WESTAMERICA BANCORPORATION
Form 10-Q
April 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from __________ to __________.

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

CALIFORNIA	94-2156203
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

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

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

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

Yes þ No o

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

Yes þ No o

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

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

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

Yes o No þ

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

Title of Class	Shares outstanding as of April 21, 2014
Common Stock, No Par Value	26,308,078

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management's current knowledge and belief and include information concerning the Company's possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company's ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of 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 a failure or breach in data processing systems or those of third party vendors and other service providers, including as a result of cyber attacks 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, 2013, 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 March 31, 2014	At December 31, 2013
	(In thousands)	
Assets:		
Cash and due from banks	$428,840	$ 472,028
Investment securities available for sale	1,240,288	1,079,381
Investment securities held to maturity, with fair values of: $1,103,827 at March 31, 2014 and $1,112,676 at December 31, 2013	1,110,329	1,132,299
Loans	1,816,319	1,827,744
Allowance for loan losses	(32,109)	(31,693)
Loans, net of allowance for loan losses	1,784,210	1,796,051
Other real estate owned	12,186	13,320
Premises and equipment, net	36,675	37,314
Identifiable intangibles, net	17,452	18,557
Goodwill	121,673	121,673
Other assets	169,389	176,432
Total Assets	$4,921,042	$ 4,847,055
Liabilities:		
Noninterest bearing deposits	$1,778,034	$ 1,740,182
Interest bearing deposits	2,436,749	2,423,599
Total deposits	4,214,783	4,163,781
Short-term borrowed funds	64,382	62,668
Federal Home Loan Bank advances	20,437	20,577
Term repurchase agreement	10,000	10,000
Other liabilities	70,557	47,095
Total Liabilities	4,380,159	4,304,121
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares Issued and outstanding: 26,299 at March 31, 2014 and 26,510 at December 31, 2013	383,490	378,946
Deferred compensation	2,711	2,711
Accumulated other comprehensive income	8,856	4,313
Retained earnings	145,826	156,964
Total Shareholders' Equity	540,883	542,934
Total Liabilities and Shareholders' Equity	$4,921,042	$ 4,847,055

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months Ended March 31, 2014	2013
	(In thousands, except per share data)	
Interest and Fee Income:		
Loans	$ 22,901	$ 27,399
Investment securities available for sale	5,630	5,336
Investment securities held to maturity	7,033	7,730
Total Interest and Fee Income	35,564	40,465
Interest Expense:		
Deposits	754	899
Short-term borrowed funds	20	11
Term repurchase agreement	25	24
Federal Home Loan Bank advances	99	118
Debt financing	-	200
Total Interest Expense	898	1,252
Net Interest Income	34,666	39,213
Provision for Loan Losses	1,000	2,800
Net Interest Income After Provision For Loan Losses	33,666	36,413
Noninterest Income:		
Service charges on deposit accounts	6,010	6,542
Merchant processing services	1,924	2,409
Debit card fees	1,405	1,358
Other service fees	661	762
Trust fees	654	568
ATM processing fees	620	705
Financial services commissions	171	180
Other	1,545	1,754
Total Noninterest Income	12,990	14,278
Noninterest Expense:		
Salaries and related benefits	14,126	14,403
Occupancy	3,727	3,886
Outsourced data processing services	2,105	2,157
Amortization of identifiable intangibles	1,105	1,219
Furniture and equipment	1,005	880
Courier service	610	741
Professional fees	430	635
Other real estate owned	(350)	334
Other	4,115	4,422
Total Noninterest Expense	26,873	28,677
Income Before Income Taxes	19,783	22,014
Provision for income taxes	4,476	4,743
Net Income	$ 15,307	$ 17,271

Average Common Shares Outstanding	26,433	27,145
Diluted Average Common Shares Outstanding	26,537	27,157
Per Common Share Data:		
Basic earnings	$ 0.58	$ 0.64
Diluted earnings	0.58	0.64
Dividends paid	0.38	0.37

