WESTAMERICA BANCORPORATION
Form 10-Q
August 02, 2011
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from __________ to __________.

Commission file number: 001-09383
WESTAMERICA BANCORPORATION
(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA
(State or Other Jurisdiction of Incorporation or Organization)

94-2156203
(I.R.S. Employer Identification No.)

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901
(Address of Principal Executive Offices) (Zip Code)

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

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

Yes R 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 R 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):

Large accelerated filer R 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 R

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 25, 2011
Common Stock, No Par Value	28,523,000

TABLE OF CONTENTS

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 national and California economies and the effects of federal 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, 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 Company undertakes no obligation to update any forward-looking statements in this report. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2010, 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, 2011	At December 31, 2010
	(In thousands)	
Assets:		
Cash and due from banks	$320,119	$ 338,793
Money market assets	-	392
Investment securities available for sale	705,078	671,484
Investment securities held to maturity,		
with fair values of:		
$687,326 at June 30, 2011, $594,711 at December 31, 2010	669,452	580,728
Purchased covered loans	622,727	692,972
Purchased non-covered loans	164,844	199,571
Originated loans	1,963,642	2,029,541
Allowance for loan losses	(33,008)	(35,636)
Total loans	2,718,205	2,886,448
Non-covered other real estate owned	16,637	13,620
Covered other real estate owned	24,348	21,791
Premises and equipment, net	35,015	36,278
Identifiable intangibles, net	31,576	34,604
Goodwill	121,673	121,673
Other assets	234,628	225,713
Total Assets	$4,876,731	$ 4,931,524
Liabilities:		
Deposits		
Noninterest bearing deposits	$1,446,973	$ 1,454,663
Interest bearing deposits	2,641,412	2,678,298
Total deposits	4,088,385	4,132,961
Short-term borrowed funds	106,727	107,385
Federal Home Loan Bank advances	46,351	61,698
Debt financing and notes payable	25,853	26,363
Other liabilities	60,075	57,830
Total Liabilities	4,327,391	4,386,237
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares		
Issued and outstanding:		
28,540 at June 30, 2011, 29,090 at December 31, 2010	375,277	378,885
Deferred compensation	3,060	2,724
Accumulated other comprehensive income	8,251	159
Retained earnings	162,752	163,519
Total Shareholders' Equity	549,340	545,287

Total Liabilities and Shareholders' Equity	$4,876,731	$ 4,931,524

See accompanying notes to unaudited condensed consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	(In thousands, except per share data)			
Interest and Fee Income:				
Loans	$41,272	$44,060	$82,635	$88,762
Money market assets and funds sold	-	-	-	1
Investment securities available for sale	5,684	4,026	10,902	7,921
Investment securities held to maturity	6,132	6,992	12,045	14,397
Total Interest and Fee Income	53,088	55,078	105,582	111,081
Interest Expense:				
Deposits	1,777	2,180	3,667	4,668
Short-term borrowed funds	47	491	109	1,028
Federal Home Loan Bank advances	128	52	279	136
Debt financing and notes payable	201	422	401	847
Total Interest Expense	2,153	3,145	4,456	6,679
Net Interest Income	50,935	51,933	101,126	104,402
Provision for Loan Losses	2,800	2,800	5,600	5,600
Net Interest Income After Provision For Loan Losses	48,135	49,133	95,526	98,802
Noninterest Income:				
Service charges on deposit accounts	7,577	8,629	15,098	17,371
Merchant processing services	2,391	2,176	4,562	4,397
Debit card fees	1,283	1,245	2,484	2,419
ATM processing fees	997	1,021	1,932	1,912
Trust fees	482	448	975	829
Financial services commissions	117	223	146	372
Other	2,445	2,028	4,838	3,940
Total Noninterest Income	15,292	15,770	30,035	31,240
Noninterest Expense:				
Salaries and related benefits	14,913	15,476	29,988	31,368
Occupancy	4,050	3,822	8,075	7,599
Outsourced data processing services	2,122	2,202	4,578	4,442
Settlements	2,100	-	2,100	23
Amortization of identifiable intangibles	1,480	1,540	3,028	3,138
Professional fees	1,453	867	2,303	1,530
Furniture and equipment	1,038	1,116	1,971	2,167
Courier service	852	903	1,695	1,810
FDIC insurance assessments	740	1,260	1,960	2,580
Other	5,561	4,909	9,934	9,469
Total Noninterest Expense	34,309	32,095	65,632	64,126
Income Before Income Taxes	29,118	32,808	59,929	65,916
Provision for income taxes	7,849	9,247	16,278	18,779
Net Income	$21,269	$23,561	$43,651	$47,137
Average Common Shares Outstanding	28,771	29,207	28,895	29,217
Diluted Average Common Shares Outstanding	28,923	29,568	29,073	29,582
Per Common Share Data:				

