

WESTAMERICA BANCORPORATION

Form 10-Q

August 02, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 001-9383

WESTAMERICA BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA

(State or Other Jurisdiction of  
Incorporation or Organization)

94-2156203

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

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901

(Address of Principal Executive Offices) (Zip Code)

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

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

Yes  No

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

Yes  No

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

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

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

Yes  No

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

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

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## TABLE OF CONTENTS

|  | Page      |
|--|-----------|
| <u>Forward Looking Statements</u>  | <u>3</u>  |
| <b>PART I - FINANCIAL INFORMATION</b>  |           |
| <u>Item 1 Financial Statements</u>   | <u>4</u>  |
| <u>Notes to Unaudited Consolidated Financial Statements</u>  | <u>9</u>  |
| <u>Financial Summary</u>   | <u>28</u> |
| <u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                  | <u>29</u> |
| <u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>   | <u>48</u> |
| <u>Item 4 Controls and Procedures</u>  | <u>48</u> |
| <b>PART II - OTHER INFORMATION</b>   |           |
| <u>Item 1 Legal Proceedings</u>  | <u>49</u> |
| <u>Item 1A Risk Factors</u>  | <u>49</u> |
| <u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>  | <u>49</u> |
| <u>Item 3 Defaults upon Senior Securities</u>  | <u>50</u> |
| <u>Item 4 Mine Safety Disclosures</u>  | <u>50</u> |
| <u>Item 5 Other Information</u>  | <u>50</u> |
| <u>Item 6 Exhibits</u>   | <u>50</u> |
| <u>Signatures</u>  | <u>51</u> |
| <u>Exhibit Index</u>   | <u>52</u> |
| Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a) | 53        |
| Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a) | 54        |
| Exhibit 32.1 - Certification of Chief Executive Officer Required by 18 U.S.C. Section 1350                           | 55        |
| Exhibit 32.2 - Certification of Chief Financial Officer Required by 18 U.S.C. Section 1350                           | 56        |

## FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of current and potential future difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including data processing system failures or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, fire, flood, drought, and other disasters, on the uninsured value of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company's market place, and commodities and asset values, and (13) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2011, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

## PART I - FINANCIAL INFORMATION

## Item 1 Financial Statements

WESTAMERICA BANCORPORATION  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

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

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

See accompanying notes to unaudited consolidated financial statements.

- 4 -

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WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

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

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

See accompanying notes to unaudited condensed consolidated financial statements.

- 5 -

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WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

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

See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

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

## Operating Activities:

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

## Investing Activities:

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

## Financing Activities:

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

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

Supplemental Cash Flow Disclosures:

Supplemental disclosure of non cash activities:

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

Supplemental disclosure of cash flow activities:

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

See accompanying notes to unaudited condensed consolidated financial statements.

1 Federal Deposit Insurance Corporation ("FDIC")

2 Federal Reserve Bank ("FRB")

3 Federal Home Loan Bank ("FHLB")

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1: Basis of Presentation

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

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

### Note 2: Accounting Policies

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

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

### Recently Adopted Accounting Standards

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

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

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

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

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

#### Recently Issued Accounting Standards

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

#### Note 3: Investment Securities

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

|  | Investment Securities Available for Sale |                     |                      |                  |
|--|--|---------------------|----------------------|------------------|
|  | At June 30, 2012                         |                     |                      |                  |
|  | Amortized<br>Cost                        | Gross               | Gross                | Fair<br>Value    |
|  |  | Unrealized<br>Gains | Unrealized<br>Losses |                  |
| (In thousands)                                   |  |                     |                      |                  |
| U.S. Treasury securities                         | \$3,528                                  | \$ 45               | \$ -                 | \$3,573          |
| Securities of U.S. Government sponsored entities | 100,493                                  | 407                 | (1 )                 | 100,899          |
| Residential mortgage-backed securities           | 72,394                                   | 5,046               | (2 )                 | 77,438           |
| Commercial mortgage-backed securities            | 4,306                                    | 64                  | -                    | 4,370            |
| Obligations of States and political subdivisions | 223,237                                  | 13,234              | (279 )               | 236,192          |
| Residential collateralized mortgage obligations  | 43,959                                   | 1,646               | -                    | 45,605           |
| Asset-backed securities                          | 16,964                                   | -                   | (218 )               | 16,746           |
| FHLMC and FNMA stock                             | 824                                      | 1,871               | (4 )                 | 2,691            |
| Corporate securities                             | 217,952                                  | 818                 | (2,078 )             | 216,692          |
| Other securities                                 | 2,236                                    | 2,325               | (50 )                | 4,511            |
| <b>Total</b>                                     | <b>\$685,893</b>                         | <b>\$ 25,456</b>    | <b>\$ (2,632 )</b>   | <b>\$708,717</b> |





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

|  | Investment Securities Held to Maturity |                     |                      |                    |
|--|--|---------------------|----------------------|--------------------|
|  | At June 30, 2012                       |                     |                      |                    |
|  | Amortized<br>Cost                      | Gross               | Gross                | Fair<br>Value      |
|  |  | Unrealized<br>Gains | Unrealized<br>Losses |                    |
|  | (In thousands)                         |                     |                      |                    |
| Securities of U.S. Government sponsored entities | \$4,287                                | \$ 29               | \$ -                 | \$4,316            |
| Residential mortgage-backed securities           | 82,346                                 | 1,896               | (73 )                | 84,169             |
| Obligations of States and political subdivisions | 667,386                                | 21,826              | (882 )               | 688,330            |
| Residential collateralized mortgage obligations  | 452,627                                | 3,982               | (611 )               | 455,998            |
| <b>Total</b>                                     | <b>\$1,206,646</b>                     | <b>\$ 27,733</b>    | <b>\$ (1,566 )</b>   | <b>\$1,232,813</b> |

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, 2011                     |                     |                      |                  |
|  | Amortized<br>Cost                        | Gross               | Gross                | Fair<br>Value    |
|  |  | Unrealized<br>Gains | Unrealized<br>Losses |                  |
|  | (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            |
| <b>Total</b>                                     | <b>\$618,765</b>                         | <b>\$ 22,924</b>    | <b>\$ (2,936 )</b>   | <b>\$638,753</b> |

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, 2011                   |                     |                      |                  |
|  | Amortized<br>Cost                      | Gross               | Gross                | Fair<br>Value    |
|  |  | Unrealized<br>Gains | Unrealized<br>Losses |                  |
|  | (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          |
| <b>Total</b>                                     | <b>\$922,803</b>                       | <b>\$ 27,894</b>    | <b>\$ (3,204 )</b>   | <b>\$947,493</b> |



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

|  | At June 30, 2012                 |               |                                |               |
|--|----------------------------------|---------------|--------------------------------|---------------|
|  | Securities Available<br>for Sale |               | Securities Held<br>to Maturity |               |
|  | Amortized<br>Cost                | Fair<br>Value | Amortized<br>Cost              | Fair<br>Value |
|  | (In thousands)                   |               |                                |               |
| Maturity in years:   |                                  |               |                                |               |
| 1 year or less   | \$59,556                         | \$59,810      | \$11,269                       | \$11,344      |
| Over 1 to 5 years  | 321,842                          | 321,762       | 161,587                        | 166,300       |
| Over 5 to 10 years   | 55,864                           | 58,736        | 269,998                        | 280,908       |
| Over 10 years  | 124,912                          | 133,794       | 228,819                        | 234,094       |
| Subtotal   | 562,174                          | 574,102       | 671,673                        | 692,646       |
| Mortgage-backed securities and residential collateralized mortgage obligations | 120,659                          | 127,413       | 534,973                        | 540,167       |
| Other securities   | 3,060                            | 7,202         | -                              | -             |
| Total  | \$685,893                        | \$708,717     | \$1,206,646                    | \$1,232,813   |

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

|  | At December 31, 2011             |               |                                |               |
|--|----------------------------------|---------------|--------------------------------|---------------|
|  | Securities Available<br>for Sale |               | Securities Held<br>to Maturity |               |
|  | Amortized<br>Cost                | Fair<br>Value | Amortized<br>Cost              | Fair<br>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 June 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 June 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)                           |                   |                     |                   |            |                   |
| Securities of U.S. Government sponsored entities | \$4,997                                  | \$ (1 )           | \$-                 | \$ -              | \$4,997    | \$ (1 )           |
| Residential mortgage-backed securities           | 7  | -                 | 984                 | (2 )              | 991        | (2 )              |
| Obligations of States and political subdivisions | 3,663                                    | (71 )             | 11,705              | (208 )            | 15,368     | (279 )            |
| Asset-backed securities                          | 10,194                                   | (6 )              | 6,552               | (212 )            | 16,746     | (218 )            |
| FHLMC and FNMA stock                             | -  | -                 | 1                   | (4 )              | 1          | (4 )              |
| Corporate securities                             | 71,028                                   | (878 )            | 38,799              | (1,200 )          | 109,827    | (2,078 )          |
| Other securities                                 | -  | -                 | 1,951               | (50 )             | 1,951      | (50 )             |
| Total  | \$89,889                                 | \$ (956 )         | \$59,992            | \$ (1,676 )       | \$149,881  | \$ (2,632 )       |

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

|  | Investment Securities Held to Maturity |                   |                     |                   |            |                   |
|--|--|-------------------|---------------------|-------------------|------------|-------------------|
|  | At June 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           | \$21,030                               | \$ (73 )          | \$-                 | \$ -              | \$21,030   | \$ (73 )          |
| Obligations of States and political subdivisions | 70,381                                 | (853 )            | 4,641               | (29 )             | 75,022     | (882 )            |
| Residential collateralized mortgage obligations  | 75,288                                 | (396 )            | 13,929              | (215 )            | 89,217     | (611 )            |
| Total  | \$166,699                              | \$ (1,322 )       | \$18,570            | \$ (244 )         | \$185,269  | \$ (1,566 )       |

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 resulting in proceeds of \$7,790 thousand and a realized loss on sale of \$1,287 thousand during the quarter. Substantially all securities owned at June 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 June 30, 2012.

The fair values of the investment securities could decline in the future if 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.

As of June 30, 2012, \$896,271 thousand of investment securities were pledged to secure public deposits and short-term funding needs, compared to \$903,807 thousand at December 31, 2011.

- 13 -

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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 )              |
| <b>Total</b>                                     | <b>\$76,345</b>                          | <b>\$ (1,640 )</b> | <b>\$49,848</b>     | <b>\$ (1,296 )</b> | <b>\$126,193</b> | <b>\$ (2,936 )</b> |

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 )           |
| <b>Total</b>                                     | <b>\$102,413</b>                       | <b>\$ (784 )</b>  | <b>\$21,884</b>     | <b>\$ (2,420 )</b> | <b>\$124,297</b> | <b>\$ (3,204 )</b> |

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

|   | For the Three Months |                 | For the Six Months |                 |
|---|----------------------|-----------------|--------------------|-----------------|
|   | Ended June 30,       |                 |                    |                 |
|   | 2012                 | 2011            | 2012               | 2011            |
|   | (In thousands)       |                 |                    |                 |
| Taxable   | \$5,348              | \$4,223         | \$10,038           | \$7,980         |
| Tax-exempt  | 7,808                | 7,593           | 15,760             | 14,967          |
| <b>Total interest income from investment securities</b> | <b>\$13,156</b>      | <b>\$11,816</b> | <b>\$25,798</b>    | <b>\$22,947</b> |



## Note 4: Loans and Allowance for Credit Losses

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

|                              | At June 30, 2012 |             |              |             |           |             |
|------------------------------|------------------|-------------|--------------|-------------|-----------|-------------|
|                              | Commercial       |             | Construction | Residential | Consumer  | Total       |
|                              | Commercial       | Real Estate |              | Real Estate | & Other   |             |
|                              | (In thousands)   |             |              |             |           |             |
| Originated loans             | \$357,587        | \$662,635   | \$12,555     | \$249,299   | \$469,502 | \$1,751,578 |
| Purchased covered loans:     |                  |             |              |             |           |             |
| Impaired                     | 347              | 9,642       | 2,346        | -           | 260       | 12,595      |
| Non impaired                 | 84,721           | 304,625     | 10,294       | 10,366      | 71,016    | 481,022     |
| Purchase discount            | (10,210 )        | (18,855 )   | (464 )       | (522 )      | (315 )    | (30,366 )   |
| Purchased non-covered loans: |                  |             |              |             |           |             |
| Impaired                     | 2,081            | 16,747      | -            | -           | 298       | 19,126      |
| Non impaired                 | 12,383           | 51,031      | 1,794        | 3,438       | 22,646    | 91,292      |
| Purchase discount            | (859 )           | (4,496 )    | (95 )        | (474 )      | (2,104 )  | (8,028 )    |
| Total                        | \$446,050        | \$1,021,329 | \$26,430     | \$262,107   | \$561,303 | \$2,317,219 |

|                              | At December 31, 2011 |             |              |             |           |             |
|------------------------------|----------------------|-------------|--------------|-------------|-----------|-------------|
|                              | Commercial           |             | Construction | Residential | Consumer  | Total       |
|                              | Commercial           | Real Estate |              | Real Estate | & Other   |             |
|                              | (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<br>Six<br>Months<br>Ended<br>June 30,<br>2012 | For the Year<br>Ended<br>December 31,<br>2011 |
|--|---|---|
|  | (In thousands)  |   |
| Impaired purchased covered loans               |   |   |
| Carrying amount at the beginning of the period | \$18,591  | \$33,556                                      |
| Reductions during the period                   | (9,279 )  | (14,965 )                                     |
| Carrying amount at the end of the period       | \$9,312   | \$18,591                                      |



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

|  | For the<br>Six<br>Months<br>Ended<br>June 30,<br>2012 | For the Year<br>Ended<br>December 31,<br>2011 |
|--|---|---|
| Impaired purchased non-covered loans           | (In thousands)  |   |
| Carrying amount at the beginning of the period | \$ 15,572   | \$ 33,725                                     |
| Reductions during the period                   | (691 )  | (18,153 )                                     |
| Carrying amount at the end of the period       | \$ 14,881   | \$ 15,572                                     |

- 15 -

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

|  | For the<br>Six<br>Months<br>Ended<br>June 30,<br>2012 | For the<br>Year Ended<br>December 31,<br>2011 |
|--|---|---|
| Accretable yield for purchased loans           | (In thousands)  |   |
| Balance at the beginning of the period         | \$9,990   | \$ 6,089                                      |
| Reclassification from nonaccretable difference | 3,816   | 16,906  |
| Accretion                                      | (9,804 )  | (13,005 )                                     |
| Disposals and other                            | -   | -   |
| Balance at the end of the period               | \$4,002   | \$ 9,990                                      |
| Accretion                                      | \$(9,804 )  | \$ (13,005 )                                  |
| Reduction in FDIC indemnification asset        | 7,373   | 9,315   |
| Increase in interest income                    | \$(2,431 )  | \$ (3,690 )                                   |