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Net income	$ 15,307	$ 17,271
Other comprehensive income:		
Increase in net unrealized gains on securities available for sale	7,823	1,272
Deferred tax expense	(3,289)	(534)
Increase in net unrealized gains on securities available for sale, net of tax	4,534	738
Post-retirement benefit transition obligation amortization	15	15
Deferred tax expense	(6)	(6)
Post-retirement benefit transition obligation amortization, net of tax	9	9
Total other comprehensive income	4,543	747
Total comprehensive income	$ 19,850	$ 18,018

See accompanying notes to unaudited consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Accumulated Deferred Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Total
			(In thousands)			
Balance, December 31, 2012	27,213	$372,012	$ 3,101	$ 14,625	$170,364	$560,102
Net income for the period					17,271	17,271
Other comprehensive income				747		747
Exercise of stock options	151	6,156				6,156
Tax benefit decrease upon exercise of stock options		(191)				(191)
Stock based compensation		379				379
Stock awarded to employees	1	42				42
Purchase and retirement of stock	(347)	(4,819)			(10,623)	(15,442)
Dividends					(10,084)	(10,084)
Balance, March 31, 2013	27,018	$373,579	$ 3,101	$ 15,372	$166,928	$558,980
Balance, December 31, 2013	26,510	$378,946	$ 2,711	$ 4,313	$156,964	$542,934
Net income for the period					15,307	15,307
Other comprehensive income				4,543		4,543
Exercise of stock options	225	10,853				10,853
Tax benefit decrease upon exercise of stock options		(369)				(369)
Stock based compensation		359				359
Stock awarded to employees	1	52				52
Purchase and retirement of stock	(437)	(6,351)			(16,359)	(22,710)
Dividends					(10,086)	(10,086)
Balance, March 31, 2014	26,299	$383,490	$ 2,711	$ 8,856	$145,826	$540,883

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Three Months Ended March 31, 2014	2013
	(In thousands)	
Operating Activities:		
Net income	$ 15,307	$ 17,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,103	4,322
Loan loss provision	1,000	2,800
Net amortization of deferred loan fees	(30)	(80)
Decrease (increase) in interest income receivable	643	(199)
Increase in deferred tax asset	(756)	(673)
Increase in other assets	(185)	(663)
Stock option compensation expense	359	379
Tax benefit decrease upon exercise of stock options	369	191
Increase in income taxes payable	5,232	5,482
Increase in interest expense payable	5	252
Increase (decrease) in other liabilities	8,507	(6,726)
Gain on sale of other assets	(400)	(274)
Writedown/loss on sale of premises and equipment	16	6
Originations of mortgage loans for resale	-	(90)
Proceeds from sale of mortgage loans originated for resale	-	92
Net gain on sale of foreclosed assets	(493)	(181)
Writedown of foreclosed assets	69	592
Net Cash Provided by Operating Activities	33,746	22,501
Investing Activities:		
Net repayments of loans	9,598	72,880
Proceeds from FDIC* loss-sharing agreement	44	1,344
Purchases of investment securities available for sale	(237,948)	(175,901)
Proceeds from sale/maturity/calls of securities available for sale	99,350	30,166
Purchases of investment securities held to maturity	(17,993)	(59,677)
Proceeds from maturity/calls of securities held to maturity	34,403	51,876
Purchases of premises and equipment	(166)	(617)
Proceeds from sale of FRB/FHLB** stock	3,248	738
Proceeds from sale of foreclosed assets	2,159	2,611
Net Cash Used in Investing Activities	(107,305)	(76,580)
Financing Activities:		
Net change in deposits	51,063	(70,450)
Net change in short-term borrowings	1,620	8,167
Exercise of stock options/issuance of shares	10,853	6,156
Tax benefit decrease upon exercise of stock options	(369)	(191)
Retirement of common stock including repurchases	(22,710)	(15,442)
Common stock dividends paid	(10,086)	(10,084)