Basic earnings	$0.74	$0.81	$1.51	$1.61
Diluted earnings	0.74	0.80	1.50	1.59
Dividends paid	0.36	0.36	0.72	0.72

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Deferred Compensation	Accumulated Comprehensive Income	Retained Earnings	Total
			(In thousands)			
Balance, December 31, 2009	29,208	$ 366,247	$ 2,485	$ 3,714	$ 133,002	$ 505,448
Comprehensive income						
Net income for the period					47,137	47,137
Other comprehensive income, net of tax:						
Increase in net unrealized gains on securities available for sale				2,582		2,582
Post-retirement benefit transition obligation amortization				18		18
Total comprehensive income						49,737
Exercise of stock options	210	8,783				8,783
Stock option tax benefits		796				796
Restricted stock activity	7	194	239			433
Stock based compensation		720				720
Stock awarded to employees	1	77				77
Purchase and retirement of stock	(308)	(3,828)			(13,392)	(17,220)
Dividends					(21,093)	(21,093)
Balance, June 30, 2010	29,118	$ 372,989	$ 2,724	$ 6,314	$ 145,654	$ 527,681
Balance, December 31, 2010	29,090	$ 378,885	$ 2,724	$ 159	$ 163,519	$ 545,287
Comprehensive income						
Net income for the period					43,651	43,651
Other comprehensive income, net of tax:						
Increase in net unrealized gains on securities available for sale				8,074		8,074
Post-retirement benefit transition obligation amortization				18		18
Total comprehensive income						51,743
Exercise of stock options	74	3,273				3,273
Stock option tax benefits		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

See accompanying notes to unaudited condensed consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the six months ended June 30, 2011	2010
	(In thousands)	
Operating Activities:		
Net income	$43,651	$47,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,943	7,589
Loan loss provision	5,600	5,600
Net amortization of deferred loan (fees) cost	(190)	28
(Increase) decrease in interest income receivable	(161)	657
Decrease in other assets	1,685	403
Increase in income taxes payable	212	2,899
Increase in net deferred tax asset	(571)	(11,275)
Decrease in interest expense payable	(328)	(1)
Increase (decrease) in other liabilities	4,581	(13,866)
Stock option compensation expense	720	720
Stock option tax benefits	(28)	(796)
Gain on sale of other assets	(800)	(608)
Net gain on sale of premises and equipment	(127)	(447)
Originations of mortgage loans for resale	(90)	(277)
Net proceeds from sale of mortgage loans originated for resale	93	288
Net gain on sale of foreclosed assets	(193)	(478)
Write-down of foreclosed assets	845	399
Net Cash Provided by Operating Activities	61,842	37,972
Investing Activities:		
Net repayments of loans	146,387	145,389
Proceeds from FDIC loss-sharing indemnification	5,265	29,841
Purchases of investment securities available for sale	(152,998)	(149,493)
Purchases of investment securities held to maturity	(128,294)	-
Proceeds from maturity/calls of securities available for sale	122,645	73,064
Proceeds from maturity/calls of securities held to maturity	41,749	73,977
Net change in FRB/FHLB* securities	(13,158)	3,121
Proceeds from sale of foreclosed assets	6,734	8,071
Purchases of premises and equipment	(250)	(448)
Proceeds from sale of premises and equipment	169	603
Net Cash Provided by Investing Activities	28,249	184,125
Financing Activities:		
Net change in deposits	(43,848)	(168,106)
Net change in short-term borrowings and FHLB advances	(15,658)	(92,152)
Exercise of stock options	3,273	8,783
Stock option tax benefits	28	796
Repurchases/retirement of stock	(31,684)	(17,220)

