
| Purchase and retirement of stock                       | (566 )                          | (7,526 )        |   |   | (18,555 )            | (26,081 ) |
| Dividends  |                                 |                 |   |   | (20,687 )            | (20,687 ) |
| Balance, June 30, 2012                                 | 27,621                          | \$372,631       | \$ 3,101                                | \$ 13,030                                       | \$169,164            | \$557,926 |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

For the Six Months  
Ended June 30,  
2012      2011  
(In thousands)

## Operating Activities:

|   |          |          |
|---|----------|----------|
| Net income  | \$41,969 | \$43,651 |
| Adjustments to reconcile net income to net cash provided by operating activities: |          |          |
| Depreciation and amortization   | 7,037    | 6,943    |
| Loan loss provision   | 5,600    | 5,600    |
| Net amortization of deferred loan fees  | (303 )   | (190 )   |
| Decrease (increase) in interest income receivable                                 | 1,004    | (161 )   |
| (Increase) decrease in other assets   | (3,386 ) | 1,685    |
| (Decrease) increase in income taxes payable                                       | (1,186 ) | 212      |
| Increase in net deferred tax asset  | (6,275 ) | (571 )   |
| Decrease in interest expense payable  | (129 )   | (328 )   |
| Increase in other liabilities   | 2,160    | 4,581    |
| Stock option compensation expense   | 805      | 720      |
| Tax benefit increase upon exercise of stock options                               | (2 )     | (28 )    |
| Loss on sale of securities available for sale                                     | 1,287    | -        |
| Gain on sale of other assets  | (256 )   | (800 )   |
| Net writedown (gain) on sale of premises and equipment                            | 1        | (127 )   |
| Originations of mortgage loans for resale   | (27 )    | (90 )    |
| Net proceeds from sale of mortgage loans originated for resale                    | 28       | 93       |
| Net gain on sale of foreclosed assets   | (2,041 ) | (193 )   |
| Writedown of foreclosed assets  | 1,925    | 845      |
| Net Cash Provided by Operating Activities   | 48,211   | 61,842   |

## Investing Activities:

|  |           |           |
|--|-----------|-----------|
| Net repayments of loans  | 194,740   | 146,387   |
| Proceeds from FDIC1 loss-sharing indemnification                   | 20,259    | 5,265     |
| Purchases of investment securities available for sale              | (137,378) | (152,998) |
| Purchases of investment securities held to maturity                | (405,281) | (128,294) |
| Proceeds from sale/maturity/calls of securities available for sale | 70,249    | 122,645   |
| Proceeds from maturity/calls of securities held to maturity        | 106,080   | 41,749    |
| Net change in FRB2/FHLB3 securities                                | 895       | (13,158 ) |
| Proceeds from sale of foreclosed assets                            | 16,632    | 6,734     |
| Purchases of premises and equipment                                | (2,637 )  | (250 )    |
| Proceeds from sale of premises and equipment                       | -         | 169       |
| Net Cash (Used in) Provided by Investing Activities                | (136,441) | 28,249    |

## Financing Activities:

|  |           |           |
|--|-----------|-----------|
| Net change in deposits                                 | (41,048 ) | (43,848 ) |
| Net change in short-term borrowings and FHLB3 advances | (34,106 ) | (15,658 ) |
| Exercise of stock options                              | 1,030     | 3,273     |
| Tax benefit increase upon exercise of stock options    | 2         | 28        |
| Repurchases/retirement of stock                        | (26,081 ) | (31,684 ) |
| Dividends paid   | (20,687 ) | (20,876 ) |

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|  |           |           |
|--|-----------|-----------|
| Net Cash Used in Financing Activities          | (120,890) | (108,765) |
| Net Change In Cash and Due from Banks          | (209,120) | (18,674 ) |
| Cash and Due from Banks at Beginning of Period | 530,045   | 338,793   |
| Cash and Due from Banks at End of Period       | \$320,925 | \$320,119 |

Supplemental Cash Flow Disclosures:

Supplemental disclosure of non cash activities:

|  |         |          |
|--|---------|----------|
| Loan collateral transferred to other real estate owned | \$4,108 | \$14,637 |
|--|---------|----------|

Supplemental disclosure of cash flow activities:

|                                    |        |        |
|------------------------------------|--------|--------|
| Interest paid for the period       | 3,602  | 6,299  |
| Income tax payments for the period | 21,631 | 16,638 |

See accompanying notes to unaudited condensed consolidated financial statements.

1 Federal Deposit Insurance Corporation ("FDIC")

2 Federal Reserve Bank ("FRB")

3 Federal Home Loan Bank ("FHLB")

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three and six months ended June 30, 2012 and 2011 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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.

### Note 2: Accounting Policies

The Company's accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may significantly affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Management exercises judgment to estimate the appropriate level of the allowance for credit losses, the acquisition date fair value of purchased loans, and the evaluation of other than temporary impairment of investment securities, which are discussed in the Company's accounting policies.

### Recently Adopted Accounting Standards

FASB ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements, was issued April 2011 addressing the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The Company adopted the provisions of the Update in the first quarter of 2012 with prospective application to new transactions or existing transactions modified on or after January 1, 2012. The adoption of the Update did not have a material effect on the Company's financial statements at the date of adoption.

FASB ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued May 2011 as a result of the FASB and International Accounting Standards Board's (IASB) goal to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards. The Company adopted the provisions of the Update in the first quarter of 2012 with prospective application, resulting in expanded fair value disclosure. The adoption of the Update did not have a material effect on the Company's financial statements at the date of adoption.

FASB ASU 2011-05, Presentation of Comprehensive Income, was issued June 2011 requiring that all changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This Update also requires that reclassification adjustments for items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. The Company adopted the provisions of the Update in the first quarter of 2012 with retrospective application, resulting in the addition of a new financial statement titled "Consolidated Statements of Comprehensive Income".

FASB ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, was issued December 2011 updating and superseding certain pending paragraphs relating to the presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. This Update was effective concurrent with ASU 2011-05, Presentation of Comprehensive Income, and did not have a material effect on the Company's financial statements at the date of adoption.

FASB ASU 2011-08, Testing for Goodwill Impairment, was issued September 2011 giving an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is more than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The Company adopted the provisions of the Update in the first quarter of 2012. The adoption of the Update did not have a material effect on the Company's financial statements at the date of adoption.

#### Recently Issued Accounting Standards

FASB ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, was issued December 2011 to require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Update will not have a material effect on the Company's financial statements at the date of adoption.

#### Note 3: Investment Securities

The amortized cost, unrealized gains and losses accumulated in other comprehensive income, and fair value of investment securities available for sale follows:

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