Net Cash Provided by (Used in) Financing Activities		30,371		(81,844)
Net Change In Cash and Due from Banks		(43,188)		(135,923)
Cash and Due from Banks at Beginning of Period		472,028		491,382
Cash and Due from Banks at End of Period	$	428,840	$	355,459
Supplemental Cash Flow Disclosures:				
Supplemental disclosure of noncash activities:				
Loan collateral transferred to other real estate owned	$	968	$	640
Securities purchases pending settlement		(11,231)		-
Supplemental disclosure of cash flow activities:				
Interest paid for the period		987		1,132
Income tax payments for the period		-		126

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three months ended March 31, 2014 and 2013 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, 2013.

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

Note 2: Accounting Policies

The Company’s accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. 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 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 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, was issued July 2013 to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar loss, or a tax credit carryforward exists. The update provides that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, unless an exception applies. The adoption of the update did not have a material effect on the Company’s financial statements at January 1, 2014, the date adopted.

Recently Issued Accounting Standards

FASB ASU 2014-01, Investments- Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects, was issued January 2014 to permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the investment should be accounted for as an equity method investment or a cost method investment in accordance with

GAAP. The policy election must be applied consistently to all qualified affordable housing project investments.

The update also requires a reporting entity to disclose information regarding its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations.

Management is evaluating the impact that the change in accounting policy would have on the Company's financial statements. Management does not expect the adoption of this update to have a material effect on the financial statements when adopted on January 1, 2015.

Note 3: Investment Securities

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

	Investment Securities Available for Sale At March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 3,499	$ 9	$ -	$ 3,508
Securities of U.S. Government sponsored entities	329,589	108	(1,387)	328,310
Residential mortgage-backed securities	30,154	1,791	(18)	31,927
Commercial mortgage-backed securities	3,216	10	(5)	3,221
Obligations of states and political subdivisions	180,011	7,635	(222)	187,424
Residential collateralized mortgage obligations	259,615	674	(12,460)	247,829
Asset-backed securities	9,322	5	(56)	9,271
FHLMC and FNMA stock	804	16,241	-	17,045
Corporate securities	406,526	3,180	(609)	409,097
Other securities	2,039	767	(150)	2,656
Total	$ 1,224,775	$ 30,420	$ (14,907)	$ 1,240,288

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

	Investment Securities Held to Maturity At March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	$ 1,428	$ -	$ (4)	$ 1,424
Residential mortgage-backed securities	63,048	855	(388)	63,515
Obligations of states and political subdivisions	748,520	7,414	(11,409)	744,525
Residential collateralized mortgage obligations	297,333	1,622	(4,592)	294,363
Total	$ 1,110,329	$ 9,891	$ (16,393)	$ 1,103,827

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

	Investment Securities Available for Sale At December 31, 2013			
	Amortized	Gross	Gross	Fair

	Cost	Unrealized Gains	Unrealized Losses	Value
		(In thousands)		
U.S. Treasury securities	$ 3,500	$ 9	$ (3)	$ 3,506
Securities of U.S. Government sponsored entities	131,080	75	(663)	130,492
Residential mortgage-backed securities	32,428	1,763	(15)	34,176
Commercial mortgage-backed securities	3,411	19	(5)	3,425
Obligations of states and political subdivisions	186,082	5,627	(323)	191,386
Residential collateralized mortgage obligations	266,890	730	(14,724)	252,896
Asset-backed securities	14,653	3	(101)	14,555
FHLMC and FNMA stock	804	12,568	-	13,372
Corporate securities	430,794	2,901	(1,264)	432,431
Other securities	2,049	1,251	(158)	3,142
Total	$ 1,071,691	$ 24,946	$ (17,256)	$ 1,079,381

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

	Investment Securities Held to Maturity At December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	$ 1,601	$ -	$ (4)	$ 1,597
Residential mortgage-backed securities	65,076	854	(624)	65,306
Obligations of states and political subdivisions	756,707	6,211	(21,667)	741,251
Residential collateralized mortgage obligations	308,915	1,209	(5,602)	304,522
Total	$ 1,132,299	$ 8,274	$ (27,897)	$ 1,112,676

