WESTAMERICA BANCORPORATION
Form 10-Q
May 01, 2013
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from __________ to __________.

Commission file number: 001-9383
WESTAMERICA BANCORPORATION
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

Yes [x] 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 [x] 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 [x] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]
(Do not check if a smaller reporting company)

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

Yes [ ] No [x]

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 23, 2013 |
|---|---|
| Common Stock, No Par Value | 26,980,635 |

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management’s current knowledge and belief and include information concerning the Company’s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company’s ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of current and potential future difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including data processing system failures or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, fire, flood, drought, and other disasters, on the uninsured value of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company’s market place, and commodities and asset values, and (13) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2012, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

PART I - FINANCIAL INFORMATION
Item 1 Financial Statements

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

| | At March 31, 2013 | At December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Assets: | | |
| Cash and due from banks | $355,459 | $ 491,382 |
| Investment securities available for sale | 972,176 | 825,636 |
| Investment securities held to maturity, with fair values of: $1,185,641 at March 31, 2013 and $1,184,557 at December 31, 2012 | 1,162,358 | 1,156,041 |
| Purchased covered loans | 353,034 | 372,283 |
| Purchased non-covered loans | 70,504 | 74,891 |
| Originated loans | 1,613,396 | 1,664,183 |
| Allowance for loan losses | (30,354) | (30,234) |
| Total loans | 2,006,580 | 2,081,123 |
| Non-covered other real estate owned | 9,671 | 12,661 |
| Covered other real estate owned | 13,713 | 13,691 |
| Premises and equipment, net | 38,519 | 38,639 |
| Identifiable intangibles, net | 22,042 | 23,261 |
| Goodwill | 121,673 | 121,673 |
| Other assets | 185,653 | 188,086 |
| Total Assets | $4,887,844 | $ 4,952,193 |
| | | |
| Liabilities: | | |
| Noninterest bearing deposits | $1,621,887 | $ 1,676,071 |
| Interest bearing deposits | 2,540,063 | 2,556,421 |
| Total deposits | 4,161,950 | 4,232,492 |
| Short-term borrowed funds | 61,854 | 53,687 |
| Federal Home Loan Bank advances | 25,743 | 25,799 |
| Term repurchase agreement | 10,000 | 10,000 |
| Debt financing | 15,000 | 15,000 |
| Other liabilities | 54,317 | 55,113 |
| Total Liabilities | 4,328,864 | 4,392,091 |
| | | |
| Shareholders' Equity: | | |
| Common stock (no par value), authorized - 150,000 shares Issued and outstanding: 27,018 at March 31, 2013 and 27,213 at December 31, 2012 | 373,579 | 372,012 |
| Deferred compensation | 3,101 | 3,101 |
| Accumulated other comprehensive income | 15,372 | 14,625 |
| Retained earnings | 166,928 | 170,364 |
| Total Shareholders' Equity | 558,980 | 560,102 |
| Total Liabilities and Shareholders' Equity | $4,887,844 | $ 4,952,193 |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands, except per share data) | |
| Interest and Fee Income: | | |
| Loans | $ 27,399 | $ 35,656 |
| Investment securities available for sale | 5,336 | 4,788 |
| Investment securities held to maturity | 7,730 | 7,854 |
| Total Interest and Fee Income | 40,465 | 48,298 |
| Interest Expense: | | |
| Deposits | 899 | 1,187 |
| Short-term borrowed funds | 11 | 27 |
| Term repurchase agreement | 24 | 25 |
| Federal Home Loan Bank advances | 118 | 120 |
| Debt financing | 200 | 200 |
| Total Interest Expense | 1,252 | 1,559 |
| Net Interest Income | 39,213 | 46,739 |
| Provision for Loan Losses | 2,800 | 2,800 |
| Net Interest Income After Provision For Loan Losses | 36,413 | 43,939 |
| Noninterest Income: | | |
| Service charges on deposit accounts | 6,542 | 7,095 |
| Merchant processing services | 2,409 | 2,393 |
| Debit card fees | 1,358 | 1,163 |
| ATM processing fees | 705 | 933 |
| Trust fees | 568 | 489 |
| Financial services commissions | 180 | 171 |
| Other | 2,516 | 2,425 |
| Total Noninterest Income | 14,278 | 14,669 |
| Noninterest Expense: | | |
| Salaries and related benefits | 14,403 | 15,046 |
| Occupancy | 3,886 | 3,934 |
| Outsourced data processing services | 2,157 | 2,083 |
| Amortization of identifiable intangibles | 1,219 | 1,402 |
| Furniture and equipment | 880 | 851 |
| Courier service | 741 | 785 |
| Professional fees | 635 | 767 |
| Other real estate owned | 334 | 230 |
| Other | 4,422 | 4,936 |
| Total Noninterest Expense | 28,677 | 30,034 |
| Income Before Income Taxes | 22,014 | 28,574 |
| Provision for income taxes | 4,743 | 7,569 |
| Net Income | $ 17,271 | $ 21,005 |
| | | |
| Average Common Shares Outstanding | 27,145 | 28,051 |

| | | |
|---|---|---|
| Diluted Average Common Shares Outstanding | 27,157 | 28,111 |
| Per Common Share Data: | | |
| Basic earnings | $ 0.64 | $ 0.75 |
| Diluted earnings | 0.64 | 0.75 |
| Dividends paid | 0.37 | 0.37 |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Net income | $ 17,271 | $ 21,005 |
| Other comprehensive income: | | |
| Increase in net unrealized gains on securities available for sale | 1,272 | 1,384 |
| Deferred tax expense | (534 ) | (582 ) |
| Increase in net unrealized gains on securities available for sale, net of tax | 738 | 802 |
| 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 | 747 | 811 |
| Total comprehensive income | $ 18,018 | $ 21,816 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Common Shares Outstanding | Common Stock | Accumulated Deferred Compensation | Accumulated Other Comprehensive Income | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| Balance, December 31, 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 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 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 |
| | | | | | | |
| Balance, December 31, 2012 | 27,213 | $ 372,012 | $ 3,101 | $ 14,625 | $ 170,364 | $560,102 |
| Net income for the period | | | | | 17,271 | 17,271 |
| Other comprehensive income | | | | 747 | | 747 |
| Exercise of stock options | 151 | 6,156 | | | | 6,156 |
| Tax benefit decrease upon exercise of stock options | | (191) | | | | (191) |
| Stock based compensation | | 379 | | | | 379 |
| Stock awarded to employees | 1 | 42 | | | | 42 |
| Purchase and retirement of stock | (347) | (4,819) | | | (10,623) | (15,442) |
| Dividends | | | | | (10,084) | (10,084) |
| Balance, March 31, 2013 | 27,018 | $ 373,579 | $ 3,101 | $ 15,372 | $ 166,928 | $558,980 |

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Operating Activities: | | |
| Net income | $ 17,271 | $ 21,005 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,322 | 3,499 |
| Loan loss provision | 2,800 | 2,800 |
| Net amortization of deferred loan fees | (80) | (126) |
| (Increase) decrease in interest income receivable | (199) | 733 |
| (Increase) decrease in deferred tax asset | (673) | 183 |
| Increase in other assets | (663) | (4,655) |
| Stock option compensation expense | 379 | 435 |
| Tax benefit decrease (increase) upon exercise of stock options | 191 | (4) |
| Increase in income taxes payable | 5,482 | 7,386 |
| Increase in interest expense payable | 252 | 149 |
| (Decrease) increase in other liabilities | (6,726) | 1,771 |
| Gain on sale of other assets | (274) | (150) |
| Loss on sale of premises and equipment | 6 | - |
| Originations of mortgage loans for resale | (90) | - |
| Proceeds from sale of mortgage loans originated for resale | 92 | - |
| Net gain on sale of foreclosed assets | (181) | (1,779) |
| Writedown of foreclosed assets | 592 | 1,712 |
| Net Cash Provided by Operating Activities | 22,501 | 32,959 |
| | | |
| Investing Activities: | | |
| Net repayments of loans | 72,880 | 95,748 |
| Proceeds from FDIC* loss-sharing agreement | 1,344 | 2,628 |
| Purchases of investment securities available for sale | (175,901) | (25,418) |
| Proceeds from sale/maturity/calls of securities available for sale | 30,166 | 31,317 |
| Purchases of investment securities held to maturity | (59,677) | (151,958) |
| Proceeds from maturity/calls of securities held to maturity | 51,876 | 48,123 |
| Purchases of premises and equipment | (617) | (1,940) |
| Proceeds from sale of FRB/FHLB** stock | 738 | 451 |
| Proceeds from sale of foreclosed assets | 2,611 | 10,277 |
| Net Cash (Used in) Provided by Investing Activities | (76,580) | 9,228 |
| | | |
| Financing Activities: | | |
| Net change in deposits | (70,450) | (716) |
| Net change in short-term borrowings | 8,167 | (9,005) |
| Exercise of stock options/issuance of shares | 6,156 | 641 |
| Tax benefit (decrease) increase upon exercise of stock options | (191) | 4 |
| Retirement of common stock including repurchases | (15,442) | (11,660) |
| Common stock dividends paid | (10,084) | (10,394) |

| | | | | |
|---|---|---|---|---|
| Net Cash Used in Financing Activities | | (81,844) | | (31,130) |
| Net Change In Cash and Due from Banks | | (135,923) | | 11,057 |
| Cash and Due from Banks at Beginning of Period | | 491,382 | | 530,045 |
| Cash and Due from Banks at End of Period | $ | 355,459 | $ | 541,102 |
| | | | | |
| Supplemental Cash Flow Disclosures: | | | | |
| Supplemental disclosure of noncash activities: | | | | |
| Loan collateral transferred to other real estate owned | $ | 640 | $ | 1,583 |
| Supplemental disclosure of cash flow activities: | | | | |
| Interest paid for the period | | 1,132 | | 1,642 |
| Income tax payments for the period | | 126 | | - |

See accompanying notes to unaudited consolidated financial statements.

