WESTAMERICA BANCORPORATION
Form 10-Q
November 02, 2012
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012

o 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 þ No o

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 þ No o

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):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 o No þ

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 October 26, 2012
Common Stock, No Par Value	27,386,000

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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 September 30, 2012	At December 31, 2011
	(In thousands)	
Assets:		
Cash and due from banks	$367,964	$ 530,045
Investment securities available for sale	738,462	638,753
Investment securities held to maturity, with fair values of: $1,190,345 at September 30, 2012, $947,493 at December 31, 2011	1,158,731	922,803
Purchased covered loans	418,364	535,278
Purchased non-covered loans	82,676	125,921
Originated loans	1,708,414	1,862,607
Allowance for loan losses	(30,966)	(32,597)
Total loans	2,178,488	2,491,209
Non-covered other real estate owned	14,842	26,500
Covered other real estate owned	12,437	19,135
Premises and equipment, net	38,386	36,548
Identifiable intangibles, net	24,553	28,629
Goodwill	121,673	121,673
Other assets	204,091	226,866
Total Assets	$4,859,627	$ 5,042,161
Liabilities:		
Deposits:		
Noninterest bearing deposits	$1,594,379	$ 1,562,254
Interest bearing deposits:		
Transaction	745,852	734,988
Savings	1,133,788	1,148,178
Time	656,538	804,501
Total deposits	4,130,557	4,249,921
Short-term borrowed funds	55,630	115,689
Federal Home Loan Bank advances	25,855	26,023
Term repurchase agreement	10,000	10,000
Debt financing	15,000	15,000
Other liabilities	63,744	66,887
Total Liabilities	4,300,786	4,483,520
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares		
Issued and outstanding: 27,396 at September 30, 2012, 28,150 at December 31, 2011	371,211	377,775
Deferred compensation	3,101	3,060
Accumulated other comprehensive income	14,454	11,369
Retained earnings	170,075	166,437

Total Shareholders' Equity	558,841	558,641
Total Liabilities and Shareholders' Equity	$4,859,627	$ 5,042,161

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2012	2011	2012	2011
	(In thousands, except per share data)			
Interest and Fee Income:				
Loans	$31,779	$39,899	$101,180	$122,534
Investment securities available for sale	4,918	5,526	14,644	16,428
Investment securities held to maturity	8,575	6,551	24,646	18,597
Total Interest and Fee Income	45,272	51,976	140,470	157,559
Interest Expense:				
Deposits	1,020	1,677	3,314	5,344
Short-term borrowed funds	15	62	63	170
Term repurchase agreement	25	14	74	14
Federal Home Loan Bank advances	122	118	361	398
Debt financing and notes payable	200	200	601	601
Total Interest Expense	1,382	2,071	4,413	6,527
Net Interest Income	43,890	49,905	136,057	151,032
Provision for Loan Losses	2,800	2,800	8,400	8,400
Net Interest Income After Provision For Loan Losses	41,090	47,105	127,657	142,632
Noninterest Income:				
Service charges on deposit accounts	6,847	7,430	20,969	22,529
Merchant processing services	2,411	2,358	7,333	6,921
Debit card fees	1,308	1,269	3,816	3,752
ATM processing fees	782	980	2,648	2,911
Trust fees	540	432	1,526	1,407
Financial services commissions	175	111	540	257
Loss on sale of securities	-	-	(1,287)	-
Other	2,563	2,625	7,283	7,462
Total Noninterest Income	14,626	15,205	42,828	45,239
Noninterest Expense:				
Salaries and related benefits	14,294	14,401	43,833	44,388
Occupancy	3,901	4,010	11,609	12,085
Outsourced data processing services	2,156	2,165	6,318	6,743
Amortization of identifiable intangibles	1,336	1,477	4,076	4,505
Furniture and equipment	991	943	2,883	2,915
Professional fees	786	1,185	2,455	3,489
Courier service	772	840	2,350	2,535
Other real estate owned	679	700	912	1,835
Settlements	-	-	-	2,100
Other	4,354	5,662	14,215	16,419
Total Noninterest Expense	29,269	31,383	88,651	97,014
Income Before Income Taxes	26,447	30,927	81,834	90,857
Provision for income taxes	6,425	8,495	19,843	24,774
Net Income	$20,022	$22,432	$61,991	$66,083
Average Common Shares Outstanding	27,513	28,433	27,769	28,739

Diluted Average Common Shares Outstanding	27,565	28,498	27,821	28,879
Per Common Share Data:				
Basic earnings	$0.73	$0.79	$2.23	$2.30
Diluted earnings	0.73	0.79	2.23	2.29
Dividends paid	0.37	0.36	1.11	1.08

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2012	2011	2012	2011
	(In thousands)			
Net income	$20,022	$22,432	$61,991	$66,083
Other comprehensive income:				
Increase in net unrealized gains on securities available for sale	2,441	4,376	5,277	18,307
Deferred tax expense	(1,026)	(1,841)	(2,219)	(7,698)
Increase in net unrealized gains on securities available for sale, net of tax	1,415	2,535	3,058	10,609
Post-retirement benefit transition obligation amortization	15	15	45	45
Deferred tax expense	(6)	(6)	(18)	(18)
Post-retirement benefit transition obligation amortization, net of tax	9	9	27	27
Total other comprehensive income	1,424	2,544	3,085	10,636
Total comprehensive income	$21,446	$24,976	$65,076	$76,719

See accompanying notes to unaudited consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Accumulated Deferred Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Total
			(In thousands)			
Balance, December 31, 2010	29,090	$ 378,885	$ 2,724	$ 159	$ 163,519	$545,287
Net income for the period					66,083	66,083
Other comprehensive income				10,636		10,636
Exercise of stock options	150	6,234				6,234
Tax benefit increase upon exercise of stock options		6				6
Restricted stock activity	15	455	336			791
Stock based compensation		1,080				1,080
Stock awarded to employees	2	75				75
Purchase and retirement of stock	(956)	(12,337)			(32,725)	(45,062)
Dividends					(31,142)	(31,142)
Balance, September 30, 2011	28,301	$ 374,398	$ 3,060	$ 10,795	$ 165,735	$553,988
Balance, December 31, 2011	28,150	$ 377,775	$ 3,060	$ 11,369	$ 166,437	$558,641
Net income for the period					61,991	61,991
Other comprehensive income				3,085		3,085
Exercise of stock options	69	2,917				2,917
Tax benefit decrease upon exercise of stock options		(9)				(9)
Restricted stock activity	11	482	41			523
Stock based compensation		1,180				1,180
Stock awarded to employees	2	74				74
Purchase and retirement of stock	(836)	(11,208)			(27,478)	(38,686)
Dividends					(30,875)	(30,875)
Balance, September 30, 2012	27,396	$ 371,211	$ 3,101	$ 14,454	$ 170,075	$558,841