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

	At March 31, 2014			
	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	$ 35,521	$ 35,862	$ 8,947	$ 9,215
Over 1 to 5 years	726,407	728,374	206,687	209,237
Over 5 to 10 years	84,231	86,679	299,437	298,232
Over 10 years	82,788	86,695	234,877	229,265
Subtotal	928,947	937,610	749,948	745,949
Mortgage-backed securities and residential collateralized mortgage obligations	292,985	282,977	360,381	357,878
Other securities	2,843	19,701	-	-
Total	$ 1,224,775	$ 1,240,288	$ 1,110,329	$ 1,103,827

	At December 31, 2013			
	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	$ 75,385	$ 75,609	$ 9,639	$ 9,900
Over 1 to 5 years	536,333	538,111	187,051	189,827
Over 5 to 10 years	66,669	68,166	314,630	310,104
Over 10 years	87,722	90,484	246,988	233,017
Subtotal	766,109	772,370	758,308	742,848

Mortgage-backed securities and residential collateralized mortgage obligations	302,729	290,497	373,991	369,828
Other securities	2,853	16,514	-	-
Total	$1,071,691	$1,079,381	$ 1,132,299	$ 1,112,676

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 March 31, 2014 and December 31, 2013, 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 March 31, 2014					
	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	$239,558	$ (1,360)	$8,968	$ (27)	$248,526	$ (1,387)
Residential mortgage-backed securities	-	-	848	(18)	848	(18)
Commercial mortgage-backed securities	960	(5)	-	-	960	(5)
Obligations of states and political subdivisions	11,098	(123)	3,683	(99)	14,781	(222)
Residential collateralized mortgage obligations	154,576	(9,107)	68,889	(3,353)	223,465	(12,460)
Asset-backed securities	-	-	4,205	(56)	4,205	(56)
Corporate securities	38,415	(123)	50,693	(486)	89,108	(609)
Other securities	-	-	1,850	(150)	1,850	(150)
Total	$444,607	$ (10,718)	$139,136	$ (4,189)	$583,743	$ (14,907)

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

	Investment Securities Held to Maturity At March 31, 2014					
	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	$1,424	$ (4)	$-	$ -	$1,424	$ (4)
Residential mortgage-backed securities	29,321	(276)	7,235	(112)	36,556	(388)
Obligations of states and political subdivisions	201,958	(3,292)	150,776	(8,117)	352,734	(11,409)
Residential collateralized mortgage obligations	202,785	(4,572)	1,655	(20)	204,440	(4,592)
Total	$435,488	$ (8,144)	$159,666	$ (8,249)	$595,154	$ (16,393)

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

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of March 31, 2014.

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

As of March 31, 2014, $876,491 thousand of investment securities were pledged to secure public deposits, short-term borrowed funds, and term repurchase agreements, compared to $778,588 thousand at December 31, 2013.

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

	Investment Securities Available for Sale At December 31, 2013					
	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	$2,994	$ (3)	$-	$ -	$2,994	$ (3)
Securities of U.S. Government sponsored entities	91,669	(663)	-	-	91,669	(663)
Residential mortgage-backed securities	864	(15)	-	-	864	(15)
Commercial mortgage-backed securities	1,072	(5)	-	-	1,072	(5)
Obligations of states and political subdivisions	17,516	(222)	3,214	(101)	20,730	(323)
Residential collateralized mortgage obligations	187,848	(12,326)	40,575	(2,398)	228,423	(14,724)
Asset-backed securities	5,002	(1)	4,475	(100)	9,477	(101)
Corporate securities	117,751	(1,087)	9,824	(177)	127,575	(1,264)
Other securities	-	-	1,842	(158)	1,842	(158)
Total	$424,716	$ (14,322)	$59,930	$ (2,934)	$484,646	$ (17,256)

