

WESTAMERICA BANCORPORATION

Form 10-Q

November 01, 2013

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 September 30, 2013

or

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

For the transition period from _____ to _____.

Commission file number: 001-09383

WESTAMERICA BANCORPORATION

(Exact Name of 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):

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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

Accelerated filer
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 October 22, 2013
Common Stock, No Par Value	26,628,957

TABLE OF CONTENTS

	Page
<u>Forward Looking Statements</u>	<u>3</u>
PART I - FINANCIAL INFORMATION	
<u>Item 1</u>	<u>4</u>
<u>Financial Statements</u>	
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>9</u>
<u>Financial Summary</u>	<u>28</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 2</u>	<u>29</u>
<u>Item 3</u>	<u>52</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
<u>Item 4</u>	<u>52</u>
<u>Controls and Procedures</u>	
PART II - OTHER INFORMATION	
<u>Item 1</u>	<u>52</u>
<u>Legal Proceedings</u>	
<u>Item 1A</u>	<u>53</u>
<u>Risk Factors</u>	
<u>Item 2</u>	<u>53</u>
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
<u>Item 3</u>	<u>53</u>
<u>Defaults upon Senior Securities</u>	
<u>Item 4</u>	<u>54</u>
<u>Mine Safety Disclosures</u>	
<u>Item 5</u>	<u>54</u>
<u>Other Information</u>	
<u>Item 6</u>	<u>54</u>
<u>Exhibits</u>	
<u>Signatures</u>	<u>55</u>
<u>Exhibit Index</u>	<u>56</u>
<u>Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)</u>	<u>57</u>
<u>Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)</u>	<u>58</u>
<u>Exhibit 32.1 - Certification of Chief Executive Officer Required by 18 U.S.C. Section 1350</u>	<u>59</u>
<u>Exhibit 32.2 - Certification of Chief Financial Officer Required by 18 U.S.C. Section 1350</u>	<u>60</u>

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, 2012, 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, 2013	At December 31, 2012
(In thousands)		
Assets:		
Cash and due from banks	\$388,579	\$ 491,382
Investment securities available for sale	1,060,428	825,636
Investment securities held to maturity, with fair values of: \$1,129,976 at September 30, 2013 and \$1,184,557 at December 31, 2012	1,141,083	1,156,041
Purchased covered loans	296,380	372,283
Purchased non-covered loans	57,838	74,891
Originated loans	1,523,090	1,664,183
Allowance for loan losses	(31,916)	(30,234)
Total loans	1,845,392	2,081,123
Non-covered other real estate owned	5,697	12,661
Covered other real estate owned	9,273	13,691
Premises and equipment, net	37,972	38,639
Identifiable intangibles, net	19,714	23,261
Goodwill	121,673	121,673
Other assets	176,676	188,086
Total Assets	\$4,806,487	\$ 4,952,193
Liabilities:		
Noninterest bearing deposits	\$1,689,986	\$ 1,676,071
Interest bearing deposits	2,418,321	2,556,421
Total deposits	4,108,307	4,232,492
Short-term borrowed funds	47,821	53,687
Federal Home Loan Bank advances	25,631	25,799
Term repurchase agreement	10,000	10,000
Debt financing	15,000	15,000
Other liabilities	57,888	55,113
Total Liabilities	4,264,647	4,392,091
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares issued and outstanding: 26,578 at September 30, 2013 and 27,213 at December 31, 2012	371,088	372,012
Deferred compensation	2,711	3,101
Accumulated other comprehensive income	4,120	14,625
Retained earnings	163,921	170,364
Total Shareholders' Equity	541,840	560,102
Total Liabilities and Shareholders' Equity	\$4,806,487	\$ 4,952,193