The following summarizes activity in the allowance for credit losses:

|   | Allowance for Credit Losses              |             |              |             |                    |       |             |             |             |       |
|---|--|-------------|--------------|-------------|--------------------|-------|-------------|-------------|-------------|-------|
|   | For the Three Months Ended June 30, 2012 |             |              |             |                    |       |             |             |             |       |
|   | Commercial                               |             | Residential  |             | Consumer Purchased |       | Purchased   |             | Unallocated | Total |
|   | Commercial                               | Real Estate | Real Estate  | and Other   | Loans              | Loans | Non-covered | Covered     |             |       |
|   | Commercial                               | Real Estate | Construction | Real Estate | Other              | Loans | Loans       | Non-covered | Covered     | Total |
|   | (In thousands)                           |             |              |             |                    |       |             |             |             |       |
| Allowance for loan losses:                      |  |             |              |             |                    |       |             |             |             |       |
| Balance at beginning of period                  | \$6,814                                  | \$ 11,427   | \$ 2,755     | \$ 645      | \$ 2,825           | \$ -  | \$ 139      | \$ 7,278    | \$ 31,883   |       |
| Additions:                                      |  |             |              |             |                    |       |             |             |             |       |
| Provision                                       | 1,984                                    | (1,561 )    | (270 )       | 19          | 817                | 25    | 324         | 1,462       | 2,800       |       |
| Deductions:                                     |  |             |              |             |                    |       |             |             |             |       |
| Chargeoffs                                      | (2,696)                                  | -           | -            | (62 )       | (1,211 )           | (25 ) | (247 )      | -           | (4,241)     |       |
| Recoveries                                      | 228                                      | 33          | 196          | -           | 600                | -     | 24          | -           | 1,081       |       |
| Net loan and lease losses                       | (2,468)                                  | 33          | 196          | (62 )       | (611 )             | (25 ) | (223 )      | -           | (3,160)     |       |
| Balance at end of period                        | 6,330                                    | 9,899       | 2,681        | 602         | 3,031              | -     | 240         | 8,740       | 31,523      |       |
| Liability for off-balance sheet credit exposure | 1,644                                    | 16          | 12           | -           | 384                | -     | -           | 637         | 2,693       |       |
| Total allowance for credit losses               | \$7,974                                  | \$ 9,915    | \$ 2,693     | \$ 602      | \$ 3,415           | \$ -  | \$ 240      | \$ 9,377    | \$34,216    |       |

Allowance for Credit Losses  
For the Six Months Ended June 30, 2012

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|   | Commercial<br>Real<br>Estate | Commercial<br>Estate | Construction | Residential<br>Real<br>Estate | Consumer<br>Installments<br>and<br>Other | Purchased<br>Non-covered<br>Loans | Purchased<br>Covered<br>Loans | Unallocated | Total    |
|---|------------------------------|----------------------|--------------|-------------------------------|--|-----------------------------------|-------------------------------|-------------|----------|
| (In thousands)  |                              |                      |              |                               |  |                                   |                               |             |          |
| Allowance for<br>loan losses:                         |                              |                      |              |                               |  |                                   |                               |             |          |
| Balance at<br>beginning of<br>period                  | \$6,012                      | \$ 10,611            | \$ 2,342     | \$ 781                        | \$ 3,072                                 | \$ -                              | \$ -                          | \$ 9,779    | \$32,597 |
| Additions:  |                              |                      |              |                               |  |                                   |                               |             |          |
| Provision   | 3,259                        | 203                  | 141          | 753                           | 1,444                                    | 25                                | 814                           | (1,039 )    | 5,600    |
| Deductions:   |                              |                      |              |                               |  |                                   |                               |             |          |
| Chargeoffs  | (3,558)                      | (948 )               | -            | (932 )                        | (2,864 )                                 | (25 )                             | (612 )                        | -           | (8,939 ) |
| Recoveries  | 617                          | 33                   | 198          | -                             | 1,379                                    | -                                 | 38                            | -           | 2,265    |
| Net loan<br>and lease losses                          | (2,941)                      | (915 )               | 198          | (932 )                        | (1,485 )                                 | (25 )                             | (574 )                        | -           | (6,674 ) |
| Balance at end<br>of period                           | 6,330                        | 9,899                | 2,681        | 602                           | 3,031                                    | -                                 | 240                           | 8,740       | 31,523   |
| Liability for<br>off-balance sheet<br>credit exposure | 1,644                        | 16                   | 12           | -                             | 384                                      | -                                 | -                             | 637         | 2,693    |
| Total allowance<br>for credit losses                  | \$7,974                      | \$ 9,915             | \$ 2,693     | \$ 602                        | \$ 3,415                                 | \$ -                              | \$ 240                        | \$ 9,377    | \$34,216 |

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Allowance for Credit Losses  
For the Three Months Ended June 30, 2011  
Consumer Purchased

|   | Commercial Real Estate |           |              | Residential Real Estate |           |       | Consumer Purchased | Unallocated | Total |
|---|------------------------|-----------|--------------|-------------------------|-----------|-------|--------------------|-------------|-------|
|   | Commercial             | Estate    | Construction | Estate                  | and Other | Loans |                    |             |       |
| Allowance for loan losses:                      |                        |           |              |                         |           |       |                    |             |       |
| Balance at beginning of period                  | \$7,816                | \$ 10,355 | \$ 2,260     | \$ 377                  | \$ 4,458  | \$ -  | \$ 9,055           | \$34,321    |       |
| Additions:                                      |                        |           |              |                         |           |       |                    |             |       |
| Provision                                       | 2,133                  | (114 )    | 1,699        | 308                     | (262 )    | -     | (964 )             | 2,800       |       |
| Deductions:                                     |                        |           |              |                         |           |       |                    |             |       |
| Chargeoffs                                      | (3,663 )               | -         | -            | (219 )                  | (1,339 )  | -     | -                  | (5,221 )    |       |
| Recoveries                                      | 443                    | -         | -            | -                       | 665       | -     | -                  | 1,108       |       |
| Net loan and lease losses                       | (3,220 )               | -         | -            | (219 )                  | (674 )    | -     | -                  | (4,113 )    |       |
| Balance at end of period                        | 6,729                  | 10,241    | 3,959        | 466                     | 3,522     | -     | 8,091              | 33,008      |       |
| Liability for off-balance sheet credit exposure | 1,772                  | 33        | 105          | -                       | 147       | -     | 636                | 2,693       |       |
| Total allowance for credit losses               | \$8,501                | \$ 10,274 | \$ 4,064     | \$ 466                  | \$ 3,669  | \$ -  | \$ 8,727           | \$35,701    |       |

Allowance for Credit Losses  
For the Six Months Ended June 30, 2011  
Consumer Purchased

|   | Commercial Real Estate |           |              | Residential Real Estate |           |       | Consumer Purchased | Unallocated | Total |
|---|------------------------|-----------|--------------|-------------------------|-----------|-------|--------------------|-------------|-------|
|   | Commercial             | Estate    | Construction | Estate                  | and Other | Loans |                    |             |       |
| Allowance for loan losses:                      |                        |           |              |                         |           |       |                    |             |       |
| Balance at beginning of period                  | \$8,094                | \$ 9,607  | \$ 3,260     | \$ 617                  | \$ 6,372  | \$ -  | \$ 7,686           | \$35,636    |       |
| Additions:                                      |                        |           |              |                         |           |       |                    |             |       |
| Provision                                       | 2,979                  | 634       | 2,174        | 376                     | (968 )    | -     | 405                | 5,600       |       |
| Deductions:                                     |                        |           |              |                         |           |       |                    |             |       |
| Chargeoffs                                      | (4,987 )               | -         | (1,475 )     | (527 )                  | (3,475 )  | -     | -                  | (10,464)    |       |
| Recoveries                                      | 643                    | -         | -            | -                       | 1,593     | -     | -                  | 2,236       |       |
| Net loan and lease losses                       | (4,344 )               | -         | (1,475 )     | (527 )                  | (1,882 )  | -     | -                  | (8,228 )    |       |
| Balance at end of period                        | 6,729                  | 10,241    | 3,959        | 466                     | 3,522     | -     | 8,091              | 33,008      |       |
| Liability for off-balance sheet credit exposure | 1,772                  | 33        | 105          | -                       | 147       | -     | 636                | 2,693       |       |
| Total allowance for credit losses               | \$8,501                | \$ 10,274 | \$ 4,064     | \$ 466                  | \$ 3,669  | \$ -  | \$ 8,727           | \$35,701    |       |

The recorded investment in loans evaluated for impairment follows:

| Recorded Investment in Loans Evaluated for Impairment |                |             |              |             |                       |                   |               |             |             |
|---|----------------|-------------|--------------|-------------|-----------------------|-------------------|---------------|-------------|-------------|
| At June 30, 2012                                      |                |             |              |             |                       |                   |               |             |             |
|   | Commercial     |             | Residential  |             | Consumer              | Purchased         | Purchased     |             | Total       |
|   | Commercial     | Real Estate | Construction | Real Estate | Installment and Other | Non-covered Loans | Covered Loans | Unallocated |             |
|   | (In thousands) |             |              |             |                       |                   |               |             |             |
| Allowance for credit losses:                          |                |             |              |             |                       |                   |               |             |             |
| Individually evaluated for impairment                 | \$1,297        | \$-         | \$2,124      | \$90        | \$-                   | \$-               | \$-           | \$-         | \$3,511     |
| Collectively evaluated for impairment                 | 6,677          | 9,915       | 569          | 512         | 3,415                 | -                 | 240           | 9,377       | 30,705      |
| Purchased loans with evidence of credit deterioration | -              | -           | -            | -           | -                     | -                 | -             | -           | -           |
| Total   | \$7,974        | \$9,915     | \$2,693      | \$602       | \$3,415               | \$-               | 240           | \$9,377     | \$34,216    |
| Carrying value of loans:                              |                |             |              |             |                       |                   |               |             |             |
| Individually evaluated for impairment                 | \$6,846        | \$3,389     | \$3,068      | \$621       | \$-                   | \$5,727           | \$6,635       | \$-         | \$26,286    |
| Collectively evaluated for impairment                 | 350,741        | 659,246     | 9,487        | 248,678     | 469,502               | 81,782            | 447,304       | -           | 2,266,740   |
| Purchased loans with evidence of credit deterioration | -              | -           | -            | -           | -                     | 14,881            | 9,312         | -           | 24,193      |
| Total   | \$357,587      | \$662,635   | \$12,555     | \$249,299   | \$469,502             | \$102,390         | \$463,251     | \$-         | \$2,317,219 |

| Recorded Investment in Loans Evaluated for Impairment |                |             |              |             |                       |                   |               |             |         |
|---|----------------|-------------|--------------|-------------|-----------------------|-------------------|---------------|-------------|---------|
| At December 31, 2011                                  |                |             |              |             |                       |                   |               |             |         |
|   | Commercial     |             | Residential  |             | Consumer              | Purchased         | Purchased     | Purchased   |         |
|   | Commercial     | Real Estate | Construction | Real Estate | Installment and Other | Non-covered Loans | Covered Loans | Unallocated | Total   |
|   | (In thousands) |             |              |             |                       |                   |               |             |         |
| Allowance for credit losses:                          |                |             |              |             |                       |                   |               |             |         |
|   | \$-            | \$229       | \$1,794      | \$-         | \$-                   | \$-               | \$-           | \$-         | \$2,023 |

|   |           |           |          |           |           |           |           |          |             |
|---|-----------|-----------|----------|-----------|-----------|-----------|-----------|----------|-------------|
| Individually evaluated for impairment                 |           |           |          |           |           |           |           |          |             |
| Collectively evaluated for impairment                 | 7,672     | 10,382    | 582      | 781       | 3,270     | -         | -         | 10,580   | 33,267      |
| Purchased loans with evidence of credit deterioration | -         | -         | -        | -         | -         | -         | -         | -        | -           |
| Total   | \$7,672   | \$10,611  | \$2,376  | \$781     | \$3,270   | \$-       | \$-       | \$10,580 | \$35,290    |
| Carrying value of loans:                              |           |           |          |           |           |           |           |          |             |
| Individually evaluated for impairment                 | \$-       | \$1,399   | \$3,126  | \$-       | \$-       | \$5,611   | \$5,988   | \$-      | \$16,124    |
| Collectively evaluated for impairment                 | 398,446   | 703,256   | 11,454   | 271,111   | 473,815   | 104,738   | 510,699   | -        | 2,473,519   |
| Purchased loans with evidence of credit deterioration | -         | -         | -        | -         | -         | 15,572    | 18,591    | -        | 34,163      |
| Total   | \$398,446 | \$704,655 | \$14,580 | \$271,111 | \$473,815 | \$125,921 | \$535,278 | \$-      | \$2,523,806 |

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 June 30, 2012                                 |            |             |              |             |                       |                   |                   |              |
|  | Commercial |             |              | Residential | Consumer              | Purchased         | Purchased         |              |
|  | Commercial | Real Estate | Construction | Real Estate | Installment and Other | Non-covered Loans | Covered Loans (1) | Total        |
| (In thousands)                                   |            |             |              |             |                       |                   |                   |              |
| Grade:   |            |             |              |             |                       |                   |                   |              |
| Pass   | \$ 325,257 | \$ 603,075  | \$ 8,529     | \$ 243,968  | \$ 467,643            | \$ 53,700         | \$ 321,037        | \$ 2,023,209 |
| Special mention                                  | 11,965     | 30,130      | 484          | 2,559       | 264                   | 9,769             | 37,355            | 92,526       |
| Substandard                                      | 17,993     | 29,430      | 3,542        | 2,772       | 1,055                 | 45,406            | 133,790           | 233,988      |
| Doubtful   | 2,372      | -           | -            | -           | 13                    | 1,543             | 1,435             | 5,363        |
| Loss   | -          | -           | -            | -           | 527                   | -                 | -                 | 527          |
| Default risk purchase discount                   | -          | -           | -            | -           | -                     | (8,028 )          | (30,366 )         | (38,394 )    |
| Total  | \$ 357,587 | \$ 662,635  | \$ 12,555    | \$ 249,299  | \$ 469,502            | \$ 102,390        | \$ 463,251        | \$ 2,317,219 |

(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 |             |              | Residential | Consumer              | Purchased         | Purchased         |              |
|  | Commercial | Real Estate | Construction | Real Estate | Installment and Other | Non-covered Loans | 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 June 30, 2012                                      |                                  |                          |            |             |
| Current and Accruing                                  | 30-89 Days Past Due and Accruing | Past Due 90 days or More | Nonaccrual | Total Loans |

and  
Accruing  
(In thousands)

|                              |             |           |        |           |             |
|------------------------------|-------------|-----------|--------|-----------|-------------|
| Commercial                   | \$347,329   | \$ 2,583  | \$ -   | \$ 7,675  | \$357,587   |
| Commercial real estate       | 646,856     | 11,385    | -      | 4,394     | 662,635     |
| Construction                 | 9,400       | 87        | -      | 3,068     | 12,555      |
| Residential real estate      | 247,477     | 423       | -      | 1,399     | 249,299     |
| Consumer installment & other | 465,145     | 3,822     | 525    | 10        | 469,502     |
| Total originated loans       | 1,716,207   | 18,300    | 525    | 16,546    | 1,751,578   |
| Purchased non-covered loans  | 80,850      | 1,668     | -      | 19,872    | 102,390     |
| Purchased covered loans      | 434,452     | 18,623    | 140    | 10,036    | 463,251     |
| Total                        | \$2,231,509 | \$ 38,591 | \$ 665 | \$ 46,454 | \$2,317,219 |