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

	Investment Securities Held to Maturity At December 31, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Securities of U.S. Government sponsored entities	$1,597	$ (4)	$-	$ -	$1,597	$ (4)
Residential mortgage-backed securities	38,396	(616)	392	(8)	38,788	(624)
Obligations of states and political subdivisions	355,797	(14,893)	64,427	(6,774)	420,224	(21,667)
Residential collateralized mortgage obligations	214,981	(5,175)	14,120	(427)	229,101	(5,602)
Total	$610,771	$ (20,688)	$78,939	$ (7,209)	$689,710	$ (27,897)

The unrealized losses on the Company’s investment securities were caused by market conditions for these types of investments, particularly rising risk-free interest rates causing bond prices to decline.

The following table provides information about the amount of interest income earned on investment securities which is fully taxable and which is exempt from regular federal income tax:

	For the Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Taxable:		
Mortgage related securities	$ 3,053	$ 3,561
Other	2,630	1,974
Total taxable	5,683	5,535
Tax-exempt	6,980	7,531
Total interest income from investment securities	$ 12,663	$ 13,066

Note 4: Loans and Allowance for Credit Losses

FDIC indemnification expired February 6, 2014 for County Bank non-single-family residential collateralized purchased loans; accordingly, such loans have been reclassified from purchased covered loans to purchased non-covered loans.

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

	At March 31, 2014					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
			(In thousands)			
Originated loans	$360,151	$ 595,210	$9,837	$ 170,176	$ 394,128	$1,529,502
Purchased covered loans:						
Gross purchased covered loans	-	-	-	4,856	14,756	19,612
Credit risk discount	-	-	-	(434)	(209)	(643)
Purchased non-covered loans:						
Gross purchased non-covered loans	25,643	200,358	3,199	991	49,797	279,988
Credit risk discount	(2,134)	(7,892)	(50)	(262)	(1,802)	(12,140)
Total	$383,660	$ 787,676	$12,986	$ 175,327	$ 456,670	$1,816,319

	At December 31, 2013					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
			(In thousands)			
Originated loans	$338,824	$ 596,653	$10,723	$ 176,196	$ 400,888	$1,523,284
Purchased covered loans:						
Gross purchased covered loans	20,066	175,562	3,223	8,558	54,194	261,603
Credit risk discount	(1,530)	(8,122)	(50)	(434)	(797)	(10,933)
Purchased non-covered loans:						
Gross purchased non-covered loans	7,525	35,712	-	999	12,799	57,035
Credit risk discount	(726)	(786)	-	(262)	(1,471)	(3,245)
Total	$364,159	$ 799,019	$13,896	$ 185,057	$ 465,613	$1,827,744

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

	For the Three Months Ended	For the Year Ended December 31, 2013

	March 31, 2014	
Impaired purchased loans	(In thousands)	
Carrying amount at the beginning of the period	$ 4,936	$ 14,629
Reductions during the period	(19)	(9,693)
Carrying amount at the end of the period	$ 4,917	$ 4,936

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

	For the Three Months Ended March 31, 2014	For the Year Ended December 31, 2013
Accretable yield:	(In thousands)	
Balance at the beginning of the period	$ 2,505	$ 4,948
Reclassification from nonaccretable difference	909	12,504
Accretion	(1,149)	(14,947)
Balance at the end of the period	$ 2,265	$ 2,505
Accretion	$ (1,149)	$ (14,947)
Reduction in FDIC indemnification asset	211	11,438
(Increase) in interest income	$ (938)	$ (3,509)

The following summarizes activity in the allowance for credit losses:

Allowance for Credit Losses
For the Three Months Ended March 31, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
	(In thousands)								
Allowance for loan losses:									
Balance at beginning of period	$4,005	$12,070	$602	$405	$3,198	$-	$1,561	$9,852	$31,693
Additions:									
Provision	130	(974)	(160)	86	214	1,272	-	432	1,000
Deductions:									
Chargeoffs	(60)	-	-	-	(999)	(260)	-	-	(1,319)
Recoveries	168	163	3	-	400	1	-	-	735
Net loan losses	108	163	3	-	(599)	(259)	-	-	(584)
Indemnification expiration	-	-	-	-	-	1,561	(1,561)	-	
Balance at end of period	4,243	11,259	445	491	2,813	2,574	-	10,284	32,109
Liability for off-balance sheet credit exposure	1,672	-	185	-	440	251	-	145	2,693
Total allowance for credit losses	$5,915	$11,259	$630	$491	$3,253	$2,825	$-	$10,429	$34,802

Allowance for Credit Losses
For the Three Months Ended March 31, 2013

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
	(In thousands)								
Allowance for loan losses:									
Balance at beginning of period	$6,445	$ 10,063	$ 484	$ 380	$ 3,194	$ -	$ 1,005	$ 8,663	$30,234
Additions:									

Provision	531	994	(4)	246	281	-	87	665	2,800
Deductions:									
Chargeoffs	(1,902)	(113)	-	(87)	(1,308)	-	(359)	-	(3,769)
Recoveries	462	21	-	-	601	-	5	-	1,089
Net loan losses	(1,440)	(92)	-	(87)	(707)	-	(354)	-	(2,680)
Balance at end of period	5,536	10,965	480	539	2,768	-	738	9,328	30,354
Liability for off-balance sheet credit exposure	1,663	3	-	-	453	-	-	574	2,693
Total allowance for credit losses	$ 7,199	$ 10,968	$ 480	$ 539	$ 3,221	$ -	$ 738	$ 9,902	$ 33,047

The allowance for credit losses and recorded investment in loans were evaluated for impairment as follows:

Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment
At March 31, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for credit losses:									
Individually evaluated for impairment	$ 100	$ 550	$ -	$ -	$ -	$ 895	$ -	$ -	$ 1,545
Collectively evaluated for impairment	5,815	10,709	630	491	3,253	1,930	-	10,429	33,257
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	$ 5,915	$ 11,259	$ 630	$ 491	$ 3,253	$ 2,825	$ -	$ 10,429	$ 34,802
Carrying value of loans:									
Individually evaluated for impairment	$ 3,675	$ 2,761	$ -	$ -	$ -	$ 13,489	$ -	$ -	$ 19,925
Collectively evaluated for impairment	356,476	592,449	9,837	170,176	394,128	249,684	18,727	-	1,791,47
Purchased loans with evidence of credit deterioration	-	-	-	-	-	4,675	242	-	4,917
Total	$ 360,151	$ 595,210	$ 9,837	$ 170,176	$ 394,128	$ 267,848	$ 18,969	$ -	$ 1,816,31

Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment
At December 31, 2013

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for credit losses:									
Individually evaluated for impairment	$100	$1,243	$-	$-	$-	$-	$153	$-	$1,496
Collectively evaluated for impairment	5,563	10,827	639	405	3,695	-	1,408	10,353	32,890
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	$5,663	$12,070	$639	$405	$3,695	$-	$1,561	$10,353	$34,386
Carrying value of loans:									
Individually evaluated for impairment	$3,901	$3,357	$-	$-	$-	$3,785	$9,999	$-	$21,042
Collectively evaluated for impairment	334,923	593,296	10,723	176,196	400,888	47,571	238,169	-	1,801,7
Purchased loans with evidence of credit deterioration	-	-	-	-	-	2,434	2,502	-	4,936
Total	$338,824	$596,653	$10,723	$176,196	$400,888	$53,790	$250,670	$-	$1,827,7

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

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

Credit Risk Profile by Internally Assigned Grade
At March 31, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
				(In thousands)				
Grade:								
Pass	$349,979	$ 550,932	$ 9,837	$ 168,110	$ 392,931	$ 209,451	$ 17,962	$1,699,202
Substandard	9,157	44,278	-	2,066	983	70,109	1,650	128,243