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,			
	2013	2012	2013	2012
	(In thousands, except per share data)			
Interest and Fee Income:				
Loans	\$25,116	\$31,779	\$78,696	\$101,180
Investment securities available for sale	5,426	4,918	16,293	14,644
Investment securities held to maturity	7,414	8,575	22,701	24,646
Total Interest and Fee Income	37,956	45,272	117,690	140,470
Interest Expense:				
Deposits	809	1,020	2,555	3,314
Short-term borrowed funds	20	15	58	63
Term repurchase agreement	25	25	73	74
Federal Home Loan Bank advances	122	122	360	361
Debt financing	200	200	601	601
Total Interest Expense	1,176	1,382	3,647	4,413
Net Interest Income	36,780	43,890	114,043	136,057
Provision for Loan Losses	1,800	2,800	6,400	8,400
Net Interest Income After Provision For Loan Losses	34,980	41,090	107,643	127,657
Noninterest Income:				
Service charges on deposit accounts	6,433	6,847	19,427	20,969
Merchant processing services	2,151	2,411	6,973	7,333
Debit card fees	1,467	1,308	4,302	3,816
Other service fees	716	729	2,174	2,122
ATM processing fees	701	782	2,128	2,648
Trust fees	567	540	1,720	1,526
Financial services commissions	150	175	614	540
Loss on sale of securities	-	-	-	(1,287)
Other	2,234	1,834	5,643	5,161
Total Noninterest Income	14,419	14,626	42,981	42,828
Noninterest Expense:				
Salaries and related benefits	13,826	14,294	42,293	43,833
Occupancy	3,829	3,901	11,353	11,609
Outsourced data processing services	2,139	2,156	6,436	6,318
Amortization of identifiable intangibles	1,163	1,336	3,547	4,076
Furniture and equipment	974	991	2,875	2,883
Professional fees	730	786	2,109	2,455
Courier service	725	772	2,204	2,350
Other real estate owned	179	679	791	912
Other	4,193	4,354	13,019	14,215
Total Noninterest Expense	27,758	29,269	84,627	88,651
Income Before Income Taxes	21,641	26,447	65,997	81,834
Provision for income taxes	4,903	6,425	14,876	19,843
Net Income	\$16,738	\$20,022	\$51,121	\$61,991
Average Common Shares Outstanding	26,670	27,513	26,900	27,769

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Diluted Average Common Shares Outstanding	26,705	27,565	26,919	27,821
Per Common Share Data:				
Basic earnings	\$0.63	\$0.73	\$1.90	\$2.23
Diluted earnings	0.63	0.73	1.90	2.23
Dividends paid	0.37	0.37	1.11	1.11

See accompanying notes to unaudited consolidated financial statements.

-5-

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2013	2012	2013	2012
	(In thousands)			
Net income	\$16,738	\$20,022	\$51,121	\$61,991
Other comprehensive (loss) income:				
(Decrease) increase in net unrealized gains on securities available for sale	(712)	2,441	(18,173)	5,277
Decrease (increase) in deferred tax expense	299	(1,026)	7,641	(2,219)
(Decrease) increase in net unrealized gains on securities available for sale, net of tax	(413)	1,415	(10,532)	3,058
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 (loss) income	(404)	1,424	(10,505)	3,085
Total comprehensive income	\$16,334	\$21,446	\$40,616	\$65,076

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 (Loss)	Retained Earnings	Total
	(In thousands)					
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
Balance, December 31, 2012	27,213	\$ 372,012	\$ 3,101	\$ 14,625	\$ 170,364	\$560,102
Net income for the period					51,121	51,121
Other comprehensive loss				(10,505)		(10,505)
Exercise of stock options	221	9,219				9,219
Tax benefit decrease upon exercise of stock options		(202)				(202)
Restricted stock activity	15	1,068	(390)			678
Stock based compensation		1,081				1,081
Stock awarded to employees	2	84				84
Purchase and retirement of stock	(873)	(12,174)			(27,615)	(39,789)
Dividends					(29,949)	(29,949)
Balance, September 30, 2013	26,578	\$ 371,088	\$ 2,711	\$ 4,120	\$ 163,921	\$541,840