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Nine Months Ended September 30, 2012	2011
	(In thousands)	
Operating Activities:		
Net income	$ 61,991	$ 66,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,574	10,460
Loan loss provision	8,400	8,400
Net amortization of deferred loan fees	(402)	(295)
Decrease in interest income receivable	1,183	74
(Increase) decrease in other assets	(155)	944
Increase in income taxes payable	500	805
(Increase) decrease in net deferred tax asset	(7,370)	1,365
Decrease in interest expense payable	(97)	(1,196)
Increase (decrease) in other liabilities	12,696	(551)
Stock option compensation expense	1,180	1,080
Tax benefit decrease (increase) upon exercise of stock options	9	(6)
Loss on sale of securities available for sale	1,287	-
Gain on sale of other assets	(656)	(800)
Net loss (gain) on sale of premises and equipment	78	(398)
Originations of mortgage loans for resale	(597)	(450)
Net proceeds from sale of mortgage loans originated for resale	626	471
Net gain on sale of foreclosed assets	(2,545)	(280)
Writedown of foreclosed assets	3,033	1,326
Net Cash Provided by Operating Activities	89,735	87,032
Investing Activities:		
Net repayments of loans	296,278	240,524
Proceeds from FDIC1 loss-sharing indemnification	25,768	7,956
Purchases of investment securities available for sale	(211,349)	(208,707)
Purchases of investment securities held to maturity	(410,829)	(233,966)
Proceeds from sale/maturity/calls of securities available for sale	116,916	204,168
Proceeds from maturity/calls of securities held to maturity	156,363	61,737
Net change in FRB2/FHLB3 securities	1,336	(12,698)
Proceeds from sale of foreclosed assets	23,155	17,702
Purchases of premises and equipment	(3,875)	(2,198)
Proceeds from sale of premises and equipment	-	640
Net Cash Provided by Investing Activities	(6,237)	75,158
Financing Activities:		
Net change in deposits	(118,868)	60,375
Net change in short-term borrowings and FHLB3 advances	(60,058)	(21,640)
Repayments of notes payable and debt financing	-	(10,000)
Exercise of stock options	2,917	6,234

Tax benefit (decrease) increase upon exercise of stock options	(9)	6
Repurchases/retirement of stock	(38,686)	(45,062)
Dividends paid	(30,875)	(31,142)
Net Cash Used in Financing Activities	(245,579)	(41,229)
Net Change In Cash and Due from Banks	(162,081)	120,961
Cash and Due from Banks at Beginning of Period	530,045	338,793
Cash and Due from Banks at End of Period	$ 367,964	$ 459,754
Supplemental Cash Flow Disclosures:		
Supplemental disclosure of non cash activities:		
Loan collateral transferred to other real estate owned	$ 6,362	$ 33,196
Supplemental disclosure of cash flow activities:		
Interest paid for the period	5,091	9,028
Income tax payments for the period	27,466	22,604

See accompanying notes to unaudited 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 nine months ended September 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.

FASB ASU 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution, was issued October 2012 to provide guidance for consistently measuring an indemnification asset subsequent to acquisition. Subsequent accounting for changes in the measurement of the indemnification asset should be on the same basis as a change in the assets subject to indemnification. Any amortization of changes in value is limited to the shorter of the contractual term of the indemnification agreement or the remaining life of the indemnified assets. The amendments are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012, with early adoption permitted. The amendments 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 follow:

	Investment Securities Available for Sale At September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 3,524	$ 45	$ -	$ 3,569
Securities of U.S. Government sponsored entities	85,319	323	-	85,642
Residential mortgage-backed securities	61,206	4,661	(1)	65,866
Commercial mortgage-backed securities	4,206	82	-	4,288
Obligations of States and political subdivisions	210,258	15,627	(236)	225,649

Residential collateralized mortgage obligations	106,609	1,435	(288)	107,756
Asset-backed securities	16,541	5	(193)	16,353
FHLMC and FNMA stock	824	288	(40)	1,072
Corporate securities	222,563	2,646	(750)	224,459
Other securities	2,147	1,699	(38)	3,808
Total	$ 713,197	$ 26,811	$ (1,546)	$ 738,462

The amortized cost, unrealized gains and losses, and fair value of investment securities held to maturity follow:

	Investment Securities Held to Maturity At September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	$ 3,739	$ 29	$ -	$ 3,768
Residential mortgage-backed securities	77,166	2,469	(6)	79,629
Obligations of States and political subdivisions	651,747	25,496	(82)	677,161
Residential collateralized mortgage obligations	426,079	4,291	(583)	429,787
Total	$ 1,158,731	$ 32,285	$ (671)	$ 1,190,345

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

	Investment Securities Available for Sale At December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 3,537	$ 59	$ -	$ 3,596
Securities of U.S. Government sponsored entities	117,150	375	(53)	117,472
Residential mortgage-backed securities	84,961	5,457	(10)	90,408
Commercial mortgage-backed securities	4,506	27	(3)	4,530
Obligations of States and political subdivisions	234,522	11,839	(268)	246,093
Residential collateralized mortgage obligations	49,111	2,053	-	51,164
Asset-backed securities	7,566	-	(260)	7,306
FHLMC and FNMA stock	824	1,027	(4)	1,847
Corporate securities	114,286	203	(2,290)	112,199
Other securities	2,302	1,884	(48)	4,138
Total	$ 618,765	$ 22,924	$ (2,936)	$ 638,753

The amortized cost, unrealized gains and losses, and fair value of investment securities held to maturity follow:

	Investment Securities Held to Maturity At December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Residential mortgage-backed securities	$ 54,869	$ 1,532	$ (77)	$ 56,324
Obligations of States and political subdivisions	625,390	23,581	(496)	648,475
Residential collateralized mortgage obligations	242,544	2,781	(2,631)	242,694
Total	$ 922,803	$ 27,894	$ (3,204)	$ 947,493

The amortized cost and fair value of investment securities by contractual maturity are shown in the following table:

	At September 30, 2012			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$42,448	$ 42,703	$ 9,385	$ 9,532
Over 1 to 5 years	322,278	325,349	167,756	172,534
Over 5 to 10 years	61,047	65,023	260,070	270,793
Over 10 years	112,432	122,597	218,275	228,070
Subtotal	538,205	555,672	655,486	680,929
Mortgage-backed securities and residential collateralized mortgage obligations	172,021	177,910	503,245	509,416
Other securities	2,971	4,880	-	-
Total	$713,197	$ 738,462	$ 1,158,731	$ 1,190,345

The amortized cost and fair value of investment securities by contractual maturity are shown in the following table:

	At December 31, 2011			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$37,785	$ 37,967	$ 12,056	$ 12,121
Over 1 to 5 years	242,766	241,945	158,438	162,791
Over 5 to 10 years	63,442	65,919	307,504	321,922
Over 10 years	133,068	140,835	147,392	151,641
Subtotal	477,061	486,666	625,390	648,475
Mortgage-backed securities and residential collateralized mortgage obligations	138,578	146,102	297,413	299,018
Other securities	3,126	5,985	-	-
Total	$618,765	$ 638,753	$ 922,803	$ 947,493

Expected maturities of mortgage-backed securities can differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. In addition, such factors as prepayments and interest rates may affect the yield on the carrying value of mortgage-backed securities. At September 30, 2012 and December 31, 2011, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

	Investment Securities Available for Sale At September 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities	$170	$ (1)	$36	$ -	$206	$ (1)
Obligations of States and political subdivisions	2,403	(41)	9,415	(195)	11,818	(236)
Residential collateralized mortgage obligations	65,215	(288)	-	-	65,215	(288)
Asset-backed securities	-	-	11,318	(193)	11,318	(193)
FHLMC and FNMA stock	309	(36)	1	(4)	310	(40)
Corporate securities	4,841	(50)	39,300	(700)	44,141	(750)
Other securities	-	-	1,962	(38)	1,962	(38)
Total	$72,938	$ (416)	$62,032	$ (1,130)	$134,970	$ (1,546)

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

	Investment Securities Held to Maturity At September 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities	$754	$ (6)	$-	$ -	$754	$ (6)
Obligations of States and political subdivisions	9,279	(67)	2,755	(15)	12,034	(82)
Residential collateralized mortgage obligations	37,907	(532)	6,412	(51)	44,319	(583)
Total	$47,940	$ (605)	$9,167	$ (66)	$57,107	$ (671)

The unrealized losses on the Company's investment securities were caused by market conditions for these types of investments. The Company evaluates securities on a quarterly basis including changes in security ratings issued by ratings agencies, changes in the financial condition of the issuer, and, for mortgage-related and asset-backed securities, delinquency and loss information with respect to the underlying collateral, changes in the levels of subordination for the Company's particular position within the repayment structure, and remaining credit enhancement as compared to expected credit losses of the security. During the second quarter 2012, the Company transferred one residential collateralized mortgage obligation with a carrying value of $9,077 thousand from the held to maturity portfolio to the available for sale portfolio. The residential collateralized mortgage obligation was subsequently sold due to a decline in the credit worthiness from increased losses on subordinate tranches. Substantially all securities owned at September 30, 2012 continue to be investment grade rated by one or more major rating agencies.

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of September 30, 2012.

The fair values of the investment securities could decline in the future if interest rates rise, the general economy deteriorates, credit ratings decline, the issuer's financial condition deteriorates, or the liquidity for securities declines. As a result, other than temporary impairments may occur in the future due to increased risk of default.

As of September 30, 2012, $833,972 thousand of investment securities were pledged to secure public deposits and short-term funding needs, compared to $903,807 thousand at December 31, 2011.

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

	Investment Securities Available for Sale At December 31, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Securities of U.S. Government sponsored entities	$35,051	$ (53)	$-	$ -	$35,051	$ (53)
Residential mortgage-backed securities	3,443	(10)	-	-	3,443	(10)
Commercial mortgage-backed securities	-	-	1,347	(3)	1,347	(3)
Obligations of States and political subdivisions	5,803	(61)	15,015	(207)	20,818	(268)
Asset-backed securities	-	-	7,306	(260)	7,306	(260)
FHLMC and FNMA stock	-	-	1	(4)	1	(4)
Corporate securities	32,048	(1,516)	24,226	(774)	56,274	(2,290)
Other securities	-	-	1,953	(48)	1,953	(48)
Total	$76,345	$ (1,640)	$49,848	$ (1,296)	$126,193	$ (2,936)

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

	Investment Securities Held to Maturity At December 31, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Residential mortgage-backed securities	$14,032	$ (77)	$-	$ -	$14,032	$ (77)
Obligations of States and political subdivisions	38,026	(334)	6,441	(162)	44,467	(496)
Residential collateralized mortgage obligations	50,355	(373)	15,443	(2,258)	65,798	(2,631)
Total	$102,413	$ (784)	$21,884	$ (2,420)	$124,297	$ (3,204)

The following table provides information about the amount of interest income from taxable and non-taxable investment securities:

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2012	2011	2012	2011
	(In thousands)			
Taxable	$5,705	$4,624	$15,742	$12,604
Tax-exempt	7,788	7,453	23,548	22,421
Total interest income from investment securities	$13,493	$12,077	$39,290	$35,025

Note 4: Loans and Allowance for Credit Losses

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

	At September 30, 2012					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
	(In thousands)					
Originated loans	$350,229	$ 646,450	$ 8,896	$ 236,310	$ 466,529	$1,708,414
Purchased covered loans:						
Impaired	321	8,266	2,260	-	258	11,105
Non impaired	67,921	279,619	9,450	9,823	67,687	434,500
Purchase discount	(9,816)	(16,558)	(366)	(433)	(68)	(27,241)
Purchased non-covered loans:						
Impaired	1,656	7,131	-	-	298	9,085
Non impaired	10,983	42,842	1,619	3,428	20,214	79,086
Purchase discount	(845)	(2,078)	(95)	(474)	(2,003)	(5,495)
Total	$420,449	$ 965,672	$ 21,764	$ 248,654	$ 552,915	$2,209,454

