

WESTAMERICA BANCORPORATION

Form 10-Q

May 02, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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

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

Commission file number: 001-9383

WESTAMERICA BANCORPORATION

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA

(State or Other Jurisdiction of  
Incorporation or Organization)

94-2156203

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

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901

(Address of Principal Executive Offices) (Zip Code)

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

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

Yes

No

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

Yes

No

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

Large accelerated  
filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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(Do not check if a smaller  
reporting company)

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

Yes

No

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

Title of Class

Shares outstanding as of April 24, 2012

Common Stock,  
No Par Value

27,864,883

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| Exhibit 32.1 - Certification of Chief Executive Officer Required by 18 U.S.C. Section 1350                           |           |
| Exhibit 32.2 - Certification of Chief Financial Officer Required by 18 U.S.C. Section 1350                           |           |

## FORWARD-LOOKING STATEMENTS

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

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

## PART I - FINANCIAL INFORMATION

## Item 1 Financial Statements

WESTAMERICA BANCORPORATION  
CONSOLIDATED BALANCE SHEET  
(unaudited)

|   | At March<br>31,<br>2012 | At December<br>31,<br>2011 |
|---|-------------------------|----------------------------|
| (In thousands)  |                         |                            |
| <b>Assets:</b>  |                         |                            |
| Cash and due from banks   | \$541,102               | \$ 530,045                 |
| Investment securities available for sale  | 639,738                 | 638,753                    |
| Investment securities held to maturity, with fair values of:<br>\$1,061,439 at March 31, 2012, \$947,493 at December 31, 2011 | 1,038,493               | 922,803                    |
| Purchased covered loans   | 491,103                 | 535,278                    |
| Purchased non-covered loans   | 112,179                 | 125,921                    |
| Originated loans  | 1,819,162               | 1,862,607                  |
| Allowance for loan losses   | (31,883 )               | (32,597 )                  |
| Total loans   | 2,390,561               | 2,491,209                  |
| Non-covered other real estate owned   | 20,167                  | 26,500                     |
| Covered other real estate owned   | 15,810                  | 19,135                     |
| Premises and equipment, net   | 37,827                  | 36,548                     |
| Identifiable intangibles, net   | 27,227                  | 28,629                     |
| Goodwill  | 121,673                 | 121,673                    |
| Other assets  | 227,659                 | 226,866                    |
| <b>Total Assets</b>   | <b>\$5,060,257</b>      | <b>\$ 5,042,161</b>        |
| <b>Liabilities:</b>   |                         |                            |
| <b>Deposits:</b>  |                         |                            |
| Noninterest bearing deposits  | \$1,575,687             | \$ 1,562,254               |
| Interest bearing deposits:  |                         |                            |
| Transaction   | 748,149                 | 734,988                    |
| Savings   | 1,143,027               | 1,148,178                  |
| Time  | 782,141                 | 804,501                    |
| Total deposits  | 4,249,004               | 4,249,921                  |
| Short-term borrowed funds   | 106,683                 | 115,689                    |
| Federal Home Loan Bank advances   | 25,967                  | 26,023                     |
| Term repurchase agreement   | 10,000                  | 10,000                     |
| Debt financing  | 15,000                  | 15,000                     |
| Other liabilities   | 94,075                  | 66,887                     |
| <b>Total Liabilities</b>  | <b>4,500,729</b>        | <b>4,483,520</b>           |
| <b>Shareholders' Equity:</b>  |                         |                            |
| Common stock (no par value), authorized - 150,000 shares  |                         |                            |
| Issued and outstanding:   |                         |                            |
| 27,917 at March 31, 2012, 28,150 at December 31, 2011   | 375,750                 | 377,775                    |
| Deferred compensation   | 2,840                   | 3,060                      |
| Accumulated other comprehensive income  | 12,180                  | 11,369                     |

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|  |             |              |
|--|-------------|--------------|
| Retained earnings                          | 168,758     | 166,437      |
| Total Shareholders' Equity                 | 559,528     | 558,641      |
| Total Liabilities and Shareholders' Equity | \$5,060,257 | \$ 5,042,161 |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENT OF INCOME  
(unaudited)

|   | For the<br>Three Months Ended<br>March 31, |           |
|---|--|-----------|
|   | 2012                                       | 2011      |
|   | (In thousands,<br>except per share data)   |           |
| Interest and Fee Income:                            |  |           |
| Loans   | \$ 35,656                                  | \$ 41,363 |
| Investment securities available for sale            | 4,788                                      | 5,218     |
| Investment securities held to maturity              | 7,854                                      | 5,913     |
| Total Interest and Fee Income                       | 48,298                                     | 52,494    |
| Interest Expense:                                   |  |           |
| Deposits  | 1,187                                      | 1,890     |
| Short-term borrowed funds                           | 27   | 62        |
| Term repurchase agreement                           | 25   | -         |
| Federal Home Loan Bank advances                     | 120  | 151       |
| Debt financing and notes payable                    | 200  | 200       |
| Total Interest Expense                              | 1,559                                      | 2,303     |
| Net Interest Income                                 | 46,739                                     | 50,191    |
| Provision for Loan Losses                           | 2,800                                      | 2,800     |
| Net Interest Income After Provision For Loan Losses | 43,939                                     | 47,391    |
| Noninterest Income:                                 |  |           |
| Service charges on deposit accounts                 | 7,095                                      | 7,521     |
| Merchant processing services                        | 2,393                                      | 2,171     |
| Debit card fees                                     | 1,163                                      | 1,201     |
| ATM processing fees                                 | 933  | 935       |
| Trust fees  | 489  | 493       |
| Financial services commissions                      | 171  | 29        |
| Other   | 2,425                                      | 2,393     |
| Total Noninterest Income                            | 14,669                                     | 14,743    |
| Noninterest Expense:                                |  |           |
| Salaries and related benefits                       | 15,046                                     | 15,075    |
| Occupancy   | 3,934                                      | 4,025     |
| Outsourced data processing services                 | 2,083                                      | 2,456     |
| Amortization of identifiable intangibles            | 1,402                                      | 1,548     |
| Furniture and equipment                             | 851  | 933       |
| Courier service                                     | 785  | 843       |
| Professional fees                                   | 767  | 850       |
| Deposit insurance assessments                       | 750  | 1,220     |
| Other real estate owned                             | 230  | 145       |
| Other   | 4,186                                      | 4,228     |
| Total Noninterest Expense                           | 30,034                                     | 31,323    |
| Income Before Income Taxes                          | 28,574                                     | 30,811    |
| Provision for income taxes                          | 7,569                                      | 8,429     |
| Net Income  | \$ 21,005                                  | \$ 22,382 |
| Average Common Shares Outstanding                   | 28,051                                     | 29,021    |

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|   |        |        |
|---|--------|--------|
| Diluted Average Common Shares Outstanding | 28,111 | 29,225 |
| Per Common Share Data:                    |        |        |
| Basic earnings                            | \$0.75 | \$0.77 |
| Diluted earnings                          | 0.75   | 0.77   |
| Dividends paid                            | 0.37   | 0.36   |

See accompanying notes to unaudited consolidated financial statements.

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WESTAMERICA BANCORPORATION  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(unaudited)

|   | For the Three Months<br>Ended<br>March 31, |           |
|---|--|-----------|
|   | 2012                                       | 2011      |
|   | (In thousands)                             |           |
| Net income  | \$ 21,005                                  | \$ 22,382 |
| Other comprehensive income:   |  |           |
| Increase in net unrealized gains on securities available for sale             | 1,384                                      | 4,070     |
| Deferred tax expense  | (582 )                                     | (1,712 )  |
| Increase in net unrealized gains on securities available for sale, net of tax | 802  | 2,358     |
| 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  | 811  | 2,367     |
| Total comprehensive income  | \$ 21,816                                  | \$ 24,749 |

See accompanying notes to unaudited consolidated financial statements.

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

|                                       | Common<br>Shares<br>Outstanding | Common<br>Stock | Accumulated<br>Deferred<br>Compensation<br>(In thousands) | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total     |
|---------------------------------------|---------------------------------|-----------------|---|---|----------------------|-----------|
| Balance, December 31, 2010            | 29,090                          | \$378,885       | \$2,724   | \$ 159  | \$ 163,519           | \$545,287 |
| Net income for the period             |                                 |                 |   |   | 22,382               | 22,382    |
| Other comprehensive income            |                                 |                 |   | 2,367   |                      | 2,367     |
| Exercise of stock options             | 68                              | 2,967           |   |   |                      | 2,967     |
| Tax benefit increase upon<br>exercise |                                 |                 |   |   |                      |           |
| of stock options                      |                                 | 27              |   |   |                      | 27        |
| Stock based compensation              |                                 | 360             |   |   |                      | 360       |
| Stock awarded to employees            | 1                               | 40              |   |   |                      | 40        |
| Purchase and retirement of<br>stock   | (239 )                          | (3,137 )        |   |   | (8,902 )             | (12,039 ) |
| Dividends                             |                                 |                 |   |   | (10,476 )            | (10,476 ) |
| Balance, March 31, 2011               | 28,920                          | \$379,142       | \$2,724   | \$ 2,526  | \$ 166,523           | \$550,915 |
| Balance, December 31, 2011            | 28,150                          | \$377,775       | \$3,060   | \$ 11,369                                       | \$ 166,437           | \$558,641 |
| Net income for the period             |                                 |                 |   |   | 21,005               | 21,005    |
| Other comprehensive income            |                                 |                 |   | 811   |                      | 811       |
| Exercise of stock options             | 15                              | 641             |   |   |                      | 641       |
| Tax benefit increase upon<br>exercise |                                 |                 |   |   |                      |           |
| of stock options                      |                                 | 4               |   |   |                      | 4         |
| Restricted stock activity             |                                 | 220             | (220 )  |   |                      | -         |
| Stock based compensation              |                                 | 435             |   |   |                      | 435       |
| Stock awarded to employees            | 1                               | 45              |   |   |                      | 45        |
| Purchase and retirement of<br>stock   | (249 )                          | (3,370 )        |   |   | (8,290 )             | (11,660 ) |
| Dividends                             |                                 |                 |   |   | (10,394 )            | (10,394 ) |
| Balance, March 31, 2012               | 27,917                          | \$375,750       | \$2,840   | \$ 12,180                                       | \$ 168,758           | \$559,528 |

See accompanying notes to unaudited consolidated financial statements.

## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

For the Three Months  
 Ended March 31,  
 2012      2011  
 (In thousands)

## Operating Activities:

|   |          |          |
|---|----------|----------|
| Net income  | \$21,005 | \$22,382 |
| Adjustments to reconcile net income to net cash provided by operating activities: |          |          |
| Depreciation and amortization   | 3,499    | 3,435    |
| Loan loss provision   | 2,800    | 2,800    |
| Net amortization of deferred loan fees  | (126 )   | (107 )   |
| Decrease (increase) in interest income receivable                                 | 733      | (613 )   |
| Increase in other assets  | (4,655 ) | (2,559 ) |
| Increase in income taxes payable  | 7,386    | 8,238    |
| Decrease in deferred taxes receivable   | 183      | 219      |
| Increase (decrease) in interest expense payable                                   | 149      | (220 )   |
| Increase (decrease) in other liabilities  | 1,771    | (1,069 ) |
| Stock option compensation expense   | 435      | 360      |
| Tax benefit increase upon exercise of stock options                               | (4 )     | (27 )    |
| Gain on sale of other assets  | (150 )   | (400 )   |
| Loss on sale of property and equipment  | -        | 5        |
| Originations of mortgage loans for resale   | -        | (90 )    |
| Proceeds from sale of mortgage loans originated for resale                        | -        | 93       |
| Net gain on sale of foreclosed assets   | (1,779 ) | (106 )   |
| Writedown of foreclosed assets  | 1,712    | 152      |
| Net Cash Provided by Operating Activities   | 32,959   | 32,493   |

## Investing Activities:

|  |           |           |
|--|-----------|-----------|
| Net repayments of loans  | 95,748    | 78,875    |
| Proceeds from FDIC* loss-sharing agreement                         | 2,628     | 855       |
| Purchases of investment securities available for sale              | (25,418 ) | (133,899) |
| Purchases of investment securities held to maturity                | (151,958) | (28,909 ) |
| Proceeds from sale/maturity/calls of securities available for sale | 31,317    | 57,159    |
| Proceeds from maturity/calls of securities held to maturity        | 48,123    | 24,267    |
| Proceeds from sale of FRB/FHLB** stock                             | 451       | 447       |
| Proceeds from sale of property acquired in satisfaction of debt    | 10,277    | 2,970     |
| Purchases of property, plant and equipment                         | (1,940 )  | (177 )    |
| Net Cash Provided by Investing Activities                          | 9,228     | 1,588     |

## Financing Activities:

|   |          |           |
|---|----------|-----------|
| Net change in deposits                              | (716 )   | 7,831     |
| Net change in short-term borrowings                 | (9,005 ) | (13,027 ) |
| Exercise of stock options/issuance of shares        | 641      | 2,967     |
| Tax benefit increase upon exercise of stock options | 4        | 27        |

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|  |           |           |
|--|-----------|-----------|
| Retirement of common stock including repurchases | (11,660 ) | (12,039 ) |
| Common stock dividends paid                      | (10,394 ) | (10,476 ) |
| Net Cash Used in Financing Activities            | (31,130 ) | (24,717 ) |
| Net Change In Cash and Due from Banks            | 11,057    | 9,364     |
| Cash and Due from Banks at Beginning of Period   | 530,045   | 338,793   |
| Cash and Due from Banks at End of Period         | \$541,102 | \$348,157 |

Supplemental Cash Flow Disclosures:

Supplemental disclosure of noncash activities:

|  |         |         |
|--|---------|---------|
| Loan collateral transferred to other real estate owned | \$1,583 | \$3,652 |
|--|---------|---------|

Supplemental disclosure of cash flow activities:

|                              |       |       |
|------------------------------|-------|-------|
| Interest paid for the period | 1,642 | 3,367 |
|------------------------------|-------|-------|

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, 2012 and 2011 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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

### Note 2: Accounting Policies

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

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

### Recently Adopted Accounting Standards

FASB ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements, was issued April 2011 addressing the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. The provisions of this Update were effective for the first interim or annual period beginning on or after December 15, 2011, and were applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The adoption of the Update did not have a material effect on the Company's financial statements at the date of adoption.

FASB ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued May 2011 as a result of the FASB and International Accounting Standards Board's (IASB) goal to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards. The provisions of this Update were effective during the interim or annual periods beginning after December 15, 2011, and were applied prospectively. The adoption of the Update did not have a material effect on the Company's financial statements at the date of adoption.