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Operating Activities:		
Net income	\$51,121	\$61,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,325	10,574
Loan loss provision	6,400	8,400
Net amortization of deferred loan fees	(333)	(402)
Decrease in interest income receivable	1,420	1,183
Decrease (increase) in other assets	7,344	(155)
Increase in income taxes payable	856	500
Increase in net deferred tax asset	(3,719)	(7,370)
Increase (decrease) in interest expense payable	50	(97)
(Decrease) increase in other liabilities	(984)	12,696
Stock option compensation expense	1,081	1,180
Tax benefit decrease upon exercise of stock options	202	9
Loss on sale of securities available for sale	-	1,287
Gain on sale of other assets	(548)	(656)
Net loss on sale of premises and equipment	16	78
Originations of mortgage loans for resale	(441)	(597)
Net proceeds from sale of mortgage loans originated for resale	447	626
Net gain on sale of foreclosed assets	(892)	(2,545)
Writedown of foreclosed assets	1,752	3,033
Net Cash Provided by Operating Activities	77,097	89,735
Investing Activities:		
Net repayments of loans	231,002	296,278
Proceeds from FDIC1 loss-sharing indemnification	6,478	25,768
Purchases of investment securities available for sale	(355,440)	(211,349)
Purchases of investment securities held to maturity	(152,116)	(410,829)
Proceeds from sale/maturity/calls of securities available for sale	100,660	116,916
Proceeds from maturity/calls of securities held to maturity	164,369	156,363
Net change in FRB2/FHLB3 securities	2,243	1,336
Proceeds from sale of foreclosed assets	14,986	23,155
Purchases of premises and equipment	(1,581)	(3,875)
Net Cash Provided by (Used in) Investing Activities	10,601	(6,237)
Financing Activities:		
Net change in deposits	(123,914)	(118,868)
Net change in short-term borrowings and FHLB3 advances	(5,866)	(60,058)
Exercise of stock options	9,219	2,917
Tax benefit decrease upon exercise of stock options	(202)	(9)
Repurchases/retirement of stock	(39,789)	(38,686)
Dividends paid	(29,949)	(30,875)

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Net Cash Used in Financing Activities	(190,501)	(245,579)
Net Change In Cash and Due from Banks	(102,803)	(162,081)
Cash and Due from Banks at Beginning of Period	491,382	530,045
Cash and Due from Banks at End of Period	\$388,579	\$367,964

Supplemental Cash Flow Disclosures:

Supplemental disclosure of non cash activities:

Loan collateral transferred to other real estate owned	\$5,404	\$6,362
--	---------	---------

Supplemental disclosure of cash flow activities:

Interest paid for the period	3,982	5,091
Income tax payments for the period	17,931	27,466

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 which, 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, 2013 and 2012 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, 2012.

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 unaudited 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, 2012. 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 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 Company's historical accounting treatment is consistent with ASU 2012-06, and therefore there was no effect on the Company's financial statements at January 1, 2013, when adopted.

FASB ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, was issued February 2013 requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption of the

update did not have a material effect on the Company's financial statements at January 1, 2013, the date adopted. The Company's only item reclassified out of other comprehensive income to net income is the amortization of unrecognized post retirement benefit transition obligation, which is immaterial for purposes of disclosure.

Recently Issued Accounting Standards

FASB ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, was issued July 2013 to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar loss, or a tax credit carryforward exists. The update provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, unless an exception applies. The Company does not expect the adoption of this update to have a material effect on the financial statements when adopted on January 1, 2014.

Note 3: Investment Securities

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

	Investment Securities Available for Sale			
	At September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	\$ 3,507	\$ 17	\$ -	3,524
Securities of U.S. Government sponsored entities	95,810	119	(201)	95,728
Residential mortgage-backed securities	34,862	2,095	(13)	36,944
Commercial mortgage-backed securities	3,559	23	-	3,582
Obligations of States and political subdivisions	188,164	6,868	(208)	194,824
Residential collateralized mortgage obligations	275,444	883	(12,104)	264,223
Asset-backed securities	14,980	2	(113)	14,869
FHLMC (1) and FNMA (2) stock	824	8,280	-	9,104
Corporate securities	433,857	2,416	(1,573)	434,700
Other securities	2,049	1,019	(138)	2,930
Total	\$ 1,053,056	\$ 21,722	\$ (14,350)	\$ 1,060,428