	At December 31, 2011					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
	(In thousands)					
Originated loans	$398,446	$ 704,655	$ 14,580	$ 271,111	$ 473,815	$1,862,607
Purchased covered loans:						
Impaired	1,296	20,697	2,977	-	262	25,232
Non impaired	117,777	333,428	13,372	13,016	78,735	556,328
Purchase discount	(19,535)	(22,318)	(2,473)	(524)	(1,432)	(46,282)
Purchased non-covered loans:						
Impaired	2,262	17,090	-	-	638	19,990
Non impaired	14,129	67,045	6,076	3,598	25,294	116,142
Purchase discount	(1,013)	(6,101)	(95)	(474)	(2,528)	(10,211)
Total	$513,362	$ 1,114,496	$ 34,437	$ 286,727	$ 574,784	$2,523,806

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

	For the Nine Months Ended September 30, 2012	For the Year Ended December 31, 2011
Impaired purchased covered loans	(In thousands)	
Carrying amount at the beginning of the period	$ 18,591	$ 33,556
Reductions during the period	(10,156)	(14,965)
Carrying amount at the end of the period	$ 8,435	$ 18,591

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

Impaired purchased non-covered loans	For the Nine Months Ended September 30, 2012	For the Year Ended December 31, 2011
	(In thousands)	
Carrying amount at the beginning of the period	$ 15,572	$ 33,725
Reductions during the period	(8,285)	(18,153)
Carrying amount at the end of the period	$ 7,287	$ 15,572

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

Accretable yield for purchased loans	For the Nine Months Ended September 30, 2012	For the Year Ended December 31, 2011
	(In thousands)	
Balance at the beginning of the period	$ 9,990	$ 6,089
Reclassification from nonaccretable difference	8,290	16,906
Accretion	(12,962)	(13,005)
Disposals and other	-	-
Balance at the end of the period	$ 5,318	$ 9,990
Accretion	$ (12,962)	$ (13,005)
Reduction in FDIC indemnification asset	9,823	9,315
(Increase) in interest income	$ (3,139)	$ (3,690)

The following summarizes activity in the allowance for credit losses:

	Allowance for Credit Losses For the Three Months Ended September 30, 2012								
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	To
	(In thousands)								
Allowance for loan losses:									
Balance at beginning of period	$6,330	$9,899	$2,681	$602	$3,031	$-	$240	$8,740	$31
Additions:									
Provision	829	587	(87)	103	894	535	1,105	(1,166)	2,
Deductions:									
Chargeoffs	(65)	(168)	(2,091)	(224)	(1,439)	(535)	(111)	-	(4
Recoveries	500	145	26	-	589	-	16	-	1,
Net loan recoveries (losses)	435	(23)	(2,065)	(224)	(850)	(535)	(95)	-	(3
Balance at end of period	7,594	10,463	529	481	3,075	-	1,250	7,574	30
Liability for off-balance sheet credit exposure	1,642	14	2	-	402	-	-	633	2,
Total allowance for credit losses	$9,236	$10,477	$531	$481	$3,477	$-	$1,250	$8,207	$33

	Allowance for Credit Losses For the Nine Months Ended September 30, 2012								
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	
	(In thousands)								
Allowance for loan losses:									
Balance at beginning of period	$6,012	$10,611	$2,342	$781	$3,072	$-	$-	$9,779	$
Additions:									
Provision	4,088	790	54	856	2,338	560	1,919	(2,205)	

Deductions:									
Chargeoffs	(3,623)	(1,116)	(2,091)	(1,156)	(4,303)	(560)	(723)	-	
Recoveries	1,117	178	224	-	1,968	-	54	-	
Net loan losses	(2,506)	(938)	(1,867)	(1,156)	(2,335)	(560)	(669)	-	
Balance at end of period	7,594	10,463	529	481	3,075	-	1,250	7,574	
Liability for off-balance sheet credit exposure	1,642	14	2	-	402	-	-	633	
Total allowance for credit losses	$9,236	$10,477	$531	$481	$3,477	$-	$1,250	$8,207	$

Allowance for Credit Losses
For the Three Months Ended September 30, 2011

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Purchased Covered Loans	Total
	(In thousands)							
Allowance for loan losses:								
Balance at beginning of period	$6,729	$ 10,241	$ 3,959	$ 466	$ 3,522	$ 8,091	$ -	$33,008
Additions:								
Provision	539	1,422	(826)	317	539	381	428	2,800
Deductions:								
Chargeoffs	(799)	(398)	(452)	-	(1,575)	-	(428)	(3,652)
Recoveries	190	-	-	-	547	-	-	737
Net loan losses	(609)	(398)	(452)	-	(1,028)	-	(428)	(2,915)
Balance at end of period	6,659	11,265	2,681	783	3,033	8,472	-	32,893
Liability for off-balance sheet credit exposure	1,835	1	62	-	150	645	-	2,693
Total allowance for credit losses	$8,494	$ 11,266	$ 2,743	$ 783	$ 3,183	$ 9,117	$ -	$35,586

Allowance for Credit Losses
For the Nine Months Ended September 30, 2011

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Purchased Covered Loans	Total
	(In thousands)							
Allowance for loan losses:								
Balance at beginning of period	$8,094	$ 9,607	$ 3,260	$ 617	$ 6,372	$ 7,686	$ -	$35,636
Additions:								
Provision	3,518	2,057	1,347	693	(429)	786	428	8,400
Deductions:								
Chargeoffs	(5,786)	(399)	(1,926)	(527)	(5,050)	-	(428)	(14,116)
Recoveries	833	-	-	-	2,140	-	-	2,973
Net loan losses	(4,953)	(399)	(1,926)	(527)	(2,910)	-	(428)	(11,143)
Balance at end of period	6,659	11,265	2,681	783	3,033	8,472	-	32,893
Liability for off-balance sheet credit exposure	1,835	1	62	-	150	645	-	2,693
Total allowance for credit losses	$8,494	$ 11,266	$ 2,743	$ 783	$ 3,183	$ 9,117	$ -	$35,586