* Federal Deposit Insurance Corporation ("FDIC")

** Federal Reserve Bank/Federal Home Loan Bank ("FRB/FHLB")

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three months ended March 31, 2013 and 2012 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

Note 2: Accounting Policies

The Company’s accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. Certain amounts in prior periods have been reclassified to conform to the current presentation.

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

Recently Adopted Accounting Standards

FASB ASU 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution, was issued October 2012 to provide guidance for consistently measuring an indemnification asset subsequent to acquisition. Subsequent accounting for changes in the measurement of the indemnification asset should be on the same basis as a change in the assets subject to indemnification. Any amortization of changes in value is limited to the shorter of the contractual term of the indemnification agreement or the remaining life of the indemnified assets. The Company’s historical accounting treatment is consistent with ASU 2012-06, therefore there was no effect on the Company’s financial statements at January 1, 2013, when adopted.

FASB ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, was issued February 2013 requiring an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption of the update did not have a material effect on the Company’s financial statements at January 1, 2013, the date adopted. The

Company's only item reclassified out of other comprehensive income to net income is the amortization of unrecognized post retirement benefit transition obligation, which is immaterial for purposes of disclosure.

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, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| U.S. Treasury securities | $ 3,516 | $ 31 | $ - | $ 3,547 |
| Securities of U.S. Government sponsored entities | 44,236 | 166 | (10) | 44,392 |
| Residential mortgage-backed securities | 45,756 | 3,157 | (3) | 48,910 |
| Commercial mortgage-backed securities | 3,827 | 63 | - | 3,890 |
| Obligations of States and political subdivisions | 195,326 | 13,040 | (275) | 208,091 |
| Residential collateralized mortgage obligations | 268,282 | 2,140 | (509) | 269,913 |
| Asset-backed securities | 15,686 | 25 | (98) | 15,613 |
| FHLMC and FNMA stock | 825 | 4,872 | (3) | 5,694 |
| Corporate securities | 365,847 | 3,739 | (673) | 368,913 |
| Other securities | 2,058 | 1,227 | (72) | 3,213 |
| Total | $ 945,359 | $ 28,460 | $ (1,643) | $ 972,176 |

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, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| Securities of U.S. Government sponsored entities | $ 2,747 | $ 28 | $ - | $ 2,775 |
| Residential mortgage-backed securities | 68,417 | 1,774 | (14) | 70,177 |
| Obligations of States and political subdivisions | 720,514 | 18,378 | (2,913) | 735,979 |
| Residential collateralized mortgage obligations | 370,680 | 6,401 | (371) | 376,710 |
| Total | $ 1,162,358 | $ 26,581 | $ (3,298) | $ 1,185,641 |

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

| | Investment Securities Available for Sale At December 31, 2012 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| U.S. Treasury securities | $ 3,520 | $ 38 | $ - | $ 3,558 |
| | 49,335 | 207 | (17) | 49,525 |

| | | | | |
|---|---|---|---|---|
| Securities of U.S. Government sponsored entities | | | | |
| Residential mortgage-backed securities | 53,078 | 3,855 | (1 ) | 56,932 |
| Commercial mortgage-backed securities | 4,076 | 69 | - | 4,145 |
| Obligations of States and political subdivisions | 200,769 | 14,730 | (252 ) | 215,247 |
| Residential collateralized mortgage obligations | 219,613 | 1,786 | (294 ) | 221,105 |
| Asset-backed securities | 16,130 | 18 | (143 ) | 16,005 |
| FHLMC and FNMA stock | 824 | 2,061 | (5 ) | 2,880 |
| Corporate securities | 250,655 | 3,009 | (826 ) | 252,838 |
| Other securities | 2,091 | 1,370 | (60 ) | 3,401 |
| Total | $ 800,091 | $ 27,143 | $ (1,598 ) | $ 825,636 |

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

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

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

| | At March 31, 2013 | | | |
|---|---|---|---|---|
| | Securities Available for Sale | | Securities Held to Maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | | |
| Maturity in years: | | | | |
| 1 year or less | $79,377 | $ 80,036 | $ 10,458 | $ 10,733 |
| Over 1 to 5 years | 371,270 | 375,009 | 166,385 | 170,445 |
| Over 5 to 10 years | 70,880 | 74,190 | 265,198 | 272,601 |
| Over 10 years | 103,084 | 111,321 | 281,220 | 284,975 |
| Subtotal | 624,611 | 640,556 | 723,261 | 738,754 |
| Mortgage-backed securities and residential collateralized mortgage obligations | 317,865 | 322,713 | 439,097 | 446,887 |
| Other securities | 2,883 | 8,907 | - | - |
| Total | $945,359 | $ 972,176 | $ 1,162,358 | $ 1,185,641 |

| | At December 31, 2012 | | | |
|---|---|---|---|---|
| | Securities Available for Sale | | Securities Held to Maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | | |
| Maturity in years: | | | | |
| 1 year or less | $ 40,380 | $ 40,686 | $ 10,265 | $ 10,496 |
| Over 1 to 5 years | 309,293 | 312,480 | 167,162 | 171,769 |
| Over 5 to 10 years | 59,817 | 63,540 | 227,603 | 236,608 |
| Over 10 years | 110,919 | 120,467 | 279,004 | 286,973 |
| Subtotal | 520,409 | 537,173 | 684,034 | 705,846 |
| | 276,767 | 282,182 | 472,007 | 478,711 |

| | | | | |
|---|---|---|---|---|
| Mortgage-backed securities and residential collateralized mortgage obligations | | | | |
| Other securities | 2,915 | 6,281 | - | - |
| Total | $ 800,091 | $ 825,636 | $ 1,156,041 | $ 1,184,557 |

Expected maturities of mortgage-backed securities can differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. In addition, such factors as prepayments and interest rates may affect the yield on the carrying value of mortgage-backed securities. At March 31, 2013 and December 31, 2012, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

| | Investment Securities Available for Sale At March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Securities of U.S. Government sponsored entities | $9,990 | $ (10) | $- | $ - | $9,990 | $ (10) |
| Residential mortgage-backed securities | 64 | (1) | 884 | (2) | 948 | (3) |
| Obligations of States and political subdivisions | 3,107 | (23) | 9,030 | (252) | 12,137 | (275) |
| Residential collateralized mortgage obligations | 85,377 | (509) | - | - | 85,377 | (509) |
| Asset-backed securities | - | - | 5,449 | (98) | 5,449 | (98) |
| FHLMC and FNMA stock | - | - | 3 | (3) | 3 | (3) |
| Corporate securities | 68,203 | (386) | 19,713 | (287) | 87,916 | (673) |
| Other securities | - | - | 1,928 | (72) | 1,928 | (72) |
| Total | $166,741 | $ (929) | $37,007 | $ (714) | $203,748 | $ (1,643) |

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

| | Investment Securities Held to Maturity At March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Residential mortgage-backed securities | $255 | $ - | $7,775 | $ (14) | $8,030 | $ (14) |
| Obligations of States and political subdivisions | 153,086 | (2,782) | 8,887 | (131) | 161,973 | (2,913) |
| Residential collateralized mortgage obligations | 10,268 | (167) | 12,770 | (204) | 23,038 | (371) |
| Total | $163,609 | $ (2,949) | $29,432 | $ (349) | $193,041 | $ (3,298) |

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. In addition to monitoring credit rating agency evaluations, Management performs its own evaluations regarding the credit worthiness of the issuer or the securitized assets underlying asset backed securities.

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not

consider these investments to be other-than-temporarily impaired as of March 31, 2013.

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, 2013, $872,470 thousand of investment securities were pledged to secure public deposits, short-term borrowed funds, and term repurchase agreements, compared to $850,421 thousand at December 31, 2012.