(1) Federal Home Loan Mortgage Corporation

(2) Federal National Mortgage Association

An analysis of the amortized cost, unrealized gains and losses, and fair value of investment securities held to maturity follows:

	Investment Securities Held to Maturity			
	At September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	\$ 1,854	\$ -	\$ (4)	\$ 1,850
Residential mortgage-backed securities	67,522	958	(284)	68,196
Obligations of States and political subdivisions	747,905	7,771	(18,433)	737,243
Residential collateralized mortgage obligations	323,802	1,601	(2,716)	322,687
Total	\$ 1,141,083	\$ 10,330	\$ (21,437)	\$ 1,129,976

[The remainder of this page intentionally left blank]

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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

	Investment Securities Available for Sale At December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	\$ 3,520	\$ 38	\$ -	\$ 3,558
Securities of U.S. Government sponsored entities	49,335	207	(17)	49,525
Residential mortgage-backed securities	53,078	3,855	(1)	56,932
Commercial mortgage-backed securities	4,076	69	-	4,145
Obligations of States and political subdivisions	200,769	14,730	(252)	215,247
Residential collateralized mortgage obligations	219,613	1,786	(294)	221,105
Asset-backed securities	16,130	18	(143)	16,005
FHLMC and FNMA stock	824	2,061	(5)	2,880
Corporate securities	250,655	3,009	(826)	252,838
Other securities	2,091	1,370	(60)	3,401
Total	\$ 800,091	\$ 27,143	\$ (1,598)	\$ 825,636

An analysis of the amortized cost, unrealized gains and losses, and fair value of investment securities held to maturity follows:

	Investment Securities Held to Maturity At December 31, 2012			
	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities of U.S. Government sponsored entities	\$ 3,232	\$ 43	\$ -	\$ 3,275
Residential mortgage-backed securities	72,807	2,090	(10)	74,887
Obligations of States and political subdivisions	680,802	23,004	(1,235)	702,571
Residential collateralized mortgage obligations	399,200	5,185	(561)	403,824
Total	\$ 1,156,041	\$ 30,322	\$ (1,806)	\$ 1,184,557

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

At September 30, 2013			
Securities Available for Sale		Securities Held to Maturity	
Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)			

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Maturity in years:

1 year or less	\$82,545	\$82,914	\$ 11,209	\$ 11,457
Over 1 to 5 years	497,991	499,327	175,599	178,347
Over 5 to 10 years	65,067	66,961	305,349	303,332
Over 10 years	90,715	94,443	257,602	245,957
Subtotal	736,318	743,645	749,759	739,093
Mortgage-backed securities and residential collateralized mortgage obligations	313,865	304,749	391,324	390,883
Other securities	2,873	12,034	-	-
Total	\$1,053,056	\$1,060,428	\$ 1,141,083	\$ 1,129,976

	At December 31, 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	\$40,380	\$ 40,686	\$ 10,265	\$ 10,496
Over 1 to 5 years	309,293	312,480	167,162	171,769
Over 5 to 10 years	59,817	63,540	227,603	236,608
Over 10 years	110,919	120,467	279,004	286,973
Subtotal	520,409	537,173	684,034	705,846
Mortgage-backed securities and residential collateralized mortgage obligations	276,767	282,182	472,007	478,711
Other securities	2,915	6,281	-	-
Total	\$800,091	\$ 825,636	\$ 1,156,041	\$ 1,184,557

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, 2013 and December 31, 2012, 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, 2013					
	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	\$24,673	\$ (201)	\$-	\$ -	\$24,673	\$ (201)
Residential mortgage-backed securities	28	-	855	(13)	883	(13)
Obligations of States and political subdivisions	11,186	(104)	3,519	(104)	14,705	(208)
Residential collateralized mortgage obligations	213,501	(11,358)	21,970	(746)	235,471	(12,104)
Asset-backed securities	5,008	(1)	4,769	(112)	9,777	(113)
Corporate securities	193,377	(1,303)	21,713	(270)	215,090	(1,573)
Other securities	-	-	1,862	(138)	1,862	(138)
Total	\$447,773	\$ (12,967)	\$54,688	\$ (1,383)	\$502,461	\$ (14,350)