- 18 -

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

|                              | Current<br>and<br>Accruing | 30-89 Days<br>Past<br>Due and<br>Accruing | Past Due 90<br>days or<br>More<br>and<br>Accruing | Nonaccrual | Total<br>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<br>Ended June 30, |          | For the Six Months<br>Ended June 30, |          |
|---|--|----------|--------------------------------------|----------|
|   | 2012                                   | 2011     | 2012                                 | 2011     |
|   | (In thousands)                         |          |                                      |          |
| Interest income that would have been recognized had the loans performed in accordance with their original terms | \$789                                  | \$1,586  | \$1,577                              | \$3,270  |
| Less: Interest income recognized on nonaccrual loans  | (494 )                                 | (2,085 ) | (1,336 )                             | (2,876 ) |
| Total (addition) reduction of interest income   | \$295                                  | \$(499 ) | \$241                                | \$394    |

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

The following summarizes impaired loans:

|  | Impaired Loans<br>At June 30, 2012 |                      |                      |
|--|------------------------------------|----------------------|----------------------|
|  | Unpaid<br>Recorded<br>Investment   | Principal<br>Balance | Related<br>Allowance |
|  | (In thousands)                     |                      |                      |
| Impaired loans with no related allowance recorded: |                                    |                      |                      |
| Commercial   | \$9,010                            | \$17,574             | \$ -                 |
| Commercial real estate                             | 30,713                             | 39,297               | -                    |
| Construction                                       | 6,433                              | 10,657               | -                    |
| Residential real estate                            | 982                                | 984                  | -                    |
| Consumer installment and other                     | 2,851                              | 3,226                | -                    |
| Impaired loans with an allowance recorded:         |                                    |                      |                      |
| Commercial   | 3,097                              | 3,123                | 1,297                |
| Construction                                       | 3,068                              | 3,183                | 2,124                |

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|                                |          |          |          |
|--------------------------------|----------|----------|----------|
| Residential real estate        | 621      | 621      | 90       |
| <b>Total:</b>                  |          |          |          |
| Commercial                     | \$12,107 | \$20,697 | \$ 1,297 |
| Commercial real estate         | 30,713   | 39,297   | -        |
| Construction                   | 9,501    | 13,840   | 2,124    |
| Residential real estate        | 1,603    | 1,605    | 90       |
| Consumer installment and other | 2,851    | 3,226    | -        |

- 19 -

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|  | Impaired Loans<br>At December 31, 2011 |                      |                      |
|--|--|----------------------|----------------------|
|  | Recorded<br>Investment                 | Unpaid               |                      |
|  |  | Principal<br>Balance | Related<br>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 June 30, 2012 and December 31, 2011, included \$3,068 thousand and \$3,126 thousand of restructured loans, respectively, which were on nonaccrual status.

|                                | Impaired Loans                      |                                  |                                   |                                  |                                   |                                  |                                   |                                  |
|--------------------------------|-------------------------------------|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|                                | For the Three Months Ended June 30, |                                  |                                   |                                  | For the Six Months Ended June 30, |                                  |                                   |                                  |
|                                | 2012                                |                                  | 2011                              |                                  | 2012                              |                                  | 2011                              |                                  |
|                                | Average<br>Recorded<br>Investment   | Recognized<br>Interest<br>Income | Average<br>Recorded<br>Investment | Recognized<br>Interest<br>Income | Average<br>Recorded<br>Investment | Recognized<br>Interest<br>Income | Average<br>Recorded<br>Investment | Recognized<br>Interest<br>Income |
| (In thousands)                 |                                     |                                  |                                   |                                  |                                   |                                  |                                   |                                  |
| Commercial                     | \$9,888                             | \$ 67                            | \$17,135                          | \$ 179                           | \$9,342                           | \$ 117                           | \$17,373                          | \$ 509                           |
| Commercial real estate         | 30,228                              | 349                              | 38,402                            | 414                              | 31,416                            | 727                              | 38,732                            | 729                              |
| Construction                   | 7,552                               | 59                               | 25,141                            | 89                               | 7,981                             | 159                              | 24,572                            | 173                              |
| Residential real estate        | 1,112                               | -                                | 449                               | -                                | 957                               | -                                | 449                               | -                                |
| Consumer installment and other | 2,825                               | 8                                | 2,374                             | 13                               | 2,873                             | 26                               | 2,191                             | 17                               |
| Total                          | \$51,605                            | \$ 483                           | \$83,501                          | \$ 695                           | \$52,569                          | \$ 1,029                         | \$83,317                          | \$ 1,428                         |

The following table provides information on troubled debt restructurings:

| Troubled Debt Restructurings<br>At June 30, 2012 |                           |                                    |                                 |   |
|--|---------------------------|------------------------------------|---------------------------------|---|
|  | Number<br>of<br>Contracts | Pre-Modification<br>Carrying Value | Period-End<br>Carrying<br>Value | Period-End<br>Individual<br>Impairment<br>Allowance |

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| (In thousands)         |   |          |          |          |
|------------------------|---|----------|----------|----------|
| Commercial             | 2 | \$ 326   | \$ 308   | \$ -     |
| Construction           | 1 | 3,183    | 3,068    | 2,124    |
| Commercial real estate | 2 | 1,817    | 1,799    | -        |
| Total                  | 5 | \$ 5,326 | \$ 5,175 | \$ 2,124 |

Troubled Debt Restructurings  
At December 31, 2011

|                | Number<br>of<br>Contracts | Pre-Modification<br>Carrying Value | Period-End<br>Carrying<br>Value | Period-End<br>Individual |
|----------------|---------------------------|------------------------------------|---------------------------------|--------------------------|
|                |                           |                                    |                                 | Impairment<br>Allowance  |
| (In thousands) |                           |                                    |                                 |                          |
| Commercial     | 2                         | \$ 326                             | \$ 321                          | \$ -                     |
| Construction   | 1                         | 3,183                              | 3,126                           | 1,794                    |
| Total          | 3                         | \$ 3,509                           | \$ 3,447                        | \$ 1,794                 |

- 20 -

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During the three and six months ended June 30, 2012, the Company modified one loan with a carrying value of \$429 thousand and two loans totaling \$1,817 thousand, respectively, that were considered troubled debt restructurings. During the three and six months ended June 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 six 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 and six months ended June 30, 2012, the construction loan totaling \$3,068 thousand defaulted. During the three and six months ended June 30, 2011, no troubled debt restructurings were in default.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). At June 30, 2012, loans pledged to secure borrowing totaled \$52,233 thousand compared with \$69,145 thousand at December 31, 2011. The FHLB does not have the right to sell or repledge such loans.

There were no loans held for sale at June 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 \$73,497 thousand and \$77,988 thousand at June 30, 2012 and December 31, 2011, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans at origination.

#### 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 six months ended June 30, 2012 and 2011.

The carrying values of goodwill were (in thousands):

|                   |            |
|-------------------|------------|
| June 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 six months ended June 30, 2012 and 2011, no such adjustments were recorded.

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

|                |              | At June 30,<br>2012 | At December 31,<br>2011 |          |              |
|----------------|--------------|---------------------|-------------------------|----------|--------------|
| (In thousands) |              |                     |                         |          |              |
| Gross          |              |                     | Gross                   |          |              |
| Carrying       | Accumulated  |                     |                         | Carrying | Accumulated  |
| Amount         | Amortization |                     |                         | Amount   | Amortization |

|                                      |          |              |          |              |
|--------------------------------------|----------|--------------|----------|--------------|
| Core Deposit Intangibles             | \$56,808 | \$ (32,551 ) | \$56,808 | \$ (30,070 ) |
| Merchant Draft Processing Intangible | 10,300   | (8,669 )     | 10,300   | (8,409 )     |
| Total Identifiable Intangible Assets | \$67,108 | \$ (41,220 ) | \$67,108 | \$ (38,479 ) |

- 21 -

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

|   | At June 30, 2012         |                                      | Total   |
|---|--------------------------|--------------------------------------|---------|
|   | Core Deposit Intangibles | Merchant Draft Processing Intangible |         |
|   | (In thousands)           |                                      |         |
| For the six months ended June 30, 2012 (actual) | \$2,481                  | \$ 260                               | \$2,741 |
| 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 \$329,779 thousand and \$348,621 thousand at June 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 \$26,377 thousand and \$27,221 thousand at June 30, 2012 and December 31, 2011, respectively. The Company also had commitments for commercial and similar letters of credit of \$454 thousand and \$454 thousand at June 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 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:

- 22 -

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|  |           |            |            |      |
|--|-----------|------------|------------|------|
| Commercial mortgage-backed securities          | 4,370     | -          | 4,370      | -    |
| Asset-backed securities                        | 16,746    | -          | 16,746     | -    |
| FHLMC and FNMA stock                           | 2,691     | 2,691      | -          | -    |
| Corporate securities                           | 216,692   | -          | 216,692    | -    |
| Other securities                               | 4,511     | 2,560      | 1,951      | -    |
| Total investment securities available for sale | \$708,717 | \$ 109,723 | \$ 598,994 | \$ - |

- 23 -



Fair  
Value

(In thousands)

|   |          |     |          |     |             |
|---|----------|-----|----------|-----|-------------|
| Non-covered other real estate owned (1)                     | \$6,350  | \$- | \$6,350  | \$- | \$ (1,000 ) |
| Covered other real estate owned (2)                         | 10,695   | -   | 10,695   | -   | (578 )      |
| Originated impaired loans (3)                               | 2,502    | -   | 2,502    | -   | -           |
| Total assets measured at fair value on a nonrecurring basis | \$19,547 | \$- | \$19,547 | \$- | \$ (1,578 ) |

(1) Represents the fair value of foreclosed real estate owned that was measured at fair value subsequent to its initial classification as foreclosed assets.

(2) Represents the fair value of foreclosed real estate owned that is covered by the Indemnification Agreement with the FDIC where the real estate was written down subsequent to its initial classification as foreclosed assets. Total losses are reduced by the 80% indemnified loss percentage.

(3) Represents carrying value of loans for which adjustments are predominantly based on the appraised value of the collateral and loans considered impaired under FASB ASC 310-10-35, Subsequent Measurement of Receivables, where a specific reserve has been established or a chargeoff has been recorded.

(4) Represents the carrying value of loans covered by the Indemnification Agreement with the FDIC for which adjustments are predominantly based on the appraised value of the collateral and loans considered impaired under FASB ASC 310-10-35, Subsequent Measurement of Receivables, where a specific reserve has been established or a chargeoff has been recorded. Total losses are reduced by the 80% indemnified loss percentage.

#### 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** The carrying amount of cash and amounts due from banks approximate fair value due to the relatively short period of time between their origination and their expected realization.

**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 \$31,523 thousand at June 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 \$30,366 thousand and \$8,028 thousand, respectively at June 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** The carrying amount of checking accounts, savings accounts and money market accounts approximates fair value due to the relatively short period of time between their origination and their expected realization. The fair values of time deposits were estimated by discounting estimated future cash flows related to these financial instruments 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.

- 25 -

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|  | At June 30, 2012 |            |             |             |              |
|--|------------------|------------|-------------|-------------|--------------|
|  | Carrying         | Estimated  | Quoted      | Significant | Significant  |
|  | Amount           | Fair Value | Prices      | Other       | Unobservable |
|  |                  |            | in Active   | Inputs      | Inputs       |
|  |                  |            | Markets for | (Level 2 )  | (Level 3 )   |
|  |                  |            | Identical   |             |              |
|  |                  |            | Assets      |             |              |
|  |                  |            | (Level 1)   |             |              |
|  | (In thousands)   |            |             |             |              |
| Financial Assets                                 |                  |            |             |             |              |
| Cash and due from banks                          | \$ 320,925       | \$ 320,925 | \$ 320,925  | \$-         | \$ -         |
| Investment securities held to maturity:          |                  |            |             |             |              |
| Securities of U.S. Government                    |                  |            |             |             |              |
| sponsored entities                               | 4,287            | 4,316      | 4,316       | -           | -            |
| Municipal bonds:                                 |                  |            |             |             |              |
| Federally Tax-exempt - California                | 97,154           | 100,805    | -           | 100,805     | -            |
| Federally Tax-exempt - 41 other states           | 552,235          | 569,409    | -           | 569,409     | -            |
| Taxable - California                             | 7,855            | 7,892      | -           | 7,892       | -            |
| Taxable - 4 other states                         | 10,142           | 10,224     | -           | 10,224      | -            |
| Residential mortgage-backed securities ("MBS"):  |                  |            |             |             |              |
| Guaranteed by GNMA                               | 15,614           | 15,969     | -           | 15,969      | -            |
| Issued by FNMA and FHLMC                         | 66,732           | 68,200     | -           | 68,200      | -            |
| Residential collateralized mortgage obligations: |                  |            |             |             |              |
| Issued or guaranteed by FNMA, FHLMC, or GNMA     | 439,404          | 442,801    | -           | 442,801     | -            |
| All other  | 13,223           | 13,197     | -           | 13,197      | -            |
| Total investment securities held to maturity     | 1,206,646        | 1,232,813  | 4,316       | 1,228,497   | -            |
| Loans  | 2,285,696        | 2,307,635  | -           | -           | 2,307,635    |
| Other assets - FDIC receivable                   | 20,885           | 20,861     | -           | -           | 20,861       |

Financial Liabilities

|                                 |              |              |              |        |         |
|---------------------------------|--------------|--------------|--------------|--------|---------|
| Deposits:                       |              |              |              |        |         |
| Noninterest bearing             | \$ 1,573,188 | \$ 1,573,188 | \$ 1,573,188 | \$-    | \$ -    |
| Transaction                     | 742,633      | 742,633      | 742,633      | -      | -       |
| Savings                         | 1,136,876    | 1,136,876    | 1,136,876    | -      | -       |
| Time                            | 755,802      | 758,350      | -            | -      | 758,350 |
| Total Deposits                  | 4,208,499    | 4,211,047    | 3,452,697    | -      | 758,350 |
| Short-term borrowed funds       | 81,582       | 81,582       | 81,582       | -      | -       |
| Federal Home Loan Bank advances | 25,911       | 26,364       | 26,364       | -      | -       |
| Term repurchase agreement       | 10,000       | 10,166       | -            | 10,166 | -       |
| Debt financing                  | 15,000       | 15,485       | -            | 15,485 | -       |

At December 31, 2011

|                         | Carrying       | Estimated  |
|-------------------------|----------------|------------|
|                         | Amount         | Fair Value |
|                         | (In thousands) |            |
| Financial Assets        |                |            |
| Cash and due from banks | \$ 530,045     | \$ 530,045 |

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|  |              |              |
|--|--------------|--------------|
| 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: Debt Financing

Unsecured debt financing was as follows:

|                        | At June<br>30,<br>2012 | At December<br>31,<br>2011 |
|------------------------|------------------------|----------------------------|
|                        | (In thousands)         |                            |
| Senior fixed-rate note | \$ 15,000              | \$ 15,000                  |
| Total debt financing   | \$ 15,000              | \$ 15,000                  |