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

| | Investment Securities Available for Sale At December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Securities of U.S. Government sponsored entities | $9,983 | $ (17) | $- | $ - | $9,983 | $ (17) |
| Residential mortgage-backed securities | 103 | (1) | 11 | - | 114 | (1) |
| Residential collateralized mortgage obligations | 72,803 | (294) | - | - | 72,803 | (294) |
| Obligations of States and political subdivisions | 2,080 | (23) | 8,928 | (229) | 11,008 | (252) |
| Asset-backed securities | - | - | 5,828 | (143) | 5,828 | (143) |
| FHLMC and FNMA stock | - | - | 1 | (5) | 1 | (5) |
| Corporate securities | 53,570 | (423) | 24,597 | (403) | 78,167 | (826) |
| Other securities | - | - | 1,940 | (60) | 1,940 | (60) |
| Total | $138,539 | $ (758) | $41,305 | $ (840) | $179,844 | $ (1,598) |

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

| | Investment Securities Held to Maturity At December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Residential mortgage-backed securities | $ 113 | $ - | $ 664 | $ (10) | $ 777 | $ (10) |
| Residential collateralized mortgage obligations | 26,683 | (386) | 9,353 | (175) | 36,036 | (561) |
| Obligations of States and political subdivisions | 69,839 | (1,205) | 4,275 | (30) | 74,114 | (1,235) |
| Total | $ 96,635 | $ (1,591) | $ 14,292 | $ (215) | $ 110,927 | $ (1,806) |

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Taxable: | | |
| Mortgage related securities | $ 3,561 | $ 3,364 |
| Other | 1,974 | 1,326 |

| | | |
|---|---|---|
| Total taxable | 5,535 | 4,690 |
| Tax-exempt | 7,531 | 7,952 |
| Total interest income from investment securities | $ 13,066 | $ 12,642 |

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, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment & Other | Total |
| | (In thousands) | | | | | |
| Originated loans | $318,502 | $ 625,185 | $ 7,920 | $ 213,919 | $ 447,870 | $1,613,396 |
| Purchased covered loans: | | | | | | |
| Impaired | 293 | 6,899 | 1,737 | - | 255 | 9,184 |
| Non impaired | 57,589 | 232,854 | 4,942 | 8,816 | 62,309 | 366,510 |
| Purchase discount | (6,958 ) | (13,600 ) | (188 ) | (434 ) | (1,480 ) | (22,660 ) |
| Purchased non-covered loans: | | | | | | |
| Impaired | 1,244 | 6,111 | - | - | 297 | 7,652 |
| Non impaired | 9,367 | 37,548 | 1,369 | 2,205 | 16,949 | 67,438 |
| Purchase discount | (913 ) | (1,750 ) | (95 ) | (262 ) | (1,566 ) | (4,586 ) |
| Total | $379,124 | $ 893,247 | $ 15,685 | $ 224,244 | $ 524,634 | $2,036,934 |

| | At December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment & Other | Total |
| | (In thousands) | | | | | |
| Originated loans | $340,116 | $ 632,927 | $ 7,984 | $ 222,458 | $ 460,698 | $1,664,183 |
| Purchased covered loans: | | | | | | |
| Impaired | 308 | 7,585 | 1,824 | - | 257 | 9,974 |
| Non impaired | 59,135 | 247,534 | 5,462 | 9,374 | 66,932 | 388,437 |
| Purchase discount | (8,459 ) | (15,140 ) | (279 ) | (433 ) | (1,817 ) | (26,128 ) |
| Purchased non-covered loans: | | | | | | |
| Impaired | 1,261 | 6,763 | - | - | 297 | 8,321 |
| Non impaired | 9,840 | 38,673 | 1,619 | 3,110 | 18,554 | 71,796 |
| Purchase discount | (870 ) | (1,748 ) | (95 ) | (474 ) | (2,039 ) | (5,226 ) |
| Total | $401,331 | $ 916,594 | $ 16,515 | $ 234,035 | $ 542,882 | $2,111,357 |

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

| | For the Three Months Ended March 31, 2013 | For the Year Ended December 31, 2012 |
|---|---|---|
| Impaired purchased covered loans | (In thousands) | |
| Carrying amount at the beginning of the period | $ 7,865 | $ 18,591 |
| Reductions during the period | (284 ) | (10,726 ) |
| Carrying amount at the end of the period | $ 7,581 | $ 7,865 |

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

| Impaired purchased non-covered loans | For the Three Months Ended March 31, 2013 | For the Year Ended December 31, 2012 |
| --- | --- | --- |
| | (In thousands) | |
| Carrying amount at the beginning of the period | $ 6,764 | $ 15,572 |
| Reductions during the period | (804) | (8,808) |
| Carrying amount at the end of the period | $ 5,960 | $ 6,764 |

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

| | For the Three Months Ended March 31, 2013 | For the Year Ended December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Accretable yield: | | |
| Balance at the beginning of the period | $ 4,948 | $ 9,990 |
| Reclassification from nonaccretable difference | 8,154 | 12,121 |
| Accretion | (3,641) | (17,163) |
| Disposals and other | - | - |
| Balance at the end of the period | $ 9,461 | $ 4,948 |
| | | |
| Accretion | $ (3,641) | $ (17,163) |
| Reduction in FDIC indemnification asset | 2,782 | 13,207 |
| (Increase) in interest income | $ (859) | $ (3,956) |

The following summarizes activity in the allowance for credit losses:

| | Allowance for Credit Losses For the Three Months Ended March 31, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Non-covered Loans | Purchased Covered Loans | Unallocated | Total |
| | (In thousands) | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Balance at beginning of period | $6,445 | $10,063 | $484 | $380 | $3,194 | $- | $1,005 | $8,663 | $30,234 |
| Additions: | | | | | | | | | |
| Provision | 531 | 994 | (4) | 246 | 281 | - | 87 | 665 | 2,800 |
| Deductions: | | | | | | | | | |
| Chargeoffs | (1,902) | (113) | - | (87) | (1,308) | - | (359) | - | (3,769) |
| Recoveries | 462 | 21 | - | - | 601 | - | 5 | - | 1,089 |
| Net loan losses | (1,440) | (92) | - | (87) | (707) | - | (354) | - | (2,680) |
| Balance at end of period | 5,536 | 10,965 | 480 | 539 | 2,768 | - | 738 | 9,328 | 30,354 |
| Liability for off-balance sheet credit exposure | 1,663 | 3 | - | - | 453 | - | - | 574 | 2,693 |
| Total allowance for credit losses | $7,199 | $10,968 | $480 | $539 | $3,221 | $- | $738 | $9,902 | $33,047 |

| | Allowance for Credit Losses For the Three Months Ended March 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Covered Loans | Unallocated | Total |
| | (In thousands) | | | | | | | |
| 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 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 |

The recorded investment in loans evaluated for impairment follows:

Recorded Investment in Loans Evaluated for Impai
At March 31, 2013

| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Non-covered Loans | Purcha Cove Loa |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| Allowance for credit losses: | | | | | | | |
| Individually evaluated for impairment | $886 | $584 | $- | $- | $- | $- | $723 |
| Collectively evaluated for impairment | 6,313 | 10,384 | 480 | 539 | 3,221 | - | 15 |
| Purchased loans with evidence of credit deterioration | - | - | - | - | - | - | - |
| Total | $7,199 | $10,968 | $480 | $539 | $3,221 | $- | $738 |
| Carrying value of loans: | | | | | | | |
| Individually evaluated for impairment | $2,171 | $3,319 | $- | $- | $- | $5,196 | $16,0 |
| Collectively evaluated for impairment | 316,331 | 621,866 | 7,920 | 213,919 | 447,870 | 59,348 | 329, |
| Purchased loans with evidence of credit deterioration | - | - | - | - | - | 5,960 | 7,58 |
| Total | $318,502 | $625,185 | $7,920 | $213,919 | $447,870 | $70,504 | $353, |

Recorded Investment in Loans Evaluated for Impai
At December 31, 2012

| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Non-covered Loans | Purcha Cove Loa |
|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | |
| Allowance for credit losses: | | | | | | | |
| Individually evaluated for impairment | $1,865 | $134 | $- | $- | $- | $- | $753 |
| Collectively evaluated for impairment | 6,314 | 9,938 | 484 | 380 | 3,613 | - | 252 |
| Purchased loans with evidence of credit deterioration | - | - | - | - | - | - | - |
| Total | $8,179 | $10,072 | $484 | $380 | $3,613 | $- | $1,00 |
| Carrying value of loans: | | | | | | | |
| Individually evaluated for impairment | $5,153 | $4,161 | $- | $- | $- | $3,029 | $16,6 |
| Collectively evaluated for impairment | 334,963 | 628,766 | 7,984 | 222,458 | 460,698 | 65,098 | 347, |
| Purchased loans with evidence of credit deterioration | - | - | - | - | - | 6,764 | 7,86 |
| Total | $340,116 | $632,927 | $7,984 | $222,458 | $460,698 | $74,891 | $372, |