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

	Investment Securities Held to Maturity		
	At September 30, 2013		
	Less than 12 months	12 months or longer	Total

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Securities of U.S. Government sponsored entities	\$1,854	\$ (4)	\$-	\$ -	\$1,854	\$ (4)
Residential mortgage-backed securities	24,309	(167)	7,452	(117)	31,761	(284)
Obligations of States and political subdivisions	370,514	(18,034)	9,278	(399)	379,792	(18,433)
Residential collateralized mortgage obligations	166,265	(2,644)	11,545	(72)	177,810	(2,716)
Total	\$562,942	\$ (20,849)	\$28,275	\$ (588)	\$591,217	\$ (21,437)

-12-

The unrealized losses on the Company's investment securities were caused by market conditions for these types of investments, particularly interest rates which rose between December 31, 2012 and September 30, 2013, causing bond prices to decline. The Company evaluates securities on a quarterly basis including changes in security ratings issued by ratings agencies, changes in the financial condition of the issuer, and, for mortgage-related and asset-backed securities, delinquency and loss information with respect to the underlying collateral, changes in the levels of subordination for the Company's particular position within the repayment structure and remaining credit enhancement as compared to expected credit losses of the security. Substantially all of these securities continue to be investment grade rated by one or more major rating agencies. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset backed securities.

The Company 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, 2013.

The fair values of the investment securities could decline in the future if the general economy deteriorates, inflation increases, credit ratings decline, the issuer's financial condition deteriorates, or the liquidity for securities declines. As a result, other than temporary impairments may occur in the future.

As of September 30, 2013, \$769,576 thousand of investment securities were pledged to secure public deposits, short-term borrowed funds, and term repurchase agreements, compared to \$850,421 thousand at December 31, 2012.

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

	Investment Securities Available for Sale					
	Less than 12 months		12 months or longer		Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
	(In thousands)					
Securities of U.S. Government sponsored entities	\$9,983	\$ (17)	\$-	\$ -	\$9,983	\$ (17)
Residential mortgage-backed securities	103	(1)	11	-	114	(1)
Obligations of States and political subdivisions	2,080	(23)	8,928	(229)	11,008	(252)
Residential collateralized mortgage obligations	72,803	(294)	-	-	72,803	(294)
Asset-backed securities	-	-	5,828	(143)	5,828	(143)
FHLMC and FNMA stock	-	-	1	(5)	1	(5)
Corporate securities	53,570	(423)	24,597	(403)	78,167	(826)
Other securities	-	-	1,940	(60)	1,940	(60)
Total	\$138,539	\$ (758)	\$41,305	\$ (840)	\$179,844	\$ (1,598)

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

	Investment Securities Held to Maturity		
	At December 31, 2012		Total Unrealized
	Less than 12 months	12 months or longer	
	Unrealized	Unrealized	

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
	(In thousands)					
Residential mortgage-backed securities	\$113	\$ -	\$664	\$ (10)	\$777	\$ (10)
Obligations of States and political subdivisions	69,839	(1,205)	4,275	(30)	74,114	(1,235)
Residential collateralized mortgage obligations	26,683	(386)	9,353	(175)	36,036	(561)
Total	\$96,635	\$ (1,591)	\$14,292	\$ (215)	\$110,927	\$ (1,806)

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 resulting in proceeds of \$7,790 thousand and a realized loss on sale of \$1,287 thousand during the quarter.