FASB ASU 2011-05, Presentation of Comprehensive Income, was issued June 2011 requiring that all changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This Update also requires that reclassification adjustments for items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. The provisions of this Update were effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and were applied retrospectively. The result of the adoption of this Update is the addition of a new financial statement titled "Consolidated Statement of Comprehensive Income".

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

FASB ASU 2011-08, Testing for Goodwill Impairment, was issued September 2011 giving an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is more than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The provisions of this standard were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of the Update did not have a material effect on the Company's financial statements at the date of adoption.

#### Recently Issued Accounting Standards

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

#### Note 3: Investment Securities

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

|  | Investment Securities Available for Sale |                     |                      |                |
|--|--|---------------------|----------------------|----------------|
|  | At March 31, 2012                        |                     |                      |                |
|  | Amortized<br>Cost                        | Gross               | Gross                | Fair<br>Value  |
|  |  | Unrealized<br>Gains | Unrealized<br>Losses |                |
|  |  |                     |                      |                |
|  |  |                     |                      | (In thousands) |
| U.S. Treasury securities                         | \$3,533                                  | \$47                | \$ -                 | \$3,580        |
| Securities of U.S. Government sponsored entities | 117,493                                  | 387                 | (24 )                | 117,856        |
| Residential mortgage-backed securities           | 78,915                                   | 5,049               | (10 )                | 83,954         |
| Commercial mortgage-backed securities            | 4,406                                    | 42                  | -                    | 4,448          |

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|  |           |          |             |           |
|--|-----------|----------|-------------|-----------|
| Obligations of States and political subdivisions | 227,845   | 12,003   | (273 )      | 239,575   |
| Residential collateralized mortgage obligations  | 46,391    | 1,943    | -           | 48,334    |
| Asset-backed securities                          | 17,385    | 2        | (297 )      | 17,090    |
| FHLMC and FNMA stock                             | 824       | 1,119    | (5 )        | 1,938     |
| Corporate securities                             | 119,313   | 378      | (1,192 )    | 118,499   |
| Other securities                                 | 2,261     | 2,253    | (50 )       | 4,464     |
| Total  | \$618,366 | \$23,223 | \$ (1,851 ) | \$639,738 |

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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, 2012                      |                     |                      |                    |
|  | Amortized<br>Cost                      | Gross               | Gross                | Fair<br>Value      |
|  |  | Unrealized<br>Gains | Unrealized<br>Losses |                    |
|  | (In thousands)                         |                     |                      |                    |
| Securities of U.S. Government sponsored entities | \$4,796                                | \$6                 | \$ -                 | \$4,802            |
| Residential mortgage-backed securities           | 87,133                                 | 1,660               | (260 )               | 88,533             |
| Obligations of States and political subdivisions | 650,698                                | 20,972              | (1,129 )             | 670,541            |
| Residential collateralized mortgage obligations  | 295,866                                | 3,147               | (1,450 )             | 297,563            |
| <b>Total</b>                                     | <b>\$1,038,493</b>                     | <b>\$25,785</b>     | <b>\$ (2,839 )</b>   | <b>\$1,061,439</b> |

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

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

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

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



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

|   | At March 31, 2012                |               |                                |               |
|---|----------------------------------|---------------|--------------------------------|---------------|
|   | Securities Available<br>for Sale |               | Securities Held<br>to Maturity |               |
|   | Amortized<br>Cost                | Fair<br>Value | Amortized<br>Cost              | Fair<br>Value |
|   | (In thousands)                   |               |                                |               |
| Maturity in years:  |                                  |               |                                |               |
| 1 year or less  | \$37,829                         | \$37,991      | \$11,298                       | \$11,370      |
| Over 1 to 5 years   | 253,170                          | 253,671       | 160,851                        | 165,379       |
| Over 5 to 10 years  | 68,250                           | 70,864        | 296,801                        | 308,804       |
| Over 10 years   | 126,320                          | 134,074       | 186,544                        | 189,790       |
| Subtotal  | 485,569                          | 496,600       | 655,494                        | 675,343       |
| Mortgage-backed securities and residential<br>collateralized mortgage obligations | 129,712                          | 136,736       | 382,999                        | 386,096       |
| Other securities  | 3,085                            | 6,402         | -                              | -             |
| Total   | \$618,366                        | \$639,738     | \$1,038,493                    | \$1,061,439   |

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

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

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

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

|  | Investment Securities Available for Sale |                                   |                                      |   |                        |                               |
|--|--|-----------------------------------|--------------------------------------|---|------------------------|-------------------------------|
|  | At March 31, 2012                        |                                   |                                      |   |                        |                               |
|  | Less than 12 months<br>Fair<br>Value     | 12 months<br>Unrealized<br>Losses | 12 months or longer<br>Fair<br>Value | 12 months or longer<br>Unrealized<br>Losses | Total<br>Fair<br>Value | Total<br>Unrealized<br>Losses |
|  | (In thousands)                           |                                   |                                      |   |                        |                               |
| Securities of U.S. Government sponsored entities | \$5,000                                  | \$ (24 )                          | \$-                                  | \$ -  | \$5,000                | \$ (24 )                      |
| Residential mortgage-backed securities           | 2,457                                    | (2 )                              | 937                                  | (8 )  | 3,394                  | (10 )                         |
| Obligations of States and political subdivisions | 4,106                                    | (46 )                             | 14,165                               | (227 )                                      | 18,271                 | (273 )                        |
| Asset-backed securities                          | -  | -                                 | 6,866                                | (297 )                                      | 6,866                  | (297 )                        |
| FHLMC and FNMA stock                             | -  | -                                 | 1                                    | (5 )  | 1                      | (5 )                          |
| Corporate securities                             | 14,965                                   | (216 )                            | 39,024                               | (976 )                                      | 53,989                 | (1,192 )                      |
| Other securities                                 | -  | -                                 | 1,951                                | (50 )                                       | 1,951                  | (50 )                         |
| Total  | \$26,528                                 | \$ (288 )                         | \$62,944                             | \$ (1,563 )                                 | \$89,472               | \$ (1,851 )                   |

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

|  | Investment Securities Held to Maturity |                                   |                                      |   |                        |                               |
|--|--|-----------------------------------|--------------------------------------|---|------------------------|-------------------------------|
|  | At March 31, 2012                      |                                   |                                      |   |                        |                               |
|  | Less than 12 months<br>Fair<br>Value   | 12 months<br>Unrealized<br>Losses | 12 months or longer<br>Fair<br>Value | 12 months or longer<br>Unrealized<br>Losses | Total<br>Fair<br>Value | Total<br>Unrealized<br>Losses |
|  | (In thousands)                         |                                   |                                      |   |                        |                               |
| Residential mortgage-backed securities           | \$25,277                               | \$ (260 )                         | \$-                                  | \$ -  | \$25,277               | \$ (260 )                     |
| Obligations of States and political subdivisions | 72,936                                 | (1,074 )                          | 4,308                                | (55 )                                       | 77,244                 | (1,129 )                      |
| Residential collateralized mortgage obligations  | 50,805                                 | (345 )                            | 15,591                               | (1,105 )                                    | 66,396                 | (1,450 )                      |
| Total  | \$149,018                              | \$ (1,679 )                       | \$19,899                             | \$ (1,160 )                                 | \$168,917              | \$ (2,839 )                   |

The unrealized losses on the Company's investment securities were caused by market conditions for these types of investments. The Company evaluates securities on a quarterly basis including changes in security ratings issued by ratings agencies, changes in the financial condition of the issuer, and, for mortgage-related and asset-backed securities, delinquency and loss information with respect to the underlying collateral, changes in the levels of subordination for the Company's particular position within the repayment structure, and remaining credit enhancement as compared to expected credit losses of the security. Substantially all of these securities continue to be investment grade rated by one or more major rating agencies.

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of March 31, 2012.

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

As of March 31, 2012, \$910,759 thousand of investment securities were pledged to secure public deposits and short-term funding needs, compared to \$903,807 thousand at December 31, 2011.

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

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

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

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

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

|   | For the Three Months<br>Ended March 31, |                  |
|---|---|------------------|
|   | 2012                                    | 2011             |
|   | (In thousands)                          |                  |
| Taxable   | \$ 4,690                                | \$ 3,757         |
| Tax-exempt  | 7,952                                   | 7,374            |
| <b>Total interest income from investment securities</b> | <b>\$ 12,642</b>                        | <b>\$ 11,131</b> |



## Note 4: Loans and Allowance for Credit Losses

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

|                              | At March 31, 2012 |                           |              |                               |                                    |              |
|------------------------------|-------------------|---------------------------|--------------|-------------------------------|------------------------------------|--------------|
|                              | Commercial        | Commercial<br>Real Estate | Construction | Residential<br>Real<br>Estate | Consumer<br>Installment<br>& Other | Total        |
|                              | (In thousands)    |                           |              |                               |                                    |              |
| Originated loans             | \$ 380,198        | \$ 691,937                | \$ 13,541    | \$ 261,386                    | \$ 472,100                         | \$ 1,819,162 |
| Purchased covered loans:     |                   |                           |              |                               |                                    |              |
| Impaired                     | 362               | 10,323                    | 2,434        | -                             | 260                                | 13,379       |
| Non impaired                 | 96,411            | 320,533                   | 12,695       | 10,378                        | 75,210                             | 515,227      |
| Purchase discount            | (14,331 )         | (19,657 )                 | (1,936 )     | (522 )                        | (1,057 )                           | (37,503 )    |
| Purchased non-covered loans: |                   |                           |              |                               |                                    |              |
| Impaired                     | 2,096             | 17,081                    | -            | -                             | 388                                | 19,565       |
| Non impaired                 | 13,916            | 57,305                    | 3,816        | 3,586                         | 23,951                             | 102,574      |
| Purchase discount            | (909 )            | (6,101 )                  | (95 )        | (474 )                        | (2,381 )                           | (9,960 )     |
| Total                        | \$ 477,743        | \$ 1,071,421              | \$ 30,455    | \$ 274,354                    | \$ 568,471                         | \$ 2,422,444 |

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

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

|  | For the<br>Three<br>Months<br>Ended<br>March<br>31, 2012 | For the Year<br>Ended<br>December 31,<br>2011 |
|--|--|---|
| Impaired purchased covered loans               | (In thousands)   |   |
| Carrying amount at the beginning of the period | \$ 18,591  | \$ 33,556                                     |
| Reductions during the period                   | (9,084 )   | (14,965 )                                     |
| Carrying amount at the end of the period       | \$ 9,507   | \$ 18,591                                     |



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

|  | For the<br>Three<br>Months<br>Ended<br>March<br>31, 2012 | For the Year<br>Ended<br>December 31,<br>2011 |
|--|--|---|
| Impaired purchased non-covered loans           | (In thousands)   |   |
| Carrying amount at the beginning of the period | \$ 15,572  | \$ 33,725                                     |
| Reductions during the period                   | (434 )   | (18,153 )                                     |
| Carrying amount at the end of the period       | \$ 15,138  | \$ 15,572                                     |

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

|  | For the<br>Three<br>Months<br>Ended<br>March<br>31, 2012 | For the<br>Year Ended<br>December 31, 2011 |
|--|--|--|
| Accretable yield for purchased loans           |  | (In thousands)                             |
| Balance at the beginning of the period         | \$9,990  | \$ 6,089                                   |
| Reclassification from nonaccretable difference | 1,173  | 16,906                                     |
| Accretion                                      | (5,036 )   | (13,005 )                                  |
| Disposals and other                            | -  | -  |
| Balance at the end of the period               | \$6,127  | \$ 9,990                                   |
| Accretion                                      | \$(5,036 )   | \$ (13,005 )                               |
| Reduction in FDIC indemnification asset        | 4,057  | 9,315                                      |
| Increase in interest income                    | \$(979 )   | \$ (3,690 )                                |

The following summarizes activity in the allowance for credit losses:

|   | Allowance for Credit Losses               |   |                            |                                      |                               |        |          | Unallocated | Total |
|---|---|---|----------------------------|--------------------------------------|-------------------------------|--------|----------|-------------|-------|
|   | For the Three Months Ended March 31, 2012 |   |                            |                                      |                               |        |          |             |       |
|   | Commercial<br>Commercial Real Estate      | Commercial<br>Real Estate<br>Construction | Residential<br>Real Estate | Consumer<br>Installment<br>and Other | Purchased<br>Covered<br>Loans |        |          |             |       |
| Allowance for loan losses:                      |   |   |                            |                                      |                               |        |          |             |       |
| Balance at beginning of period                  | \$6,012                                   | \$ 10,611                                 | \$ 2,342                   | \$ 781                               | \$ 3,072                      | \$ -   | \$ 9,779 | \$32,597    |       |
| Additions:                                      |   |   |                            |                                      |                               |        |          |             |       |
| Provision                                       | 1,275                                     | 1,764                                     | 411                        | 734                                  | 627                           | 490    | (2,501 ) | 2,800       |       |
| Deductions:                                     |   |   |                            |                                      |                               |        |          |             |       |
| Chargeoffs                                      | (862 )                                    | (948 )                                    | -                          | (870 )                               | (1,653 )                      | (365 ) | -        | (4,698 )    |       |
| Recoveries                                      | 389                                       | -   | 2                          | -                                    | 779                           | 14     | -        | 1,184       |       |
| Net loan and lease losses                       | (473 )                                    | (948 )                                    | 2                          | (870 )                               | (874 )                        | (351 ) | -        | (3,514 )    |       |
| Balance at end of period                        | 6,814                                     | 11,427                                    | 2,755                      | 645                                  | 2,825                         | 139    | 7,278    | 31,883      |       |
| Liability for off-balance sheet credit exposure | 1,643                                     | -   | 26                         | -                                    | 189                           | -      | 835      | 2,693       |       |
| Total allowance for credit losses               | \$8,457                                   | \$ 11,427                                 | \$ 2,781                   | \$ 645                               | \$ 3,014                      | \$ 139 | \$ 8,113 | \$34,576    |       |

|  | Allowance for Credit Losses               |                           |              |             |                         |                      | Unallocated | Total |
|--|---|---------------------------|--------------|-------------|-------------------------|----------------------|-------------|-------|
|  | For the Three Months Ended March 31, 2011 |                           |              |             |                         |                      |             |       |
|  | Commercial<br>Real Estate                 | Commercial<br>Real Estate | Construction | Residential | Consumer<br>Installment | Purchased<br>Covered |             |       |
|  |   |                           |              |             |                         |                      |             |       |

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Real      and Other      Loans  
Estate  
(In thousands)