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

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

Credit Risk Profile by Internally Assigned Grade
At March 31, 2013

| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Non-covered Loans | Purchased Covered Loans (1) | Total |
|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | |
| Grade: | | | | | | | | |
| Pass | $305,285 | $ 590,834 | $ 7,457 | $ 211,445 | $ 446,365 | $ 48,379 | $253,854 | $1,863,619 |
| Substandard | 10,798 | 34,351 | 463 | 2,474 | 1,224 | 25,172 | 121,300 | 195,782 |
| Doubtful | 2,419 | - | - | - | 31 | 1,539 | 455 | 4,444 |
| Loss | - | - | - | - | 250 | - | 85 | 335 |
| Default risk purchase discount | - | - | - | - | - | (4,586 ) | (22,660 ) | (27,246 ) |
| Total | $318,502 | $ 625,185 | $ 7,920 | $ 213,919 | $ 447,870 | $ 70,504 | $353,034 | $2,036,934 |

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

Credit Risk Profile by Internally Assigned Grade
At December 31, 2012

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

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

The following tables summarize loans by delinquency and nonaccrual status:

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

| | Current and Accruing | 30-89 Days Past Due and Accruing | Past Due 90 days or More and Accruing | Nonaccrual | Total Loans |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Commercial | $ 313,381 | $ 2,493 | $ - | $ 2,628 | $ 318,502 |
| Commercial real estate | 613,517 | 6,427 | - | 5,241 | 625,185 |
| Construction | 7,920 | - | - | - | 7,920 |
| Residential real estate | 213,353 | 333 | - | 233 | 213,919 |
| Consumer installment & other | 444,284 | 3,224 | 305 | 57 | 447,870 |
| Total originated loans | 1,592,455 | 12,477 | 305 | 8,159 | 1,613,396 |
| Purchased non-covered loans | 60,242 | 1,150 | - | 9,112 | 70,504 |
| Purchased covered loans | 330,958 | 10,111 | 88 | 11,877 | 353,034 |
| Total | $ 1,983,655 | $ 23,738 | $ 393 | $ 29,148 | $ 2,036,934 |

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

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

| | | | | | |
|---|---|---|---|---|---|
| Commercial | $ 333,474 | $ 1,032 | $ - | $ 5,610 | $ 340,116 |
| Commercial real estate | 616,276 | 10,750 | - | 5,901 | 632,927 |
| Construction | 7,984 | - | - | - | 7,984 |
| Residential real estate | 220,032 | 2,193 | - | 233 | 222,458 |
| Consumer installment & other | 455,007 | 5,205 | 455 | 31 | 460,698 |
| Total originated loans | 1,632,773 | 19,180 | 455 | 11,775 | 1,664,183 |
| Purchased non-covered loans | 65,567 | 1,821 | 4 | 7,499 | 74,891 |
| Purchased covered loans | 352,619 | 6,488 | 155 | 13,021 | 372,283 |
| Total | $ 2,050,959 | $ 27,489 | $ 614 | $ 32,295 | $ 2,111,357 |

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Interest income that would have been recognized had the loans performed in accordance with their original terms | $ 753 | $ 1,064 |
| Less: Interest income recognized on nonaccrual loans | (375 ) | (842 ) |
| Total (addition) reduction of interest income | $ 378 | $ 222 |

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at March 31, 2013 and December 31, 2012.

The following summarizes impaired loans:

| | Impaired Loans At March 31, 2013 | | |
|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| | (In thousands) | | |
| Impaired loans with no related allowance recorded: | | | |
| Commercial | $ 2,277 | $ 8,187 | $ - |
| Commercial real estate | 26,155 | 30,081 | - |
| Construction | 1,859 | 2,355 | - |
| Residential real estate | 701 | 702 | - |
| Consumer installment and other | 1,597 | 2,402 | - |
| Impaired loans with an allowance recorded: | | | |
| Commercial | 9,952 | 11,582 | 1,609 |
| Commercial real estate | 2,686 | 2,686 | 584 |
| Total: | | | |
| Commercial | $ 12,229 | $ 19,769 | $ 1,609 |
| Commercial real estate | 28,841 | 32,767 | 584 |
| Construction | 1,859 | 2,355 | - |
| Residential real estate | 701 | 702 | - |
| Consumer installment and other | 1,597 | 2,402 | - |

| | Impaired Loans At December 31, 2012 | | |
|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| | (In thousands) | | |
| Impaired loans with no related allowance recorded: | | | |
| Commercial | $ 3,100 | $ 9,506 | $ - |
| Commercial real estate | 24,135 | 27,972 | - |
| Construction | 2,363 | 2,992 | - |
| Residential real estate | 668 | 668 | - |
| Consumer installment and other | 2,328 | 2,616 | - |
| Impaired loans with an allowance recorded: | | | |
| Commercial | 12,129 | 13,739 | 2,588 |
| Commercial real estate | 4,038 | 4,038 | 164 |
| Total: | | | |
| Commercial | $ 15,229 | $ 23,245 | $ 2,588 |
| Commercial real estate | 28,173 | 32,010 | 164 |
| Construction | 2,363 | 2,992 | - |

| | | | |
|---|---|---|---|
| Residential real estate | 668 | 668 | - |
| Consumer installment and other | 2,328 | 2,616 | - |

Impaired loans may include troubled debt restructured loans. Impaired loans at March 31, 2013, included $8,707 thousand of restructured loans, including $2,976 thousand that were on nonaccrual status. Impaired loans at December 31, 2012, included $6,678 thousand of restructured loans, including $988 thousand that were on nonaccrual status.

| | Impaired Loans For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Average Recorded Investment | Recognized Interest Income | Average Recorded Investment | Recognized Interest Income |
| | (In thousands) | | | |
| Commercial | $ 13,729 | $ 54 | $ 6,576 | $ 50 |
| Commercial real estate | 28,507 | 300 | 32,119 | 378 |
| Construction | 2,111 | 26 | 6,461 | 100 |
| Residential real estate | 685 | - | 311 | - |
| Consumer installment and other | 1,963 | 7 | 2,894 | 18 |
| Total | $ 46,995 | $ 387 | $ 48,361 | $ 546 |

The following table provides information on troubled debt restructurings:

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

| | Troubled Debt Restructurings At December 31, 2012 | | | |
|---|---|---|---|---|
| | Number of Contracts | Pre-Modification Carrying Value | Period-End Carrying Value | Period-End Individual Impairment Allowance |
| | (In thousands) | | | |
| Commercial | 3 | $ 1,318 | $ 1,196 | $ 797 |
| Commercial real estate | 2 | 5,391 | 5,482 | - |
| Total | 5 | $ 6,709 | $ 6,678 | $ 797 |

During the three months ended March 31, 2013 and 2012, the Company modified one loan in each period with carrying values of $2,009 thousand and $429 thousand, respectively that was considered a troubled debt restructuring. The concession granted in the restructuring completed in the first quarter 2013 consisted of modification of payment terms to lower the interest rate and extend the maturity date to allow for deferred principal repayment. The concession granted in the first quarter 2012 consisted of modification of payment terms to extend the maturity date to allow for deferred principal repayment. During the three months ended March 31, 2013 and 2012, no troubled debt restructured loans defaulted.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank ("FHLB"). The carrying value of the FHLB advances was $25,743 thousand and $25,799 thousand at March 31, 2013 and December 31, 2012, respectively. The loans restricted due to collateral requirements approximate $28,843 thousand and $32,084 thousand at March 31, 2013 and December 31, 2012, respectively. The amount of loans pledged exceeds collateral

requirements. The FHLB does not have the right to sell or repledge such loans.

There were no loans held for sale at March 31, 2013 and December 31, 2012.

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 $67,431 thousand and $69,345 thousand at March 31, 2013 and December 31, 2012, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios at origination generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans at origination.

Note 6: Other Assets

Other assets consisted of the following:

| | At March 31, 2013 | At December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| Cost method equity investments: | | |
| Federal Reserve Bank stock (1) | $14,069 | $ 14,069 |
| Federal Home Loan Bank stock (2) | 6,615 | 7,353 |
| Other investments | 376 | 376 |
| Total cost method equity investments | 21,060 | 21,798 |
| Corporate/bank-owned life insurance | 45,535 | 45,579 |
| Deferred taxes | 42,645 | 42,449 |
| LIHTC investments | 20,119 | 20,631 |
| Interest receivable | 20,473 | 20,274 |
| FDIC receivable | 12,162 | 13,847 |
| Prepaid assets | 11,814 | 11,679 |
| Other assets | 11,845 | 11,829 |
| Total other assets | $185,653 | $ 188,086 |

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

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

Note 7: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the three months ended March 31, 2013 and March 31, 2012. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the three months ended March 31, 2013 and March 31, 2012, no such adjustments were recorded.