Dividends paid	(20,876)	(21,093)
Net Cash Used in Financing Activities	(108,765)	(288,992)
Net Change In Cash and Due from Banks	(18,674)	(66,895)
Cash and Due from Banks at Beginning of Period	338,793	361,135
Cash and Due from Banks at End of Period	$320,119	$294,240
Supplemental Cash Flow Disclosures:		
Supplemental disclosure of non cash activities:		
Loan collateral transferred to other real estate owned	$14,637	$13,749
Supplemental disclosure of cash flow activities:		
Interest paid for the period	6,299	8,058
Income tax payments for the period	16,638	27,257

See accompanying notes to unaudited condensed consolidated financial statements.
* Federal Reserve Bank/Federal Home Loan Bank ("FRB/FHLB")

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three and six months ended June 30, 2011 and 2010 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, 2010.

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, 2010. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Nonmarketable Equity Securities. Nonmarketable equity securities include securities that are not publicly traded and securities acquired for various purposes, such as to meet regulatory requirements (for example, Federal Home Loan Bank and Federal Reserve stock). These securities are accounted for under the cost method and are included in other assets. The Company reviews those assets accounted for under the cost method at least quarterly for possible declines in value that are considered “other than temporary”. The Company’s review typically includes an analysis of the facts and circumstances of each investment, the expectations for the investment’s cash flows and capital needs, the viability of its business model and exit strategy. The asset value is reduced when a decline in value is considered to be other than temporary. The Company recognizes the estimated loss as a loss from equity investments in noninterest income.

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 and the acquisition date fair value of purchased loans, which are discussed in the Company’s accounting policies.

As described in Note 3 below, Westamerica Bank (“Bank”) acquired assets and assumed liabilities of the former Sonoma Valley Bank (“Sonoma”) on August 20, 2010. The acquired assets and assumed liabilities were measured at estimated fair values, as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations. Management made significant estimates and exercised significant judgment in accounting for the acquisition. Management judgmentally measured loan fair values based on loan file reviews (including borrower financial statements and tax returns), appraised collateral values, expected cash flows, and historical loss factors. Repossessed loan collateral was primarily valued based upon appraised collateral values. The Bank also recorded an identifiable intangible asset representing the value of the core deposit customer base of Sonoma based on Management’s evaluation of the cost of such deposits relative to alternative funding sources. In determining the value of the identifiable intangible asset, Management used significant estimates including average lives of depository accounts, future interest rate levels, the cost of servicing various depository products, and other significant estimates. Management used quoted market prices to determine the fair value of investment securities and

FHLB advances.

The acquired assets of Sonoma include loans; such loans are not indemnified by the Federal Deposit Insurance Corporation (FDIC). However, on February 6, 2009, the Bank acquired loans in a business combination that are indemnified by the FDIC, as described in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Pursuant to acquisition accounting, the loans in each business combination were measured at their estimated fair value at the respective acquisition date. This method of measuring the carrying value of purchased loans differs from loans originated by the Company, and as such, the Company identifies purchased loans not indemnified by the FDIC as "Purchased Non-covered Loans" and purchased loans indemnified by the FDIC as "Purchased Covered Loans."

Loans originated by the Company are measured at the principal amount outstanding, net of unearned discount and unamortized deferred fees and costs. These loans are identified as "Originated Loans."

Recently Adopted Accounting Standards

FASB Accounting Standards Update (ASU) 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, was issued April 2011 providing additional guidance for creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The provisions of this standard are effective for the first interim or annual period beginning on or after June 15, 2011 with early adoption permissible, and should be applied retrospectively to the beginning of the annual period of adoption. The Company early adopted the provisions of this standard effective April 1, 2011 with retrospective application to January 1, 2011. One troubled debt restructuring was identified as a result of the adoption of this Update as disclosed in Note 5.

FASB ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (Topic 310), was issued January 2011 deferring the new disclosure requirements (paragraphs 310-10-50-31 through 50-34 of the FASB Accounting Standards Codification) about troubled debt restructurings to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring, as presented in proposed Accounting Standards Update, Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors. As a result of the issuance of Update 2011-02, the provisions of Update 2011-01 are effective for the first interim or annual period beginning on or after June 15, 2011 or July 1, 2011 for the Company, and should be applied retrospectively to the beginning of the annual period of adoption. The Company adopted the Update concurrent with ASU 2011-02.