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	
	2013	2012	2013	2012
Ended September 30,				
(In thousands)				
Taxable:				
Mortgage related securities	\$3,195	\$3,855	\$10,126	\$10,931
Other	2,307	1,850	6,500	4,811
Total taxable	5,502	5,705	16,626	15,742
Tax-exempt	7,338	7,788	22,368	23,548
Total interest income from investment securities	\$12,840	\$13,493	\$38,994	\$39,290

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, 2013						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
(In thousands)						
Originated loans	\$310,497	\$ 604,170	\$ 9,223	\$ 185,830	\$ 413,370	\$1,523,090
Purchased covered loans:						
Impaired	11	2,870	-	-	253	3,134
Non impaired	35,340	203,534	4,017	8,805	56,039	307,735
Purchase discount	(2,478)	(10,440)	(50)	(434)	(1,087)	(14,489)
Purchased non-covered loans:						
Impaired	647	2,556	-	-	197	3,400
Non impaired	7,590	33,722	1,249	1,007	13,859	57,427
Purchase discount	(732)	(524)	-	(262)	(1,471)	(2,989)
Total	\$350,875	\$ 835,888	\$ 14,439	\$ 194,946	\$ 481,160	\$1,877,308

At December 31, 2012						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
(In thousands)						
Originated loans	\$340,116	\$ 632,927	\$ 7,984	\$ 222,458	\$ 460,698	\$1,664,183
Purchased covered loans:						
Impaired	308	7,585	1,824	-	257	9,974
Non impaired	59,135	247,534	5,462	9,374	66,932	388,437
Purchase discount	(8,459)	(15,140)	(279)	(433)	(1,817)	(26,128)
Purchased non-covered loans:						
Impaired	1,261	6,763	-	-	297	8,321

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Non impaired	9,840	38,673	1,619	3,110	18,554	71,796
Purchase discount	(870)	(1,748)	(95)	(474)	(2,039)	(5,226)
Total	\$401,331	\$ 916,594	\$ 16,515	\$ 234,035	\$ 542,882	\$2,111,357

-14-

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

	For the Nine Months Ended September 30, 2013	For the Year Ended December 31, 2012
(In thousands)		
Impaired purchased covered loans		
Carrying amount at the beginning of the period	\$ 7,865	\$ 18,591
Reductions during the period	(5,405)	(10,726)
Carrying amount at the end of the period	\$ 2,460	\$ 7,865

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

	For the Nine Months Ended September 30, 2013	For the Year Ended December 31, 2012
(In thousands)		
Impaired purchased non-covered loans		
Carrying amount at the beginning of the period	\$ 6,764	\$ 15,572
Reductions during the period	(4,240)	(8,808)
Carrying amount at the end of the period	\$ 2,524	\$ 6,764

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

	For the Nine Months Ended September 30, 2013	For the Year Ended December 31, 2012
(In thousands)		
Accretable yield:		
Balance at the beginning of the period	\$ 4,948	\$ 9,990
Reclassification from nonaccretable difference	11,053	12,121
Accretion	(11,598)	(17,163)
Balance at the end of the period	\$ 4,403	\$ 4,948
Accretion	\$ (11,598)	\$ (17,163)
Reduction in FDIC indemnification asset	8,856	13,207
(Increase) in interest income	\$ (2,742)	\$ (3,956)

The following summarizes activity in the allowance for credit losses:

Allowance for Credit Losses						
For the Three Months Ended September 30, 2013						
Consumer						
Commercial Real Estate	Residential Real Estate	Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
(In thousands)						

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Allowance for loan losses:

Balance at beginning of period	\$4,384	\$11,275	\$478	\$532	\$2,603	\$-	\$285	\$11,369	\$30,926
Additions:									
Provision	102	447	53	(104)	1,154	-	1,300	(1,152)	1,800
Deductions:									
Chargeoffs	(637)	(117)	-	-	(909)	-	(79)	-	(1,742)
Recoveries	326	30	-	-	516	-	60	-	932
Net loan losses	(311)	(87)	-	-	(393)	-	(19)	-	(810)
Balance at end of period	4,175	11,635	531	428	3,364	-	1,566	10,217	31,916
Liability for off-balance sheet credit exposure	1,613	-	103	-	483	-	-	494	2,693
Total allowance for credit losses	\$5,788	\$11,635	\$634	\$428	\$3,847	\$-	\$1,566	\$10,711	\$34,609