The carrying values of goodwill were (in thousands):

| | |
|---|---|
| March 31, 2013 | $121,673 |
| December 31, 2012 | $121,673 |

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

| | At March 31, 2013 | | At December 31, 2012 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| | (In thousands) | | | |
| Core Deposit Intangibles | $56,808 | $ (36,045) | $ 56,808 | $ (34,938) |
| Merchant Draft Processing Intangible | 10,300 | (9,021) | 10,300 | (8,909) |
| Total Identifiable Intangible Assets | $67,108 | $ (45,066) | $ 67,108 | $ (43,847) |

As of March 31, 2013, the current year and estimated future amortization expense for identifiable intangible assets was:

| | Core Deposit Intangibles | Merchant Draft Processing Intangible | Total |
|---|---|---|---|
| | (In thousands) | | |
| Three months ended March 31, 2013 (actual) | $1,107 | $ 112 | $1,219 |
| Estimate for year ended December 31, 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 | 2,913 | 164 | 3,077 |
| 2018 | 1,892 | 29 | 1,921 |

Note 8: Deposits and Borrowed Funds

Deposits totaled $4,161,950 thousand at March 31, 2013, compared with $4,232,492 thousand at December 31, 2012. The following table provides additional detail regarding deposits.

| | Deposits | |
|---|---|---|
| | At March 31, 2013 | At December 31, 2012 |
| | (In thousands) | |
| Noninterest-bearing | $1,621,887 | $ 1,676,071 |
| Interest-bearing: | | |
| Transaction | 771,268 | 748,818 |
| Savings | 1,160,976 | 1,165,032 |
| Time | 607,819 | 642,571 |
| Total deposits | $4,161,950 | $ 4,232,492 |

Demand deposit overdrafts of $2,942 thousand and $6,307 thousand were included as loan balances at March 31, 2013 and December 31, 2012, respectively. Interest expense for aggregate time deposits with individual account balances in excess of $100 thousand was $304 thousand in the first quarter 2013 and $423 thousand in the first quarter 2012.

Short-term borrowed funds of $61,854 thousand at March 31, 2013 represent securities sold under agreements to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is

accounted for as a secured borrowing rather than a sale. Securities sold under repurchase agreements are held in the custody of independent securities brokers. The amount of the securities approximates $112,182 thousand at March 31, 2013. The short-term borrowed funds mature on an overnight basis.

FHLB advances with carrying value of $25,743 thousand at March 31, 2013 are secured by $28,843 thousand of residential real estate loans and $9,701 of securities at March 31, 2013. The FHLB advances are due in full upon their maturity dates: $5,000 thousand mature in December 2013 and $20,000 thousand mature in January 2015. The FHLB advances may be paid off prior to such maturity dates subject to prepayment fees.

The $10,000 thousand term repurchase agreement at March 31, 2013 represents securities sold under an agreement to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. Securities sold under repurchase agreements are held in the custody of independent securities brokers. The carrying amount of the related securities is approximately $14,621 thousand at March 31, 2013. The term repurchase agreement matures in full in August 2014.

The Company has a $35,000 thousand unsecured line of credit which had no outstanding balance at March 31, 2013, and a variable interest rate of 2.0% per annum with interest payable monthly on outstanding advances. Advances may be made up to the unused credit limit under the line of credit through March 19, 2014.

Debt financing of $15,000 thousand is a note issued by Westamerica Bancorporation on October 31, 2003 which matures October 31, 2013. Interest of 5.31% per annum is payable semiannually on April 30 and October 31, with principal due at maturity. The note is subject to financial covenants requiring the Company to maintain, at all times, certain minimum levels of consolidated tangible net worth and maximum levels of capital debt. The Company believes it is in compliance with all of the covenants required by the note as of March 31, 2013.

Note 9: 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, investment securities held to maturity, and other assets. These nonrecurring fair value adjustments typically involve the lower-of-cost-or-fair value accounting of individual assets.

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

The Company groups its assets and liabilities measured at fair value into a three-level hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. When the valuation assumptions used to measure the fair value of the asset or liability are categorized within different levels of the fair value hierarchy, the asset or liability is categorized in its entirety within the lowest level of the hierarchy. These levels are:

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.

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.

The Company relies on independent vendor pricing services to measure fair value for investment securities available for sale and investment securities held to maturity. The Company employs three pricing services. To validate the pricing of these vendors, the Company routinely randomly selects securities for pricing by two or more of the vendors; significant pricing differences, if any, are evaluated using all available independent quotes with the lowest quote generally used as the fair value estimate. In addition, the Company conducts "other than temporary impairment (OTTI)" analysis on a quarterly basis; securities selected for OTTI analysis include all securities with fair value pricing of less than 95 percent of amortized cost. As with any valuation technique used to estimate fair value, changes in underlying assumptions used could significantly affect the results of current and future values. Accordingly, these fair values estimates may not be realized in an actual sale of the securities.

When the Company changes its valuation assumptions for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new assumptions used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the three months ended March 31, 2013 and March 31, 2012, there were no transfers in or out of levels 1, 2 or 3.

Assets Recorded at Fair Value on a Recurring Basis

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

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2 ) | Significant Unobservable Inputs (Level 3 ) |
|---|---|---|---|---|
| | | (In thousands) | | |
| Investment securities available for sale: | | | | |
| At March 31, 2013 | $972,176 | $ 54,918 | $ 917,258 | $ - |
| At December 31, 2012 | $825,636 | $ 57,424 | $ 768,212 | $ - |

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 of individual assets. For assets measured at fair value on a nonrecurring basis that were recorded in the balance sheet at March 31, 2013 and December 31, 2012, 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.

| | At March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses |
| | | | (In thousands) | | |
| Non-covered other real estate owned | $5,869 | $- | $5,869 | $- | $ (446 ) |
| Covered other real estate owned | 8,055 | - | 8,055 | - | (146 ) |
| Originated impaired loans | 3,618 | - | 2,628 | 990 | (1,676 ) |
| Purchased covered impaired loans | 4,660 | - | 200 | 4,460 | - |
| Total assets measured at fair value on a nonrecurring basis | $22,202 | $- | $16,752 | $5,450 | $ (2,268 ) |

| | At December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses |
| | (In thousands) | | | | |
| Non-covered other real estate owned | $6,618 | $- | $6,618 | $- | $ (1,360 ) |
| Covered other real estate owned | 7,929 | - | 7,929 | - | (371 ) |
| Originated impaired loans | 5,197 | - | 3,097 | 2,100 | (3,158 ) |
| Purchased covered impaired loans | 6,684 | - | 2,224 | 4,460 | (83 ) |
| | $26,428 | $- | $19,868 | $6,560 | $ (4,972 ) |

| Total assets measured at fair value on a nonrecurring basis |
| --- |

Level 2 – Valuation is based upon independent market prices or appraised value of the collateral, less 10% for selling costs, generally. Level 2 includes other real estate owned that has been measured at fair value subsequent to its initial classification as foreclosed assets and impaired loans collateralized by real property where a specific reserve has been established or a charge-off has been recorded.

Level 3 – Valuation is based upon estimated liquidation values of loan collateral. The value of level 3 assets can also include a component of real estate, which is valued as described for level 2 inputs, when collateral for the impaired loan includes both business assets and real estate. Level 3 includes impaired loans where a specific reserve has been established or a charge-off has been recorded.

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  Cash and due from banks represent U.S. dollar denominated coin and currency, deposits at the Federal Reserve Bank and correspondent banks, and amounts being settled with other banks to complete the processing of customers' daily transactions. Collectively, the Federal Reserve Bank and financial institutions operate a market in which cash and due from banks transactions are processed continuously in significant daily volumes honoring the face value of the U.S. dollar.

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 $30,354 thousand at March 31, 2013 and $30,234 thousand at December 31, 2012 and the fair value discount due to credit default risk associated with purchased covered and purchased non-covered loans of $22,660 thousand and $4,587 thousand, respectively at March 31, 2013 and purchased covered and purchased non-covered loans of $26,128 thousand and $5,226 thousand, respectively at December 31, 2012 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  Deposits with no stated maturity such as checking accounts, savings accounts and money market accounts can be readily converted to cash or used to settle transactions at face value through the broad financial system operated by the Federal Reserve Bank and financial institutions. The fair value of deposits with no stated maturity is equal to the amount payable on demand. The fair values of time deposits were estimated by discounting estimated future contractual cash flows using current market rates for financial instruments with similar characteristics.

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

Federal Home Loan Bank Advances  The fair values of FHLB advances were estimated by using redemption amounts quoted by the Federal Home Loan Bank of San Francisco.

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

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

The table below is a summary of fair value estimates for financial instruments and the level of the fair value hierarchy within which the fair value measurements are categorized, excluding financial instruments recorded at fair value on a

recurring basis. The values assigned do not necessarily represent amounts which ultimately may be realized. In addition, these values do not give effect to discounts to fair value which may occur when financial instruments are sold in larger quantities. The carrying amounts in the following table are recorded in the balance sheet under the indicated captions.