The recorded investment in loans evaluated for impairment follows:

	Recorded Investment in Loans and Related Impairmen At September 30, 2012						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purcha Cove Loa
					(In thousands)		
Allowance for credit losses:							
Individually evaluated for impairment	$3,109	$87	$-	$-	$-	$-	$1,01
Collectively evaluated for impairment	6,127	10,390	531	481	3,477	-	239
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-
Total	$9,236	$10,477	$531	$481	$3,477	$-	$1,25
Carrying value of loans:							
Individually evaluated for impairment	$9,286	$1,563	$-	$-	$-	$3,874	$17,7
Collectively evaluated for impairment	340,943	644,887	8,896	236,310	466,529	71,515	392,
Purchased loans with evidence of credit deterioration	-	-	-	-	-	7,287	8,43
Total	$350,229	$646,450	$8,896	$236,310	$466,529	$82,676	$418,

	Recorded Investment in Loans and Related Impairm At December 31, 2011						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Pur Co L
					(In thousands)		
Allowance for credit losses:							
Individually evaluated for impairment	$-	$229	$1,794	$-	$-	$-	$-
Collectively evaluated for impairment	7,672	10,382	582	781	3,270	-	-
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-
Total	$7,672	$10,611	$2,376	$781	$3,270	$-	$-
Carrying value of loans:							
Individually evaluated for impairment	$-	$1,399	$3,126	$-	$-	$5,611	$5,
Collectively evaluated for impairment	398,446	703,256	11,454	271,111	473,815	104,738	51
Purchased loans with evidence of credit deterioration	-	-	-	-	-	15,572	18
Total	$398,446	$704,655	$14,580	$271,111	$473,815	$125,921	$53

The Bank's customers are small businesses, professionals and consumers. Given the scale of these borrowers, corporate credit rating agencies do not evaluate the borrowers' financial condition. The Bank maintains a Loan Review Department which reports directly to the Board of Directors. The Loan Review Department performs independent evaluations of loans and assigns credit risk grades to evaluated loans using grading standards employed by bank regulatory agencies. Loans judged to carry lower-risk attributes are assigned a "pass" grade, with a minimal likelihood of loss. Loans judged to carry higher-risk attributes are referred to as "classified loans," and are further disaggregated, with increasing expectations for loss recognition, as "substandard," "doubtful," and "loss." If the Bank becomes aware of deterioration in a borrower's performance or financial condition between Loan Review examinations, assigned risk grades will be re-evaluated promptly. Credit risk grades assigned by the Loan Review Department are subject to review by the Bank's regulatory authority during regulatory examinations.

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

Credit Risk Profile by Internally Assigned Grade
At September 30, 2012

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
	(In thousands)							
Grade:								
Pass	$319,117	$ 582,830	$ 7,988	$ 233,582	$ 464,721	$ 49,461	$287,125	$1,944,824
Special mention	12,509	29,439	436	471	264	9,265	23,270	75,654
Substandard	14,030	34,181	472	2,257	1,148	27,938	133,665	213,691
Doubtful	4,573	-	-	-	11	1,507	1,445	7,536
Loss	-	-	-	-	385	-	100	485
Default risk purchase discount	-	-	-	-	-	(5,495)	(27,241)	(32,736)
Total	$350,229	$ 646,450	$ 8,896	$ 236,310	$ 466,529	$ 82,676	$418,364	$2,209,454

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

Credit Risk Profile by Internally Assigned Grade
At December 31, 2011

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
	(In thousands)							
Grade:								
Pass	$360,279	$ 646,078	$ 10,413	$ 264,861	$ 471,783	$ 63,955	$372,560	$2,189,929
Special mention	17,247	29,103	341	1,961	600	15,701	32,365	97,318
Substandard	20,695	29,474	3,826	4,289	1,014	52,994	175,410	287,702
Doubtful	225	-	-	-	66	3,444	1,070	4,805
Loss	-	-	-	-	352	38	155	545
Default risk purchase discount	-	-	-	-	-	(10,211)	(46,282)	(56,493)

Total	$398,446	$704,655	$ 14,580	$ 271,111	$ 473,815	$ 125,921	$535,278	$2,523,806

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

The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status
At September 30, 2012

	Current and Accruing	30-89 Days Past Due and Accruing	Past Due 90 days or More and Accruing	Nonaccrual	Total Loans
			(In thousands)		
Commercial	$ 337,996	$ 2,049	$ -	$ 10,184	$ 350,229
Commercial real estate	631,559	12,344	-	2,547	646,450
Construction	8,896	-	-	-	8,896
Residential real estate	235,464	567	-	279	236,310
Consumer installment & other	461,795	4,272	433	29	466,529
Total originated loans	1,675,710	19,232	433	13,039	1,708,414
Purchased non-covered loans	69,428	3,164	1	10,083	82,676
Purchased covered loans	390,684	7,023	59	20,598	418,364
Total	$ 2,135,822	$ 29,419	$ 493	$ 43,720	$ 2,209,454

Summary of Loans by Delinquency and Nonaccrual Status
At December 31, 2011

	Current and Accruing	30-89 Days Past Due and Accruing	Past Due 90 days or More and Accruing	Nonaccrual	Total Loans
			(In thousands)		
Commercial	$ 388,322	$ 6,953	$ -	$ 3,171	$ 398,446
Commercial real estate	679,633	16,967	1,626	6,429	704,655
Construction	10,664	570	-	3,346	14,580
Residential real estate	262,917	5,648	-	2,546	271,111
Consumer installment & other	467,015	6,324	421	55	473,815
Total originated loans	1,808,551	36,462	2,047	15,547	1,862,607
Purchased non-covered loans	101,585	1,095	34	23,207	125,921
Purchased covered loans	501,823	18,902	241	14,312	535,278
Total	$ 2,411,959	$ 56,459	$ 2,322	$ 53,066	$ 2,523,806

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Interest income that would have been recognized had the loans performed in accordance with their original terms	$767	$1,104	$2,345	$4,373
Less: Interest income recognized on nonaccrual loans	(684)	(1,010)	(2,021)	(3,886)
Total reduction of interest income	$83	$94	$324	$487

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at September 30, 2012 and December 31, 2011.