Recently Issued 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 provisions of this Update are effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Management does not expect the adoption of the Update to 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 provisions of this Update are effective during the interim or annual periods beginning after December 15, 2011, and are to be applied prospectively. Management does not expect the adoption of the Update to 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 nonowner 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 provisions of this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and are to be applied retrospectively. Early adoption is permitted. Management does not expect the adoption of the Update to have a material effect on the Company's financial statements at the date of adoption.

Note 3: Acquisition

On August 20, 2010, the Bank purchased substantially all the assets and assumed substantially all the liabilities of Sonoma from the FDIC, as Receiver of Sonoma. Sonoma operated 3 commercial banking branches within Sonoma County, California. The FDIC took Sonoma under receivership upon Sonoma's closure by the California Department of Financial Institutions at the close of business August 20, 2010. Westamerica Bank purchased substantially all of Sonoma's net assets at a discount of $43,000 thousand and paid a $5,008 thousand deposit premium.

The Sonoma acquisition was accounted for under the purchase method of accounting in accordance with FASB ASC 805, Business Combinations. The statement of net assets acquired as of August 20, 2010 and the resulting bargain purchase gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of a merger as information relative to closing date fair values becomes available. A "bargain purchase" gain totaling $178 thousand resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. Sonoma's results of operations prior to the acquisition are not included in Westamerica's statement of income.

Statement of Net Assets Acquired (at fair value)

		At August 20, 2010 (In thousands)
Assets		
Cash and due from banks	$	57,895
Money market assets		26,050
Securities		7,223
Loans		213,664
Other real estate owned		2,916
Core deposit intangible		5,270
Other assets		2,065
Total Assets	$	315,083
Liabilities		
Deposits		252,563
Federal Home Loan Bank advances		61,872
Other liabilities		470
Total Liabilities		314,905
Net assets acquired	$	178

Statement of Net Assets Acquired (at fair value)

		At August 20, 2010 (In thousands)
Sonoma Valley Bank tangible shareholder's equity	$	13,923
Adjustments to reflect assets acquired and liabilities assumed at fair value:		
Cash payment from FDIC		21,270
Loans and leases, net		(34,562)

Other real estate owned		(1,491)
Other assets		(811)
Core deposit intangible		5,270
Deposits		(1,233)
Federal Home Loan Bank advances		(1,872)
Other liabilities		(316)
Gain on acquisition	$	178

Note 4: Investment Securities

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

	Investment securities available for sale At June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$3,546	$ 27	$ -	$3,573
Securities of U.S. Government sponsored entities	167,028	390	(554)	166,864
Residential mortgage-backed securities	100,150	5,045	(16)	105,179
Commercial mortgage-backed securities	4,827	12	(8)	4,831
Obligations of States and political subdivisions	265,340	4,628	(1,607)	268,361
Residential collateralized mortgage obligations	54,248	1,527	-	55,775
Asset-backed securities	8,305	-	(281)	8,024
FHLMC and FNMA stock	824	3,410	(4)	4,230
Corporate securities	83,776	377	(247)	83,906
Other securities	2,397	1,988	(50)	4,335
Total	$690,441	$ 17,404	$ (2,767)	$705,078

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

	Investment securities held to maturity At June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Residential mortgage-backed securities	$33,139	$ 1,702	$ -	$34,841
Obligations of States and political subdivisions	503,039	16,618	(629)	519,028
Residential collateralized mortgage obligations	133,274	2,274	(2,091)	133,457
Total	$669,452	$ 20,594	$ (2,720)	$687,326

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

	Investment securities available for sale At December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$3,554	$ -	$ (12)	$3,542
Securities of U.S. Government sponsored entities	175,080	162	(2,365)	172,877
Residential mortgage-backed securities	105,702	4,142	(15)	109,829
Commercial mortgage-backed securities	5,081	7	(23)	5,065

Obligations of States and political subdivisions	264,757	2,423	(6,047)	261,133
Residential collateralized mortgage obligations	24,709	894	-	25,603
Asset-backed securities	9,060	-	(774)	8,286
FHLMC and FNMA stock	824	42	(211)	655
Corporate securities	79,356	200	(365)	79,191
Other securities	2,655	2,699	(51)	5,303
Total	$670,778	$ 10,569	$ (9,863)	$671,484