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

| | At March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2 ) | Significant Unobservable Inputs (Level 3 ) |
| Financial Assets: | | | (In thousands) | | |
| Cash and due from banks | $355,459 | $ 355,459 | $ 355,459 | $- | $ - |
| Investment securities held to maturity | 1,162,358 | 1,185,641 | 2,775 | 1,182,866 | - |
| Loans | 2,006,580 | 2,014,826 | - | - | 2,014,826 |
| Other assets - FDIC receivable | 12,162 | 12,155 | - | - | 12,155 |
| | | | | | |
| Financial Liabilities: | | | | | |
| Deposits | $4,161,950 | $ 4,161,713 | $ - | $3,554,131 | $ 607,582 |
| Short-term borrowed funds | 61,854 | 61,854 | - | 61,854 | - |
| Federal Home Loan Bank advances | 25,743 | 26,014 | 26,014 | - | - |
| Term repurchase agreement | 10,000 | 10,114 | - | 10,114 | - |
| Debt financing | 15,000 | 15,365 | - | 15,365 | - |

| | At December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2 ) | Significant Unobservable Inputs (Level 3 ) |
| Financial Assets: | | | (In thousands) | | |
| Cash and due from banks | $491,382 | $ 491,382 | $ 491,382 | $- | $ - |
| Investment securities held to maturity | 1,156,041 | 1,184,557 | 3,275 | 1,181,282 | - |
| Loans | 2,081,123 | 2,090,712 | - | - | 2,090,712 |
| Other assets - FDIC receivable | 13,847 | 13,834 | - | - | 13,834 |
| | | | | | |
| Financial Liabilities: | | | | | |
| Deposits | $4,232,492 | $ 4,232,239 | $ - | $3,589,921 | $ 642,318 |
| Short-term borrowed funds | 53,687 | 53,687 | - | 53,687 | - |
| Federal Home Loan Bank advances | 25,799 | 26,150 | 26,150 | - | - |
| Term repurchase agreement | 10,000 | 10,135 | - | 10,135 | - |
| Debt financing | 15,000 | 15,645 | - | 15,645 | - |

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 10: 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 $328,881 thousand and $339,651 thousand at March 31, 2013 and December 31, 2012, 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 $31,783 thousand and $32,347 thousand at March 31, 2013 and December 31, 2012, respectively. The Company also had commitments for commercial and similar letters of credit of $344 thousand and $344 thousand at March 31, 2013 and December 31, 2012, 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 liabilities are accrued when obligations become probable and the amount is reasonably estimable. Legal costs related to covered assets are eighty percent indemnified under loss-sharing agreements with the FDIC if certain conditions are met.

Note 11: 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 March 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands, except per share data) | |
| Net income applicable to common equity (numerator) | $ 17,271 | $ 21,005 |
| Basic earnings per common share | | |
| Weighted average number of common shares outstanding - basic (denominator) | 27,145 | 28,051 |
| Basic earnings per common share | $ 0.64 | $ 0.75 |
| Diluted earnings per common share | | |
| Weighted average number of common shares outstanding - basic | 27,145 | 28,051 |
| Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise | 12 | 60 |
| Weighted average number of common shares outstanding - diluted (denominator) | 27,157 | 28,111 |
| Diluted earnings per common share | $ 0.64 | $ 0.75 |

For the three months ended March 31, 2013 and 2012, options to purchase 2,317 thousand and 1,998 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

| | For the Three months ended | | |
|---|---|---|---|
| | March 31, 2013 | March 31, 2012 | December 31, 2012 |
| | (In thousands, except per share data) | | |
| Net Interest and Fee Income (FTE)1 | $43,835 | $51,699 | $ 46,283 |
| Provision for Loan Losses | 2,800 | 2,800 | 2,800 |
| Noninterest Income | 14,278 | 14,669 | 14,194 |
| Noninterest Expense | 28,677 | 30,034 | 28,233 |
| Income Before Income Taxes (FTE)1 | 26,636 | 33,534 | 29,444 |
| Income Tax Provision (FTE)1 | 9,365 | 12,529 | 10,308 |
| Net Income | $17,271 | $21,005 | $ 19,136 |
| | | | |
| Average Common Shares Outstanding | 27,145 | 28,051 | 27,313 |
| Diluted Average Common Shares Outstanding | 27,157 | 28,111 | 27,334 |
| Common Shares Outstanding at Period End | 27,018 | 27,917 | 27,213 |
| | | | |
| Per Common Share: | | | |
| Basic Earnings | $0.64 | $0.75 | $ 0.70 |
| Diluted Earnings | 0.64 | 0.75 | 0.70 |
| Book Value Per Common Share | $20.69 | $20.04 | $ 20.58 |
| | | | |
| Financial Ratios: | | | |
| Return On Assets | 1.43 % | 1.68 % | 1.55 % |
| Return On Common Equity | 12.93 % | 15.45 % | 14.05 % |
| Net Interest Margin (FTE)1 | 4.27 % | 5.12 % | 4.49 % |
| Net Loan Losses to Average Loans: | | | |
| Originated Loans | 0.57 % | 0.69 % | 0.91 % |
| Purchased covered loans | 0.39 % | 0.28 % | 0.14 % |
| Purchased non-covered loans | - % | - % | -2.31 % |
| Efficiency Ratio2 | 49.3 % | 45.3 % | 46.7 % |
| | | | |
| Average Balances: | | | |
| Assets | $4,908,483 | $5,030,935 | $ 4,920,620 |
| Earning Assets | 4,135,863 | 4,060,271 | 4,111,970 |
| Originated Loans | 1,641,401 | 1,835,370 | 1,682,579 |
| Purchased Covered Loans | 363,836 | 512,966 | 394,848 |
| Purchased Non-covered Loans | 72,752 | 119,503 | 77,632 |
| Deposits | 4,199,229 | 4,253,764 | 4,211,609 |
| Shareholders' Equity | 541,874 | 546,676 | 541,684 |
| | | | |
| Period End Balances: | | | |
| Assets | $4,887,844 | $5,060,257 | $ 4,952,193 |
| Earning Assets | 4,171,468 | 4,100,675 | 4,093,034 |
| Originated Loans | 1,613,396 | 1,819,162 | 1,664,183 |
| Purchased Covered Loans | 353,034 | 491,103 | 372,283 |
| Purchased Non-covered Loans | 70,504 | 112,179 | 74,891 |

| | | | |
|---|---|---|---|
| Deposits | 4,161,950 | 4,249,004 | 4,232,492 |
| Shareholders' Equity | 558,980 | 559,528 | 560,102 |
| | | | |
| Capital Ratios at Period End: | | | |
| Total Risk Based Capital | 15.99 % | 16.09 % | 16.33 % |
| Tangible Equity to Tangible Assets | 8.75 % | 8.36 % | 8.64 % |
| | | | |
| Dividends Paid Per Common Share | $0.37 | $0.37 | $ 0.37 |
| Common Dividend Payout Ratio | 58 % | 49 % | 53 % |

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.

1 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.

2 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

The Federal Reserve's Federal Open Market Committee has maintained highly accommodative monetary policies to influence interest rates to low levels in order to provide stimulus to the economy following the "financial crisis" recession. The Company's principal source of revenue is net interest and fee income, which represents interest earned on loans and investment securities ("earning assets") reduced by interest paid on deposits and other borrowings ("interest bearing liabilities"). The recent decline in market interest rates has reduced the spread between interest rates on earning assets and interest bearing liabilities. As a result, the Company's net interest margin and net interest income have declined. The Company also earns revenue from service charges on deposit accounts, merchant processing services, debit card fees, and other fees ("noninterest income"). Service charges on deposit accounts are subject to laws and regulations; recent regulations and customer activity have caused service charges on deposit account to decline in 2012 and the three-months ended March 31, 2013; however, merchant processing fees, debit card fees and trust fees have increased due to higher transaction volumes and the Company's sales efforts. The Company incurs noninterest expenses to deliver products and services to our customers. Management is focused on controlling noninterest expense levels, particularly due to the recent market interest rate pressure on net interest.

Westamerica Bancorporation and subsidiaries (the "Company") reported first quarter 2013 net income of $17.3 million or $0.64 diluted earnings per common share. These results compare to net income applicable to common equity of $21.0 million or $0.75 diluted earnings per common share and $19.1 million or $0.70 diluted earnings per common share, respectively, for the first and fourth quarters of 2012.

Net Income

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

| | For the Three months ended | | |
|---|---|---|---|
| | March 31, | | December 31, |
| | 2013 | 2012 | 2012 |
| | (In thousands, except per share data) | | |
| Net interest and fee income (FTE) | $43,835 | $51,699 | $ 46,283 |
| Provision for loan losses | (2,800 ) | (2,800 ) | (2,800 ) |
| Noninterest income | 14,278 | 14,669 | 14,194 |
| Noninterest expense | (28,677 ) | (30,034 ) | (28,233 ) |
| Income before taxes (FTE) | 26,636 | 33,534 | 29,444 |
| Income tax provision (FTE) | (9,365 ) | (12,529 ) | (10,308 ) |
| Net income | $17,271 | $21,005 | $ 19,136 |
| | | | |
| Average diluted common shares | 27,157 | 28,111 | 27,334 |
| Diluted earnings per common share | $0.64 | $0.75 | $ 0.70 |
| | | | |
| Average total assets | $4,908,483 | $5,030,935 | $ 4,920,620 |
| Net income to average total assets (annualized) | 1.43 % | 1.68 % | 1.55 % |
| Net income to average common stockholders' equity (annualized) | 12.93 % | 15.45 % | 14.05 % |

Net income for the first quarter of 2013 was $3.7 million less than the same quarter of 2012, the net result of declines in net interest and fee income (fully taxable equivalent or "FTE") and noninterest income, partially offset by decreases in noninterest expense and income tax provision (FTE). A decrease in net interest and fee income (FTE) was mostly attributed to lower average balances of loans and lower yields on interest-earning assets, partially offset by higher average balances of investments, lower average balances of interest-bearing deposits 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 $1.4 million primarily due to reduced personnel costs, loan administration expenses, intangible amortization and professional fees.