The Senior note was issued by Westamerica Bancorporation on October 31, 2003 and 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<br>Ended June 30, |          | For the Six Months<br>Ended June 30, |          |
|---|--|----------|--------------------------------------|----------|
|   | 2012                                   | 2011     | 2012                                 | 2011     |
|   | (In thousands, except per share data)  |          |                                      |          |
| Net income applicable to common equity (numerator)  | \$20,964                               | \$21,269 | \$41,969                             | \$43,651 |
| Basic earnings per common share   |  |          |                                      |          |
| Weighted average number of common shares outstanding - basic (denominator)  | 27,744                                 | 28,771   | 27,897                               | 28,895   |
| Basic earnings per common share   | \$0.76                                 | \$0.74   | \$1.50                               | \$1.51   |
| Diluted earnings per common share   |  |          |                                      |          |
| Weighted average number of common shares outstanding - basic  | 27,744                                 | 28,771   | 27,897                               | 28,895   |
| Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise | 46                                     | 152      | 54                                   | 178      |
| Weighted average number of common shares outstanding - diluted (denominator)  | 27,790                                 | 28,923   | 27,951                               | 29,073   |
| Diluted earnings per common share   | \$0.75                                 | \$0.74   | \$1.50                               | \$1.50   |

For the three months ended June 30, 2012 and 2011, options to purchase 2,072 thousand and 1,396 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 six months ended June 30, 2012 and 2011, options to purchase 2,035 thousand shares and 1,209 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 Six Months |             |
|---|---------------------------------------|-------------|--------------------|-------------|
|   | 2012                                  | 2011        | 2012               | 2011        |
|   | Ended June 30,                        |             |                    |             |
|   | (In thousands, except per share data) |             |                    |             |
| Net Interest and Fee Income (FTE)*                | \$50,333                              | \$55,837    | \$102,032          | \$110,830   |
| Provision for Loan Losses                         | 2,800                                 | 2,800       | 5,600              | 5,600       |
| Noninterest Income                                |                                       |             |                    |             |
| Loss on sale of securities                        | (1,287 )                              | -           | (1,287 )           | -           |
| Other   | 14,820                                | 15,292      | 29,489             | 30,035      |
| Noninterest Income                                | 13,533                                | 15,292      | 28,202             | 30,035      |
| Noninterest Expense:                              |                                       |             |                    |             |
| Settlements                                       | -                                     | 2,100       | -                  | 2,100       |
| Other   | 29,349                                | 32,209      | 59,383             | 63,532      |
| Total Noninterest Expense                         | 29,349                                | 34,309      | 59,383             | 65,632      |
| Income Before Income Taxes (FTE)*                 | 31,717                                | 34,020      | 65,251             | 69,633      |
| Income Tax Provision (FTE)*                       | 10,753                                | 12,751      | 23,282             | 25,982      |
| Net Income  | \$20,964                              | \$21,269    | \$41,969           | \$43,651    |
| Average Common Shares Outstanding                 | 27,744                                | 28,771      | 27,897             | 28,895      |
| Diluted Average Common Shares Outstanding         | 27,790                                | 28,923      | 27,951             | 29,073      |
| Common Shares Outstanding at Period End           | 27,621                                | 28,540      | 27,621             | 28,540      |
| Per Common Share:                                 |                                       |             |                    |             |
| Basic Earnings                                    | \$0.76                                | \$0.74      | \$1.50             | \$1.51      |
| Diluted Earnings                                  | 0.75                                  | 0.74        | 1.50               | 1.50        |
| Book Value Per Common Share                       | \$20.20                               | \$19.25     |                    |             |
| Financial Ratios:                                 |                                       |             |                    |             |
| Return On Assets                                  | 1.69                                  | %           | 1.73               | %           |
| Return On Common Equity                           | 15.55                                 | %           | 15.64              | %           |
| Net Interest Margin (FTE)*                        | 4.89                                  | %           | 5.38               | %           |
| Net Loan Losses to Average Gross Originated Loans | 0.65                                  | %           | 0.83               | %           |
| Efficiency Ratio**                                | 46.0                                  | %           | 48.2               | %           |
| Average Balances:                                 |                                       |             |                    |             |
| Assets  | \$4,974,619                           | \$4,927,849 | \$5,002,777        | \$4,934,387 |
| Earning Assets                                    | 4,127,699                             | 4,156,226   | 4,093,985          | 4,154,676   |
| Originated Loans                                  | 1,789,221                             | 1,978,155   | 1,812,296          | 1,990,042   |
| Purchased Covered Loans                           | 478,965                               | 644,555     | 495,965            | 659,597     |
| Purchased Non-covered Loans                       | 107,483                               | 178,384     | 113,493            | 185,870     |
| Deposits  | 4,227,752                             | 4,143,749   | 4,240,758          | 4,141,288   |
| Shareholders' Equity                              | 542,192                               | 545,637     | 544,434            | 545,421     |
| Period End Balances:                              |                                       |             |                    |             |
| Assets  | \$4,953,130                           | \$4,876,731 |                    |             |
| Earning Assets                                    | 4,232,582                             | 4,125,743   |                    |             |
| Originated Loans                                  | 1,751,578                             | 1,963,642   |                    |             |

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|                                      |           |           |        |        |        |   |    |   |
|--------------------------------------|-----------|-----------|--------|--------|--------|---|----|---|
| Purchased Covered Loans              | 463,251   | 622,727   |        |        |        |   |    |   |
| Purchased Non-covered Loans          | 102,390   | 164,844   |        |        |        |   |    |   |
| Deposits                             | 4,208,499 | 4,088,385 |        |        |        |   |    |   |
| Shareholders' Equity                 | 557,926   | 549,340   |        |        |        |   |    |   |
| <b>Capital Ratios at Period End:</b> |           |           |        |        |        |   |    |   |
| Total Risk Based Capital             | 15.74     | %         | 15.92  | %      |        |   |    |   |
| Tangible Equity to Tangible Assets   | 8.54      | %         | 8.39   | %      |        |   |    |   |
| Dividends Paid Per Common Share      | \$0.37    |           | \$0.36 | \$0.74 | \$0.72 |   |    |   |
| Common Dividend Payout Ratio         | 49        | %         | 49     | %      | 49     | % | 48 | % |

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.

\* 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.

\*\* 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 \$21.0 million or \$0.75 diluted earnings per common share for the second quarter 2012 and net income of \$42.0 million or \$1.50 diluted earnings per common share for the six months ended June 30, 2012. The second quarter of 2012 included a \$1.3 million loss realized from the sale of a collateralized mortgage obligation bond which decreased net income by \$750 thousand and a tax refund from an amended tax return which increased net income by \$950 thousand. These results compare to net income of \$21.3 million or \$0.74 diluted earnings per common share for the second quarter of 2011 and net income of \$43.7 million or \$1.50 diluted earnings per common share for the first half of 2011. The second quarter of 2011 included a \$2.1 million litigation settlement accrual which decreased net income by \$1.2 million.

## Net Income

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

|  | For the Three Months                  |             | For the Six Months |             |
|--|---------------------------------------|-------------|--------------------|-------------|
|  | Ended June 30,                        |             |                    |             |
|  | 2012                                  | 2011        | 2012               | 2011        |
|  | (In thousands, except per share data) |             |                    |             |
| Net interest income (FTE)                                      | \$50,333                              | \$55,837    | \$102,032          | \$110,830   |
| Provision for loan losses                                      | (2,800 )                              | (2,800 )    | (5,600 )           | (5,600 )    |
| Noninterest income   | 13,533                                | 15,292      | 28,202             | 30,035      |
| Noninterest expense  | (29,349 )                             | (34,309 )   | (59,383 )          | (65,632 )   |
| Income before taxes (FTE)                                      | 31,717                                | 34,020      | 65,251             | 69,633      |
| Income tax provision (FTE)                                     | (10,753 )                             | (12,751 )   | (23,282 )          | (25,982 )   |
| Net income   | \$20,964                              | \$21,269    | \$41,969           | \$43,651    |
| Average diluted common shares                                  | 27,790                                | 28,923      | 27,951             | 29,073      |
| Diluted earnings per common share                              | \$0.75                                | \$0.74      | \$1.50             | \$1.50      |
| Average total assets   | \$4,974,619                           | \$4,927,849 | \$5,002,777        | \$4,934,387 |
| Net income to average total assets (annualized)                | 1.69 %                                | 1.73 %      | 1.69 %             | 1.78 %      |
| Net income to average common stockholders' equity (annualized) | 15.55 %                               | 15.64 %     | 15.50 %            | 16.14 %     |

Net income for the second quarter of 2012 was \$305 thousand or 1.4% less than the second quarter of 2011, the net result of declines in net interest income (fully taxable equivalent or "FTE") and a \$1.3 million loss on sale of securities, partially offset by decreases in noninterest expense and income tax provision (FTE). A \$5.5 million or 9.9% decrease in net interest income (FTE) was mostly attributed to lower average balances of loans and lower yields on interest earning assets, partially offset by higher average balances of investments, lower average balances of interest-bearing liabilities and lower rates paid on interest-bearing deposits. The provision for loan losses remained the same, reflecting Management's evaluation of losses inherent in the loan portfolio not covered by loss-sharing agreements with the Federal Deposit Insurance Corporation ("FDIC") and purchased loan credit-default discounts. Noninterest expense decreased \$5.0 million due to a \$2.1 million settlement accrual in the second quarter of 2011 and reduced costs related to managing nonperforming assets.

Comparing the first half of 2012 to the first half of 2011, net income decreased \$1.7 million or 3.9%, primarily due to lower net interest income (FTE) and a \$1.3 million loss on sale of securities, partially offset by decreases in noninterest expense and income tax provision (FTE). The lower net interest income (FTE) was primarily caused by a lower average volume of loans and lower yields on interest earning assets, partially offset by higher average balances

of investments and lower rates paid on interest-bearing deposits. The provision for loan losses remained the same, reflecting Management's evaluation of losses inherent in the loan portfolio not covered by loss-sharing agreements with the FDIC and purchased loan credit-default discounts. Noninterest expense declined \$6.2 million primarily due to a \$2.1 million settlement accrual in the second quarter 2011 and reduced costs related to managing nonperforming assets.

- 29 -

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## Net Interest Income

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

|  | For the Three Months |             | For the Six Months |             |
|--|----------------------|-------------|--------------------|-------------|
|  | 2012                 | 2011        | 2012               | 2011        |
|  | Ended June 30,       |             |                    |             |
|  | (In thousands)       |             |                    |             |
| Interest and fee income                | \$46,901             | \$53,088    | \$95,199           | \$105,582   |
| Interest expense                       | (1,472 )             | (2,153 )    | (3,031 )           | (4,456 )    |
| FTE adjustment                         | 4,904                | 4,902       | 9,864              | 9,704       |
| Net interest income (FTE)              | \$50,333             | \$55,837    | \$102,032          | \$110,830   |
| Average earning assets                 | \$4,127,699          | \$4,156,226 | \$4,093,985        | \$4,154,676 |
| Net interest margin (FTE) (annualized) | 4.89 %               | 5.38 %      | 5.00 %             | 5.37 %      |

Net interest income (FTE) decreased during the second quarter of 2012 by \$5.5 million or 9.9% from the same period in 2011 to \$50.3 million, mainly due to lower average balances of loans (down \$425 million) and lower yields on investments (down 0.73%), partially offset by higher average balances of investments (up \$397 million), lower average balances of interest-bearing liabilities (down \$62 million) and lower rates paid on interest-bearing deposits (down 0.10%).

Comparing the first half of 2012 with the first half of 2011, net interest income (FTE) decreased \$8.8 million or 7.9%, primarily due to a lower average volume of loans (down \$414 million) and lower yields on interest earning assets (down 0.44%), partially offset by higher average balances of investments (up \$353 million) and lower rates paid on interest-bearing deposits (down 0.11%).

Yields on interest-earning assets have declined due to relatively low interest rates prevailing in the market. Economic conditions, competitive pricing and deleveraging by businesses and individuals have reduced loan volumes, placing greater reliance on lower-yielding investment securities. Rates on interest-bearing deposits and borrowings have declined to offset some of the decline in asset yields.

In Management's judgment, economic conditions and competitive pricing create a cautious view toward commercial lending, and economic pressure on consumers has reduced demand for automobile and other consumer loans. As a result, the Company has not taken an aggressive posture relative to loan portfolio growth.

At June 30, 2012, purchased FDIC covered loans represented 20 percent of the Company's loan portfolio. Under the terms of the FDIC loss-sharing agreements, the FDIC is obligated to reimburse the Bank 80 percent of loan interest income foregone on covered loans. Such reimbursements are limited to the lesser of 90 days contractual interest or actual unpaid contractual interest at the time a principal loss is recognized in respect to the underlying loan.

## Interest and Fee Income

Interest and fee income (FTE) for the second quarter of 2012 decreased \$6.2 million or 10.7% from the same period in 2011. The decrease was caused by lower average balances of loans and lower yields on interest earning assets, partially offset by higher average balances of investments.

The total average balances of loans declined due to decreases in the average balances of commercial real estate loans (down \$176 million), taxable commercial loans (down \$127 million), residential real estate loans (down \$48 million), construction loans (down \$39 million), consumer loans (down \$20 million) and tax-exempt commercial loans (down

\$16 million). The average investment portfolio increased largely due to higher average balances of residential collateralized mortgage obligations (up \$242 million), municipal securities (up \$107 million) and corporate securities (up \$79 million), partially offset by a \$68 million decrease in average balances of securities of U.S. government sponsored entities. The average yield on the Company's earning assets decreased from 5.59% in the second quarter of 2011 to 5.04% in the corresponding period of 2012. The composite yield on loans declined 0.19% to 5.84%. Lower yields on consumer loans (down 0.88%), real estate residential loans (down 0.29%), tax-exempt commercial loans (down 0.26%) and construction loans (down 0.38%) were offset by higher yields on commercial real estate loans (up 0.17%). Nonperforming loans are included in average loan volumes used to compute loan yields; fluctuations in nonaccrual loan volumes impact loan yields. The yield on commercial real estate loans in the second quarter 2012 was elevated due to interest received on nonaccrual loans. The investment yields in general declined due to market rates. The investment portfolio yield decreased 0.73% to 3.95% primarily due to lower yields on municipal securities (down 0.61%), residential collateralized mortgage obligations (down 1.45%) and residential mortgage backed securities (down 0.68%). Offsetting the decrease was a 0.15% increase in yields on corporate securities which contain floating interest rate structures.

- 30 -

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Comparing the first half of 2012 with the first half of 2011, interest and fee income (FTE) was down \$10.2 million or 8.9%. The decrease resulted from a lower average volume of loans and lower yields on interest earning assets, partially offset by higher average balances of investments. Average interest earning assets decreased \$61 million or 1.5% in the first half of 2012 compared with the first half of 2011 due to a \$414 million decrease in average loans and a \$353 million increase in average investments. The decrease in the average balance of the loan portfolio was attributable to decreases in average balances of commercial real estate loans (down \$168 million), taxable commercial loans (down \$130 million), construction loans (down \$40 million), residential real estate loans (down \$46 million), tax-exempt commercial loans (down \$16 million) and consumer loans (down \$13 million). The average investment portfolio increased mostly due to higher average balances of municipal securities (up \$117 million), residential collateralized mortgage obligations (up \$218 million) and corporate securities (up \$58 million), partially offset by a \$64 million decline in U.S. government sponsored entities.