The following summarizes impaired loans:

Impaired Loans
At September 30, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans with no related allowance recorded:			
Commercial	$ 6,947	$ 14,904	$ -
Commercial real estate	21,152	18,086	-
Construction	5,489	7,114	-
Residential real estate	713	713	-
Consumer installment and other	2,134	2,137	-
Impaired loans with an allowance recorded:			
Commercial	14,906	15,676	3,979

Commercial real estate	739	739	87
Construction	1,172	1,172	141
Total:			
Commercial	$ 21,853	$ 30,580	$ 3,979
Commercial real estate	21,891	18,825	87
Construction	6,661	8,286	141
Residential real estate	713	713	-
Consumer installment and other	2,134	2,137	-

	Impaired Loans At December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
Impaired loans with no related allowance recorded:			
Commercial	$ 5,483	$ 11,727	$ -
Commercial real estate	33,095	43,793	-
Construction	4,194	7,209	-
Consumer installment and other	2,990	3,658	-
Impaired loans with an allowance recorded:			
Commercial real estate	1,399	1,399	229
Construction	3,126	3,183	1,794
Total:			
Commercial	$ 5,483	$ 11,727	$ -
Commercial real estate	34,494	45,192	229
Construction	7,320	10,392	1,794
Consumer installment and other	2,990	3,658	-

Impaired loans may include troubled debt restructured loans. Impaired loans at September 30, 2012, included no troubled debt restructured loans. Impaired loans at December 31, 2011, included $3,126 thousand of restructured loans, which were on nonaccrual status.

	Impaired Loans							
	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012		2011		2012		2011	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
	(In thousands)							
Commercial	$16,980	$ 71	$ 10,950	$ 39	$12,772	$ 188	$ 16,664	$ 548
Commercial real estate	26,302	210	33,978	520	28,079	937	39,098	1,249
Construction	8,081	29	17,065	122	6,891	188	21,839	295
Residential real estate	1,158	-	225	-	712	-	374	-
Consumer installment and other	2,493	9	2,474	7	2,618	35	2,444	24
Total	$55,014	$ 319	$ 64,692	$ 688	$51,072	$ 1,348	$ 80,419	$ 2,116

The following table provides information on troubled debt restructurings:

	Troubled Debt Restructurings At September 30, 2012			
	Number of	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual

	Contracts			Impairment Allowance
		(In thousands)		
Commercial	2	$ 326	$ 303	$ -
Commercial real estate	1	1,388	1,433	-
Total	3	$ 1,714	$ 1,736	$ -

	Troubled Debt Restructurings At December 31, 2011			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
		(In thousands)		
Commercial	2	$ 326	$ 321	$ -
Construction	1	3,183	3,126	1,794
Total	3	$ 3,509	$ 3,447	$ 1,794

No loans were modified that were considered troubled debt restructurings during the three months ended September 30, 2012. During the nine months ended September 30, 2012, the Company modified two loans with a carrying value totaling $1,817 thousand that were considered troubled debt restructurings. During the three and nine months ended September 30, 2011, the Company modified one loan with a carrying value of $3,183 thousand that was considered a troubled debt restructuring. The concessions granted in the restructuring completed during the first nine months of 2012 and 2011 largely consisted of modification of payment terms extending the maturity date to allow for deferred principal repayment.

During the three months ended September 30, 2012, no troubled debt restructurings defaulted. During the nine months ended September 30, 2012, a construction loan with a carrying value of $3,068 thousand defaulted. During the three and nine months ended September 30, 2011, no troubled debt restructurings were in default.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). At September 30, 2012, loans pledged to secure borrowing totaled $46,168 thousand compared with $69,145 thousand at December 31, 2011. The amount of loans pledged exceeds collateral requirements. The loans restricted due to collateral requirements approximate $35,638 thousand and $35,894 thousand at September 30, 2012 and December 31, 2011, respectively. The FHLB does not have the right to sell or repledge such loans.

There were no loans held for sale at September 30, 2012 and December 31, 2011.

Note 5: Concentration of Credit Risk

The Company's business activity is with customers in Northern and Central California. The loan portfolio is well diversified within the Company's geographic market, although the Company has significant credit arrangements that are secured by real estate collateral. In addition to real estate loans outstanding as disclosed in Note 4, the Company had loan commitments and standby letters of credit related to real estate loans of $69,738 thousand and $77,988 thousand at September 30, 2012 and December 31, 2011, 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.

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 periodically evaluated for impairment. The Company did not recognize impairment during the nine months ended September 30, 2012 and 2011.

The carrying values of goodwill were (in thousands):

September 30, 2012	$121,673
December 31, 2011	$121,673

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 nine months ended September 30, 2012 and 2011, no such adjustments were recorded.

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

	At September 30, 2012	At December 31, 2011
	(In thousands)	

	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	$56,808	$ (33,766)	$ 56,808	$ (30,070)
Merchant Draft Processing Intangible	10,300	(8,789)	10,300	(8,409)
Total Identifiable Intangible Assets	$67,108	$ (42,555)	$ 67,108	$ (38,479)

As of September 30, 2012, the current year and estimated future amortization expense for identifiable intangible assets was:

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
		(In thousands)	
For the nine months ended September 30, 2012 (actual)	$3,696	$ 380	$4,076
Estimate for year ended December 31, 2012	4,868	500	5,368
2013	4,304	400	4,704
2014	3,946	324	4,270
2015	3,594	262	3,856
2016	3,292	212	3,504
2017	2,853	164	3,017

Note 7: 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 $322,990 thousand and $348,621 thousand at September 30, 2012 and December 31, 2011, respectively. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. Standby letters of credit are primarily issued to support customers’ short-term financing requirements and must meet the Company’s normal credit policies and collateral requirements. Standby letters of credit outstanding totaled $25,939 thousand and $27,221 thousand at September 30, 2012 and December 31, 2011, respectively. The Company also had commitments for commercial and similar letters of credit of $514 thousand and $454 thousand at September 30, 2012 and December 31, 2011, respectively.