Comparing the first quarter of 2013 to the fourth quarter of 2012, net income decreased $1.9 million primarily due to lower net interest and fee income (FTE) and higher noninterest expense, partially offset by a decrease in income tax provision (FTE). The lower net interest and fee 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 average balances of time deposits and lower rates paid on those 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 increased $444 thousand.

Net Interest and Fee Income (FTE)

Following is a summary of the components of net interest and fee income (FTE) for the periods indicated:

| | For the Three Months Ended | | |
|---|---|---|---|
| | March 31, 2013 | 2012 | December 31, 2012 |
| | | (In thousands) | |
| Interest and fee income | $40,465 | $48,298 | $ 42,893 |
| Interest expense | (1,252) | (1,559) | (1,331) |
| FTE adjustment | 4,622 | 4,960 | 4,721 |
| Net interest and fee income (FTE) | $43,835 | $51,699 | $ 46,283 |
| | | | |
| Average earning assets | $4,135,863 | $4,060,271 | $ 4,111,970 |
| Net interest margin (FTE) (annualized) | 4.27 % | 5.12 % | 4.49 % |

Net interest and fee income (FTE) decreased during the first quarter of 2013 by $7.9 million from the same period in 2012 to $43.8 million, mainly due to lower average balances of loans (down $390 million) and lower yields on interest-earning assets (down 0.88%), partially offset by higher average balances of investments (up $465 million), lower average balances of interest-bearing deposits (down $122 million) and lower rates paid on interest-bearing deposits (down 0.04%).

Comparing the first quarter of 2013 with the fourth quarter of 2012, net interest and fee income (FTE) decreased $2.4 million primarily due to a lower average volume of loans (down $77 million) and lower yields on interest earning assets (down 0.23%), partially offset by higher average balances of investments (up $101 million) and lower average balances of time deposits (down $18 million) and lower rates paid on those deposits.

Loan volumes have declined due to problem loan workout activities, particularly with purchased loans, and reduced volumes of loan originations. In Management's opinion, current levels of competitive loan pricing do not provide adequate forward earnings potential. As a result, the Company has not currently taken an aggressive posture relative to loan portfolio growth. Management has maintained relatively stable interest-earning asset volumes by increasing investment securities as loan volumes have declined.

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.

At March 31, 2013, purchased FDIC covered loans represented 17 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. FDIC loss indemnification of covered non-residential assets expires February 6, 2014. For further information, see the Loan Portfolio Credit Risk section of this report.

Interest and Fee Income (FTE)

Interest and fee income (FTE) for the first quarter of 2013 decreased $8.2 million or 15.3% from the same period in 2012. The decrease was caused by lower average balances of loans and lower yields on interest-earning assets,

partially offset by higher average balances of investments.

The total average balances of loans declined due to decreases in the average balances of commercial real estate loans (down $186 million), taxable commercial loans (down $78 million), consumer loans (down $34 million), real estate residential loans (down $51 million), tax-exempt commercial loans (down $24 million) and construction loans (down $17 million). The average investment portfolio increased largely due to higher average balances of collateralized mortgage obligations and mortgage backed securities (up $309 million), corporate securities (up $188 million) and municipal securities (up $29 million), partially offset by a $63 million decrease in average balances of securities of U.S. government sponsored entities. The average yield on the Company's earning assets decreased from 5.27% in the first quarter of 2012 to 4.39% in the corresponding period of 2013. The composite yield on loans declined 0.47% to 5.46% mostly due to lower yields on consumer loans (down 0.84%), commercial real estate loans (down 0.40%) and taxable commercial loans (down 0.29%). 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 0.92% to 3.32% primarily due to lower yields on collateralized mortgage obligations and mortgage backed securities (down 1.10%), municipal securities (down 0.46%) and corporate securities (down 0.27%).

Comparing the first quarter of 2013 with the fourth quarter of 2012, interest and fee income (FTE) was down $2.5 million. 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 $24 million or 0.6% in the first quarter of 2013 compared with the fourth quarter of 2012 due to a $101 million increase in average investments and a $77 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 $35 million), taxable commercial loans (down $13 million), consumer loans (down $10 million), tax-exempt commercial loans (down $5 million) and residential real estate loans (down $12 million).

The average investment portfolio increased mostly due to higher average balances of corporate securities (up $66 million), collateralized mortgage obligations and mortgage backed securities (up $38 million) and municipal securities (up $19 million), partially offset by a $21 million decrease in average balances of securities of U.S. government sponsored entities.

The average yield on earning assets for the first quarter of 2013 was 4.39% compared with 4.62% in the fourth quarter of 2012. The loan portfolio yield for the first quarter of 2013 compared with the fourth quarter of 2012 was lower by 0.13% mostly due to lower yields on construction loans (down 9.56%), consumer loans (down 0.21%) and commercial real estate loans (down 0.05%). The yield on construction loans in the fourth quarter 2012 was elevated due to interest received on nonaccrual loans. The investment portfolio yield decreased 0.22% to 3.32% primarily due to lower yields on collateralized mortgage obligations and mortgage backed securities (down 0.21%), corporate securities (down 0.21%), municipal securities (down 0.17%) and securities of U.S. government sponsored entities (down 0.15%).

Interest Expense

Interest expense has been reduced by lowering rates paid on interest-bearing deposits and borrowings and by reducing the volume of higher-cost funding sources. Lower-cost checking and savings deposits accounted for 85.0% of total average deposits in the first quarter 2013 compared with 81.4% in the first quarter 2012. Interest expense in the first quarter of 2013 decreased $307 thousand or 19.7% compared with the same period in 2012 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. Interest-bearing liabilities declined due to lower average balances of time deposits $100 thousand or more (down $122 million), time deposits less than $100 thousand (down $41 million), preferred money market savings (down $29 million) and customer sweep accounts (down $57 million), partially offset by higher average balances of regular savings (up $32 million) and money market savings (up $22 million). The average rate paid on interest-bearing liabilities decreased from 0.22% in the first quarter of 2012 to 0.19% in the first quarter of 2013. Rates on interest-bearing deposits decreased 0.04% to 0.14% primarily due to decreases in rates paid on time deposits less than $100 thousand (down 0.12%) and short-term borrowings (down 0.02%).

Comparing the first quarter of 2013 with the fourth quarter of 2012, interest expense declined $79 thousand due to lower average balances of interest-bearing deposits and lower rates paid on interest-bearing deposits. Lower-cost checking and savings deposits accounted for 85.0% of total average deposits in the first quarter 2013 compared with 84.6% in the fourth quarter 2012. Average interest-bearing deposits during the first quarter of 2013 fell $1 million compared with the fourth quarter 2012 primarily due to declines in the average balances of time deposits $100 thousand or more (down $10 million) and time deposits less than $100 thousand (down $8 million), partially offset by increases in the average balances of money market savings (up $7 million), regular savings (up $7 million) and money market checking accounts (up $5 million). Rates paid on interest-bearing deposits averaged 0.14% during the first quarter of 2013 compared with 0.15% for the fourth quarter of 2012.

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, 2013 | 2012 | December 31, 2012 |
| Yield on earning assets (FTE) | 4.39 % | 5.27 % | 4.62 % |
| Rate paid on interest-bearing liabilities | 0.19 % | 0.22 % | 0.20 % |
| Net interest spread (FTE) | 4.20 % | 5.05 % | 4.42 % |
| Impact of noninterest-bearing funds | 0.07 % | 0.07 % | 0.07 % |
| Net interest margin (FTE) | 4.27 % | 5.12 % | 4.49 % |

During the first quarter of 2013, the net interest margin (FTE) decreased 0.85% compared with the same period in 2012. Lower yields on earning assets were partially offset by lower rates paid on interest-bearing liabilities and resulted in a 0.85% 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 4.27%. During the first quarter of 2013, the net interest margin (FTE) decreased 0.22% compared with the fourth quarter of 2012. The net interest spread (FTE) in the first quarter of 2013 was 4.20% compared with 4.42% in the fourth quarter of 2012, the net result of a 0.22% decrease in earning asset yields, partially offset by lower cost of interest-bearing liabilities (down 0.01%).

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Summary of Average Balances, Yields/Rates and Interest Differential

The following tables present, for the periods indicated, information regarding the consolidated average assets, liabilities and shareholders' equity, the amounts of interest income earned from average interest earning assets and the resulting yields, and the amounts of interest expense incurred on average interest-bearing liabilities and the resulting rates. 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 and accretion of purchased loan discounts. Yields on tax-exempt securities and loans have been adjusted upward to reflect the effect of income exempt from federal income taxation at the current statutory tax rate (FTE).