The average yield on earning assets for the first half of 2012 was 5.15% compared with 5.59% in the first half of 2011. The loan portfolio yield for the first half of 2012 compared with the first half of 2011 was lower by 0.12% mostly due to lower yields on consumer loans (down 0.75%), residential real estate loans (down 0.36%) and tax-exempt commercial loans (down 0.42%), partially offset by higher yields on commercial real estate loans (up 0.22%), taxable commercial loans (up 0.19%) and construction loans (up 0.68%). Nonperforming loans are included in average loan volumes used to compute loan yields; fluctuations in nonaccrual loan volumes impact loan yields. The yield on commercial real estate loans in the first half 2011 was elevated due to interest received on nonaccrual loans. The investment portfolio yield decreased 0.60% to 4.09% primarily due to lower yields on municipal securities (down 0.55%), residential collateralized mortgage obligations (down 1.58%), residential mortgage backed securities (down 0.50%) and securities of U.S. government sponsored entities (down 0.19%), partially offset by a 0.21% increase in yields on corporate securities which contain floating interest rate structures.

### Interest Expense

Interest expense in the second quarter of 2012 decreased \$681 thousand or 31.6% compared with the same period in 2011 due to lower rates paid on interest-bearing deposits and a shift from higher costing deposits and financing to lower cost checking and savings accounts. Checking and savings deposits accounted for 81.7% of total deposits in the second quarter 2012 compared with 79.2% in the same quarter of 2011. Interest-bearing liabilities declined due to lower average balances of FHLB advances (down \$22 million), long-term debt (down \$11 million), time deposits (down \$90 million) and preferred money market savings (down \$46 million), partially offset by higher average balances of money market checking accounts (up \$46 million), money market savings (up \$42 million), regular savings (up \$19 million) and term repurchase agreement (up \$10 million). Lower average balances of long-term debt were attributable to the redemption of \$10 million of subordinated debt in August 2011. The average rate paid on interest-bearing liabilities decreased from 0.30% in the second quarter of 2011 to 0.21% in the same quarter of 2012. Rates on interest-bearing deposits decreased 0.10% to 0.17% primarily due to decreases in rates paid on time deposits less than \$100 thousand (down 0.12%), time deposits \$100 thousand or more (down 0.10%), preferred money market savings (down 0.11%), money market checking (down 0.07%) and money market savings (down 0.09%).

Comparing the first half of 2012 with the first half of 2011, interest expense declined \$1.4 million or 32.0%, due to lower average balances of interest-bearing liabilities and lower rates paid on interest-bearing deposits. Average interest-bearing deposits during the first half of 2012 fell \$13 million compared with the same period in 2011 primarily due to declines in the average balances of time deposits less than \$100 thousand (down \$51 million), time deposits \$100 thousand or more (down \$39 million) and preferred money market savings (down \$26 million), partially offset by increases in the average balance of money market checking accounts (up \$41 million), money market savings (up \$38 million) and regular savings (up \$25 million). Rates paid on interest-bearing deposits averaged 0.17% during the first half of 2012 compared with 0.28% for the first half of 2011 mainly due to lower rates on money market savings (down 0.10%), preferred money market savings (down 0.12%) and regular savings (down 0.05%),

time deposits less than \$100 thousand (down 0.04%) and time deposits \$100 thousand and more (down 0.15%).

- 31 -

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## Net Interest Margin (FTE)

The following summarizes the components of the Company's net interest margin for the periods indicated:

|   | For the Three Months |        | For the Six Months |        |      |      |
|---|----------------------|--------|--------------------|--------|------|------|
|   |                      |        | Ended June 30,     |        |      |      |
|   | 2012                 | 2011   | 2012               | 2011   | 2012 | 2011 |
| Yield on earning assets (FTE)                 | 5.04                 | % 5.59 | % 5.15             | % 5.59 | %    | %    |
| Rate paid on interest-bearing liabilities     | 0.21                 | % 0.30 | % 0.22             | % 0.31 | %    | %    |
| Net interest spread (FTE)                     | 4.83                 | % 5.29 | % 4.93             | % 5.28 | %    | %    |
| Impact of noninterest bearing demand deposits | 0.06                 | % 0.09 | % 0.07             | % 0.09 | %    | %    |
| Net interest margin (FTE)                     | 4.89                 | % 5.38 | % 5.00             | % 5.37 | %    | %    |

During the second quarter of 2012, the net interest margin (FTE) decreased 0.49% compared with the same period in 2011. Lower yields on earning assets were partially offset by lower rates paid on interest-bearing liabilities and resulted in a 0.46% decrease in net interest spread (FTE). The 0.06% net interest margin contribution of noninterest-bearing demand deposits resulted in the net interest margin (FTE) of 4.89%. During the first half of 2012, the net interest margin (FTE) decreased 0.37% compared with the first half of 2011. The net interest spread (FTE) in the first half of 2012 was 4.93% compared with 5.28% in the first half of 2011, the net result of a 0.44% decrease in earning asset yields, partially offset by lower cost of interest-bearing liabilities (down 0.09%).

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## Summary of Average Balances, Yields/Rates and Interest Differential

The following tables present, for the periods indicated, information regarding the Company's consolidated average assets, liabilities and shareholders' equity, the amount of interest income from average earning assets and the resulting annualized yields, and the amount of interest expense paid on average interest-bearing liabilities and the resulting annualized rate paid. Average loan balances include nonperforming loans. Interest income includes proceeds from loans on nonaccrual status only to the extent cash payments have been received and applied as interest income. Yields on securities and certain loans have been adjusted upward to reflect the effect of income which is exempt from federal income taxation at the current statutory tax rate (FTE).

|   | For the Three Months Ended<br>June 30, 2012 |                                |                | Yields<br>Earned/<br>Rates<br>Paid |
|---|---|--------------------------------|----------------|------------------------------------|
|   | Average<br>Balance                          | Interest<br>Income/<br>Expense | (In thousands) |                                    |
| <b>Assets</b>                               |   |                                |                |                                    |
| <b>Investment securities:</b>               |   |                                |                |                                    |
| Available for sale                          |   |                                |                |                                    |
| Taxable                                     | \$449,977                                   | \$2,774                        | 2.47           | %                                  |
| Tax-exempt (1)                              | 220,724                                     | 3,254                          | 5.90           | %                                  |
| Held to maturity                            |   |                                |                |                                    |
| Taxable                                     | 451,988                                     | 2,574                          | 2.28           | %                                  |
| Tax-exempt (1)                              | 629,341                                     | 8,731                          | 5.55           | %                                  |
| <b>Loans:</b>                               |   |                                |                |                                    |
| Commercial:                                 |   |                                |                |                                    |
| Taxable                                     | 330,485                                     | 5,490                          | 6.68           | %                                  |
| Tax-exempt (1)                              | 133,591                                     | 2,085                          | 6.28           | %                                  |
| Commercial real estate                      | 1,046,878                                   | 17,531                         | 6.74           | %                                  |
| Real estate construction                    | 28,627                                      | 300                            | 4.21           | %                                  |
| Real estate residential                     | 271,196                                     | 2,496                          | 3.68           | %                                  |
| Consumer                                    | 564,892                                     | 6,570                          | 4.68           | %                                  |
| Total loans (1)                             | 2,375,669                                   | 34,472                         | 5.84           | %                                  |
| Total interest-earning assets (1)           | 4,127,699                                   | \$51,805                       | 5.04           | %                                  |
| <b>Other assets</b>                         |   |                                |                |                                    |
| Total assets                                | \$4,974,619                                 |                                |                |                                    |
| <b>Liabilities and shareholders' equity</b> |   |                                |                |                                    |
| <b>Deposits:</b>                            |   |                                |                |                                    |
| Noninterest bearing demand                  | \$1,579,359                                 | \$-                            | -              | %                                  |
| Savings and interest-bearing transaction    | 1,876,734                                   | 308                            | 0.07           | %                                  |
| Time less than \$100,000                    | 270,549                                     | 385                            | 0.57           | %                                  |
| Time \$100,000 or more                      | 501,110                                     | 414                            | 0.33           | %                                  |
| Total interest-bearing deposits             | 2,648,393                                   | 1,107                          | 0.17           | %                                  |
| Short-term borrowed funds                   | 93,568                                      | 21                             | 0.09           | %                                  |
| Term repurchase agreement                   | 10,000                                      | 24                             | 0.97           | %                                  |
| Federal Home Loan Bank advances             | 25,944                                      | 119                            | 1.86           | %                                  |
| Debt financing                              | 15,000                                      | 201                            | 5.35           | %                                  |
| Total interest-bearing liabilities          | 2,792,905                                   | \$1,472                        | 0.21           | %                                  |

|   |             |          |        |
|---|-------------|----------|--------|
| Other liabilities                               | 60,163      |          |        |
| Shareholders' equity                            | 542,192     |          |        |
| Total liabilities and shareholders' equity      | \$4,974,619 |          |        |
| Net interest spread (1) (2)                     |             | 4.83     | %      |
| Net interest income and interest margin (1) (3) |             | \$50,333 | 4.89 % |

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

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|   | For the Three Months Ended<br>June 30, 2011 |                                |                                    |   |
|---|---|--------------------------------|------------------------------------|---|
|   | Average<br>Balance                          | Interest<br>Income/<br>Expense | Yields<br>Earned/<br>Rates<br>Paid |   |
|   | (In thousands)                              |                                |                                    |   |
| <b>Assets:</b>                                  |   |                                |                                    |   |
| Money market assets and funds sold              | \$205                                       | \$-                            | -                                  | % |
| <b>Investment securities:</b>                   |   |                                |                                    |   |
| Available for sale                              |   |                                |                                    |   |
| Taxable   | 467,322                                     | 2,914                          | 2.49                               | % |
| Tax-exempt (1)                                  | 271,889                                     | 4,242                          | 6.24                               | % |
| Held to maturity                                |   |                                |                                    |   |
| Taxable   | 139,411                                     | 1,309                          | 3.76                               | % |
| Tax-exempt (1)                                  | 476,305                                     | 7,405                          | 6.22                               | % |
| <b>Loans:</b>                                   |   |                                |                                    |   |
| Commercial:                                     |   |                                |                                    |   |
| Taxable   | 457,659                                     | 7,619                          | 6.68                               | % |
| Tax-exempt (1)                                  | 149,459                                     | 2,436                          | 6.54                               | % |
| Commercial real estate                          | 1,222,393                                   | 20,017                         | 6.57                               | % |
| Real estate construction                        | 67,323                                      | 771                            | 4.59                               | % |
| Real estate residential                         | 319,323                                     | 3,171                          | 3.97                               | % |
| Consumer  | 584,937                                     | 8,106                          | 5.56                               | % |
| Total loans (1)                                 | 2,801,094                                   | 42,120                         | 6.03                               | % |
| Total interest-earning assets (1)               | 4,156,226                                   | \$57,990                       | 5.59                               | % |
| Other assets                                    | 771,623                                     |                                |                                    |   |
| Total assets                                    | \$4,927,849                                 |                                |                                    |   |
| <b>Liabilities and shareholders' equity</b>     |   |                                |                                    |   |
| <b>Deposits:</b>                                |   |                                |                                    |   |
| Noninterest bearing demand                      | \$1,466,754                                 | \$-                            | -                                  | % |
| Savings and interest-bearing transaction        | 1,815,513                                   | 647                            | 0.14                               | % |
| Time less than \$100,000                        | 318,235                                     | 548                            | 0.69                               | % |
| Time \$100,000 or more                          | 543,247                                     | 582                            | 0.43                               | % |
| Total interest-bearing deposits                 | 2,676,995                                   | 1,777                          | 0.27                               | % |
| Short-term borrowed funds                       | 103,177                                     | 47                             | 0.18                               | % |
| Federal Home Loan Bank advances                 | 48,248                                      | 128                            | 1.05                               | % |
| Debt financing and notes payable                | 26,007                                      | 201                            | 3.08                               | % |
| Total interest-bearing liabilities              | 2,854,427                                   | \$2,153                        | 0.30                               | % |
| Other liabilities                               | 61,031                                      |                                |                                    |   |
| Shareholders' equity                            | 545,637                                     |                                |                                    |   |
| Total liabilities and shareholders' equity      | \$4,927,849                                 |                                |                                    |   |
| Net interest spread (1) (2)                     |   |                                | 5.29                               | % |
| Net interest income and interest margin (1) (3) |   | \$55,837                       | 5.38                               | % |

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

- 34 -

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|  | For the Six Months Ended<br>June 30, 2012 |                                |                                    |   |
|--|---|--------------------------------|------------------------------------|---|
|  | Average<br>Balance                        | Interest<br>Income/<br>Expense | Yields<br>Earned/<br>Rates<br>Paid |   |
|  | (In thousands)                            |                                |                                    |   |
| <b>Assets</b>  |   |                                |                                    |   |
| <b>Investment securities:</b>                          |   |                                |                                    |   |
| Available for sale                                     |   |                                |                                    |   |
| Taxable  | \$430,935                                 | \$5,338                        | 2.48                               | % |
| Tax-exempt (1)   | 223,032                                   | 6,613                          | 5.93                               | % |
| Held to maturity                                       |   |                                |                                    |   |
| Taxable  | 396,547                                   | 4,700                          | 2.37                               | % |
| Tax-exempt (1)   | 621,717                                   | 17,568                         | 5.65                               | % |
| <b>Loans:</b>  |   |                                |                                    |   |
| Commercial:  |   |                                |                                    |   |
| Taxable  | 341,280                                   | 11,273                         | 6.64                               | % |
| Tax-exempt (1)   | 135,669                                   | 4,139                          | 6.14                               | % |
| Commercial real estate                                 | 1,068,951                                 | 35,780                         | 6.73                               | % |
| Real estate construction                               | 30,947                                    | 852                            | 5.54                               | % |
| Real estate residential                                | 277,167                                   | 5,099                          | 3.68                               | % |
| Consumer   |   |                                |                                    |   |
| Total loans (1)  | 2,421,754                                 | 70,844                         | 5.88                               | % |
| Total interest-earning assets (1)                      | 4,093,985                                 | \$105,063                      | 5.15                               | % |
| <b>Other assets</b>                                    |   |                                |                                    |   |
| Total assets   | \$5,002,777                               |                                |                                    |   |
| <b>Liabilities and shareholders' equity</b>            |   |                                |                                    |   |
| <b>Deposits:</b>                                       |   |                                |                                    |   |
| Noninterest bearing demand                             | \$1,577,708                               | \$-                            | -                                  | % |
| Savings and interest-bearing transaction               | 1,880,640                                 | 634                            | 0.07                               | % |
| Time less than \$100,000                               | 275,642                                   | 824                            | 0.60                               | % |
| Time \$100,000 or more                                 | 506,768                                   | 836                            | 0.33                               | % |
| Total interest-bearing deposits                        | 2,663,050                                 | 2,294                          | 0.17                               | % |
| Short-term borrowed funds                              | 104,237                                   | 48                             | 0.09                               | % |
| Term repurchase agreement                              | 10,000                                    | 49                             | 0.98                               | % |
| Federal Home Loan Bank advances                        | 25,972                                    | 239                            | 1.85                               | % |
| Debt financing and notes payable                       | 15,000                                    | 401                            | 5.35                               | % |
| Total interest-bearing liabilities                     | 2,818,259                                 | \$3,031                        | 0.22                               | % |
| <b>Other liabilities</b>                               |   |                                |                                    |   |
| Shareholders' equity                                   | 544,434                                   |                                |                                    |   |
| Total liabilities and shareholders' equity             | \$5,002,777                               |                                |                                    |   |
| <b>Net interest spread (1) (2)</b>                     |   |                                |                                    |   |
|  |   |                                | 4.93                               | % |
| <b>Net interest income and interest margin (1) (3)</b> |   |                                |                                    |   |
|  |   |                                | 5.00                               | % |

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.