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

	Investment securities held to maturity At December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Residential mortgage-backed securities	$40,531	$ 1,797	$ -	$42,328
Obligations of States and political subdivisions	455,372	13,142	(1,142)	467,372
Residential collateralized mortgage obligations	84,825	2,198	(2,012)	85,011
Total	$580,728	$ 17,137	$ (3,154)	$594,711

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

	At June 30, 2011			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$14,162	$14,230	$9,574	$9,590
Over 1 to 5 years	304,588	305,523	123,233	126,678
Over 5 to 10 years	62,451	63,277	325,489	337,477
Over 10 years	146,794	147,698	44,743	45,283
Subtotal	527,995	530,728	503,039	519,028
Mortgage-backed securities and residential collateralized mortgage obligations	159,225	165,785	166,413	168,298
Other securities	3,221	8,565	-	-
Total	$690,441	$705,078	$669,452	$687,326

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

	At December 31, 2010			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$21,362	$21,460	$6,057	$6,103
Over 1 to 5 years	315,777	314,605	92,837	95,608
Over 5 to 10 years	64,565	64,804	351,407	360,602
Over 10 years	130,103	124,160	5,071	5,059
Subtotal	531,807	525,029	455,372	467,372
Mortgage-backed securities and residential collateralized mortgage obligations	135,492	140,497	125,356	127,339
Other securities	3,479	5,958	-	-

Total	$670,778	$671,484	$580,728	$594,711

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.

An analysis of gross unrealized losses on the available for sale investment securiteis portfolio follows:

	Investment securities available for sale At June 30, 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	$66,561	$ (554)	$-	$ -	$66,561	$ (554)
Residential mortgage-backed securities	-	-	974	(16)	974	(16)
Commercial mortgage-backed securities	-	-	1,384	(8)	1,384	(8)
Obligations of States and political subdivisions	58,597	(1,187)	12,956	(420)	71,553	(1,607)
Asset-backed securities	-	-	8,024	(281)	8,024	(281)
FHLMC and FNMA stock	-	-	1	(4)	1	(4)
Corporate securities	39,753	(247)	-	-	39,753	(247)
Other securities	-	-	1,950	(50)	1,950	(50)
Total	$164,911	$ (1,988)	$25,289	$ (779)	$190,200	$ (2,767)

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

	Investment securities held to maturity At June 30, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Obligations of States and political subdivisions	$34,115	$ (334)	$9,821	$ (295)	$43,936	$ (629)
Residential collateralized mortgage obligations	22,259	(97)	16,856	(1,994)	39,115	(2,091)
Total	$56,374	$ (431)	$26,677	$ (2,289)	$83,051	$ (2,720)

The unrealized losses on the Company's investments in mortgage obligations and asset backed securities were caused by market conditions for these types of investments. The Company evaluates these securities on a quarterly basis including changes in security ratings issued by rating agencies, 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.

The unrealized losses on the Company's investments in obligations of states and political subdivisions were caused by conditions in the municipal securities market. The Company's investments in obligations of states and political subdivisions primarily finance essential community services such as school districts, water delivery systems, hospitals and fire protection services. Further, these bonds are primarily "bank qualified" issues whereby the issuing authority's total debt issued in any one year does not exceed $30 million, thereby qualifying the bonds for tax-exempt status for federal income tax purposes. The Company evaluates these securities quarterly to determine if a change in security rating has occurred or the municipality has experienced financial difficulties. Substantially all of these securities continue to be investment grade rated.

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, 2011.