Allowance for loan  
losses:

|   |         |           |          |        |          |      |          |          |
|---|---------|-----------|----------|--------|----------|------|----------|----------|
| Balance at beginning of period                  | \$8,094 | \$ 9,607  | \$ 3,260 | \$ 617 | \$ 6,372 | \$ - | \$ 7,686 | \$35,636 |
| Additions:                                      |         |           |          |        |          |      |          |          |
| Provision                                       | 846     | 748       | 475      | 68     | (706 )   | -    | 1,369    | 2,800    |
| Deductions:                                     |         |           |          |        |          |      |          |          |
| Chargeoffs                                      | (1,324) | -         | (1,475 ) | (308 ) | (2,136 ) | -    | -        | (5,243 ) |
| Recoveries                                      | 200     | -         | -        | -      | 928      | -    | -        | 1,128    |
| Net loan and lease losses                       | (1,124) | -         | (1,475 ) | (308 ) | (1,208 ) | -    | -        | (4,115 ) |
| Balance at end of period                        | 7,816   | 10,355    | 2,260    | 377    | 4,458    | -    | 9,055    | 34,321   |
| Liability for off-balance sheet credit exposure | 2,031   | 4         | 170      | -      | 139      | -    | 349      | 2,693    |
| Total allowance for credit losses               | \$9,847 | \$ 10,359 | \$ 2,430 | \$ 377 | \$ 4,597 | \$ - | \$ 9,404 | \$37,014 |

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The recorded investment in loans evaluated for impairment follows:

Recorded Investment in Loans Evaluated for Impairment

At March 31, 2012

|   | Commercial |             | Residential  |             | Consumer              | Non-          | Purchased               |             |             |
|---|------------|-------------|--------------|-------------|-----------------------|---------------|-------------------------|-------------|-------------|
|   | Commercial | Real Estate | Construction | Real Estate | Installment and Other | covered Loans | Purchased Covered Loans | Unallocated | Total       |
| Allowance for credit losses:                          |            |             |              |             |                       |               |                         |             |             |
| Individually evaluated for impairment                 | \$823      | \$969       | \$2,153      | \$-         | \$-                   | \$-           | \$139                   | \$-         | \$4,084     |
| Collectively evaluated for impairment                 | 7,634      | 10,458      | 628          | 645         | 3,014                 | -             | -                       | 8,113       | 30,492      |
| Purchased loans with evidence of credit deterioration | -          | -           | -            | -           | -                     | -             | -                       | -           | -           |
| Total   | \$8,457    | \$11,427    | \$2,781      | \$645       | \$3,014               | \$-           | \$139                   | \$8,113     | \$34,576    |
| Carrying value of loans:                              |            |             |              |             |                       |               |                         |             |             |
| Individually evaluated for impairment                 | \$4,162    | \$5,771     | \$3,097      | \$621       | \$-                   | \$4,716       | \$3,421                 | \$-         | \$21,788    |
| Collectively evaluated for impairment                 | 376,036    | 686,166     | 10,444       | 260,765     | 472,100               | 92,325        | 478,175                 | -           | 2,376,011   |
| Purchased loans with evidence of credit deterioration | -          | -           | -            | -           | -                     | 15,138        | 9,507                   | -           | 24,645      |
| Total   | \$380,198  | \$691,937   | \$13,541     | \$261,386   | \$472,100             | \$112,179     | \$491,103               | \$-         | \$2,422,444 |

Recorded Investment in Loans Evaluated for Impairment

At March 31, 2011

|                              | Commercial |             | Residential  |             | Consumer              | Non-          | Purchased               |             |       |
|------------------------------|------------|-------------|--------------|-------------|-----------------------|---------------|-------------------------|-------------|-------|
|                              | Commercial | Real Estate | Construction | Real Estate | Installment and Other | covered Loans | Purchased Covered Loans | Unallocated | Total |
| Allowance for credit losses: |            |             |              |             |                       |               |                         |             |       |
|                              | \$-        | \$-         | \$149        | \$-         | \$-                   | \$-           | \$-                     | \$-         | \$149 |

|   |                  |                  |                 |                  |                  |                  |                  |                |                    |
|---|------------------|------------------|-----------------|------------------|------------------|------------------|------------------|----------------|--------------------|
| Individually evaluated for impairment                 |                  |                  |                 |                  |                  |                  |                  |                |                    |
| Collectively evaluated for impairment                 | 9,847            | 10,359           | 2,281           | 377              | 4,597            | -                | -                | 9,404          | 36,865             |
| Purchased loans with evidence of credit deterioration | -                | -                | -               | -                | -                | -                | -                | -              | -                  |
| <b>Total</b>  | <b>\$9,847</b>   | <b>\$10,359</b>  | <b>\$2,430</b>  | <b>\$377</b>     | <b>\$4,597</b>   | <b>\$-</b>       | <b>\$-</b>       | <b>\$9,404</b> | <b>\$37,014</b>    |
| Carrying value of loans:                              |                  |                  |                 |                  |                  |                  |                  |                |                    |
| Individually evaluated for impairment                 | \$-              | \$4,336          | \$8,085         | \$-              | \$-              | \$3,806          | \$13,394         | \$-            | \$29,621           |
| Collectively evaluated for impairment                 | 450,492          | 741,883          | 16,185          | 299,884          | 466,111          | 153,071          | 614,329          | -              | 2,741,955          |
| Purchased loans with evidence of credit deterioration | -                | -                | -               | -                | -                | 30,326           | 32,733           | -              | 63,059             |
| <b>Total</b>  | <b>\$450,492</b> | <b>\$746,219</b> | <b>\$24,270</b> | <b>\$299,884</b> | <b>\$466,111</b> | <b>\$187,203</b> | <b>\$660,456</b> | <b>\$-</b>     | <b>\$2,834,635</b> |

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

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

| Grade: | Credit Risk Profile by Internally Assigned Grade |                        |              |                         |                                |                             |                             | Total        |
|--------|--|------------------------|--------------|-------------------------|--------------------------------|-----------------------------|-----------------------------|--------------|
|        | At March 31, 2012                                |                        |              |                         |                                |                             |                             |              |
|        | Commercial                                       | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Non-covered Loans | Purchased Covered Loans (1) |              |
| Pass   | \$ 343,733                                       | \$ 632,643             | \$ 9,282     | \$ 256,336              | \$ 470,612                     | \$ 55,935                   | \$ 353,166                  | \$ 2,121,707 |
|        | 13,733   | 31,526                 | 685          | 2,573                   | 264                            | 13,490                      | 29,890                      | 92,161       |

|                                      |            |            |           |            |            |            |            |              |
|--------------------------------------|------------|------------|-----------|------------|------------|------------|------------|--------------|
| Special<br>mention                   |            |            |           |            |            |            |            |              |
| Substandard                          | 20,341     | 27,142     | 3,574     | 2,477      | 895        | 50,815     | 143,450    | 248,694      |
| Doubtful                             | 2,391      | 626        | -         | -          | 14         | 1,899      | 1,850      | 6,780        |
| Loss                                 | -          | -          | -         | -          | 315        | -          | 250        | 565          |
| Default risk<br>purchase<br>discount | -          | -          | -         | -          | -          | (9,960 )   | (37,503 )  | (47,463 )    |
| Total                                | \$ 380,198 | \$ 691,937 | \$ 13,541 | \$ 261,386 | \$ 472,100 | \$ 112,179 | \$ 491,103 | \$ 2,422,444 |

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

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

|                                   | Commercial |                | Residential  |                | Consumer                    | Purchased                | Purchased<br>Covered<br>Loans (1) | Total       |
|-----------------------------------|------------|----------------|--------------|----------------|-----------------------------|--------------------------|-----------------------------------|-------------|
|                                   | Commercial | Real<br>Estate | Construction | Real<br>Estate | Installment<br>and<br>Other | Non-<br>covered<br>Loans |                                   |             |
| (In thousands)                    |            |                |              |                |                             |                          |                                   |             |
| Grade:                            |            |                |              |                |                             |                          |                                   |             |
| Pass                              | \$360,279  | \$ 646,078     | \$ 10,413    | \$264,861      | \$ 471,783                  | \$ 63,955                | \$372,560                         | \$2,189,929 |
| Special mention                   | 17,247     | 29,103         | 341          | 1,961          | 600                         | 15,701                   | 32,365                            | 97,318      |
| Substandard                       | 20,695     | 29,474         | 3,826        | 4,289          | 1,014                       | 52,994                   | 175,410                           | 287,702     |
| Doubtful                          | 225        | -              | -            | -              | 66                          | 3,444                    | 1,070                             | 4,805       |
| Loss                              | -          | -              | -            | -              | 352                         | 38                       | 155                               | 545         |
| Default risk<br>purchase discount | -          | -              | -            | -              | -                           | (10,211 )                | (46,282 )                         | (56,493 )   |
| Total                             | \$398,446  | \$ 704,655     | \$ 14,580    | \$271,111      | \$ 473,815                  | \$ 125,921               | \$535,278                         | \$2,523,806 |

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

The following tables summarize loans by delinquency and nonaccrual status:

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

|                              | Past Due                                     |  | Total<br>Past Due<br>and<br>Accruing | Current and<br>Accruing | Nonaccrual | Total Loans  |
|------------------------------|--|--|--------------------------------------|-------------------------|------------|--------------|
|                              | 30-89<br>Days<br>Past<br>Due and<br>Accruing | 90<br>days or<br>More<br>and<br>Accruing |                                      |                         |            |              |
| (In thousands)               |  |  |                                      |                         |            |              |
| Commercial                   | \$7,615                                      | \$ -                                     | \$7,615                              | \$ 367,350              | \$ 5,233   | \$ 380,198   |
| Commercial real estate       | 11,148                                       | -  | 11,148                               | 674,034                 | 6,755      | 691,937      |
| Construction                 | -  | -  | -                                    | 10,444                  | 3,097      | 13,541       |
| Residential real estate      | 3,291  | -  | 3,291                                | 256,830                 | 1,265      | 261,386      |
| Consumer installment & other | 3,462  | 359                                      | 3,821                                | 468,279                 | -          | 472,100      |
| Total originated loans       | 25,516                                       | 359                                      | 25,875                               | 1,776,937               | 16,350     | 1,819,162    |
| Purchased non-covered loans  | 2,930  | -  | 2,930                                | 88,245                  | 21,004     | 112,179      |
| Purchased covered loans      | 17,045                                       | 520                                      | 17,565                               | 466,863                 | 6,675      | 491,103      |
| Total                        | \$45,491                                     | \$ 879                                   | \$46,370                             | \$ 2,332,045            | \$ 44,029  | \$ 2,422,444 |

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

|                | Past Due                                     |  | Total<br>Past Due<br>and<br>Accruing | Current and<br>Accruing | Nonaccrual | Total Loans |
|----------------|--|--|--------------------------------------|-------------------------|------------|-------------|
|                | 30-89<br>Days<br>Past<br>Due and<br>Accruing | 90<br>days or<br>More<br>and<br>Accruing |                                      |                         |            |             |
| (In thousands) |  |  |                                      |                         |            |             |

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|                              |          |          |          |              |           |              |
|------------------------------|----------|----------|----------|--------------|-----------|--------------|
| Commercial                   | \$6,953  | \$ -     | \$6,953  | \$ 388,322   | \$ 3,171  | \$ 398,446   |
| Commercial real estate       | 16,967   | 1,626    | 18,593   | 679,633      | 6,429     | 704,655      |
| Construction                 | 570      | -        | 570      | 10,664       | 3,346     | 14,580       |
| Residential real estate      | 5,648    | -        | 5,648    | 262,917      | 2,546     | 271,111      |
| Consumer installment & other | 6,324    | 421      | 6,745    | 467,015      | 55        | 473,815      |
| Total originated loans       | 36,462   | 2,047    | 38,509   | 1,808,551    | 15,547    | 1,862,607    |
| Purchased non-covered loans  | 1,095    | 34       | 1,129    | 101,585      | 23,207    | 125,921      |
| Purchased covered loans      | 18,902   | 241      | 19,143   | 501,823      | 14,312    | 535,278      |
| Total                        | \$56,459 | \$ 2,322 | \$58,781 | \$ 2,411,959 | \$ 53,066 | \$ 2,523,806 |

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

|   | For the Three Months<br>Ended<br>March 31, |          |
|---|--|----------|
|   | 2012                                       | 2011     |
|   | (In thousands)                             |          |
| Interest income that would have been recognized had the loans performed in accordance with their original terms | \$ 788                                     | \$ 1,684 |
| Less: Interest income recognized on nonaccrual loans  | (842 )                                     | (791 )   |
| Total (addition) reduction of interest income   | \$ (54 )                                   | \$ 893   |

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



The following summarizes impaired loans:

|  | Recorded<br>Investment | Impaired Loans<br>At March 31, 2012<br>Unpaid<br>Principal<br>Balance<br>(In thousands) | Related<br>Allowance |
|--|------------------------|---|----------------------|
| Impaired loans with no related allowance recorded: |                        |   |                      |
| Commercial   | \$4,455                | \$ 9,100  | \$ -                 |
| Commercial real estate                             | 27,748                 | 37,683  | -                    |
| Construction                                       | 2,505                  | 5,416   | -                    |
| Residential real estate                            | 621                    | 621   | -                    |
| Consumer installment and other                     | 2,798                  | 3,168   | -                    |
| Impaired loans with an allowance recorded:         |                        |   |                      |
| Commercial   | 3,214                  | 3,714   | 962                  |
| Commercial real estate                             | 1,995                  | 1,995   | 969                  |
| Construction                                       | 3,097                  | 3,183   | 2,153                |
| Total:   |                        |   |                      |
| Commercial   | \$7,669                | \$ 12,814   | \$ 962               |
| Commercial real estate                             | 29,743                 | 39,678  | 969                  |
| Construction                                       | 5,602                  | 8,599   | 2,153                |
| Residential real estate                            | 621                    | 621   | -                    |
| Consumer installment and other                     | 2,798                  | 3,168   | -                    |

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

Impaired loans may include troubled debt restructured loans. Impaired loans at March 31, 2012 and December 31, 2011, included \$3,097 thousand and \$3,126 thousand of restructured loans, respectively, which were on nonaccrual status.