(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

- 35 -

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|   | For the Six Months Ended<br>June 30, 2011 |                                |                                    |   |
|---|---|--------------------------------|------------------------------------|---|
|   | Average<br>Balance                        | Interest<br>Income/<br>Expense | Yields<br>Earned/<br>Rates<br>Paid |   |
|   | (In thousands)                            |                                |                                    |   |
| <b>Assets:</b>                                  |   |                                |                                    |   |
| Money market assets and funds sold              | \$440                                     | \$-                            | -                                  | % |
| <b>Investment securities:</b>                   |   |                                |                                    |   |
| Available for sale                              |   |                                |                                    |   |
| Taxable   | 451,994                                   | 5,379                          | 2.38                               | % |
| Tax-exempt (1)                                  | 270,490                                   | 8,455                          | 6.25                               | % |
| Held to maturity                                |   |                                |                                    |   |
| Taxable   | 131,087                                   | 2,601                          | 3.97                               | % |
| Tax-exempt (1)                                  | 465,156                                   | 14,498                         | 6.23                               | % |
| <b>Loans:</b>                                   |   |                                |                                    |   |
| Commercial:                                     |   |                                |                                    |   |
| Taxable   | 471,256                                   | 15,084                         | 6.45                               | % |
| Tax-exempt (1)                                  | 151,648                                   | 4,936                          | 6.56                               | % |
| Commercial real estate                          | 1,236,921                                 | 39,945                         | 6.51                               | % |
| Real estate construction                        | 71,197                                    | 1,717                          | 4.86                               | % |
| Real estate residential                         | 323,296                                   | 6,527                          | 4.04                               | % |
| Consumer  | 581,191                                   | 16,144                         | 5.60                               | % |
| Total loans (1)                                 | 2,835,509                                 | 84,353                         | 6.00                               | % |
| Total interest-earning assets (1)               | 4,154,676                                 | \$115,286                      | 5.59                               | % |
| Other assets                                    | 779,711                                   |                                |                                    |   |
| Total assets                                    | \$4,934,387                               |                                |                                    |   |
| <b>Liabilities and shareholders' equity</b>     |   |                                |                                    |   |
| <b>Deposits:</b>                                |   |                                |                                    |   |
| Noninterest bearing demand                      | \$1,464,925                               | \$-                            | -                                  | % |
| Savings and interest-bearing transaction        | 1,804,475                                 | 1,318                          | 0.15                               | % |
| Time less than \$100,000                        | 326,159                                   | 1,040                          | 0.64                               | % |
| Time \$100,000 or more                          | 545,729                                   | 1,309                          | 0.48                               | % |
| Total interest-bearing deposits                 | 2,676,363                                 | 3,667                          | 0.28                               | % |
| Short-term borrowed funds                       | 106,991                                   | 109                            | 0.20                               | % |
| Federal Home Loan Bank advances                 | 52,983                                    | 279                            | 1.05                               | % |
| Debt financing and notes payable                | 26,161                                    | 401                            | 3.06                               | % |
| Total interest-bearing liabilities              | 2,862,498                                 | \$4,456                        | 0.31                               | % |
| Other liabilities                               | 61,543                                    |                                |                                    |   |
| Shareholders' equity                            | 545,421                                   |                                |                                    |   |
| Total liabilities and shareholders' equity      | \$4,934,387                               |                                |                                    |   |
| Net interest spread (1) (2)                     |   |                                | 5.28                               | % |
| Net interest income and interest margin (1) (3) |   | \$110,830                      | 5.37                               | % |

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

- 36 -

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

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

|   | For the Three Months Ended June 30,<br>2012 |             |             |
|---|---|-------------|-------------|
|   | Compared with                               |             |             |
|   | For the Three months Ended June 30,<br>2011 |             |             |
|   | Volume                                      | Rate        | Total       |
|   | (In thousands)                              |             |             |
| Interest and fee income:                      |   |             |             |
| Investment securities:                        |   |             |             |
| Available for sale                            |   |             |             |
| Taxable                                       | \$ (107 )                                   | \$ (33 )    | \$ (140 )   |
| Tax-exempt (1)                                | (765 )                                      | (223 )      | (988 )      |
| Held to maturity                              |   |             |             |
| Taxable                                       | 1,949                                       | (684 )      | 1,265       |
| Tax-exempt (1)                                | 2,182                                       | (856 )      | 1,326       |
| Loans:  |   |             |             |
| Commercial:                                   |   |             |             |
| Taxable                                       | (2,133 )                                    | 4           | (2,129 )    |
| Tax-exempt (1)                                | (255 )                                      | (96 )       | (351 )      |
| Commercial real estate                        | (2,976 )                                    | 490         | (2,486 )    |
| Real estate construction                      | (412 )                                      | (59 )       | (471 )      |
| Real estate residential                       | (455 )                                      | (220 )      | (675 )      |
| Consumer                                      | (274 )                                      | (1,262 )    | (1,536 )    |
| Total loans (1)                               | (6,505 )                                    | (1,143 )    | (7,648 )    |
| Total decrease in interest and fee income (1) | (3,246 )                                    | (2,939 )    | (6,185 )    |
| Interest expense:                             |   |             |             |
| Deposits:                                     |   |             |             |
| Savings and interest-bearing                  |   |             |             |
| transaction                                   | 21  | (360 )      | (339 )      |
| Time less than \$100,000                      | (76 )                                       | (87 )       | (163 )      |
| Time \$100,000 or more                        | (43 )                                       | (125 )      | (168 )      |
| Total interest-bearing deposits               | (98 )                                       | (572 )      | (670 )      |
| Short-term borrowed funds                     | (4 )  | (22 )       | (26 )       |
| Term repurchase agreement                     | 24  | -           | 24          |
| Federal Home Loan Bank advances               | (77 )                                       | 68          | (9 )        |
| Debt financing                                | (108 )                                      | 108         | -           |
| Total decrease in interest expense            | (263 )                                      | (418 )      | (681 )      |
| Decrease in Net Interest Income (1)           | \$ (2,983 )                                 | \$ (2,521 ) | \$ (5,504 ) |

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



|   | For the Six Months Ended June 30, 2012<br>Compared with<br>For the Six Months Ended June 30, 2011 |             |             |
|---|---|-------------|-------------|
|   | Volume  | Rate        | Total       |
|   | (In thousands)  |             |             |
| Interest and fee income:                      |   |             |             |
| Investment securities:                        |   |             |             |
| Available for sale                            |   |             |             |
| Taxable                                       | \$ (242 )   | \$ 201      | \$ (41 )    |
| Tax-exempt (1)                                | (1,415 )  | (427 )      | (1,842 )    |
| Held to maturity                              |   |             |             |
| Taxable                                       | 3,490   | (1,391 )    | 2,099       |
| Tax-exempt (1)                                | 4,528   | (1,458 )    | 3,070       |
| Loans:  |   |             |             |
| Commercial:                                   |   |             |             |
| Taxable                                       | (4,237 )  | 426         | (3,811 )    |
| Tax-exempt (1)                                | (483 )  | (314 )      | (797 )      |
| Commercial real estate                        | (5,457 )  | 1,292       | (4,165 )    |
| Real estate construction                      | (1,076 )  | 211         | (865 )      |
| Real estate residential                       | (868 )  | (560 )      | (1,428 )    |
| Consumer                                      | (295 )  | (2,148 )    | (2,443 )    |
| Total loans (1)                               | (12,416 )   | (1,093 )    | (13,509 )   |
| Total decrease in interest and fee income (1) | (6,055 )  | (4,168 )    | (10,223 )   |
| Interest expense:                             |   |             |             |
| Deposits:                                     |   |             |             |
| Savings and interest-bearing transaction      | 57  | (741 )      | (684 )      |
| Time less than \$100,000                      | (151 )  | (65 )       | (216 )      |
| Time \$100,000 or more                        | (83 )   | (390 )      | (473 )      |
| Total interest-bearing deposits               | (177 )  | (1,196 )    | (1,373 )    |
| Short-term borrowed funds                     | (2 )  | (59 )       | (61 )       |
| Term repurchase agreement                     | 49  | -           | 49          |
| Federal Home Loan Bank advances               | (21 )   | (19 )       | (40 )       |
| Debt financing                                | (216 )  | 216         | -           |
| Total decrease in interest expense            | (367 )  | (1,058 )    | (1,425 )    |
| Decrease in Net Interest Income (1)           | \$ (5,688 )   | \$ (3,110 ) | \$ (8,798 ) |

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

#### Provision for Loan Losses

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

The Company provided \$2.8 million and \$5.6 million for loan losses in the second quarter and first half of 2012, respectively, unchanged from comparable periods in 2011. The Company recorded purchased County Bank ("County") and Sonoma loans at estimated fair value upon the acquisition dates, February 6, 2009 and August 20, 2010, respectively. Such estimated fair values were recognized for individual loans, although small balance homogenous

loans were pooled for valuation purposes. The valuation discounts recorded for purchased loans included Management's assessment of the risk of principal loss under economic and borrower conditions prevailing on the dates of purchase. The purchased County loans are "covered" by loss-sharing agreements the Company entered with the FDIC which mitigates losses during the term of the agreements. Any deterioration in estimated value related to principal loss subsequent to the acquisition dates requires additional loss recognition through a provision for loan losses. Of the total recorded provision, the Company provided \$349 thousand and \$839 thousand for purchased loans in the second quarter and first half of 2012, respectively. No assurance can be given future provisions for loan losses related to purchased loans will not be necessary.

For further information regarding credit risk, the FDIC loss-sharing agreements, net credit losses and the allowance for loan losses, see the “Loan Portfolio Credit Risk” and “Allowance for Credit Losses” sections of this report.

### Noninterest Income

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

|                                     | For the Three Months             |          | For the Six Months |          |
|-------------------------------------|----------------------------------|----------|--------------------|----------|
|                                     | 2012                             | 2011     | 2012               | 2011     |
|                                     | Ended June 30,<br>(In thousands) |          |                    |          |
| Service charges on deposit accounts | \$7,027                          | \$7,577  | \$14,122           | \$15,098 |
| Merchant processing services        | 2,529                            | 2,391    | 4,922              | 4,562    |
| Debit card fees                     | 1,345                            | 1,283    | 2,508              | 2,484    |
| ATM processing fees                 | 932                              | 997      | 1,865              | 1,932    |
| Other service fees                  | 697                              | 721      | 1,393              | 1,411    |
| Trust fees                          | 497                              | 482      | 986                | 975      |
| Check sale income                   | 208                              | 212      | 420                | 432      |
| Safe deposit rental                 | 193                              | 168      | 390                | 337      |
| Financial services commissions      | 194                              | 117      | 365                | 146      |
| Loss on sale of securities          | (1,287 )                         | -        | (1,287 )           | -        |
| Other                               | 1,198                            | 1,344    | 2,518              | 2,658    |
| Total                               | \$13,533                         | \$15,292 | \$28,202           | \$30,035 |

Noninterest income for the second quarter of 2012 declined by \$1.8 million from the same period in 2011. The decline in second quarter 2012 noninterest income is primarily due to a \$1.3 million loss realized from the sale of a collateralized mortgage obligation bond whose underlying support tranches began experiencing escalating losses, which began deteriorating the creditworthiness of the bond. Service charges on deposits decreased \$550 thousand or 7.3% due to declines in fees charged on overdrawn and insufficient funds accounts (down \$680 thousand), partially offset by higher deficit fees charged on analyzed accounts (up \$102 thousand). Merchant processing services income increased \$138 thousand or 5.8% primarily due to increased transactions.

In the first half of 2012, noninterest income decreased \$1.8 million compared with the first half of 2011. The decline in the first half of 2012 noninterest income is primarily due to a \$1.3 million loss realized from the sale of a collateralized mortgage obligation bond whose underlying support tranches began experiencing escalating losses, which began deteriorating the creditworthiness of the bond. Service charges on deposits decreased \$976 thousand or 6.5% due to declines in fees charged on overdrawn and insufficient funds accounts (down \$1.3 million), partially offset by higher deficit fees charged on analyzed accounts (up \$264 thousand). Merchant processing services income increased \$360 thousand or 7.9% mainly due to increased transactions. Financial services commissions increased \$219 thousand from improved sales activities.



## Noninterest Expense

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

|  | For the Three Months             |          | For the Six Months |          |
|--|----------------------------------|----------|--------------------|----------|
|  | 2012                             | 2011     | 2012               | 2011     |
|  | Ended June 30,<br>(In thousands) |          |                    |          |
| Salaries and related benefits            | \$14,494                         | \$14,913 | \$29,540           | \$29,988 |
| Occupancy                                | 3,775                            | 4,050    | 7,709              | 8,075    |
| Outsourced data processing services      | 2,078                            | 2,122    | 4,161              | 4,578    |
| Settlements                              | -                                | 2,100    | -                  | 2,100    |
| Amortization of identifiable intangibles | 1,339                            | 1,480    | 2,741              | 3,028    |
| Professional fees                        | 902                              | 1,453    | 1,669              | 2,303    |
| Furniture and equipment                  | 1,041                            | 1,038    | 1,892              | 1,971    |
| Other real estate owned                  | 3                                | 990      | 233                | 1,135    |
| Courier service                          | 793                              | 852      | 1,578              | 1,695    |
| Deposit insurance assessments            | 653                              | 740      | 1,403              | 1,960    |
| Loan expense                             | 390                              | 544      | 1,017              | 938      |
| Telephone                                | 418                              | 428      | 794                | 863      |
| Postage                                  | 344                              | 363      | 716                | 731      |
| Operational losses                       | 149                              | 341      | 322                | 589      |
| Stationery and supplies                  | 247                              | 323      | 490                | 646      |
| Advertising and public relations         | 151                              | 161      | 303                | 332      |
| Other noninterest expense                | 2,572                            | 2,411    | 4,815              | 4,700    |
| Total                                    | \$29,349                         | \$34,309 | \$59,383           | \$65,632 |

Noninterest expense decreased \$5.0 million or 14.5% in the second quarter 2012 compared with the same period in 2011 primarily due to a \$2.1 million settlement accrual in the second quarter 2011 and reduced costs related to managing nonperforming assets. Other real estate owned expense decreased \$987 thousand mainly due to lower writedowns and maintenance expenses and higher gains on sale of foreclosed assets. Professional fees declined \$551 thousand or 37.9% due to lower legal fees. Salaries and related benefits decreased \$419 thousand or 2.8% primarily due to employee attrition. Occupancy expense declined \$275 thousand or 6.8% mostly due to lower lease rates on bank premises.