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

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

	Investment securities available for sale At December 31, 2010					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Treasury securities	$3,542	$ (12)	$-	$ -	$3,542	$ (12)
Securities of U.S. Government sponsored entities	146,083	(2,365)	-	-	146,083	(2,365)
Residential mortgage-backed securities	1,534	(15)	-	-	1,534	(15)
Commercial mortgage-backed securities	3,028	(23)	-	-	3,028	(23)
Obligations of States and political subdivisions	132,014	(5,505)	10,341	(542)	142,355	(6,047)
Asset-backed securities	-	-	8,286	(774)	8,286	(774)
FHLMC and FNMA stock	550	(211)	-	-	550	(211)
Corporate securities	44,752	(365)	-	-	44,752	(365)
Other securities	1	-	1,948	(51)	1,949	(51)
Total	$331,504	$ (8,496)	$20,575	$ (1,367)	$352,079	$ (9,863)

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

	Investment securities held to maturity At December 31, 2010					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Obligations of States and political subdivisions	$22,157	$ (382)	$18,663	$ (760)	$40,820	$ (1,142)
Residential collateralized mortgage obligations	-	-	20,182	(2,012)	20,182	(2,012)
Total	$22,157	$ (382)	$38,845	$ (2,772)	$61,002	$ (3,154)

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

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Taxable	$4,223	$4,199	$7,980	$8,628
Tax-exempt	7,593	6,819	14,967	13,690
Total interest income from investment securities	$11,816	$11,018	$22,947	$22,318

Note 5: Loans and Allowance for Credit Losses

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

	At June 30, 2011	At December 31, 2010
	(In thousands)	
Originated loans:		
Commercial	$429,033	$ 474,183
Commercial real estate	734,811	757,140
Construction	25,698	26,145
Residential real estate	293,771	310,196
Consumer installment & other	480,329	461,877
Total	$1,963,642	$ 2,029,541

A summary of the major categories of purchased covered loans is shown in the following table:

	As of June 30, 2011			As of December 31, 2010		
	Impaired Purchased Covered Loans	Non Impaired Purchased Covered Loans	Total Purchased Covered Loans	Impaired Purchased Covered Loans	Non Impaired Purchased Covered Loans	Total Purchased Covered Loans
	(In thousands)			(In thousands)		
Purchased covered loans:						
Commercial	$6,593	$ 125,530	$ 132,123	$10,014	$ 158,971	$ 168,985
Commercial real estate	12,507	364,661	377,168	14,079	376,603	390,682
Construction	5,997	11,709	17,706	9,073	19,307	28,380
Residential real estate	138	13,724	13,862	138	18,236	18,374
Consumer installment & other	244	81,624	81,868	252	86,299	86,551
Total	$25,479	$ 597,248	$ 622,727	$33,556	$ 659,416	$ 692,972

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

	Six months ended June 30, 2011	Year ended December 31, 2010
	(In thousands)	
Carrying amount at the beginning of the period	$33,556	$ 43,196
Reductions during the period	(8,077)	(9,640)
Carrying amount at the end of the period	$25,479	$ 33,556

Impaired purchased covered loans had an unpaid principal balance (less prior charge-offs) of $34,517 thousand and $48,471 thousand at June 30, 2011 and December 31, 2010, respectively.

A summary of the major categories of purchased non-covered loans is shown in the following table. Re-classification of some purchased non-covered loans occurred in the first quarter 2011 upon conversion of such loans to the

Company's accounting systems.

	At June 30, 2011			At December 31, 2010		
	Impaired Purchased Non-covered Loans	Non Impaired Purchased Non-covered Loans	Total Purchased Non-covered Loans	Impaired Purchased Non-covered Loans	Non Impaired Purchased Non-covered Loans	Total Purchased Non-covered Loans
	(In thousands)			(In thousands)		
Purchased non-covered loans:						
Commercial	$1,294	$ 14,121	$ 15,415	$415	$ 15,005	$ 15,420
Commercial real estate	15,876	85,516	101,392	22,988	99,900	122,888
Construction	4,001	10,844	14,845	6,514	15,106	21,620
Residential real estate	311	5,970	6,281	311	6,744	7,055
Consumer installment & other	459	26,452	26,911	1,790	30,798	32,588
Total	$21,941	$ 142,903	$ 164,844	$32,018	$ 167,553	$ 199,571

The following table represents the non impaired purchased non-covered loans receivable at the acquisition date of August 20, 2010. The amounts include principal only and do not reflect accrued interest as of the date of acquisition or beyond:

Non impaired purchased non-covered loans receivable

	At August 20, 2010 (In thousands)
Gross contractual loan principal payment receivable	$ 188,206
Estimate of contractual principal not expected to be collected	(15,058)
Fair value of non impaired purchased loans receivable	$ 175,922