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|                                | Impaired Loans              |                            |                             |                            |
|--------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                                | 2012                        |                            | 2011                        |                            |
|                                | Average Recorded Investment | Recognized Interest Income | Average Recorded Investment | Recognized Interest Income |
|                                | (In thousands)              |                            |                             |                            |
| Commercial                     | \$6,576                     | \$ 50                      | \$ 21,900                   | \$ 330                     |
| Commercial real estate         | 32,119                      | 378                        | 43,411                      | 315                        |
| Construction                   | 6,461                       | 100                        | 24,146                      | 84                         |
| Residential real estate        | 311                         | -                          | 449                         | -                          |
| Consumer installment and other | 2,894                       | 18                         | 2,408                       | 4                          |
| Total                          | \$48,361                    | \$ 546                     | \$ 92,314                   | \$ 733                     |

The following table provides information on troubled debt restructurings:

|              | Troubled Debt Restructurings<br>At March 31, 2012 |                                 |                           |  |
|--------------|---|---------------------------------|---------------------------|--|
|              | Number of Contracts                               | Pre-Modification Carrying Value | Period-End Carrying Value | Period-End Individual Impairment Allowance |
|              | (In thousands)                                    |                                 |                           |  |
| Commercial   | 2   | \$ 326                          | \$ 315                    | \$ -                                       |
| Construction | 2   | 3,612                           | 3,526                     | 2,153                                      |
| Total        | 4   | \$ 3,938                        | \$ 3,841                  | \$ 2,153                                   |

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

During the three months ended March 31, 2012, the Company modified a loan totaling \$429 thousand that was considered a troubled debt restructuring. The concession granted in the restructuring completed in the first quarter 2012 consisted of modification of payment terms extending the maturity date to allow for deferred principal repayment. All loans were performing in accordance with their restructured terms at March 31, 2012 and December 31, 2011. There were no troubled debt restructurings during the three months ended March 31, 2011.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). At March 31, 2012, loans pledged to secure borrowing totaled \$60,481 thousand compared with \$69,145 thousand at December 31, 2011. The FHLB does not have the right to sell or repledge such loans.

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

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## 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 \$2,386 thousand and \$2,935 thousand at March 31, 2012 and December 31, 2011, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans at origination.

## Note 6: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the quarter ended March 31, 2012 and 2011.

The carrying values of goodwill were (in thousands):

|                   |           |
|-------------------|-----------|
| March 31, 2012    | \$121,673 |
| December 31, 2011 | \$121,673 |

Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the quarter ended March 31, 2012 and 2011, no such adjustments were recorded.

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

|                                      | At March 31,<br>2012        |                             | At December 31,<br>2011     |                             |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                      | (In thousands)              |                             |                             |                             |
|                                      | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Core Deposit Intangibles             | \$ 56,808                   | \$ (31,332 )                | \$ 56,808                   | \$ (30,070 )                |
| Merchant Draft Processing Intangible | 10,300                      | (8,549 )                    | 10,300                      | (8,409 )                    |
| Total Identifiable Intangible Assets | \$ 67,108                   | \$ (39,881 )                | \$ 67,108                   | \$ (38,479 )                |

As of March 31, 2012, the current year and estimated future amortization expense for identifiable intangible assets was:

|  | At March 31, 2012              |   |         |
|--|--------------------------------|---|---------|
|  | Core<br>Deposit<br>Intangibles | Merchant<br>Draft<br>Processing<br>Intangible | Total   |
|  | (In thousands)                 |   |         |
| Three months ended March 31, 2012 (actual) | \$1,262                        | \$ 140  | \$1,402 |
| Estimate for year ended December 31, 2012  | 4,868                          | 500   | 5,368   |

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|      |       |     |       |
|------|-------|-----|-------|
| 2013 | 4,304 | 400 | 4,704 |
| 2014 | 3,946 | 324 | 4,270 |
| 2015 | 3,594 | 262 | 3,856 |
| 2016 | 3,292 | 212 | 3,504 |
| 2017 | 2,853 | 164 | 3,017 |

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#### Note 7: Commitments and Contingent Liabilities

Loan commitments are agreements to lend to a customer provided there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements. Loan commitments are subject to the Company's normal credit policies and collateral requirements. Unfunded loan commitments were \$348,020 thousand and \$348,621 thousand at March 31, 2012 and December 31, 2011, respectively. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. Standby letters of credit are primarily issued to support customers' short-term financing requirements and must meet the Company's normal credit policies and collateral requirements. Standby letters of credit outstanding totaled \$26,604 thousand and \$27,221 thousand at March 31, 2012 and December 31, 2011, respectively. The Company also had commitments for commercial and similar letters of credit of \$454 thousand and \$454 thousand at March 31, 2012 and December 31, 2011, respectively.

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

#### Note 8: Fair Value Measurements

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

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

The Company groups its assets and liabilities measured at fair value into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 includes mortgage-backed securities, corporate securities, asset-backed securities, municipal bonds and residential collateralized mortgage obligations as well as other real estate owned and impaired loans collateralized by real property where the fair value is generally based upon independent

market prices or appraised values of the collateral.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company’s estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques. Level 3 includes those impaired loans collateralized by business assets where the expected cash flow has been used in determining the fair value.

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## Assets Recorded at Fair Value on a Recurring Basis

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

|   | Fair Value | At March 31, 2012  |   |   |
|---|------------|--|---|---|
|   |            | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (In thousands)  |            |  |   |   |
| U.S. Treasury securities                                      | \$3,580    | \$3,580  | \$ -  | \$ -                                      |
| Securities of U.S. Government sponsored entities              | 117,856    | 117,856  | -   | -   |
| Municipal bonds:  |            |  |   |   |
| Federally Tax-exempt - California                             | 79,844     | -  | 79,844  | -   |
| Federally Tax-exempt - 27 other states                        | 152,996    | -  | 152,996                                       | -   |
| Taxable - California  | 1,313      | -  | 1,313   | -   |
| Taxable - 1 other state                                       | 5,422      | -  | 5,422   | -   |
| Residential mortgage-backed securities ("MBS"):               |            |  |   |   |
| Guaranteed by GNMA  | 35,217     | -  | 35,217  | -   |
| Issued by FNMA and FHLMC                                      | 48,737     | -  | 48,737  | -   |
| Residential collateralized mortgage obligations:              |            |  |   |   |
| Issued or guaranteed by FNMA, FHLMC, or GNMA                  | 43,907     | -  | 43,907  | -   |
| All other   | 4,427      | -  | 4,427   | -   |
| Commercial mortgage-backed securities                         | 4,448      | -  | 4,448   | -   |
| Asset-backed securities - government guaranteed student loans | 17,090     | -  | 17,090  | -   |
| FHLMC and FNMA stock  | 1,938      | 1,938  | -   | -   |
| Corporate securities  | 118,499    | -  | 118,499                                       | -   |
| Other securities  | 4,464      | 2,513  | 1,951   | -   |
| Total investment securities available for sale                | \$639,738  | \$125,887  | \$ 513,851                                    | \$ -                                      |

There were no transfers in or out of Levels 1 and 2 for the three months ended March 31, 2012.

|  | Fair Value | At December 31, 2011   |   |   |
|--|------------|--|---|---|
|  |            | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (In thousands)                                   |            |  |   |   |
| U.S. Treasury securities                         | \$3,596    | \$3,596  | \$ -  | \$ -                                      |
| Securities of U.S. Government sponsored entities | 117,472    | 117,472  | -   | -   |
| Municipal bonds:                                 |            |  |   |   |
| Federally Tax-exempt - California                | 80,307     | -  | 80,307  | -   |

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|   |           |           |            |      |
|---|-----------|-----------|------------|------|
| Federally Tax-exempt - 27 other states                        | 159,031   | -         | 159,031    | -    |
| Taxable - California  | 1,345     | -         | 1,345      | -    |
| Taxable - 1 other state                                       | 5,410     | -         | 5,410      | -    |
| Residential mortgage-backed securities ("MBS"):               |           |           |            |      |
| Guaranteed by GNMA  | 37,112    | -         | 37,112     | -    |
| Issued by FNMA and FHLMC                                      | 53,296    | -         | 53,296     | -    |
| Residential collateralized mortgage obligations:              |           |           |            |      |
| Issued or guaranteed by FNMA, FHLMC, or GNMA                  | 46,130    | -         | 46,130     | -    |
| All other   | 5,034     | -         | 5,034      | -    |
| Commercial mortgage-backed securities                         | 4,530     | -         | 4,530      | -    |
| Asset-backed securities - government guaranteed student loans | 7,306     | -         | 7,306      | -    |
| FHLMC and FNMA stock  | 1,847     | 1,847     | -          | -    |
| Corporate securities  | 112,199   | -         | 112,199    | -    |
| Other securities  | 4,138     | 2,186     | 1,952      | -    |
| Total investment securities available for sale                | \$638,753 | \$125,101 | \$ 513,652 | \$ - |

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## Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at March 31, 2012 and December 31, 2011, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at period end.

|   | Fair Value | Level 1 | At March 31, 2012 |         |                | Total Losses |
|---|------------|---------|-------------------|---------|----------------|--------------|
|   |            |         | Level 2           | Level 3 | (In thousands) |              |
| Non-covered other real estate owned (1)                     | \$ 8,797   | \$-     | \$ 8,797          | \$-     | \$ (1,454 )    |              |
| Covered other real estate owned (2)                         | 10,587     | -       | 10,587            | -       | (253 )         |              |
| Originated impaired loans (3)                               | 5,030      | -       | 5,030             | -       | (299 )         |              |
| Purchased covered impaired loans (4)                        | 347        | -       | 347               | -       | -              |              |
| Total assets measured at fair value on a nonrecurring basis | \$ 24,761  | \$-     | \$ 24,761         | \$-     | \$ (2,006 )    |              |

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

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

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

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

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

## Disclosures about Fair Value of Financial Instruments

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

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

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

**Loans** Loans were separated into two groups for valuation. Variable rate loans, except for those described below, which reprice frequently with changes in market rates were valued using historical cost. Fixed rate loans and variable rate loans that have reached their minimum contractual interest rates were valued by discounting the future cash flows expected to be received from the loans using current interest rates charged on loans with similar characteristics. Additionally, the allowance for loan losses of \$31,883 thousand at March 31, 2012 and \$32,597 thousand at December 31, 2011 and the fair value discount due to credit default risk associated with purchased covered and purchased non-covered loans of \$37,503 thousand and \$9,960 thousand, respectively at March 31, 2012 and purchased covered and purchased non-covered loans of \$46,282 thousand and \$10,211 thousand, respectively at December 31, 2011 were applied against the estimated fair values to recognize estimated future defaults of contractual cash flows. The Company does not consider these values to be a liquidation price for the loans.

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

**Deposit Liabilities** The carrying amount of checking accounts, savings accounts and money market accounts approximates fair value due to the relatively short period of time between their origination and their expected realization. The fair values of time deposits were estimated by discounting estimated future cash flows related to these financial instruments using current market rates for financial instruments with similar characteristics.

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

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

**Federal Home Loan Bank Advances** The fair values of FHLB advances were estimated by using interpolated yields for financial instruments with similar characteristics.

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

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

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

|   | At March 31,<br>2012 |                            |   |  |   |
|---|----------------------|----------------------------|---|--|---|
|   | Carrying<br>Amount   | Estimated<br>Fair<br>Value | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2 ) | Significant<br>Unobservable<br>Inputs<br>(Level 3 ) |
| Financial Assets                                    | (In thousands)       |                            |   |  |   |
| Cash and due from banks                             | \$ 541,102           | \$ 541,102                 | \$ 541,102  | \$ -   | \$ -  |
| Investment securities held to<br>maturity:          |                      |                            |   |  |   |
| Securities of U.S. Government<br>sponsored entities | 4,796                | 4,802                      | 4,802   | -  | -   |
| Municipal bonds:                                    |                      |                            |   |  |   |
| Federally Tax-exempt - California                   | 96,723               | 100,351                    | -   | 100,351  | -   |
| Federally Tax-exempt - 41 other<br>states           | 536,403              | 552,504                    | -   | 552,504  | -   |
| Taxable - California                                | 7,655                | 7,693                      | -   | 7,693  | -   |
| Taxable - 3 other states                            | 9,917                | 9,993                      | -   | 9,993  | -   |
| Residential mortgage-backed<br>securities ("MBS"):  |                      |                            |   |  |   |
| Guaranteed by GNMA                                  | 15,720               | 15,742                     | -   | 15,742   | -   |
| Issued by FNMA and FHLMC                            | 71,413               | 72,791                     | -   | 72,791   | -   |
| Residential collateralized mortgage<br>obligations: |                      |                            |   |  |   |
| Issued or guaranteed by FNMA,<br>FHLMC, or GNMA     | 224,984              | 227,109                    | -   | 227,109  | -   |
| All other   | 70,882               | 70,454                     | -   | 70,454   | -   |
| Total investment securities held to<br>maturity     | 1,038,493            | 1,061,439                  | 545,904   | 1,056,637  | -   |
| Loans   | 2,390,561            | 2,413,488                  | -   | -  | 2,413,488   |
| Other assets - FDIC receivable                      | 38,516               | 38,463                     | -   | -  | 38,463  |

#### Financial Liabilities

|                                 |              |              |              |        |         |
|---------------------------------|--------------|--------------|--------------|--------|---------|
| Deposits:                       |              |              |              |        |         |
| Noninterest bearing             | \$ 1,575,687 | \$ 1,575,687 | \$ 1,575,687 | \$ -   | \$ -    |
| Transaction                     | 748,149      | 748,149      | 748,149      | -      | -       |
| Savings                         | 1,143,027    | 1,143,027    | 1,143,027    | -      | -       |
| Time                            | 782,141      | 782,378      | -            | -      | 782,378 |
| Total Deposits                  | 4,249,004    | 4,249,241    | 3,466,863    | -      | 782,378 |
| Short-term borrowed funds       | 106,683      | 106,683      | 106,683      | -      | -       |
| Term repurchase agreement       | 10,000       | 10,198       | -            | 10,198 | -       |
| Federal Home Loan Bank advances | 25,967       | 26,451       | 26,451       | -      | -       |
| Debt financing                  | 15,000       | 15,447       | -            | 15,447 | -       |

At December 31, 2011

|                    |                         |
|--------------------|-------------------------|
| Carrying<br>Amount | Estimated<br>Fair Value |
|--------------------|-------------------------|

(In thousands)

## Financial Assets

|  |            |            |
|--|------------|------------|
| Cash and due from banks                | \$ 530,045 | \$ 530,045 |
| Investment securities held to maturity | 922,803    | 947,493    |
| Loans                                  | 2,491,209  | 2,515,095  |
| Other assets - FDIC receivable         | 40,113     | 40,046     |

## Financial Liabilities

|                                 |              |              |
|---------------------------------|--------------|--------------|
| Deposits                        | \$ 4,249,921 | \$ 4,250,164 |
| Short-term borrowed funds       | 115,689      | 115,689      |
| Term repurchase agreement       | 10,000       | 10,242       |
| Federal Home Loan Bank advances | 26,023       | 26,532       |
| Debt financing                  | 15,000       | 15,222       |

The majority of the Company's standby letters of credit and other commitments to extend credit carry current market interest rates if converted to loans. No premium or discount was ascribed to these commitments because virtually all funding would be at current market rates.