-15-

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

Allowance for Credit Losses
For the Nine Months Ended September 30, 2013

	Consumer								
	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Installments and Other	Purchased Loans	Purchased Covered Loans	Unallocated	Total	
Allowance for loan losses:									
Balance at beginning of period	\$6,445	\$10,063	\$484	\$380	\$3,194	\$-	\$1,005	\$8,663	\$30,214
Additions:									
Provision	(667)	2,100	47	157	1,660	116	1,433	1,554	6,404
Deductions:									
Chargeoffs	(2,687)	(656)	-	(109)	(3,114)	(116)	(955)	-	(7,637)
Recoveries	1,084	128	-	-	1,624	-	83	-	2,919
Net loan losses	(1,603)	(528)	-	(109)	(1,490)	(116)	(872)	-	(4,718)
Balance at end of period	4,175	11,635	531	428	3,364	-	1,566	10,217	31,916
Liability for off-balance sheet credit exposure	1,613	-	103	-	483	-	-	494	2,693
Total allowance for credit losses	\$5,788	\$11,635	\$634	\$428	\$3,847	\$-	\$1,566	\$10,711	\$34,609

Allowance for Credit Losses
For the Three Months Ended September 30, 2012

	Consumer								
	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Installments and Other	Purchased Loans	Purchased Covered Loans	Unallocated	Total	
Allowance for loan losses:									
Balance at beginning of period	\$6,330	\$9,899	\$2,681	\$602	\$3,031	\$-	\$240	\$8,740	\$31,423
Additions:									
Provision	829	587	(87)	103	894	535	1,105	(1,166)	2,798
Deductions:									
Chargeoffs	(65)	(168)	(2,091)	(224)	(1,439)	(535)	(111)	-	(4,633)
Recoveries	500	145	26	-	589	-	16	-	1,276
Net loan recoveries (losses)	435	(23)	(2,065)	(224)	(850)	(535)	(95)	-	(3,337)
Balance at end of period	7,594	10,463	529	481	3,075	-	1,250	7,574	30,466
Liability for off-balance sheet credit exposure	1,642	14	2	-	402	-	-	633	2,681
Total allowance for credit losses	\$9,236	\$10,477	\$531	\$481	\$3,477	\$-	\$1,250	\$8,207	\$33,369

Allowance for Credit Losses
For the Nine Months Ended September 30, 2012

	Consumer								
	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Installments and Other	Purchased Loans	Purchased Covered Loans	Unallocated	Total	
Allowance for loan losses:									
Balance at beginning of period	\$6,012	\$10,611	\$2,342	\$781	\$3,072	\$-	\$-	\$9,779	\$32,697
Additions:									

Edgar Filing: WESTAMERICA BANCORPORATION - Form 10-Q

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

The allowance for credit losses and recorded investment in loans evaluated for impairment follow:

	Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment						
	At September 30, 2013						
	Consumer						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Installment and Other	Purchased Loans	Purchased Covered Loans
Allowance for credit losses:							
Individually evaluated for impairment	\$100	\$550	\$-	\$-	\$-	\$-	\$465
Collectively evaluated for impairment	5,688	11,085	634	428	3,847	-	1,100
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-
Total	\$5,788	\$11,635	\$634	\$428	\$3,847	\$-	\$1,565
Carrying value of loans:							
Individually evaluated for impairment	\$2,427	\$4,305	\$-	\$-	\$-	\$3,771	\$23,000
Collectively evaluated for impairment	308,070	599,865	9,223	185,830	413,370	51,543	270,000
Purchased loans with evidence of credit deterioration	-	-	-	-	-	2,524	2,460
Total	\$310,497	\$604,170	\$9,223	\$185,830	\$413,370	\$57,838	\$296,460

Allowance for Credit Losses and
Recorded Investment in Loans Evaluated for Impairment
At December 31, 2012