The Company applied the cost recovery method to impaired purchased non-covered loans at the acquisition date of August 20, 2010 due to the uncertainty as to the timing of expected cash flows as reflected in the following table:

Impaired purchased non-covered loans

	At August 20, 2010 (In thousands)
Contractually required payments receivable (including interest)	$ 70,882
Nonaccretable difference	(33,140)
Cash flows expected to be collected	37,742
Accretable difference	-
Fair value of loans acquired	$ 37,742

Changes in the carrying amount of impaired purchased non-covered loans were as follows for the periods indicated below from August 20, 2010 (acquisition date) through June 30, 2011:

	Six months ended June 30, 2011	August 20, 2010 through December 31, 2010
	Impaired purchased non-covered loans (In thousands)	
Carrying amount at the beginning of the period	$ 32,018	$ 37,742
Reductions during the period	(10,077)	(5,724)
Carrying amount at the end of the period	$ 21,941	$ 32,018

Impaired purchased non-covered loans had an unpaid principal balance (less prior charge-offs) of $33,642 thousand, $50,875 thousand and $59,662 thousand at June 30, 2011, December 31, 2010 and August 20, 2010, respectively.

The following summarizes activity in the allowance for credit losses:

	Allowance for Credit Losses For the Six Months Ended June 30, 2011						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
	(In thousands)						
Allowance for credit losses:							
Beginning balance	$9,878	$ 9,607	$ 3,559	$ 617	$ 6,982	$ 7,686	$38,329
Charge-offs	(4,987)	-	(1,475)	(527)	(3,475)	-	(10,464)
Recoveries	643	-	-	-	1,593	-	2,236
Provision	2,967	667	1,980	376	(1,431)	1,041	5,600
Ending balance	$8,501	$ 10,274	$ 4,064	$ 466	$ 3,669	$ 8,727	$35,701
Components:							
Allowance for loan losses	$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	$8,501	$ 10,274	$ 4,064	$ 466	$ 3,669	$ 8,727	$35,701
Ending balance: individually evaluated for impairment	$-	$ 399	$ 1,514	$ -	$ -	$ -	$1,913
Ending balance: collectively evaluated for impairment	$8,501	$ 9,875	$ 2,550	$ 466	$ 3,669	$ 8,727	$33,788
Ending balance: loans acquired with deteriorated quality	$-	$ -	$ -	$ -	$ -	$ -	$-

	Allowance for Credit Losses At December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
	(In thousands)						
Allowance for credit losses Components:							
Allowance for loan losses	$ 8,094	$ 9,607	$ 3,260	$ 617	$ 6,372	$ 7,686	$ 35,636
Liability for off-balance sheet credit exposure	1,784	-	299	-	610	-	2,693
Total	$ 9,878	$ 9,607	$ 3,559	$ 617	$ 6,982	$ 7,686	$ 38,329
Ending balance: individually evaluated for impairment	$ -	$ -	$ 1,365	$ -	$ -	$ -	$ 1,365
Ending balance: collectively evaluated	$ 9,878	$ 9,607	$ 2,194	$ 617	$ 6,982	$ 7,686	$ 36,964

for impairment							
Ending balance: loans acquired with deteriorated quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The recorded investment in loans related to the allowance for credit losses was as follows:

	At June 30, 2011						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
	(In thousands)						
Purchased loans principal balance	$176,566	$513,345	$ 39,501	$ 21,134	$114,630	$ -	$865,176
Default risk purchase discount	(29,028)	(34,785)	(6,950)	(991)	(5,851)	-	(77,605)
Purchased loans recorded investment	147,538	478,560	32,551	20,143	108,779	-	787,571
Originated loans	429,033	734,811	25,698	293,771	480,329	-	1,963,642
Ending balance	$576,571	$1,213,371	$ 58,249	$ 313,914	$589,108	$ -	$2,751,213

	At December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
	(In thousands)						
Purchased loans principal balance	$215,728	$ 554,619	$ 60,983	$ 26,420	$128,959	$ -	$986,709
Default risk purchase discount	(31,323)	(41,049)	(10,983)	(991)	(9,820)	-	(94,166)
Purchased loans recorded investment	184,405	513,570	50,000	25,429	119,139	-	892,543
Originated loans	474,183	757,140	26,145	310,196	461,877		