## Note 9: Debt Financing

Unsecured debt financing was as follows:

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

The Senior note was issued by Westamerica Bancorporation on October 31, 2003 and matures October 31, 2013. Interest of 5.31% per annum is payable semiannually on April 30 and October 31, with original principal payment due at maturity.

#### Note 10: Earnings Per Common Share

The table below shows earnings per common share and diluted earnings per common share. Basic earnings per common share are computed by dividing net income applicable to common equity by the average number of common shares outstanding during the period. Diluted earnings per common share are computed by dividing net income applicable to common equity by the average number of common shares outstanding during the period plus the impact of common stock equivalents.

|  | For the Three Months Ended<br>March 31, |           |
|--|---|-----------|
|  | 2012                                    | 2011      |
|  | (In thousands, except per share data)   |           |
| Net income applicable to common equity (numerator)   | \$ 21,005                               | \$ 22,382 |
| Basic earnings per common share  |   |           |
| Weighted average number of common shares outstanding - basic<br>(denominator)  | 28,051                                  | 29,021    |
| Basic earnings per common share  | \$ 0.75                                 | \$ 0.77   |
| Diluted earnings per common share  |   |           |
| Weighted average number of common shares outstanding - basic   | 28,051                                  | 29,021    |
| Add exercise of options reduced by the number of shares that could<br>have been purchased with the proceeds of such exercise | 60                                      | 204       |
| Weighted average number of common shares outstanding - diluted<br>(denominator)  | 28,111                                  | 29,225    |
| Diluted earnings per common share  | \$ 0.75                                 | \$ 0.77   |

For the three months ended March 31, 2012 and 2011, options to purchase 1,998 thousand and 1,021 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

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WESTAMERICA BANCORPORATION  
FINANCIAL SUMMARY

| March 31,<br>2012                                 | For the Three months ended |                         |              |
|---|----------------------------|-------------------------|--------------|
|   | March 31,<br>2011          | December<br>31,<br>2011 |              |
| (In thousands, except per share data)             |                            |                         |              |
| Net Interest and Fee Income (FTE)*                | \$51,699                   | \$54,993                | \$ 53,362    |
| Provision for Loan Losses                         | 2,800                      | 2,800                   | 2,800        |
| Noninterest Income                                | 14,669                     | 14,743                  | 14,857       |
| Noninterest Expense                               | 30,034                     | 31,323                  | 30,663       |
| Income Before Income Taxes (FTE)*                 | 33,534                     | 35,613                  | 34,756       |
| Income Tax Provision (FTE)*                       | 12,529                     | 13,231                  | 12,951       |
| Net Income  | \$21,005                   | \$22,382                | \$ 21,805    |
|   |                            |                         |              |
| Average Common Shares Outstanding                 | 28,051                     | 29,021                  | 28,296       |
| Diluted Average Common Shares Outstanding         | 28,111                     | 29,225                  | 28,334       |
| Common Shares Outstanding at Period End           | 27,917                     | 28,920                  | 28,150       |
|   |                            |                         |              |
| Per Common Share:                                 |                            |                         |              |
| Basic Earnings                                    | \$0.75                     | \$0.77                  | \$ 0.77      |
| Diluted Earnings                                  | 0.75                       | 0.77                    | 0.77         |
| Book Value Per Common Share                       | \$20.04                    | \$19.05                 | \$ 19.85     |
|   |                            |                         |              |
| Financial Ratios:                                 |                            |                         |              |
| Return On Assets                                  | 1.68                       | % 1.84                  | % 1.73       |
| Return On Common Equity                           | 15.45                      | % 16.65                 | % 15.85      |
| Net Interest Margin (FTE)*                        | 5.12                       | % 5.35                  | % 5.24       |
| Net Loan Losses to Average Gross Originated Loans | 0.69                       | % 0.83                  | % 0.53       |
| Efficiency Ratio**                                | 45.3                       | % 44.9                  | % 44.9       |
|   |                            |                         |              |
| Average Balances:                                 |                            |                         |              |
| Assets  | \$5,030,935                | \$4,940,998             | \$ 5,013,227 |
| Earning Assets                                    | 4,060,271                  | 4,153,110               | 4,052,476    |
| Originated Loans                                  | 1,835,370                  | 2,002,061               | 1,895,276    |
| Purchased Covered Loans                           | 512,966                    | 674,806                 | 559,451      |
| Purchased Non-covered Loans                       | 119,503                    | 193,440                 | 132,576      |
| Deposits  | 4,253,764                  | 4,138,799               | 4,248,191    |
| Shareholders' Equity                              | 546,676                    | 545,203                 | 545,654      |
|   |                            |                         |              |
| Period End Balances:                              |                            |                         |              |
| Assets  | \$5,060,257                | \$4,937,429             | \$ 5,042,161 |
| Earning Assets                                    | 4,100,675                  | 4,168,503               | 4,085,362    |
| Originated Loans                                  | 1,819,162                  | 1,986,976               | 1,862,607    |
| Purchased Covered Loans                           | 491,103                    | 660,456                 | 535,278      |
| Purchased Non-covered Loans                       | 112,179                    | 187,203                 | 125,921      |
| Deposits  | 4,249,004                  | 4,140,373               | 4,249,921    |
| Shareholders' Equity                              | 559,528                    | 550,915                 | 558,641      |

|                                    |        |   |        |   |         |   |
|------------------------------------|--------|---|--------|---|---------|---|
| Capital Ratios at Period End:      |        |   |        |   |         |   |
| Total Risk Based Capital           | 16.09  | % | 15.80  | % | 15.83   | % |
| Tangible Equity to Tangible Assets | 8.36   | % | 8.28   | % | 8.35    | % |
| Dividends Paid Per Common Share    | \$0.37 |   | \$0.36 |   | \$ 0.37 |   |
| Common Dividend Payout Ratio       | 49     | % | 47     | % | 48      | % |

The above financial summary has been derived from the Company's unaudited consolidated financial statements. This information should be read in conjunction with those statements, notes and the other information included elsewhere herein.

Percentages under the heading "As Reported" are annualized with the exception of the efficiency ratio.

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

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

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

Westamerica Bancorporation and subsidiaries (the “Company”) reported first quarter 2012 net income of \$21.0 million or \$0.75 diluted earnings per common share. These results compare to net income applicable to common equity of \$22.4 million or \$0.77 diluted earnings per common share and \$21.8 million or \$0.77 diluted earnings per common share, respectively, for the first and fourth quarters of 2011. First quarter 2011 results include expenses related to the integration of the former Sonoma Valley Bank (“Sonoma”) of \$393 thousand after tax, equivalent to \$0.01 diluted earnings per share.

## Net Income

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

|  | For the Three months ended            |                   |                         |
|--|---------------------------------------|-------------------|-------------------------|
|  | March 31,<br>2012                     | March 31,<br>2011 | December<br>31,<br>2011 |
|  | (In thousands, except per share data) |                   |                         |
| Net interest income (FTE)                                      | \$51,699                              | \$54,993          | \$ 53,362               |
| Provision for loan losses                                      | (2,800 )                              | (2,800 )          | (2,800 )                |
| Noninterest income   | 14,669                                | 14,743            | 14,857                  |
| Noninterest expense  | (30,034 )                             | (31,323 )         | (30,663 )               |
| Income before taxes (FTE)                                      | 33,534                                | 35,613            | 34,756                  |
| Income tax provision (FTE)                                     | (12,529 )                             | (13,231 )         | (12,951 )               |
| Net income   | \$21,005                              | \$22,382          | \$ 21,805               |
| Average diluted common shares                                  | 28,111                                | 29,225            | 28,334                  |
| Diluted earnings per common share                              | \$0.75                                | \$0.77            | \$ 0.77                 |
| Average total assets   | \$5,030,935                           | \$4,940,998       | \$ 5,013,227            |
| Net income to average total assets (annualized)                | 1.68 %                                | 1.84 %            | 1.73 %                  |
| Net income to average common stockholders' equity (annualized) | 15.45 %                               | 16.65 %           | 15.85 %                 |

Net income for the first quarter of 2012 was \$1.4 million or 6.2% less than the same quarter of 2011, the net result of declines in net interest income (fully taxable equivalent or “FTE”), partially offset by decreases in noninterest expense and income tax provision (FTE). A \$3.3 million or 6.0% decrease in net interest income (FTE) was mostly attributed to lower average balances of loans and lower yields on investments, partially offset by higher average balances of investments, lower average balances of interest-bearing liabilities and lower rates paid on interest-bearing deposits. The provision for loan losses remained the same, reflecting Management's evaluation of losses inherent in the loan portfolio not covered by loss-sharing agreements with the Federal Deposit Insurance Corporation (“FDIC”) and purchased loan credit-default discounts. Noninterest expense decreased \$1.3 million.

Comparing the first quarter of 2012 to the fourth quarter of 2011, net income decreased \$800 thousand, primarily due to lower net interest income (FTE), partially offset by decreases in noninterest expense and income tax provision (FTE). The lower net interest income (FTE) was primarily caused by a lower average volume of loans and lower yields on interest earning assets, partially offset by higher average balances of investments and lower rates paid on interest-bearing deposits. The provision for loan losses remained the same, reflecting Management's evaluation of losses inherent in the loan portfolio not covered by loss-sharing agreements with the FDIC and purchased loan credit-default discounts. Noninterest expense declined \$629 thousand.



## Net Interest Income

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

|  | For the Three Months Ended |                   |                         |
|--|----------------------------|-------------------|-------------------------|
|  | 2012                       | March 31,<br>2011 | December<br>31,<br>2011 |
|  | (In<br>thousands)          |                   |                         |
| Interest and fee income                | \$48,298                   | \$ 52,494         | \$ 50,421               |
| Interest expense                       | (1,559 )                   | (2,303 )          | (1,855 )                |
| FTE adjustment                         | 4,960                      | 4,802             | 4,796                   |
| Net interest income (FTE)              | \$51,699                   | \$ 54,993         | \$ 53,362               |
| Average earning assets                 | \$4,060,271                | \$ 4,153,110      | \$ 4,052,476            |
| Net interest margin (FTE) (annualized) | 5.12                       | % 5.35            | % 5.24                  |

Net interest income (FTE) decreased during the first quarter of 2012 by \$3.3 million or 6.0% from the same period in 2011 to \$51.7 million, mainly due to lower average balances of loans (down \$402 million) and lower yields on investments (down 0.46%), partially offset by higher average balances of investments (up \$310 million), lower average balances of interest-bearing liabilities (down \$27 million) and lower rates paid on interest-bearing deposits (down 0.11%).

Comparing the first quarter of 2012 with the fourth quarter of 2011, net interest income (FTE) decreased \$1.7 million or 3.1%, primarily due to a lower average volume of loans (down \$119 million) and lower yields on interest earning assets (down 0.15%), partially offset by higher average balances of investments (up \$127 million) and lower rates paid on interest-bearing deposits (down 0.04%).

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

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

At March 31, 2012, purchased FDIC covered loans represented 20 percent of the Company's loan portfolio. Under the terms of the FDIC loss-sharing agreements, the FDIC is obligated to reimburse the Bank 80 percent of loan interest income foregone on covered loans. Such reimbursements are limited to the lesser of 90 days contractual interest or actual unpaid contractual interest at the time a principal loss is recognized in respect to the underlying loan.

## Interest and Fee Income

Interest and fee income (FTE) for the first quarter of 2012 decreased \$4.0 million or 7.0% from the same period in 2011. The decrease was caused by lower average balances of loans and lower yields on investments, partially offset by higher average balances of investments.

The total average balances of loans declined due to decreases in the average balances of commercial real estate loans (down \$161 million), taxable commercial loans (down \$133 million), construction loans (down \$42 million), real estate residential loans (down \$44 million) and tax-exempt commercial loans (down \$16 million). The average investment portfolio increased largely due to higher average balances of municipal securities (up \$127 million), collateralized mortgage obligations (up \$194 million) and corporate securities (up \$37 million), partially offset by a \$61 million decrease in average balances of securities of U.S. government sponsored entities. The average yield on the Company's earning assets decreased from 5.57% in the first quarter of 2011 to 5.27% in the corresponding period of 2012. The composite yield on loans declined 0.04% to 5.93%. Lower yields on consumer loans (down 0.62%), real estate residential loans (down 0.42%) and tax-exempt commercial loans (down 0.59%) were offset by higher yields on commercial real estate loans (up 0.27%), taxable commercial loans (up 0.37%) and construction loans (up 1.55%). The increased yields on commercial real estate loans, taxable commercial loans, and construction loans are due to purchased loan discount accretion. Nonperforming loans are included in average loan volumes used to compute loan yields; fluctuations in nonaccrual loan volumes impact loan yields. The investment yields in general declined due to market rates. The investment portfolio yield decreased 0.46% to 4.24% primarily due to lower yields on municipal securities (down 0.50%), collateralized mortgage obligations (down 1.77%) and residential mortgage backed securities (down 0.29%). Offsetting the decrease was a 0.28% increase in yields on corporate securities which contain floating interest rate structures.

Comparing the first quarter of 2012 with the fourth quarter of 2011, interest and fee income (FTE) was down \$2.0 million or 3.5%. The decrease resulted from a lower average volume of loans and lower yields on interest earning assets, partially offset by higher average balances of investments. Average interest earning assets increased \$8 million or 0.2% in the first quarter of 2012 compared with the fourth quarter of 2011 due to a \$127 million increase in average investments and a \$119 million decrease in average loans. The decrease in the average balance of the loan portfolio was attributable to decreases in average balances of commercial real estate loans (down \$48 million), taxable commercial loans (down \$42 million), construction loans (down \$5 million), residential real estate loans (down \$12 million) and tax-exempt commercial loans (down \$6 million). The average investment portfolio increased mostly due to higher average balances of municipal securities (up \$80 million), collateralized mortgage obligations (up \$33 million) and residential mortgage backed securities (up \$14 million).

The average yield on earning assets for the first quarter of 2012 was 5.27% compared with 5.42% in the fourth quarter of 2011. The loan portfolio yield for the first quarter of 2012 compared with the fourth quarter of 2011 was lower by 0.04% mostly due to lower yields on construction loans (down 9.35%), consumer loans (down 0.14%), tax-exempt commercial loans (down 0.32%) and residential real estate loans (down 0.12%), partially offset by higher yields on taxable commercial loans (up 0.46%) and commercial real estate loans (up 0.23%). The yield on construction loans in the fourth quarter 2011 was elevated due to interest received on nonaccrual loans. The investment portfolio yield decreased 0.20% to 4.24% primarily due to lower yields on municipal securities (down 0.26%), collateralized mortgage obligations (down 0.30%), residential mortgage backed securities (down 0.15%) and securities of U.S. government sponsored entities (down 0.37%).