Doubtful	1,015	-	-	-	17	402	-	1,434
Loss	-	-	-	-	197	26	-	223
Credit risk discount	-	-	-	-	-	(12,140)	(643)	(12,783)
Total	$360,151	$595,210	$9,837	$170,176	$394,128	$267,848	$18,969	$1,816,319

(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, 2013

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
	(In thousands)							
Grade:								
Pass	$329,667	$554,991	$10,274	$174,113	$399,377	$41,490	$196,882	$1,706,794
Substandard	8,142	41,662	449	2,083	1,127	14,587	64,624	132,674
Doubtful	1,015	-	-	-	19	958	97	2,089
Loss	-	-	-	-	365	-	-	365
Credit risk discount	-	-	-	-	-	(3,245)	(10,933)	(14,178)
Total	$338,824	$596,653	$10,723	$176,196	$400,888	$53,790	$250,670	$1,827,744

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

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The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status
At March 31, 2014

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 days or More and Accruing	Nonaccrual	Total Loans
			(In thousands)			
Commercial	$357,553	$1,220	$31	$-	$1,347	$360,151
Commercial real estate	584,385	7,585	253	-	2,987	595,210
Construction	9,837	-	-	-	-	9,837
Residential real estate	167,842	2,010	-	-	324	170,176
Consumer installment & other	391,252	2,134	381	196	165	394,128
Total originated loans	1,510,869	12,949	665	196	4,823	1,529,502
Purchased non-covered loans	248,629	4,910	1,620	209	12,480	267,848
Purchased covered loans	18,859	19	5	-	86	18,969
Total	$1,778,357	$17,878	$2,290	$405	$17,389	$1,816,319

Summary of Loans by Delinquency and Nonaccrual Status
At December 31, 2013

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 days or More and Accruing	Nonaccrual	Total Loans
			(In thousands)			
Commercial	$336,497	$677	$383	$-	$1,267	$338,824
Commercial real estate	586,619	4,012	2,473	-	3,549	596,653
Construction	10,275	-	-	-	448	10,723
Residential real estate	173,082	2,789	325	-	-	176,196
Consumer installment & other	396,725	3,035	606	410	112	400,888
Total originated loans	1,503,198	10,513	3,787	410	5,376	1,523,284
Purchased non-covered loans	45,755	4,237	180	-	3,618	53,790
Purchased covered loans	236,577	845	940	-	12,308	250,670
Total	$1,785,530	$15,595	$4,907	$410	$21,302	$1,827,744

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

	For the Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Interest income that would have been recognized had the loans performed in accordance with their original terms	$ 375	$ 753
Less: Interest income recognized on nonaccrual loans	(159)	(375)

Total reduction of interest income	$ 216	$ 378

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at March 31, 2014 and December 31, 2013.

The following summarizes impaired loans:

	Impaired Loans At March 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans with no related allowance recorded:			
Commercial	$3,490	$4,001	$-
Commercial real estate	10,940	13,278	-
Construction	2,035	2,498	-
Residential real estate	324	324	-
Consumer installment and other	1,418	1,525	-
Impaired loans with an allowance recorded:			
Commercial	1,262	2,436	362
Commercial real estate	6,880	10,619	1,183
Total:			
Commercial	$4,752	$6,437	$362
Commercial real estate	17,820	23,897	1,183
Construction	2,035	2,498	-
Residential real estate	324	324	-
Consumer installment and other	1,418	1,525	-

	Impaired Loans At December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans with no related allowance recorded:			
Commercial	$3,931	$4,498	$-
Commercial real estate	11,002	13,253	-
Construction	2,483	2,947	-
Consumer installment and other	2,014	2,133	-
Impaired loans with an allowance recorded:			
Commercial	1,000	2,173	100
Commercial real estate	9,773	12,482	1,396
Total:			
Commercial	$4,931	$6,671	$100
Commercial real estate	20,775	25,735	1,396
Construction	2,483	2,947	-
Consumer installment and other	2,014	2,133	-

Impaired loans include troubled debt restructured loans. Impaired loans at March 31, 2014, included $5,271 thousand of restructured loans, including $262 thousand that were on nonaccrual status. Impaired loans at December 31, 2013, included $5,453 thousand of restructured loans, including $529 thousand that were on nonaccrual status.