	Consumer						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Installment and Other	Purchased Loans	Purchased Covered Loans
	(In thousands)						
Allowance for credit losses:							
Individually evaluated for impairment	\$1,865	\$134	\$-	\$-	\$-	\$-	\$753
Collectively evaluated for impairment	6,314	9,938	484	380	3,613	-	252
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-
Total	\$8,179	\$10,072	\$484	\$380	\$3,613	\$-	\$1,000
Carrying value of loans:							
Individually evaluated for impairment	\$5,153	\$4,161	\$-	\$-	\$-	\$3,029	\$16,600
Collectively evaluated for impairment	334,963	628,766	7,984	222,458	460,698	65,098	347,000
Purchased loans with evidence of credit deterioration	-	-	-	-	-	6,764	7,860
Total	\$340,116	\$632,927	\$7,984	\$222,458	\$460,698	\$74,891	\$372,000

The Bank's customers are small businesses, professionals and consumers. Given the scale of these borrowers, corporate credit rating agencies do not evaluate the borrowers' financial condition. The Bank maintains a Loan Review Department which reports directly to the Board of Directors. The Loan Review Department performs independent evaluations of loans and assigns credit risk grades to evaluated loans using grading standards employed by bank regulatory agencies. Loans judged to carry lower-risk attributes are assigned a "pass" grade, with a minimal likelihood of loss. Loans judged to carry higher-risk attributes are referred to as "classified loans," and are further disaggregated, with increasing expectations for loss recognition, as "substandard," "doubtful," and "loss." Loan Review evaluations occur every calendar quarter. 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, 2013

	Consumer							Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Installment and Other	Purchased Loans	Purchased Covered Loans (1)	
	(In thousands)							
Grade:								
Pass	\$299,483	\$560,102	\$8,770	\$183,729	\$411,705	\$43,780	\$209,835	\$1,717,404
Substandard	9,998	44,068	453	2,101	1,254	16,071	100,955	174,900
Doubtful	1,016	-	-	-	37	976	36	2,065
Loss	-	-	-	-	374	-	43	417
Default risk purchase discount	-	-	-	-	-	(2,989)	(14,489)	(17,478)
Total	\$310,497	\$604,170	\$9,223	\$185,830	\$413,370	\$57,838	\$296,380	\$1,877,308

(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, 2012

Grade:	Commercial		Consumer			Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
	Commercial	Real Estate	Construction	Real Estate	and Other			
Pass	\$324,452	\$599,472	\$7,518	\$219,655	\$459,076	\$51,901	\$274,976	\$1,937,050
Substandard	11,413	33,455	466	2,803	1,158	27,066	122,815	199,176
Doubtful	4,251	-	-	-	46	1,145	470	5,912
Loss	-	-	-	-	418	5	150	573
Default risk purchase discount	-	-	-	-	-	(5,226)	(26,128)	(31,354)
Total	\$340,116	\$632,927	\$7,984	\$222,458	\$460,698	\$74,891	\$372,283	\$2,111,357

(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, 2013

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 days or More and Accruing	Nonaccrual	Total Loans
(In thousands)						
Commercial	\$ 305,713	\$ 2,483	\$ 327	\$ -	\$ 1,974	\$ 310,497
Commercial real estate	588,099	7,104	4,062	-	4,905	604,170
Construction	8,770	453	-	-	-	9,223
Residential real estate	182,921	2,884	25	-	-	185,830
Consumer installment & other	409,412	2,733	833	392	-	413,370
Total originated loans	1,494,915	15,657	5,247	392	6,879	1,523,090
Purchased non-covered loans	54,097	22	354	-	3,365	57,838
Purchased covered loans	265,519	3,029	1,524	23	26,285	296,380
Total	\$ 1,814,531	\$ 18,708	\$ 7,125	\$ 415	\$ 36,529	\$ 1,877,308

Summary of Loans by Delinquency and Nonaccrual Status
At December 31, 2012

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 days or More and Accruing	Nonaccrual	Total Loans
(In thousands)						
Commercial	\$ 333,474	\$ 754	\$ 278	\$ -	\$ 5,610	\$ 340,116
Commercial real estate	616,276	7,941	2,809	-	5,901	632,927
Construction	7,984	-	-	-	-	-