#### Interest Expense

Interest expense in the first quarter of 2012 decreased \$744 thousand or 32.3% compared with the same period in 2011 due to lower rates paid on interest-bearing deposits and a shift of higher costing deposits and financing to lower cost checking and savings accounts. Such deposits accounted for 81.4% of total deposits in the first quarter 2012 compared with 78.7% in the same quarter of 2011. Interest-bearing liabilities declined due to lower average balances of FHLB advances (down \$32 million), long-term debt (down \$11 million), time deposits (down \$89 million) and preferred money market savings (down \$7 million), partially offset by higher average balances of money market savings (up \$34 million), regular savings (up \$29 million) and term repurchase agreement (up \$10 million). Lower average balances of long-term debt were attributable to the redemption of \$10 million of subordinated debt in August 2011. The average rate paid on interest-bearing liabilities decreased from 0.34% in the first quarter of 2011 to 0.22% in the same quarter of 2012. Rates on interest-bearing deposits decreased 0.11% to 0.18% primarily due to decreases in rates paid on time deposits \$100 thousand or more (down 0.27%), preferred money market savings (down 0.14%), money market checking (down 0.06%) and money market savings (down 0.10%).

Comparing the first quarter of 2012 with the fourth quarter of 2011, interest expense declined \$296 thousand or 16.0%, due to lower average balances of interest-bearing deposits and lower rates paid on interest-bearing deposits. Average interest-bearing deposits during the first quarter of 2012 fell \$11 million compared with the same quarter in 2011 primarily due to declines in the average balances of time deposits (down \$23 million) and preferred money market savings (down \$22 million), partially offset by a \$24 million increase in the average balance of money market checking accounts. Rates paid on interest-bearing deposits averaged 0.18% during the first quarter of 2012 compared with 0.22% for the fourth quarter of 2011 mainly due to lower rates on money market savings (down 0.03%), preferred money market savings (down 0.06%) and regular savings (down 0.04%), time deposits less than \$100 thousand (down 0.04%) and time deposits \$100 thousand and more (down 0.02%).





## Net Interest Margin (FTE)

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

|   | For the Three Months Ended |   |      |   |                         |   |
|---|----------------------------|---|------|---|-------------------------|---|
|   | March 31,<br>2012          |   | 2011 |   | December<br>31,<br>2011 |   |
| Yield on earning assets (FTE)             | 5.27                       | % | 5.57 | % | 5.42                    | % |
| Rate paid on interest-bearing liabilities | 0.22                       | % | 0.34 | % | 0.26                    | % |
| Net interest spread (FTE)                 | 5.05                       | % | 5.23 | % | 5.16                    | % |
| Impact of noninterest-bearing funds       | 0.07                       | % | 0.12 | % | 0.08                    | % |
| Net interest margin (FTE)                 | 5.12                       | % | 5.35 | % | 5.24                    | % |

During the first quarter of 2012, the net interest margin (FTE) decreased 0.23% compared with the same period in 2011. Lower yields on earning assets were partially offset by lower rates paid on interest-bearing liabilities and resulted in a 0.18% decrease in net interest spread (FTE). The 0.07% net interest margin contribution of noninterest-bearing demand deposits resulted in the net interest margin (FTE) of 5.12%. During the first quarter of 2012, the net interest margin (FTE) decreased 0.12% compared with the fourth quarter of 2011. The net interest spread (FTE) in the first quarter of 2012 was 5.05% compared with 5.16% in the fourth quarter of 2011, the net result of a 0.15% decrease in earning asset yields, partially offset by lower cost of interest-bearing liabilities (down 0.04%).

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

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

|   | Average<br>Balance | For the Three Months Ended<br>March 31, 2012     |                                    |
|---|--------------------|--|------------------------------------|
|   |                    | Interest<br>Income/<br>Expense<br>(In thousands) | Yields<br>Earned/<br>Rates<br>Paid |
| <b>Assets</b>                               |                    |  |                                    |
| <b>Investment securities:</b>               |                    |  |                                    |
| Available for sale                          |                    |  |                                    |
| Taxable                                     | \$412,353          | \$ 2,564   | 2.49 %                             |
| Tax-exempt (1)                              | 224,879            | 3,359  | 5.97 %                             |
| Held to maturity                            |                    |  |                                    |
| Taxable                                     | 341,107            | 2,126  | 2.49 %                             |
| Tax-exempt (1)                              | 614,093            | 8,837  | 5.76 %                             |
| <b>Loans:</b>                               |                    |  |                                    |
| Commercial:                                 |                    |  |                                    |
| Taxable                                     | 352,075            | 5,783  | 6.61 %                             |
| Tax-exempt (1)                              | 137,747            | 2,055  | 6.00 %                             |
| Commercial real estate                      | 1,091,025          | 18,249   | 6.73 %                             |
| Real estate construction                    | 33,267             | 551  | 6.66 %                             |
| Real estate residential                     | 283,137            | 2,603  | 3.68 %                             |
| Consumer                                    | 570,588            | 7,131  | 5.03 %                             |
| Total loans (1)                             | 2,467,839          | 36,372   | 5.93 %                             |
| Total interest earning assets (1)           | 4,060,271          | \$ 53,258  | 5.27 %                             |
| <b>Other assets</b>                         |                    |  |                                    |
| Total assets                                | \$5,030,935        |  |                                    |
| <b>Liabilities and shareholders' equity</b> |                    |  |                                    |
| <b>Deposits:</b>                            |                    |  |                                    |
| Noninterest bearing demand                  | \$1,576,058        | \$ -   | - %                                |
| Savings and interest-bearing transaction    | 1,884,544          | 326  | 0.07 %                             |
| Time less than \$100,000                    | 280,735            | 438  | 0.63 %                             |
| Time \$100,000 or more                      | 512,427            | 423  | 0.33 %                             |
| Total interest-bearing deposits             | 2,677,706          | 1,187  | 0.18 %                             |
| Short-term borrowed funds                   | 114,906            | 27   | 0.10 %                             |
| Term repurchase agreement                   | 10,000             | 25   | 0.97 %                             |
| Federal Home Loan Bank advances             | 26,000             | 120  | 1.85 %                             |
| Debt financing                              | 15,000             | 200  | 5.35 %                             |
| Total interest-bearing liabilities          | 2,843,612          | \$ 1,559   | 0.22 %                             |

|   |             |           |      |   |
|---|-------------|-----------|------|---|
| Other liabilities                               | 64,589      |           |      |   |
| Shareholders' equity                            | 546,676     |           |      |   |
| Total liabilities and shareholders' equity      | \$5,030,935 |           |      |   |
| Net interest spread (1) (2)                     |             |           | 5.05 | % |
| Net interest income and interest margin (1) (3) |             | \$ 51,699 | 5.12 | % |

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

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

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

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For the Three Months Ended  
March 31, 2011

|   | Average<br>Balance | Interest<br>Income/<br>Expense<br>(In thousands) | Yields<br>Earned/<br>Rates<br>Paid |   |
|---|--------------------|--|------------------------------------|---|
| <b>Assets:</b>                                  |                    |  |                                    |   |
| Money market assets and funds sold              | \$ 677             | \$ -   | -                                  | % |
| <b>Investment securities:</b>                   |                    |  |                                    |   |
| Available for sale                              |                    |  |                                    |   |
| Taxable   | 436,494            | 2,466  | 2.26                               | % |
| Tax-exempt (1)                                  | 269,076            | 4,213  | 6.26                               | % |
| Held to maturity                                |                    |  |                                    |   |
| Taxable   | 122,672            | 1,291  | 4.21                               | % |
| Tax-exempt (1)                                  | 453,884            | 7,093  | 6.25                               | % |
| <b>Loans:</b>                                   |                    |  |                                    |   |
| Commercial:                                     |                    |  |                                    |   |
| Taxable   | 485,005            | 7,465  | 6.24                               | % |
| Tax-exempt (1)                                  | 153,862            | 2,500  | 6.59                               | % |
| Commercial real estate                          | 1,251,610          | 19,929   | 6.46                               | % |
| Real estate construction                        | 75,114             | 946  | 5.11                               | % |
| Real estate residential                         | 327,313            | 3,355  | 4.10                               | % |
| Consumer  | 577,403            | 8,038  | 5.65                               | % |
| Total loans (1)                                 | 2,870,307          | 42,233   | 5.97                               | % |
| Total Interest earning assets (1)               | 4,153,110          | \$ 57,296  | 5.57                               | % |
| Other assets                                    | 787,888            |  |                                    |   |
| Total assets                                    | \$ 4,940,998       |  |                                    |   |
| <b>Liabilities and shareholders' equity</b>     |                    |  |                                    |   |
| <b>Deposits:</b>                                |                    |  |                                    |   |
| Noninterest bearing demand                      | \$ 1,463,075       | \$ -   | -                                  | % |
| Savings and interest-bearing transaction        | 1,793,314          | 671  | 0.15                               | % |
| Time less than \$100,000                        | 334,172            | 413  | 0.50                               | % |
| Time \$100,000 or more                          | 548,238            | 806  | 0.60                               | % |
| Total interest-bearing deposits                 | 2,675,724          | 1,890  | 0.29                               | % |
| Short-term borrowed funds                       | 110,848            | 62   | 0.22                               | % |
| Federal Home Loan Bank advances                 | 57,771             | 151  | 1.05                               | % |
| Debt financing                                  | 26,318             | 200  | 3.05                               | % |
| Total interest-bearing liabilities              | 2,870,661          | \$ 2,303   | 0.34                               | % |
| Other liabilities                               | 62,059             |  |                                    |   |
| Shareholders' equity                            | 545,203            |  |                                    |   |
| Total liabilities and shareholders' equity      | \$ 4,940,998       |  |                                    |   |
| Net interest spread (1) (2)                     |                    |  | 5.23                               | % |
| Net interest income and interest margin (1) (3) |                    | \$ 54,993  | 5.35                               | % |

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

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

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

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|   | For the Three Months Ended<br>December 31, 2011 |   |                                    |   |
|---|---|---|------------------------------------|---|
|   | Average<br>Balance                              | Interest<br>Income/<br>Expense<br>(In<br>thousands) | Yields<br>Earned/<br>Rates<br>Paid |   |
| <b>Assets</b>                                   |   |   |                                    |   |
| <b>Investment securities:</b>                   |   |   |                                    |   |
| Available for sale                              |   |   |                                    |   |
| Taxable   | \$ 424,998                                      | \$ 2,798  | 2.63                               | % |
| Tax-exempt (1)                                  | 242,516   | 3,645   | 6.01                               | % |
| Held to maturity                                |   |   |                                    |   |
| Taxable   | 281,685   | 2,003   | 2.84                               | % |
| Tax-exempt (1)                                  | 515,974   | 7,835   | 6.07                               | % |
| <b>Loans:</b>                                   |   |   |                                    |   |
| Commercial:                                     |   |   |                                    |   |
| Taxable   | 393,690   | 6,102   | 6.15                               | % |
| Tax-exempt (1)                                  | 143,721   | 2,289   | 6.32                               | % |
| Commercial real estate                          | 1,139,249                                       | 18,676  | 6.50                               | % |
| Real estate construction                        | 38,196  | 1,541   | 16.01                              | % |
| Real estate residential                         | 295,015   | 2,800   | 3.80                               | % |
| Consumer  | 577,432   | 7,528   | 5.17                               | % |
| Total loans (1)                                 | 2,587,303                                       | 38,936  | 5.97                               | % |
| Total earning assets (1)                        | 4,052,476                                       | \$ 55,217   | 5.42                               | % |
| <b>Other assets</b>                             |   |   |                                    |   |
| Total assets                                    | \$ 5,013,227                                    |   |                                    |   |
| <b>Liabilities and shareholders' equity</b>     |   |   |                                    |   |
| <b>Deposits:</b>                                |   |   |                                    |   |
| Noninterest bearing demand                      | \$ 1,559,801                                    | \$ -  | -                                  | % |
| Savings and interest-bearing transaction        | 1,872,727                                       | 500   | 0.11                               | % |
| Time less than \$100,000                        | 293,921   | 496   | 0.67                               | % |
| Time \$100,000 or more                          | 521,742   | 465   | 0.35                               | % |
| Total interest-bearing deposits                 | 2,688,390                                       | 1,461   | 0.22                               | % |
| Short-term borrowed funds                       | 106,973   | 46  | 0.17                               | % |
| Term repurchase agreement                       | 10,000  | 25  | 0.97                               | % |
| Federal Home Loan Bank advances                 | 26,054  | 122   | 1.87                               | % |
| Debt financing                                  | 15,000  | 201   | 5.35                               | % |
| Total interest-bearing liabilities              | 2,846,417                                       | \$ 1,855  | 0.26                               | % |
| <b>Other liabilities</b>                        |   |   |                                    |   |
| Shareholders' equity                            | 545,654   |   |                                    |   |
| Total liabilities and shareholders' equity      | \$ 5,013,227                                    |   |                                    |   |
| Net interest spread (1) (2)                     |   |   | 5.16                               | % |
| Net interest income and interest margin (1) (3) |   | \$ 53,362   | 5.24                               | % |

(1) Interest and rates calculated on a fully taxable equivalent basis using the current

statutory federal tax rate.

(2) Net interest spread represents the average yield earned on earning assets minus the

average rate paid on interest-bearing liabilities.

(3) Net interest margin is computed by calculating the difference between interest

income and expense (annualized), divided by the average balance of earning assets.