In the first half of 2012, noninterest expense decreased \$6.2 million or 9.5% compared with the first half of 2011 mainly due to a \$2.1 million settlement accrual in 2011 and lower costs related to managing nonperforming assets. Additionally, the first quarter 2011 included \$679 thousand in expenses related to pre-integration costs for the acquired Sonoma, primarily outsourced data processing and personnel costs. Sonoma operations were fully integrated in February 2011. Other real estate owned expense decreased \$902 thousand mainly due to higher gains on sale of foreclosed assets, partially offset by higher writedowns. Professional fees declined \$634 thousand or 27.5% largely due to lower legal fees. Deposit insurance assessments decreased \$557 thousand due to a change in assessment rules effective April 1, 2011. Salaries and related benefits decreased \$448 thousand or 1.5% primarily due to lower salaries resulting from employee attrition, partially offset by higher employee benefit costs. Outsourced data processing services expense decreased \$417 thousand or 9.1%. Occupancy expense declined \$366 thousand or 4.5% mostly due to lower lease rates on bank premises and lower maintenance expense.

## Provision for Income Tax

During the second quarter of 2012, the Company recorded income tax expense (FTE) of \$10.8 million compared with \$12.8 million for the second quarter of 2011. The current quarter provision represents an effective tax rate (FTE) of 33.9%, compared with 37.5% for the second quarter of 2011. The decline in tax rate in the second quarter 2012 is attributable to a \$968 thousand tax refund from an amended 2006 federal income tax return. This claim for tax refund was processed by the Internal Revenue Service in conjunction with the conclusion of an examination of the Company's 2008 federal income tax return.

The income tax provision (FTE) was \$23.3 million for the first six months of 2012 compared with \$26.0 million for the corresponding period of 2011. The first half of 2012 effective tax rate was 35.7% compared to 37.3% for the same period of 2011. The lower tax rate in the first half of 2012 was due to the tax refund described in the preceding paragraph.

## Loan Portfolio Credit Risk

The risk that loan customers do not repay loans extended by the Bank is the most significant risk to the Company. The Company closely monitors the markets in which it conducts its lending operations and follows a strategy to control exposure to loans with high credit risk. The Bank's organization structure separates the functions of business development and loan underwriting; Management believes this segregation of duties avoids inherent conflicts of combining business development and loan approval functions. In measuring and managing credit risk, the Company adheres to the following practices.

- The Bank maintains a Loan Review Department which reports directly to the 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. Those loans judged to carry higher risk attributes are referred to as "classified loans." Classified loans receive elevated management attention to maximize collection.
- The Bank maintains two loan administration offices whose sole responsibility is to manage and collect classified loans.

Classified loans with higher levels of credit risk are further designated as "nonaccrual loans." Management places classified loans on nonaccrual status when full collection of contractual interest and principal payments is in doubt. Interest previously accrued on loans placed on nonaccrual status is charged against interest income, net of estimated FDIC reimbursements under loss-sharing agreements. The Company does not accrue interest income on nonaccrual loans. Interest payments received on nonaccrual loans are applied to reduce the carrying amount of the loan unless the carrying amount is well secured by loan collateral or covered by FDIC loss-sharing agreements. "Nonperforming assets" include nonaccrual loans, loans 90 or more days past due and still accruing, and repossessed loan collateral.

The Bank's commercial loan customers are primarily small businesses and professionals. As a result, average loan balances are relatively small, providing risk diversification within the overall loan portfolio. At June 30, 2012, the Bank's nonaccrual loans reflected this diversification: nonaccrual originated loans with a carrying value totaling \$17 million comprised twenty-seven borrowers, nonaccrual purchased non-covered loans with a carrying value totaling \$20 million comprised nineteen borrowers, and nonaccrual purchased covered loans with a carrying value totaling \$10 million comprised thirty-one borrowers.

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

On February 6, 2009, the Bank purchased loans and repossessed loan collateral of the former County Bank from the FDIC. This purchase transaction included loss-sharing agreements with the FDIC wherein the FDIC and the Bank share losses on the purchased assets. The loss-sharing agreements significantly reduce the credit risk of these purchased assets. In evaluating credit risk, Management separates the Bank's total loan portfolio between those loans qualifying under the FDIC loss-sharing agreements (referred to as "purchased covered loans") and loans not qualifying under the FDIC loss-sharing agreements (referred to as "purchased non-covered loans" and "originated loans"). At June 30, 2012, purchased covered loans totaled \$463 million, or 20 percent of total loans, originated loans totaled \$1.8 billion, or 76 percent and purchased non-covered loans totaled \$102 million, or 4 percent of total loans.

Purchased covered loans and repossessed loan collateral qualify under loss-sharing agreements with the FDIC. Under the terms of the loss-sharing agreements, the FDIC absorbs 80 percent of losses and shares in 80 percent of loss recoveries on the first \$269 million in losses on purchased covered assets ("First Tier"), and absorbs 95 percent of losses

and shares in 95 percent of loss recoveries if losses on purchased covered assets exceed \$269 million (“Second Tier”). The loss-sharing agreement on covered residential real estate assets expires February 6, 2019 and the loss-sharing agreement on covered non-residential assets expires February 6, 2014 as to losses and February 6, 2017 as to loss recoveries.

The purchased covered assets are primarily located in the California Central Valley, including Merced County. This geographic area currently has some of the weakest economic conditions within California and has experienced significant declines in real estate values. Management expects higher loss rates on purchased covered assets than on originated assets.

The Bank recorded purchased covered assets at estimated fair value on the February 6, 2009 acquisition date. The credit risk discount ascribed to the \$1.2 billion acquired loan and repossessed loan collateral portfolio was \$161 million representing estimated losses inherent in the assets at the acquisition date. The Bank also recorded a related receivable from the FDIC in the amount of \$129 million representing estimated FDIC reimbursements under the loss-sharing agreements.

The maximum risk to future earnings if First Tier losses exceed Management's estimated \$161 million in recognized losses under the FDIC loss-sharing agreements is estimated to be \$12 million as follows (dollars in thousands):

|  |            |
|--|------------|
| First Tier Loss Coverage                           | \$ 269,000 |
| Less: Recognized credit risk discount              | 161,203    |
| Exposure to under-estimated risk within First Tier | 107,797    |
| Bank loss-sharing percentage                       | 20 percent |
| First Tier risk to Bank, pre-tax                   | \$ 21,559  |
| First Tier risk to Bank, after-tax                 | \$ 12,494  |

Management has judged the likelihood of experiencing losses of a magnitude to trigger Second Tier FDIC reimbursement as remote. The Bank's maximum after-tax exposure to Second Tier losses is \$11 million as of June 30, 2012, which would be realized only if all purchased covered assets at June 30, 2012 generated no future cash flows.

Purchased covered assets have declined since the acquisition date, and losses have been primarily offset against the estimated credit risk discount, although some losses exceeding the purchase date estimated credit risk discount have been charged-off against the allowance for credit losses. Purchased covered assets totaled \$478 million at June 30, 2012, net of a credit risk discount of \$30 million, compared to \$554 million at December 31, 2011, net of a credit risk discount of \$46 million. Purchased covered assets are evaluated for risk classification without regard to FDIC indemnification such that Management can identify purchased covered assets with potential payment problems and devote appropriate credit administration practices to maximize collections. Classified purchased covered assets without regard to FDIC indemnification totaled \$131 million and \$168 million at June 30, 2012 and December 31, 2011, respectively. FDIC indemnification limits the Company's loss exposure to covered classified assets.

#### Allowance for Credit Losses

The Company's allowance for credit losses represents Management's estimate of credit losses inherent in the loan portfolio. In evaluating credit risk for loans, Management measures loss potential of the carrying value of loans. As described above, payments received on nonaccrual loans may be applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected. Further, the carrying value of purchased loans includes fair value discounts assigned at the time of purchase under the provisions of FASB ASC 805, Business Combinations, and FASB ASC 310-30, Loans or Debt Securities with Deteriorated Credit Quality. The allowance for credit losses represents Management's estimate of credit losses in excess of these principal reductions.

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|   | For the Three Months             |            | For the Six Months |            |
|---|----------------------------------|------------|--------------------|------------|
|   | 2012                             | 2011       | 2012               | 2011       |
|   | Ended June 30,<br>(In thousands) |            |                    |            |
| <b>Analysis of the Allowance for Credit Losses</b>                    |                                  |            |                    |            |
| Balance, beginning of period  | \$34,576                         | \$37,014   | \$35,290           | \$38,329   |
| Provision for loan losses   | 2,800                            | 2,800      | 5,600              | 5,600      |
| Provision for unfunded commitments                                    | -                                | -          | -                  | -          |
| Loans charged off   |                                  |            |                    |            |
| Commercial  | (2,696 )                         | (3,663 )   | (3,558 )           | (4,987 )   |
| Commercial real estate  | -                                | -          | (948 )             | -          |
| Real estate construction  | -                                | -          | -                  | (1,475 )   |
| Real estate residential   | (62 )                            | (219 )     | (932 )             | (527 )     |
| Consumer  | (1,211 )                         | (1,339 )   | (2,864 )           | (3,475 )   |
| Purchased covered loans   | (247 )                           | -          | (612 )             | -          |
| Purchased non-covered loans   | (25 )                            | -          | (25 )              | -          |
| Total chargeoffs  | (4,241 )                         | (5,221 )   | (8,939 )           | (10,464 )  |
| Recoveries of loans previously charged off                            |                                  |            |                    |            |
| Commercial  | 228                              | 443        | 617                | 643        |
| Commercial real estate  | 33                               | -          | 33                 | -          |
| Real estate construction  | 196                              | -          | 198                | -          |
| Real estate residential   | -                                | -          | -                  | -          |
| Consumer  | 600                              | 665        | 1,379              | 1,593      |
| Purchased covered loans   | 24                               | -          | 38                 | -          |
| Total recoveries  | 1,081                            | 1,108      | 2,265              | 2,236      |
| Net loan losses   | (3,160 )                         | (4,113 )   | (6,674 )           | (8,228 )   |
| Balance, end of period  | \$34,216                         | \$35,701   | \$34,216           | \$35,701   |
| <b>Components:</b>  |                                  |            |                    |            |
| Allowance for loan losses   | \$31,523                         | \$33,008   |                    |            |
| Liability for off-balance sheet credit exposure                       | 2,693                            | 2,693      |                    |            |
| Allowance for credit losses   | \$34,216                         | \$35,701   |                    |            |
| <b>Net loan losses:</b>   |                                  |            |                    |            |
| Originated loans  | \$(2,912 )                       | \$(4,113 ) | \$(6,075 )         | \$(8,228 ) |
| Purchased covered loans   | (223 )                           | -          | (574 )             | -          |
| Purchased non-covered loans   | (25 )                            | -          | (25 )              | -          |
| <b>Net loan losses as a percentage of average loans (annualized):</b> |                                  |            |                    |            |
| Originated loans  | 0.65 %                           | 0.83 %     | 0.67 %             | 0.83 %     |
| Purchased covered loans   | 0.19 %                           | - %        | 0.23 %             | - %        |
| Purchased non-covered loans   | 0.09 %                           | - %        | 0.04 %             | - %        |

The Company's allowance for credit losses is maintained at a level considered appropriate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming loans and classified loans, FDIC loss-sharing indemnification, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to impaired loans whose full collectability of principal is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. In the first quarter 2012, the Company lowered the dollar threshold for loans evaluated for impairment. The Company evaluates all nonaccrual loans with outstanding principal balances in excess of \$500 thousand for impairment. A second allocation is based in part on quantitative analyses of historical credit loss experience, in which historical originated criticized and classified credit balances are analyzed using a linear regression model to determine standard loss rates for originated loans. The

results of this analysis are applied to originated criticized and classified loan balances to allocate the allowance to the respective segments of the loan portfolio. In addition, originated loans with similar characteristics not usually criticized using regulatory guidelines are analyzed based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Given currently weak economic conditions, Management is applying further analysis to originated consumer loans. Current levels of originated consumer installment loan losses are compared to initial allowance allocations and, based on Management's judgment, additional allocations are applied, if needed, to estimate losses. For originated residential real estate loans, Management is comparing ultimate loss rates on foreclosed residential real estate properties and applying such loss rates to nonaccrual originated residential real estate loans. Based on this analysis, Management exercises judgment in allocating additional allowance if deemed appropriate to estimate losses on originated residential real estate loans. Last, allocations are made to originated non-criticized and non-classified commercial and commercial real estate loans based on historical loss rates and other statistical data.

Purchased loans were not underwritten using the Company's credit policies and practices. Thus, the historical loss rates for originated loans are not applied to estimate credit losses for purchased loans. Purchased loans were recorded on the date of purchase at estimated fair value; fair value discounts include a component for estimated credit losses. The Company evaluates all nonaccrual purchased loans with outstanding principal balances in excess of \$500 thousand for impairment; the impaired loan value is compared to the recorded investment in the loan, which has been reduced by the credit default discount estimated on the date of purchase. If Management's impairment analysis determines the impaired loan value is less than the recorded investment in the purchased loan, an allocation of the allowance for credit losses is established, net of estimated FDIC indemnification. For all other purchased loans, Management evaluates historical credit losses on purchased loans, credit default discounts on purchased loans, and other data to evaluate the likelihood of realizing the recorded investment in purchased loans. Management establishes allocations of the allowance for credit losses for any estimated deficiency.

The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. The unallocated allowance addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in loan chargeoff history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific loan category in a statistically meaningful manner and are difficult to quantify with a specific number. Management assigns a range of estimated risk to the qualitative risk factors described above based on Management's judgment as to the level of risk, and assigns a quantitative risk factor from the range of loss estimates to determine the appropriate level of the unallocated portion of the allowance. Management considers the \$34.2 million allowance for credit losses to be adequate as a reserve against credit losses inherent in the loan portfolio as of June 30, 2012.

See Note 4 to the unaudited consolidated financial statements for additional information related to the loan portfolio and allowance for credit losses.

#### Asset/Liability and Market Risk Management

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

#### Interest Rate Risk

Interest rate risk is a significant market risk affecting the Company. Interest rate risk results from many factors. Assets and liabilities may mature or reprice at different times. Assets and liabilities may reprice at the same time but by different amounts. Short-term and long-term market interest rates may change by different amounts. The timing and amount of cash flows of various assets or liabilities may shorten or lengthen as interest rates change. In addition, interest rates may have an impact on loan demand, demand for various deposit products, credit losses, and other sources of earnings such as account analysis fees on commercial deposit accounts and correspondent bank service charges.

In adjusting the Company's asset/liability position, Management attempts to manage interest rate risk while enhancing the net interest margin and net interest income. At times, depending on expected increases or decreases in general



interest rates, the relationship between long and short term interest rates, market conditions and competitive factors, Management may adjust the Company's interest rate risk position in order to manage its net interest margin and net interest income. The Company's results of operations and net portfolio values remain subject to changes in interest rates and to fluctuations in the difference between long and short term interest rates.

The Company's asset and liability position ranged from "neutral" to slightly "asset sensitive" at June 30, 2012, depending on the interest rate assumptions applied to the simulation model employed by Management to measure interest rate risk. A "neutral" position results in similar amounts of change in interest income and interest expense resulting from application of assumed interest rate changes. A slightly "asset sensitive" position results in a slightly larger change in interest income than in interest expense resulting from application of assumed interest rate changes. Management's simulation modeling is currently biased toward rising interest rates. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate risk.