Due to the nature of its business, the Company is subject to various threatened or filed legal cases. Based on the advice of legal counsel, the Company does not expect such cases will have a material, adverse effect on its financial position or results of operations. Legal liabilities are accrued when obligations become probable and the amount is reasonably estimable. Legal costs related to covered assets are eighty percent indemnified under loss-sharing agreements with the FDIC if certain conditions are met.

Note 8: Fair Value Measurements

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

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

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

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

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

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

When the Company changes its valuation assumptions for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new assumptions used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the nine months ended September 30, 2012 and 2011, there were no transfers in or out of levels 1, 2 or 3.

Assets Recorded at Fair Value on a Recurring Basis

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

	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)		
Investment securities available for sale:				
At September 30, 2012	$738,462	$ 92,129	$ 646,333	$ -
At December 31, 2011	$638,753	$ 125,101	$ 513,652	$ -

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-market accounting of individual assets. For assets measured at fair value on a nonrecurring basis that were recorded in the balance sheet at September 30, 2012 and December 31, 2011, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at period end.

	At September 30, 2012				
	Fair Value	Level 1	Level 2	Level 3	Total Losses
			(In thousands)		
Non-covered other real estate owned	$7,970	$-	$7,970	$-	$ (2,167)

Covered other real estate owned	7,999	-	7,999	-	(102)
Originated impaired loans	5,021	-	2,021	3,000	(1,985)
Purchased covered impaired loans	8,190	-	3,730	4,460	(180)
Total assets measured at fair value on a nonrecurring basis	$29,180	$-	$21,720	$7,460	$ (4,434)

	At December 31, 2011				
	Fair Value	Level 1	Level 2	Level 3	Total Losses
			(In thousands)		
Non-covered other real estate owned	$6,350	$-	$6,350	$-	$ (1,000)
Covered other real estate owned	10,695	-	10,695	-	(578)
Originated impaired loans	2,502	-	2,502	-	-
Total assets measured at fair value on a nonrecurring basis	$19,547	$-	$19,547	$-	$ (1,578)

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

Level 3 – Valuation is based upon estimated liquidation values of loan collateral, which includes business assets such as accounts receivable, inventory and fixed assets, ranging from 50 to 55 percent. The value of level 3 assets can also include a component of real estate, which is valued as described for level 2 inputs, when collateral for the impaired loan includes both business assets and real estate. Level 3 includes impaired loans where a specific reserve has been established or a charge-off has been recorded.

Disclosures about Fair Value of Financial Instruments

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

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

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

Loans Loans were separated into two groups for valuation. Variable rate loans, except for those described below, which reprice frequently with changes in market rates were valued using historical cost. Fixed rate loans and variable rate loans that have reached their minimum contractual interest rates were valued by discounting the future cash flows expected to be received from the loans using current interest rates charged on loans with similar characteristics. Additionally, the allowance for loan losses of $30,966 thousand at September 30, 2012 and $32,597 thousand at December 31, 2011 and the fair value discount due to credit default risk associated with purchased covered and purchased non-covered loans of $27,241 thousand and $5,495 thousand, respectively at September 30, 2012 and purchased covered and purchased non-covered loans of $46,282 thousand and $10,211 thousand, respectively at December 31, 2011 were applied against the estimated fair values to recognize estimated future defaults of contractual cash flows. The Company does not consider these values to be a liquidation price for the loans.

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

Deposit Liabilities Deposits with no stated maturity such as checking accounts, savings accounts and money market accounts can be readily converted to cash or used to settle transactions at face value through the broad financial system operated by the Federal Reserve Bank and financial institutions. The fair value of deposits with no stated maturity is equal to the amount payable on demand. The fair values of time deposits were estimated by discounting estimated future contractual cash flows using current market rates for financial instruments with similar characteristics.

Short-Term Borrowed Funds The carrying amount of securities sold under agreement to repurchase and other short-term borrowed funds approximate fair value due to the relatively short period of time between their origination and their expected realization.

Federal Home Loan Bank Advances The fair values of FHLB advances were estimated by using redemption amounts quoted by the Federal Home Loan Bank of San Francisco.

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

Debt Financing The fair value of debt financing was estimated by using interpolated yields for financial instruments with similar characteristics.

The table below is a summary of fair value estimates for financial instruments and the level of the fair value hierarchy within which the fair value measurements are categorized, excluding financial instruments recorded at fair value on a recurring basis. The values assigned do not necessarily represent amounts which ultimately may be realized. In addition, these values do not give effect to discounts to fair value which may occur when financial instruments are sold in larger quantities. The carrying amounts in the following table are recorded in the balance sheet under the indicated captions.

The Company has not included assets and liabilities that are not financial instruments, such as goodwill, long-term relationships with deposit, merchant processing and trust customers, other purchased intangibles, premises and equipment, deferred taxes and other assets and liabilities. The total estimated fair values do not represent, and should not be construed to represent, the underlying value of the Company.

	At September 30, 2012				
	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets	(In thousands)				
Cash and due from banks	$367,964	$367,964	$ 367,964	$-	$ -
Investment securities held to maturity	1,158,731	1,190,345	3,768	1,186,577	-
Loans	2,178,488	2,197,978	-	-	2,197,978
Other assets - FDIC receivable	15,416	15,397	-	-	15,397
Financial Liabilities					
Deposits	$4,130,557	$4,131,735	$ -	$3,474,019	$ 657,716
Short-term borrowed funds	55,630	55,630	-	55,630	-
Federal Home Loan Bank advances	25,855	26,288	26,288	-	-
Term repurchase agreement	10,000	10,148	-	10,148	-
Debt financing	15,000	15,557	-	15,557	-

	At December 31, 2011	
	Carrying Amount	Estimated Fair Value
	(In thousands)	
Financial Assets		
Cash and due from banks	$530,045	$ 530,045
Investment securities held to maturity	922,803	947,493
Loans	2,491,209	2,515,095
Other assets - FDIC receivable	40,113	40,046
Financial Liabilities		
Deposits	$4,249,921	$ 4,250,164
Short-term borrowed funds	115,689	115,689
Federal Home Loan Bank advances	26,023	26,532
Term repurchase agreement	10,000	10,242
Debt financing	15,000	15,222

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 9: Borrowings and Debt Financing

Short-term borrowed funds of $55,630 thousand represent securities sold under agreements to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. The carrying amount of the securities approximates $56,743 thousand. The short-term borrowed funds mature on an overnight basis.