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

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

|   | For the Three Months Ended March 31, 2012<br>Compared with<br>For the Three months ended March 31, 2011 |           |             |
|---|---|-----------|-------------|
|   | Volume  | Rate      | Total       |
|   | (In thousands)  |           |             |
| Interest and fee income:                      |   |           |             |
| Investment securities:                        |   |           |             |
| Available for sale                            |   |           |             |
| Taxable                                       | \$ (123 )   | \$ 221    | \$ 98       |
| Tax-exempt (1)                                | (658 )  | (196 )    | (854 )      |
| Held to maturity                              |   |           |             |
| Taxable                                       | 1,532   | (697 )    | 835         |
| Tax-exempt (1)                                | 2,349   | (605 )    | 1,744       |
| Loans:  |   |           |             |
| Commercial:                                   |   |           |             |
| Taxable                                       | (2,097 )  | 415       | (1,682 )    |
| Tax-exempt (1)                                | (228 )  | (217 )    | (445 )      |
| Commercial real estate                        | (2,482 )  | 802       | (1,680 )    |
| Real estate construction                      | (627 )  | 232       | (395 )      |
| Real estate residential                       | (412 )  | (340 )    | (752 )      |
| Consumer                                      | (17 )   | (890 )    | (907 )      |
| Total loans (1)                               | (5,863 )  | 2         | (5,861 )    |
| Total decrease in interest and fee income (1) | (2,763 )  | (1,275 )  | (4,038 )    |
| Interest expense:                             |   |           |             |
| Deposits:                                     |   |           |             |
| Savings and interest-bearing transaction      |   |           |             |
| Time less than \$100,000                      | 36  | (381 )    | (345 )      |
| Time \$100,000 or more                        | (69 )   | 94        | 25          |
| Total interest-bearing deposits               | (78 )   | (625 )    | (703 )      |
| Short-term borrowed funds                     | 2   | (37 )     | (35 )       |
| Term repurchase agreement                     | 25  | -         | 25          |
| Federal Home Loan Bank advances               | (110 )  | 79        | (31 )       |
| Debt financing                                | (108 )  | 108       | -           |
| Total decrease in interest expense            | (269 )  | (475 )    | (744 )      |
| Decrease in Net Interest Income (1)           | \$ (2,494 )   | \$ (800 ) | \$ (3,294 ) |

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





|   | For the Three Months Ended March 31, 2012<br>Compared with<br>For the Three Months Ended December 31,<br>2011 |                           |             |
|---|---|---------------------------|-------------|
|   | Volume  | Rate<br>(In<br>thousands) | Total       |
| Interest and fee income:                      |   |                           |             |
| Investment securities:                        |   |                           |             |
| Available for sale                            |   |                           |             |
| Taxable                                       | \$ (65 )  | \$ (169 )                 | \$ (234 )   |
| Tax-exempt (1)                                | (261 )  | (25 )                     | (286 )      |
| Held to maturity                              |   |                           |             |
| Taxable                                       | 398   | (275 )                    | 123         |
| Tax-exempt (1)                                | 1,442   | (440 )                    | 1,002       |
| Loans:  |   |                           |             |
| Commercial:                                   |   |                           |             |
| Taxable                                       | (617 )  | 298                       | (319 )      |
| Tax-exempt (1)                                | (71 )   | (163 )                    | (234 )      |
| Commercial real estate                        | (640 )  | 213                       | (427 )      |
| Real estate construction                      | (170 )  | (820 )                    | (990 )      |
| Real estate residential                       | (99 )   | (98 )                     | (197 )      |
| Consumer                                      | (15 )   | (382 )                    | (397 )      |
| Total loans (1)                               | (1,612 )  | (952 )                    | (2,564 )    |
| Total decrease in interest and fee income (1) | (98 )   | (1,861 )                  | (1,959 )    |
| Interest expense:                             |   |                           |             |
| Deposits:                                     |   |                           |             |
| Savings and interest-bearing<br>transaction   | 7   | (181 )                    | (174 )      |
| Time less than \$100,000                      | (17 )   | (41 )                     | (58 )       |
| Time \$100,000 or more                        | (4 )  | (38 )                     | (42 )       |
| Total interest-bearing deposits               | (14 )   | (260 )                    | (274 )      |
| Short-term borrowed funds                     | 3   | (22 )                     | (19 )       |
| Federal Home Loan Bank advances               | 1   | (3 )                      | (2 )        |
| Debt financing                                | 2   | (3 )                      | (1 )        |
| Total decrease in interest expense            | (8 )  | (288 )                    | (296 )      |
| Decrease in Net Interest Income (1)           | \$ (90 )  | \$ (1,573 )               | \$ (1,663 ) |

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

#### Provision for Loan Losses

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

The Company's total provision for loan losses was \$2.8 million for each of the first quarter of 2012, the first quarter of 2011, and the fourth quarter of 2011; of these amounts, \$490 thousand, \$-0- and \$559 thousand, respectively, was related to purchased loans. The Company recorded purchased County Bank ("County") and Sonoma loans at estimated fair value upon the acquisition dates, February 6, 2009 and August 20, 2010, respectively. Such estimated fair values were recognized for individual loans, although small balance homogenous loans were pooled for valuation purposes. The valuation discounts recorded for purchased loans included Management's assessment of the risk of principal loss under economic and borrower conditions prevailing on the dates of purchase. Any deterioration in estimated value related to principal loss subsequent to the acquisition dates requires additional loss recognition through a provision for loan losses. The purchased County loans are "covered" by loss-sharing agreements the Company entered with the FDIC which mitigates losses during the term of the agreements. In Management's judgment, the overall borrower and economic conditions for purchased loans have been relatively stable subsequent to the acquisition dates. However, no assurance can be given future provisions for loan losses related to purchased loans will not be necessary.

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

### Noninterest Income

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

|                                     | For the Three Months Ended |                   |                         |
|-------------------------------------|----------------------------|-------------------|-------------------------|
|                                     | March 31,<br>2012          | March 31,<br>2011 | December<br>31,<br>2011 |
|                                     | (In<br>thousands)          |                   |                         |
| Service charges on deposit accounts | \$7,095                    | \$ 7,521          | \$ 6,994                |
| Merchant processing services        | 2,393                      | 2,171             | 2,515                   |
| Debit card fees                     | 1,163                      | 1,201             | 1,204                   |
| ATM fees processing Fees            | 933                        | 935               | 904                     |
| Other service fees                  | 696                        | 691               | 673                     |
| Trust fees                          | 489                        | 493               | 480                     |
| Check sale income                   | 211                        | 220               | 204                     |
| Safe deposit rental                 | 197                        | 169               | 170                     |
| Financial services commissions      | 171                        | 29                | 165                     |
| Other noninterest income            | 1,321                      | 1,313             | 1,548                   |
| <b>Total</b>                        | <b>\$14,669</b>            | <b>\$ 14,743</b>  | <b>\$ 14,857</b>        |

Noninterest income for the first quarter of 2012 declined by \$74 thousand from the same period in 2011. Service charges on deposits decreased \$426 thousand or 5.7% due to declines in fees charged on overdrawn and insufficient funds accounts (down \$663 thousand), partially offset by higher deficit fees charged on analyzed accounts (up \$162 thousand). Merchant processing services income increased \$222 thousand or 10.2% primarily due to increased transactions.

In the first quarter of 2012, noninterest income decreased \$188 thousand or 1.3% compared with the fourth quarter of 2011. Merchant processing services income declined \$122 thousand or 4.9% mainly because the fourth quarter 2011 income was high due to seasonally higher transaction volumes. Service charges on deposits increased \$101 thousand or 1.4% due to higher deficit fees charged on analyzed accounts (up \$202 thousand) and higher fees on charged on checking accounts (up \$96 thousand), partially offset by declines in fees charged on overdrawn and insufficient funds accounts (down \$245 thousand).

## Noninterest Expense

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

|  | For the Three Months Ended |                   |                         |
|--|----------------------------|-------------------|-------------------------|
|  | March 31,<br>2012          | March 31,<br>2011 | December<br>31,<br>2011 |
|  | (In<br>thousands)          |                   |                         |
| Salaries and related benefits            | \$15,046                   | \$ 15,075         | \$ 14,113               |
| Occupancy                                | 3,934                      | 4,025             | 4,124                   |
| Outsourced data processing services      | 2,083                      | 2,456             | 2,101                   |
| Equipment                                | 851                        | 933               | 922                     |
| Amortization of identifiable intangibles | 1,402                      | 1,548             | 1,470                   |
| Deposit insurance assessments            | 750                        | 1,220             | 740                     |
| Courier service                          | 785                        | 843               | 806                     |
| Professional fees                        | 767                        | 850               | 1,314                   |
| Postage                                  | 372                        | 368               | 383                     |
| Loan expense                             | 627                        | 394               | 589                     |
| Telephone                                | 376                        | 435               | 420                     |
| Stationery and supplies                  | 243                        | 323               | 340                     |
| Operational losses                       | 173                        | 248               | 236                     |
| Advertising/public relations             | 151                        | 171               | 216                     |
| Other real estate owned                  | 230                        | 145               | 623                     |
| Other noninterest expense                | 2,244                      | 2,289             | 2,266                   |
| <b>Total</b>                             | <b>\$30,034</b>            | <b>\$ 31,323</b>  | <b>\$ 30,663</b>        |

Noninterest expense decreased \$1.3 million or 4.1% in the first quarter 2012 compared with the same period in 2011 primarily due to lower deposit insurance assessments and because the first quarter 2011 included \$679 thousand related to pre-integration costs for the acquired Sonoma, primarily outsourced data processing and personnel costs. Sonoma operations were fully integrated in February 2011. Deposit insurance assessments decreased \$470 thousand mainly due to application of new assessment rules effective April 1, 2011. Outsourced data processing services expense decreased \$373 thousand mostly due to merger deconversion costs for Sonoma operations. Amortization of identifiable intangibles decreased \$146 thousand as assets are amortized on a declining balance method. Loan expense increased \$233 thousand due to higher fees waived on charged off loans and higher appraisal fees.

In the first quarter of 2012, noninterest expense decreased \$629 thousand or 2.1% compared with the fourth quarter of 2011 due to lower costs related to managing nonperforming assets and lower occupancy costs offset in part by higher payroll taxes and other employee benefits. Professional fees declined \$547 thousand due to lower legal fees. Other real estate owned expense decreased \$393 thousand. Salaries and related benefits increased \$933 thousand primarily due to higher payroll taxes and other employee benefits.

## Provision for Income Tax

During the first quarter of 2012, the Company recorded income tax expense (FTE) of \$12.5 million, compared with \$13.2 million and \$13.0 million for the first and fourth quarters of 2011, respectively. The current quarter provision represents an effective tax rate (FTE) of 37.4%, compared with 37.2% and 37.3% for the first and fourth quarters of

2011, respectively.

#### Loan Portfolio Credit Risk

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

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- The Bank maintains a Loan Review Department which reports directly to the Board of Directors. The Loan Review Department performs independent evaluations of loans and assigns credit risk grades to evaluated loans using grading standards employed by bank regulatory agencies. Those loans judged to carry higher risk attributes are referred to as “classified loans.” Classified loans receive elevated management attention to maximize collection.
- The Bank maintains two loan administration offices whose sole responsibility is to manage and collect classified loans.

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

The Bank’s commercial loan customers are primarily small businesses and professionals. As a result, average loan balances are relatively small, providing risk diversification within the overall loan portfolio. At March 31, 2012, the Bank’s nonaccrual loans reflected this diversification: nonaccrual originated loans with a carrying value totaling \$16 million comprised of twenty-six borrowers, nonaccrual purchased non-covered loans with a carrying value totaling \$21 million comprised of twenty-four borrowers, nonaccrual purchased covered loans with a carrying value totaling \$7 million comprised of twenty-four borrowers.

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

On February 6, 2009, the Bank purchased loans and repossessed loan collateral of the former County Bank from the FDIC. This purchase transaction included loss-sharing agreements with the FDIC wherein the FDIC and the Bank share losses on the purchased assets. The loss-sharing agreements significantly reduce the credit risk of these purchased assets. In evaluating credit risk, Management separates the Bank’s total loan portfolio between those loans qualifying under the FDIC loss-sharing agreements (referred to as “purchased covered loans”) and loans not qualifying under the FDIC loss-sharing agreements (referred to as “purchased non-covered loans” and “originated loans”). At March 31, 2012, purchased covered loans totaled \$491 million, or 20 percent of total loans, originated loans totaled \$1.8 billion, or 75 percent and purchased non-covered loans totaled \$112 million, or 5 percent of total loans.

Purchased covered loans and repossessed loan collateral qualify under loss-sharing agreements with the FDIC. Under the terms of the loss-sharing agreements, the FDIC absorbs 80 percent of losses and shares in 80 percent of loss recoveries on the first \$269 million in losses on purchased covered assets (“First Tier”), and absorbs 95 percent of losses and shares in 95 percent of loss recoveries if losses on purchased covered assets exceed \$269 million (“Second Tier”). The loss-sharing agreement on covered residential real estate assets expires February 6, 2019 and the loss-sharing agreement on covered non-residential assets expires February 6, 2014 as to losses and February 6, 2017 as to loss recoveries.

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

originated assets.

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

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

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

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Management has judged the likelihood of experiencing losses of a magnitude to trigger Second Tier FDIC reimbursement as remote. The Bank's maximum after-tax exposure to Second Tier losses is \$12 million as of March 31, 2012, which would be realized only if all purchased covered assets at March 31, 2012 generated no future cash flows.

Purchased covered assets have declined since the acquisition date, and losses have been offset against the estimated credit risk discount. Purchased covered assets totaled \$507 million at March 31, 2012, net of a credit risk discount of \$38 million, compared to \$554 million at December 31, 2011, net of a credit risk discount of \$46 million. Purchased covered assets are evaluated for risk classification without regard to FDIC indemnification such that Management can identify purchased covered assets with potential payment problems and devote appropriate credit administration practices to maximize collections. Classified purchased covered assets without regard to FDIC indemnification totaled \$139 million and \$168 million at March 31, 2012 and December 31, 2011, respectively. FDIC indemnification limits the Company's loss exposure to covered classified assets.