- 44 -

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Management assesses interest rate risk by comparing the Company's most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, using the current composition of the Company's balance sheet and assuming an increase of 100 basis points ("bp") in the federal funds rate and an increase of 60 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are not estimated to change by a meaningful amount compared to the Company's most likely net income plan for the twelve months ending June 30, 2013. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation. In the current operating environment, Management's objective is to maintain a "neutral" to slightly "asset sensitive" interest rate risk position. The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

#### Market Risk - Equity Markets

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

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

#### Market Risk - Other

Market values of loan collateral can directly impact the level of loan charge-offs and the provision for loan losses. Market values of mortgages or other assets serving as collateral for investment securities can directly impact the credit quality of the Company's investment portfolio requiring the Company to recognize other than temporary impairment charges. Other types of market risk, such as foreign currency exchange risk and commodity price risk, are not significant in the normal course of the Company's business activities.

#### Liquidity and Funding

The Company's routine sources of liquidity are operating earnings, investment securities, consumer and other loans, deposits, and other borrowed funds. During the first half of 2012, operating cash flows provided \$48 million to pay \$21 million in shareholder dividends and \$26 million applied to repurchase Company common stock. During the first half of 2011, the Company's operating activities generated \$62 million in liquidity providing most of the funds to pay common shareholders \$21 million in dividends, fund \$32 million in stock repurchases and reduce short-term borrowings by \$16 million.

During the first half of 2012, investment securities provided \$177 million in liquidity from paydowns, maturities and sales, and loans provided \$195 million in liquidity from scheduled payments, payoffs and maturities, net of loan fundings. Securities of \$543 million were purchased. During the first half of 2011, investment securities provided \$165 million in liquidity from paydowns and maturities, and loans provided \$146 million in liquidity from scheduled

payments, payoffs and maturities, net of loan fundings. The Company purchased securities of \$295 million.

At June 30, 2012, the Company's assets included \$321 million in cash and amounts due from other banks from daily transaction settlements. The Bank maintains cash balances for its branches of approximately \$50 million to meet the routine needs of its customers. Further, the Bank must maintain approximately \$30 million at the Federal Reserve Bank (FRB) to meet its reserve requirement; this reserve requirement is reduced by cash held for branches. Excluding cash for branch needs and cash required at the FRB, cash and amounts due from other banks from daily transaction settlements of approximately \$175 million provided excess liquidity, equivalent to four percent of total deposits.

- 45 -

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The Company projects \$228 million in additional liquidity from investment security paydowns and maturities during the twelve months ending June 30, 2013. At June 30, 2012, \$658 million in residential collateralized mortgage obligations (“CMOs”) and residential mortgage backed securities (“MBSs”) were held in the Company's investment portfolios. None of the CMOs or MBSs are backed by sub-prime mortgages. The residential CMOs and MBSs provided \$36 million in liquidity from paydowns during the three months ended June 30, 2012. At June 30, 2012, indirect automobile loans totaled \$408 million, which were experiencing stable monthly principal payments of approximately \$16 million during the second quarter of 2012.

The Company held \$1.9 billion in total investment securities at June 30, 2012. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At June 30, 2012, such collateral requirements totaled approximately \$896 million. At June 30, 2012, \$709 million of the Company's investment securities were classified as “available-for-sale”, and as such, could provide additional liquidity if sold, subject to the Company's ability to meet continuing collateral requirements. In addition, at June 30, 2012, the Company had customary lines for overnight borrowings from other financial institutions in excess of \$700 million, under which \$-0- was outstanding. Additionally, the Company has access to borrowing from the Federal Reserve. Management expects the Company could access additional long-term debt financing if desired. In Management's judgment, the Company's liquidity position is strong and asset liquidations or additional long-term debt are considered unnecessary to meet the ongoing liquidity needs of the Company.

Management will monitor the Company's cash levels throughout 2012. Loan demand from credit-worthy borrowers will be dictated by economic and competitive conditions for the remainder of 2012. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to changes in interest rates. The growth of these deposit balances is subject to heightened competition, the success of the Company's sales efforts, delivery of superior customer service, new regulations and market conditions. The Company does not aggressively solicit higher-costing time deposits; as a result, Management anticipates such deposits will decline. Changes in interest rates, most notably rising interest rates, could impact deposit volumes. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, reduce borrowings or purchase investment securities. However, due to concerns such as uncertainty in the general economic environment, competition and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

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

Westamerica Bancorporation (“Parent Company”) is a separate entity and apart from Westamerica Bank (“Bank”) and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for the payment of dividends declared for its shareholders, and interest and principal on outstanding debt. Substantially all of the Parent Company's revenues are obtained from subsidiary dividends and service fees. Payment of dividends to the Parent Company by the Bank is limited under California and Federal laws. The Company believes that regulatory dividend restrictions will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

## Capital Resources

The Company has historically generated high levels of earnings, which provides a means of raising capital. The Company's net income as a percentage of average common equity ("return on common equity" or "ROE") was 15.6% (annualized) in the first half of 2012, 16.1% in 2011 and 18.1% in 2010. The Company also raises capital as employees exercise stock options, which are awarded as a part of the Company's executive compensation programs to reinforce shareholders' interests in the Management of the Company. Capital raised through the exercise of stock options totaled \$1 million in the first half of 2012, \$14 million in 2011 and \$17 million in 2010.

The Company paid dividends totaling \$21 million in the first half of 2012, \$42 million in 2011 and \$42 million in 2010, which represent dividends per share of \$0.74, \$1.45 and \$1.44, respectively. The Company's earnings have historically exceeded dividends paid to shareholders. The amount of earnings in excess of dividends gives the Company resources to finance growth and maintain appropriate levels of shareholders' equity. In the absence of profitable growth opportunities, the Company has repurchased and retired its common stock as another means to return capital to shareholders. The Company repurchased and retired 566 thousand shares of common stock valued at \$26 million in the first half of 2012, 1.3 million shares valued at \$61 million in 2011 and 533 thousand shares valued at \$29 million in 2010.

The Company's shareholders' equity decreased \$715 thousand during the first half of 2012. The Company earned \$42 million in net income, raised \$1 million from issuance of stock in connection with exercises of employee stock options, paid \$21 million in dividends, and repurchased \$26 million in common stock.

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

#### Capital to Risk-Adjusted Assets

The following summarizes the ratios of capital to risk-adjusted assets for the Company on the dates indicated:

|                | At June 30, |         | At December |         | Minimum Well-capitalized |             | by         |            |
|----------------|-------------|---------|-------------|---------|--------------------------|-------------|------------|------------|
|                | 2012        | 2011    | 31,         | 31,     | Regulatory               | Regulatory  | Regulatory | Regulatory |
|                |             |         | 2011        | 2011    | Requirement              | Requirement | Definition | Definition |
| Tier I Capital | 14.46 %     | 14.58 % | 14.54 %     | 14.54 % | 4.00 %                   | 4.00 %      | 6.00 %     | 6.00 %     |
| Total Capital  | 15.74 %     | 15.92 % | 15.83 %     | 15.83 % | 8.00 %                   | 8.00 %      | 10.00 %    | 10.00 %    |
| Leverage ratio | 8.43 %      | 8.57 %  | 8.38 %      | 8.38 %  | 4.00 %                   | 4.00 %      | 5.00 %     | 5.00 %     |

The following summarizes the ratios of capital to risk-adjusted assets for the Bank on the dates indicated:

|                | At June 30, |         | At December |         | Minimum Well-capitalized |             | by         |            |
|----------------|-------------|---------|-------------|---------|--------------------------|-------------|------------|------------|
|                | 2012        | 2011    | 31,         | 31,     | Regulatory               | Regulatory  | Regulatory | Regulatory |
|                |             |         | 2011        | 2011    | Requirement              | Requirement | Definition | Definition |
| Tier I Capital | 13.85 %     | 14.23 % | 13.84 %     | 13.84 % | 4.00 %                   | 4.00 %      | 6.00 %     | 6.00 %     |
| Total Capital  | 15.32 %     | 15.75 % | 15.32 %     | 15.32 % | 8.00 %                   | 8.00 %      | 10.00 %    | 10.00 %    |
| Leverage ratio | 8.02 %      | 8.32 %  | 7.93 %      | 7.93 %  | 4.00 %                   | 4.00 %      | 5.00 %     | 5.00 %     |

FDIC-covered assets are generally included in the 20% risk-weighted category due to loss sharing agreements, which expire on February 5, 2019 as to the residential real estate covered assets and on February 5, 2014 as to non-residential real estate covered assets. Subsequent to such dates, previously FDIC-indemnified assets will generally be included in the 100% risk-weight category.

On June 7, 2012, the Federal Reserve Board invited comment on three proposed rules intended to improve the quality and increase the quantity of capital in the banking industry. The proposals' provisions which would most affect the regulatory capital requirements of the Company and the Bank:

- Redefine the type of capital which qualifies as regulatory capital in a manner which is more restrictive than current rules,
  - Introduce a new "Common Equity Tier 1" capital measurement,
    - Establish higher minimum levels of capital,
    - Introduce a "capital conservation buffer,"
-

Increase the risk-weighting of certain assets and commitments, in particular construction loans, loans on nonaccrual status, loans 90 days or more past due, short-term credit commitments, and deferred tax assets, and

- Alter the risk-weightings on residential real estate loans based on loan quality (underwriting standards and terms) and the loan-to-value ratio determined at time of origination or subsequent restructuring or modification.

Under the proposals, any bank which is unable to maintain its “capital conservation buffer” will be restricted in the payment of shareholder distributions, as an example dividends and share repurchases, and restricted in the payment of discretionary executive compensation. The proposals have phase-in schedules for the various provisions; the higher minimum capital requirements and changed risk-weightings are fully phased-in by January 1, 2015 and the “capital conservation buffer” is fully phased-in by January 1, 2019.

These proposals do not supersede the Federal Deposit Insurance Corporation Improvement Act (FDICIA) requiring federal banking agencies to take prompt corrective action (PCA) to resolve problems of insured depository institutions. The proposals would revise the PCA thresholds to incorporate the proposed regulatory capital minimums, including the newly proposed “common equity tier 1” ratios.

Management has evaluated the current capital structure and assets for the Company and the Bank as of June 30, 2012 assuming (1) the Federal Reserve’s proposed rules were currently fully phased-in and (2) the FDIC indemnification of the Bank’s purchased covered assets had expired, causing an increase in risk-weightings on such assets. Based on this evaluation, the Company and the Bank currently maintain capital in excess of all the proposed regulatory ratios, as follows:

|                      | Proposed            |   | "Well-capitalized" |   | Proposed Minimum Plus "Capital Conservation Buffer" |   | Proforma Measurements as of June 30, 2012 Assuming New Proposals Fully Phased-in and Covered Asset Indemnification Expired |   | Company Bank |   |
|----------------------|---------------------|---|--------------------|---|---|---|--|---|--------------|---|
|                      | Capital Requirement |   | Under PCA Proposal |   |   |   |  |   |              |   |
| Capital Measurement: |                     |   |                    |   |   |   |  |   |              |   |
| Leverage             | 4.00                | % | 5.00               | % | 4.00  | % | 8.65   | % | 8.22         | % |
| Common Equity Tier 1 | 4.50                | % | 6.50               | % | 7.00  | % | 13.06  | % | 12.47        | % |
| Tier I Capital       | 6.00                | % | 8.00               | % | 8.50  | % | 13.06  | % | 12.47        | % |
| Total Capital        | 8.00                | % | 10.00              | % | 10.50   | % | 14.12  | % | 13.54        | % |

The Company and the Bank intend to maintain regulatory capital in excess of the highest regulatory standard. The Company and the Bank routinely project capital levels by analyzing forecasted earnings, credit quality, securities valuations, shareholder dividends, asset volumes, share repurchase activity, stock option exercise proceeds, and other factors. Based on current capital projections, the Company and the Bank expect to maintain regulatory capital levels exceeding the highest effective regulatory standard and pay quarterly dividends to shareholders. No assurance can be given that changes in capital management plans will not occur.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be undertaken with the approval of the Company's Board of Directors. Interest rate risk and asset valuation risk, as discussed above are the most significant market risks affecting the Company. Other types of market risk, such as foreign currency exchange risk, equity price risk and commodity price risk, are not significant in the normal course of the Company's business activities.

### Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of June 30, 2012. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the



Securities and Exchange Commission's rules and forms and are effective in ensuring that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to Management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

Due to the nature of its business, the Company is subject to various threatened or filed legal cases resulting from loan collection efforts, transaction processing for deposit accounts, employment practices and other routine business activities. The Company establishes a liability for contingent litigation losses for any legal matter when payments associated with the claims become probable and the costs can be reasonably estimated. Legal costs related to covered assets are eighty percent indemnified under loss-sharing agreements with the FDIC if certain conditions are met.

## Item 1A. Risk Factors

The Company's Form 10-K as of December 31, 2011 includes detailed disclosure about the risks faced by the Company's business; such risks have not materially changed since the Form 10-K was filed.

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

(a) Previously reported on Form 8-K.

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended June 30, 2012.

| Period                                | (a)<br>Total<br>Number of<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Share | (c)  | (d)  |
|---------------------------------------|--|--|--|--|
|                                       |  |  | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs* | Maximum<br>Number<br>of Shares that<br>May<br>Yet Be<br>Purchased<br>Under the<br>Plans<br>or Programs |
| (In thousands, except per share data) |  |  |  |  |
| April 1<br>through<br>April 30        | 102  | \$ 46.58                                     | 102  | 1,018  |
| May 1<br>through<br>May 31            | 182  | 45.16  | 182  | 836  |
| June 1<br>through<br>June 30          | 33   | 43.59  | 33   | 803  |
| <b>Total</b>                          | <b>317</b>                                       | <b>\$ 45.45</b>                              | <b>317</b>   | <b>803</b>   |

\* Includes 3 thousand, 5 thousand and -0- thousand shares purchased in April, May and June, respectively, by the Company in private transactions with the independent administrator of the Company's Tax Deferred

Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

Shares were repurchased during the second quarter of 2012 pursuant to a program approved by the Board of Directors on July 28, 2011, authorizing the purchase of up to 2 million shares of the Company's common stock from time to time prior to September 1, 2012.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

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

- 50 -

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SIGNATURES

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

WESTAMERICA BANCORPORATION  
(Registrant)

/s/ JOHN "ROBERT" THORSON  
John "Robert" Thorson  
Senior Vice President and Chief Financial Officer  
(Chief Financial and Accounting Officer)

Date: August 2, 2012

- 51 -

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EXHIBIT INDEX

Exhibit 10 (s)\*: 2012 Amended and Restated Stock Option Plan of 1995, incorporated by reference to the Company's definitive proxy statement pursuant to Regulation 14A filed with the Securities and Exchange Commission on March 13, 2012

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

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

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

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

Exhibit 101: Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2012, is formatted in XBRL interactive data files: (i) Consolidated Statements of Income for the three and six months ended June 30, 2012 and 2011; (ii) Consolidated Balance Sheets at June 30, 2012, and December 31, 2011; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011, (iv) Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 and (vi) Notes to Consolidated Financial Statements.

\* Indicates management contract or compensatory plan or arrangement