Federal Home Loan Bank ("FHLB") advances with carrying value of $25,855 thousand are secured by residential real estate loans, the amount of such loans approximates $35,638 thousand. The FHLB advances are due in full upon their maturity dates: $5,000 thousand mature in December 2013 and $20,000 thousand mature in January 2015. The FHLB advances may be paid off prior to such maturity dates subject to prepayment fees.

The $10,000 thousand term repurchase agreement represents securities sold under an agreement to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. The carrying amount of the related securities is approximately $10,500 thousand. The term repurchase agreement matures in full in August 2014.

Debt financing of $15,000 thousand is a note issued by Westamerica Bancorporation on October 31, 2003 which matures October 31, 2013. Interest of 5.31% per annum is payable semiannually on April 30 and October 31, with principal due at maturity.

Note 10: 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 applicable to common equity by the average number of common shares outstanding during the period. Diluted earnings per common share are computed by dividing net income applicable to common equity by the average number of common shares outstanding during the period plus the impact of common stock equivalents.

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2012	2011	2012	2011
	(In thousands, except per share data)			
Net income (numerator)	$20,022	$22,432	$61,991	$66,083
Basic earnings per common share				
Weighted average number of common shares outstanding - basic (denominator)	27,513	28,433	27,769	28,739
Basic earnings per common share	$0.73	$0.79	$2.23	$2.30
Diluted earnings per common share				
Weighted average number of common shares outstanding - basic	27,513	28,433	27,769	28,739
Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise	52	65	52	140
Weighted average number of common shares outstanding - diluted (denominator)	27,565	28,498	27,821	28,879
Diluted earnings per common share	$0.73	$0.79	$2.23	$2.29

For the three months ended September 30, 2012 and 2011, options to purchase 1,995 thousand and 1,940 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

For the nine months ended September 30, 2012 and 2011, options to purchase 2,021 thousand and 1,452 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because their inclusion would have had an anti-dilutive effect.

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WESTAMERICA BANCORPORATION
FINANCIAL SUMMARY

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2012	2011	2012	2011
	(In thousands, except per share data)			
Net Interest and Fee Income (FTE)1	$ 48,712	$ 54,675	$ 150,743	$ 165,506
Provision for Loan Losses	2,800	2,800	8,400	8,400
Noninterest Income				
Loss on sale of securities	-	-	(1,287)	-
Other	14,626	15,205	44,115	45,239
Total Noninterest Income	14,626	15,205	42,828	45,239
Noninterest Expense:				
Settlements	-	-	-	2,100
Other	29,269	31,383	88,651	94,914
Total Noninterest Expense	29,269	31,383	88,651	97,014
Income Before Income Taxes (FTE)1	31,269	35,697	96,520	105,331
Income Tax Provision (FTE)1	11,247	13,265	34,529	39,248
Net Income	$ 20,022	$ 22,432	$ 61,991	$ 66,083
Average Common Shares Outstanding	27,513	28,433	27,769	28,739
Diluted Average Common Shares Outstanding	27,565	28,498	27,821	28,879
Common Shares Outstanding at Period End	27,396	28,301		
Per Common Share:				
Basic Earnings	$ 0.73	$ 0.79	$ 2.23	$ 2.30
Diluted Earnings	0.73	0.79	2.23	2.29
Book Value Per Common Share	$ 20.40	$ 19.57		
Financial Ratios:				
Return On Assets	1.63 %	1.81 %	1.67 %	1.79 %
Return On Common Equity	14.68 %	16.44 %	15.23 %	16.24 %
Net Interest Margin (FTE)1	4.67 %	5.32 %	4.89 %	5.35 %
Net Loan Losses As A Percentage of Average Loans				
Originated Loans	0.63 %	0.51 %	0.66 %	0.73 %
Purchased covered Loans	0.09 %	0.28 %	0.19 %	0.09 %
Purchased Non-covered Loans	2.19 %	- %	0.69 %	- %
Efficiency Ratio2	46.2 %	44.9 %	45.8 %	46.0 %
Average Balances:				
Assets	$ 4,892,088	$ 4,920,482	$ 4,965,611	$ 4,929,701
Earning Assets	4,160,953	4,093,020	4,116,471	4,133,898
Originated Loans	1,730,186	1,943,379	1,784,726	1,974,316
Purchased Covered Loans	435,953	596,072	475,815	638,189
Purchased Non-covered Loans	97,100	151,634	107,989	174,333
Deposits	4,176,342	4,155,812	4,219,129	4,146,183
Shareholders' Equity	542,708	541,369	543,855	544,056

Period End Balances:				
Assets	$ 4,859,627	$ 4,966,499		
Earning Assets	4,106,647	4,074,457		
Originated Loans	1,708,414	1,920,286		
Purchased Covered Loans	418,364	575,353		
Purchased Non-covered Loans	82,676	139,200		
Deposits	4,130,557	4,192,383		
Shareholders' Equity	558,841	553,988		
Capital Ratios at Period End:				
Total Risk Based Capital	16.22 %	15.41 %		
Tangible Equity to Tangible Assets	8.75 %	8.35 %		
Dividends Paid Per Common Share	$ 0.37	$ 0.36	$ 1.11	$ 1.08
Common Dividend Payout Ratio	51 %	46 %	50 %	47 %

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

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

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

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

Westamerica Bancorporation and subsidiaries (the “Company”) reported net income of $20.0 million or $0.73 diluted earnings per common share for the third quarter 2012 and net income of $62.0 million or $2.23 diluted earnings per common share for the nine months ended September 30, 2012. The nine months ended September 30, 2012 included a $1.3 million loss realized from the sale of a collateralized mortgage obligation bond which reduced net income by $750 thousand and a tax refund from an amended tax return which increased net income by $968 thousand. These results compare to net income of $22.4 million or $0.79 diluted earnings per common share for the third quarter 2011 and net income of $66.1 million or $2.29 diluted earnings per common share for the nine months ended September 30, 2011. The nine months ended September 30, 2011 included $2.1 million in litigation settlement accruals which decreased net income by $1.2 million and expenses related to the integration of the former Sonoma Valley Bank (“Sonoma”) of $393 thousand after tax.

Net Income

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