#### Allowance for Credit Losses

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

|   | For the Three Months Ended |                   |                         |
|---|----------------------------|-------------------|-------------------------|
|   | March 31,<br>2012          | March 31,<br>2011 | December<br>31,<br>2011 |
|   | (In<br>thousands)          |                   |                         |
| Analysis of the Allowance for Credit Losses |                            |                   |                         |
| Balance, beginning of period                | \$35,290                   | \$ 38,329         | \$ 35,586               |
| Provision for loan losses                   | 2,800                      | 2,800             | 2,800                   |
| Provision for unfunded commitments          | -                          | -                 | -                       |
| Loans charged off                           |                            |                   |                         |
| Commercial                                  | (862 )                     | (1,324 )          | (2,494 )                |
| Commercial real estate                      | (948 )                     | -                 | (933 )                  |
| Real estate construction                    | -                          | (1,475 )          | (241 )                  |
| Real estate residential                     | (870 )                     | (308 )            | (212 )                  |
| Consumer                                    | (1,653 )                   | (2,136 )          | (1,704 )                |
| Purchased covered loans                     | (365 )                     | -                 | (559 )                  |
| Total chargeoffs                            | (4,698 )                   | (5,243 )          | (6,143 )                |
| Recoveries of loans previously charged off  |                            |                   |                         |
| Commercial                                  | 389                        | 200               | 2,296                   |
| Commercial real estate                      | -                          | -                 | -                       |
| Real estate construction                    | 2                          | -                 | 1                       |
| Real estate residential                     | -                          | -                 | -                       |
| Consumer                                    | 779                        | 928               | 750                     |
| Purchased covered loans                     | 14                         | -                 | -                       |
| Total recoveries                            | 1,184                      | 1,128             | 3,047                   |

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|   |            |             |             |
|---|------------|-------------|-------------|
| Net loan losses                                   | (3,514 )   | (4,115 )    | (3,096 )    |
| Balance, end of period                            | \$34,576   | \$ 37,014   | \$ 35,290   |
| Components:                                       |            |             |             |
| Allowance for loan losses                         | \$31,883   | \$ 34,321   | \$ 32,597   |
| Liability for off-balance sheet credit exposure   | 2,693      | 2,693       | 2,693       |
| Allowance for credit losses                       | \$34,576   | \$ 37,014   | \$ 35,290   |
| Net loan losses:                                  |            |             |             |
| Originated loans                                  | \$(3,163 ) | \$ (4,115 ) | \$ (2,537 ) |
| Purchased covered loans                           | (351 )     | -           | (559 )      |
| Purchased non-covered loans                       | -          | -           | -           |
| Net loan losses as a percentage of average loans: |            |             |             |
| Originated loans                                  | 0.69 %     | 0.83 %      | 0.53 %      |
| Purchased covered loans                           | 0.28 %     | - %         | 0.40 %      |
| Purchased non-covered loans                       | - %        | - %         | - %         |

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The Company's allowance for credit losses is maintained at a level considered appropriate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming loans and classified loans, FDIC loss-sharing indemnification, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to impaired loans whose full collectability is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. In the first quarter 2012, the Company lowered the dollar threshold for loans evaluated for impairment. The Company evaluates all nonaccrual loans with outstanding principal balances in excess of \$500 thousand for impairment. A second allocation is based in part on quantitative analyses of historical credit loss experience, in which criticized and classified credit balances identified through an independent internal credit review process are analyzed using a linear regression model to determine standard loss rates. The results of this analysis are applied to current criticized and classified loan balances to allocate the allowance to the respective segments of the loan portfolio. In addition, loans with similar characteristics not usually criticized using regulatory guidelines are analyzed based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Given currently weak economic conditions, Management is applying further analysis to consumer loans. Current levels of indirect automobile and consumer installment loan losses are compared to initial allowance allocations and, based on Management's judgment, additional allocations are applied, if needed, to estimate losses. For residential real estate loans, Management is comparing ultimate loss rates on foreclosed residential real estate properties and applying such loss rates to nonaccrual residential real estate loans. Based on this analysis, Management exercises judgment in allocating additional allowance if deemed appropriate to estimate losses on residential real estate loans. Last, allocations are made to non-criticized and non-classified commercial and commercial real estate loans based on historical loss rates and other statistical data.

The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. It addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in loan chargeoff history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific loan category in a statistically meaningful manner and are difficult to quantify with a specific number. Management assigns a range of estimated risk to the qualitative risk factors described above based on Management's judgment as to the level of risk, and assigns a quantitative risk factor from the range of loss estimates to determine the appropriate level of the unallocated portion of the allowance. Management considers the \$34.6 million allowance for credit losses to be adequate as a reserve against credit losses inherent in the loan portfolio as of March 31, 2012.

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

#### Asset/Liability and Market Risk Management

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

#### Interest Rate Risk

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

In adjusting the Company's asset/liability position, Management attempts to manage interest rate risk while enhancing the net interest margin and net interest income. At times, depending on expected increases or decreases in general interest rates, the relationship between long and short term interest rates, market conditions and competitive factors, Management may adjust the Company's interest rate risk position in order to manage its net interest margin and net interest income. The Company's results of operations and net portfolio values remain subject to changes in interest rates and to fluctuations in the difference between long and short term interest rates.

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The Company's asset and liability position ranged from "neutral" to slightly "asset sensitive" at March 31, 2012, depending on the interest rate assumptions applied to the simulation model employed by Management to measure interest rate risk. A "neutral" position results in similar amounts of change in interest income and interest expense resulting from application of assumed interest rate changes. A slightly "asset sensitive" position results in a slightly larger increase in interest income than in interest expense resulting from application of assumed interest rate changes. Management's simulation modeling is currently biased toward rising interest rates. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate risk.

Management assesses interest rate risk by comparing the Company's most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, using the current composition of the Company's balance sheet and assuming an increase of 100 basis points ("bp") in the federal funds rate and an increase of 60 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are not estimated to change by a meaningful amount compared to the Company's most likely net income plan for the twelve months ending March 31, 2013. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation. In the current operating environment, Management's objective is to maintain a "neutral" to slightly "asset sensitive" interest rate risk position. The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

#### Market Risk - Equity Markets

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

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

#### Market Risk - Other

Market values of loan collateral can directly impact the level of loan charge-offs and the provision for loan losses. Other types of market risk, such as foreign currency exchange risk and commodity price risk, are not significant in the normal course of the Company's business activities.

#### Liquidity and Funding

The Company's routine sources of liquidity are operating earnings, investment securities, consumer and other loans, deposits, and other borrowed funds. During the first quarter of 2012, operating cash flows provided \$33 million to pay

\$10 million in shareholder dividends, \$12 million in repurchases of common stock and \$9 million in net repayment of short-term borrowings. During the first quarter of 2011, the Company's operating activities generated \$32 million in liquidity providing funds to pay common shareholders \$10 million in dividends, fund \$12 million in stock repurchases and reduce short-term borrowings by \$13 million.

During the first quarter of 2012, investment securities provided \$80 million in liquidity from paydowns, maturities and sales, and loans provided \$96 million in liquidity from scheduled payments and maturities, net of loan fundings. Securities of \$177 million were purchased. During the first quarter of 2011, investment securities provided \$82 million in liquidity from paydowns, maturities and sales, and loans provided \$79 million in liquidity from scheduled payments and maturities, net of loan fundings. Securities of \$163 million were purchased.

At March 31, 2012, the Company's assets included \$541 million in cash and amounts due from other banks from daily transaction settlements. The Bank maintains cash balances for its branches of approximately \$50 million to meet the routine needs of its customers. Further, the Bank must maintain approximately \$30 million at the Federal Reserve Bank (FRB) to meet its reserve requirement; this reserve requirement is reduced by cash held for branches. Excluding cash for branch needs and cash required at the FRB, cash and amounts due from other banks from daily transaction settlements of approximately \$460 million provided excess liquidity equivalent to eleven percent of total deposits.

The Company projects \$213 million in additional liquidity from investment security paydowns and maturities during the next twelve months ending March 31, 2013. At March 31, 2012, \$515 million in residential collateralized mortgage obligations ("CMOs") and residential mortgage backed securities ("MBSs") were held in the Company's investment portfolios. None of the CMOs or MBSs are backed by sub-prime mortgages. The residential CMOs and MBSs provided \$31 million in liquidity from paydowns during the three months ended March 31, 2012. At March 31, 2012, indirect automobile loans totaled \$411 million, which were experiencing stable monthly principal payments of approximately \$17 million during the first quarter of 2012.

The Company held \$1.7 billion in total investment securities at March 31, 2012. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At March 31, 2012, such collateral requirements totaled approximately \$911 million. At March 31, 2012, \$640 million of the Company's investment securities were classified as "available-for-sale", and as such, could provide additional liquidity if sold, subject to the Company's ability to meet continuing collateral requirements. In addition, at March 31, 2012, the Company had customary lines for overnight borrowings from other financial institutions in excess of \$700 million, under which \$-0- million was outstanding. Additionally, the Company has access to borrowing from the Federal Reserve. Management expects the Company could access additional long-term debt financing if desired. In Management's judgment, the Company's liquidity position is strong and asset liquidations or additional long-term debt are considered unnecessary to meet the ongoing liquidity needs of the Company.

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

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

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

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## Capital Resources

The Company has historically generated high levels of earnings, which provides a means of raising capital. The Company's net income as a percentage of average common equity ("return on common equity" or "ROE") was 15.5% (annualized) in the first quarter of 2012, 16.1% in 2011 and 18.1% in 2010. The Company also raises capital as employees exercise stock options, which are awarded as a part of the Company's executive compensation programs to reinforce shareholders' interests in the Management of the Company. Capital raised through the exercise of stock options totaled \$641 thousand in the first quarter of 2012, \$14 million in 2011 and \$17 million in 2010.

The Company paid dividends totaling \$10 million in the first quarter of 2012, \$42 million in 2011 and \$42 million in 2010, which represent dividends per share of \$0.37, \$1.45 and \$1.44, respectively. The Company's earnings have historically exceeded dividends paid to shareholders. The amount of earnings in excess of dividends gives the Company resources to finance growth and maintain appropriate levels of shareholders' equity. In the absence of profitable growth opportunities, the Company has repurchased and retired its common stock as another means to return capital to shareholders. The Company repurchased and retired 249 thousand shares of common stock valued at \$12 million in the first quarter of 2012, 1.3 million shares valued at \$61 million in 2011 and 533 thousand shares valued at \$29 million in 2010.

The Company's primary capital resource is shareholders' equity, which increased \$887 thousand during the first quarter 2012. The Company earned \$21 million in net income, raised \$641 thousand from issuance of stock in connection with exercises of employee stock options, paid \$10 million in dividends, and purchased \$12 million in common stock.

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

## Capital to Risk-Adjusted Assets

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

|                | At March 31, |         | At December | Minimum Well-capitalized |               |
|----------------|--------------|---------|-------------|--------------------------|---------------|
|                | 2012         | 2011    | 31,         | Regulatory               | by Regulatory |
|                |              |         | 2011        | Requirement              | Definition    |
| Tier I Capital | 14.83 %      | 14.47 % | 14.54 %     | 4.00 %                   | 6.00 %        |
| Total Capital  | 16.09 %      | 15.79 % | 15.83 %     | 8.00 %                   | 10.00 %       |
| Leverage ratio | 8.36 %       | 8.68 %  | 8.38 %      | 4.00 %                   | 5.00 %        |

The risk-based capital ratios increased at March 31, 2012 compared with March 31, 2011 and December 31, 2011 primarily due to a decrease in risk-weighted assets.

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

|  | At March 31, | Minimum Well-capitalized |
|--|--------------|--------------------------|
|  |              | Regulatory by Regulatory |

|                | 2012    | 2011    | At December<br>31,<br>2011 | Requirement | Definition |
|----------------|---------|---------|----------------------------|-------------|------------|
| Tier I Capital | 14.13 % | 13.99 % | 13.84 %                    | 4.00 %      | 6.00 %     |
| Total Capital  | 15.62 % | 15.48 % | 15.32 %                    | 8.00 %      | 10.00 %    |
| Leverage ratio | 7.92 %  | 8.35 %  | 7.93 %                     | 4.00 %      | 5.00 %     |

The risk-based capital ratios increased at March 31, 2012 compared with March 31, 2011 and December 31, 2011 primarily due to a decrease in risk-weighted assets.

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

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

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

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

### Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of March 31, 2012. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission’s rules and forms and are effective in ensuring that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to Management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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



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

(a) Previously reported on Form 8-K.

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended March 31, 2012.

| Period                               | (a)<br>Total Number of<br>Shares Purchased | (b)<br>Average Price<br>Paid per Share<br>(In thousands, except per share data) | (c)<br>Total Number<br>of Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs* | (d)<br>Maximum Number<br>of Shares that May<br>Yet Be Purchased<br>Under the Plans<br>or Programs |
|--------------------------------------|--|---|--|---|
| January 1<br>through<br>January 31   | 64   | \$45.37   | 64   | 1,305   |
| February 1<br>through<br>February 29 | 56   | 47.68   | 56   | 1,249   |
| March 1<br>through<br>March 31       | 129  | 47.25   | 129  | 1,120   |
| Total                                | 249  | \$46.86   | 249  | 1,120   |

\* Includes 2 thousand, 6 thousand and 2 thousand shares purchased in January, February and March, respectively, by the Company in private transactions with the independent administrator of the Company's Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

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

## Item 3. Defaults upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not applicable.



## Item 5. Other Information

## (a) Submission of Matters to a Vote of Security Holders

Proxies for the Annual Meeting of shareholders held on April 26, 2012, were solicited pursuant Regulation 14A of the Securities Exchange Act of 1934. The Report of Inspector of election indicates that 23,865,308 shares of the Common Stock of the Company, out of 28,093,899 shares outstanding on the February 27, 2012 record date, were present, in person or by proxy, at the meeting. The following matters were submitted to a vote of the shareholders:

## 1. Election of Directors:

| Nominee                | For        | Withheld  | Non-Votes | Uncast |
|------------------------|------------|-----------|-----------|--------|
| Etta Allen             | 19,423,778 | 210,690   | 4,230,840 | 0      |
| Louis E. Bartolini     | 19,423,183 | 211,285   | 4,230,840 | 0      |
| E. Joseph Bowler       | 19,451,518 | 182,950   | 4,230,840 | 0      |
| Arthur C. Latno, Jr.   | 16,701,620 | 2,932,848 | 4,230,840 | 0      |
| Patrick D. Lynch       | 19,426,042 | 208,426   | 4,230,840 | 0      |
| Catherine C. MacMillan | 19,427,476 | 206,992   | 4,230,840 | 0      |
| Ronald A. Nelson       | 19,509,851 | 124,617   | 4,230,840 | 0      |
| David L. Payne         | 19,262,442 | 372,026   | 4,230,840 | 0      |
| Edward B. Sylvester    | 19,506,459 | 128,009   | 4,230,840 | 0      |

## 2. Approval of a Non-Binding Advisory Vote on Executive Compensation

| For        | Against | Abstain | Non-Votes | Uncast |
|------------|---------|---------|-----------|--------|
| 19,097,200 | 418,076 | 119,192 | 4,230,840 | 0      |

## 3. Approval of the 2012 Amended and Restated Stock Option Plan of 1995

| For        | Against | Abstain | Non-Votes | Uncast |
|------------|---------|---------|-----------|--------|
| 18,613,021 | 930,791 | 90,657  | 4,230,840 | 0      |

## 4. Approval of Selection of KPMG as Company's Independent Auditors for Fiscal Year 2012

| For        | Against | Abstain | Non-Votes | Uncast |
|------------|---------|---------|-----------|--------|
| 23,605,284 | 74,287  | 185,737 | 0         | 0      |

## Item 6. Exhibits

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

SIGNATURES

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

WESTAMERICA BANCORPORATION  
(Registrant)

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

Date: May 2, 2012

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EXHIBIT INDEX

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

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

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

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

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