	Impaired Loans For the Three Months Ended March 31, 2014		2013	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
	(In thousands)			
Commercial	$4,842	$67	$13,729	$54
Commercial real estate	19,298	117	28,507	300
Construction	2,259	-	2,111	26
Residential real estate	162	-	685	-
Consumer installment and other	1,716	8	1,963	7
Total	$28,277	$192	$46,995	$387

The following table provides information on troubled debt restructurings:

	Troubled Debt Restructurings At March 31, 2014			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
	(In thousands)			
Commercial	3	$ 3,201	$2,938	$262
Commercial real estate	2	2,291	2,316	-
Consumer installment and other	1	18	17	-
Total	6	$ 5,510	$5,271	$262

	Troubled Debt Restructurings At March 31, 2013			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
	(In thousands)			
Commercial	3	$ 1,318	$1,172	$786
Commercial real estate	3	7,383	7,535	-
Total	6	$ 8,701	$8,707	$786

During the three months ended March 31, 2014 and 2013, the Company modified one loan in each period with carrying values of $17 thousand and $2,009 thousand, respectively that was considered a troubled debt restructuring. The concession granted in the first quarter 2014 consisted of modification of payment terms to extend the maturity date to allow for deferred principal repayment. The concession granted in the restructuring completed in the first quarter 2013 consisted of modification of payment terms to lower the interest rate and extend the maturity date to allow for deferred principal repayment. During the three months ended March 31, 2014 and 2013, no troubled debt restructured loans defaulted. A troubled debt restructuring is considered to be in default when payments are ninety days or more past due.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). The carrying value of the FHLB advances was $20,437 thousand and $20,577 thousand at March 31, 2014 and December 31, 2013, respectively. The loans restricted due to collateral requirements approximate $22,766 thousand and $24,242 thousand at March 31, 2014 and December 31, 2013, respectively. The amount of loans pledged exceeds collateral requirements. The FHLB does not have the right to sell or repledge such loans.

There were no loans held for sale at March 31, 2014 and December 31, 2013.

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 $65,318 thousand and $61,447 thousand at March 31, 2014 and December 31, 2013, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios at origination generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans at origination.

Note 6: Other Assets

Other assets consisted of the following:

	At March 31, 2014	At December 31, 2013
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock (1)	$14,069	$ 14,069
Federal Home Loan Bank stock (2)	940	4,188
Other investments	346	376
Total cost method equity investments	15,355	18,633
Life insurance cash surrender value	44,417	43,896
Net deferred tax asset	50,323	53,281
Limited partnership investments	17,643	18,198
Interest receivable	18,282	18,925
FDIC indemnification receivable	5,610	4,032
Prepaid assets	5,242	5,229
Other assets	12,517	14,238
Total other assets	$169,389	$ 176,432

(1) A bank applying for membership in the Federal Reserve System is required to subscribe to stock in the Federal Reserve Bank (FRB) in a sum equal to six percent of the bank's paid-up capital stock and surplus. One-half of the amount of the bank's subscription shall be paid to the FRB and the remaining half will be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System.

(2) Borrowings from the Federal Home Loan Bank (FHLB) must be supported by capital stock holdings. The minimum activity-based requirement is 4.7% of the outstanding advances. The requirement may be adjusted from time to time by the FHLB within limits established in the FHLB's Capital Plan.

Note 7: 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 three months ended March 31, 2014 and year ended December 31, 2013. 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 three months ended March 31, 2014 and year ended December 31, 2013, no such adjustments were recorded.

The carrying values of goodwill were:

	At March 31, 2014	At December 31, 2013
	(In thousands)	
Goodwill	$121,673	$ 121,673

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

	At March 31, 2014		At December 31, 2013
Gross Carrying Amount		Accumulated Amortization	