Distribution of Assets, Liabilities & Shareholders' Equity and Yields, Rates & Interest Margin

| | For the Three Months Ended March 31, 2013 | | |
|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Yields/ Rates |
| | (In thousands) | | |
| Assets | | | |
| Investment securities: | | | |
| Available for sale | | | |
| Taxable | $ 710,506 | $ 3,443 | 1.94 % |
| Tax-exempt (1) | 192,127 | 2,786 | 5.80 % |
| Held to maturity | | | |
| Taxable | 472,994 | 2,092 | 1.77 % |
| Tax-exempt (1) | 682,247 | 8,777 | 5.15 % |
| Loans: | | | |
| Commercial: | | | |
| Taxable | 274,498 | 4,277 | 6.32 % |
| Tax-exempt (1) | 114,117 | 1,692 | 6.01 % |
| Commercial real estate | 904,841 | 14,128 | 6.33 % |
| Real estate construction | 16,277 | 285 | 7.10 % |
| Real estate residential | 231,969 | 2,060 | 3.55 % |
| Consumer | 536,287 | 5,547 | 4.19 % |
| Total loans (1) | 2,077,989 | 27,989 | 5.46 % |
| Total Interest-earning assets (1) | 4,135,863 | $ 45,087 | 4.39 % |
| Other assets | 772,620 | | |
| Total assets | $ 4,908,483 | | |
| | | | |
| Liabilities and shareholders' equity | | | |
| Deposits: | | | |
| Noninterest-bearing demand | $ 1,643,348 | $ - | - % |
| Savings and interest-bearing transaction | 1,925,264 | 296 | 0.06 % |
| Time less than $100,000 | 240,099 | 299 | 0.51 % |
| Time $100,000 or more | 390,518 | 304 | 0.32 % |
| Total interest-bearing deposits | 2,555,881 | 899 | 0.14 % |
| Short-term borrowed funds | 57,733 | 11 | 0.08 % |
| Term repurchase agreement | 10,000 | 24 | 0.96 % |
| Federal Home Loan Bank advances | 25,777 | 118 | 1.86 % |
| Debt financing | 15,000 | 200 | 5.35 % |

| | | | | | |
|---|---|---|---|---|---|
| Total interest-bearing liabilities | 2,664,391 | $ | 1,252 | 0.19 | % |
| Other liabilities | 58,870 | | | | |
| Shareholders' equity | 541,874 | | | | |
| Total liabilities and shareholders' equity | $ 4,908,483 | | | | |
| Net interest spread (1) (2) | | | | 4.20 | % |
| Net interest and fee income and interest margin (1) (3) | | $ | 43,835 | 4.27 | % |

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
(2) Net interest spread represents the average yield earned on interest-earning assets less the average rate incurred 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 interest-earning assets.

Distribution of Assets, Liabilities & Shareholders' Equity and Yields, Rates & Interest Margin

| | For the Three Months Ended March 31, 2012 | | |
|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Yields/ Rates |
| | (In thousands) | | |
| Assets | | | |
| Investment securities: | | | |
| 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 % |
| Loans: | | | |
| 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 % |
| Other assets | 970,664 | | |
| Total assets | $ 5,030,935 | | |
| | | | |
| Liabilities and shareholders' equity | | | |
| Deposits: | | | |
| 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 and fee income and interest margin (1) (3) | | $ 51,699 | 5.12 % |

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
(2) Net interest spread represents the average yield earned on interest-earning assets less the average rate incurred 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 interest-earning assets.

Distribution of Assets, Liabilities & Shareholders' Equity and Yields, Rates & Interest Margin

| | For the Three Months Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | Average Balance | Interest Income/ Expense | Yields/ Rates | |
| | (In thousands) | | | |
| Assets | | | | |
| Investment securities: | | | | |
| Available for sale | | | | |
| Taxable | $ 595,666 | $ 3,198 | 2.15 | % |
| Tax-exempt (1) | 201,332 | 2,940 | 5.84 | % |
| Held to maturity | | | | |
| Taxable | 507,217 | 2,406 | 1.90 | % |
| Tax-exempt (1) | 652,696 | 8,803 | 5.39 | % |
| Loans: | | | | |
| Commercial: | | | | |
| Taxable | 287,415 | 4,426 | 6.13 | % |
| Tax-exempt (1) | 119,495 | 1,798 | 5.99 | % |
| Commercial real estate | 939,943 | 15,067 | 6.38 | % |
| Real estate construction | 18,125 | 759 | 16.66 | % |
| Real estate residential | 244,177 | 2,176 | 3.56 | % |
| Consumer | 545,904 | 6,041 | 4.40 | % |
| Total loans (1) | 2,155,059 | 30,267 | 5.59 | % |
| Total Interest-earning assets (1) | 4,111,970 | $ 47,614 | 4.62 | % |
| Other assets | 808,650 | | | |
| Total assets | $ 4,920,620 | | | |
| | | | | |
| Liabilities and shareholders' equity | | | | |
| Deposits: | | | | |
| Noninterest-bearing demand | $ 1,654,575 | $ - | - | % |
| Savings and interest-bearing transaction | 1,908,286 | 304 | 0.06 | % |
| Time less than $100,000 | 248,192 | 332 | 0.53 | % |
| Time $100,000 or more | 400,556 | 334 | 0.33 | % |
| Total interest-bearing deposits | 2,557,034 | 970 | 0.15 | % |
| Short-term borrowed funds | 55,523 | 14 | 0.10 | % |
| Term repurchase agreement | 10,000 | 25 | 0.97 | % |
| Federal Home Loan Bank advances | 25,832 | 122 | 1.87 | % |
| Debt financing | 15,000 | 200 | 5.35 | % |
| Total interest-bearing liabilities | 2,663,389 | $ 1,331 | 0.20 | % |
| Other liabilities | 60,972 | | | |
| Shareholders' equity | 541,684 | | | |
| Total liabilities and shareholders' equity | $ 4,920,620 | | | |
| Net interest spread (1) (2) | | | 4.42 | % |
| Net interest and fee income and interest margin (1) (3) | | $ 46,283 | 4.49 | % |

(1) Amounts calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
(2) Net interest spread represents the average yield earned on interest-earning assets less the average rate incurred 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 interest-earning assets.

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 assets and liability balances (volume) and changes in average interest yields/rates for the periods indicated. Changes not solely attributable to volume or yields/rates have been allocated in proportion to the respective volume and yield/rate components.

Summary of Changes in Interest Income and Expense

| | For the Three Months Ended March 31, 2013 Compared with For the Three months ended March 31, 2012 | | |
|---|---|---|---|
| | Volume | Yield/Rate | Total |
| | | (In thousands) | |
| Increase (decrease) in interest and fee income: | | | |
| Investment securities: | | | |
| Available for sale | | | |
| Taxable | $ 1,522 | $ (643) | $ 879 |
| Tax-exempt (1) | (483) | (90) | (573) |
| Held to maturity | | | |
| Taxable | 667 | (701) | (34) |
| Tax-exempt (1) | 871 | (931) | (60) |
| Loans: | | | |
| Commercial: | | | |
| Taxable | (1,267) | (239) | (1,506) |
| Tax-exempt (1) | (367) | 4 | (363) |
| Commercial real estate | (3,110) | (1,011) | (4,121) |
| Real estate construction | (300) | 34 | (266) |
| Real estate residential | (461) | (82) | (543) |
| Consumer | (468) | (1,116) | (1,584) |
| Total loans (1) | (5,973) | (2,410) | (8,383) |
| Total decrease in interest and fee income (1) | (3,396) | (4,775) | (8,171) |
| Increase (decrease) in interest expense: | | | |
| Deposits: | | | |
| Savings and interest-bearing transaction | 4 | (34) | (30) |
| Time less than $100,000 | (61) | (78) | (139) |
| Time $100,000 or more | (99) | (20) | (119) |
| Total interest-bearing deposits | (156) | (132) | (288) |
| Short-term borrowed funds | (11) | (5) | (16) |
| Term repurchase agreement | (1) | - | (1) |
| Federal Home Loan Bank advances | (2) | - | (2) |
| Debt financing | - | - | - |
| Total decrease in interest expense | (170) | (137) | (307) |
| Decrease in net interest and fee income (1) | $ (3,226) | $ (4,638) | $ (7,864) |

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

Summary of Changes in Interest Income and Expense

| | For the Three Months Ended March 31, 2013 Compared with For the Three months ended December 31, 2012 | | |
|---|---|---|---|
| | Volume | Yield/Rate | Total |
| | | (In thousands) | |
| Increase (decrease) in interest and fee income: | | | |
| Investment securities: | | | |
| Available for sale | | | |
| Taxable | $ 550 | $ (305) | $ 245 |
| Tax-exempt (1) | (140) | (14) | (154) |
| Held to maturity | | | |
| Taxable | (178) | (136) | (314) |
| Tax-exempt (1) | 308 | (334) | (26) |
| Loans: | | | |
| Commercial: | | | |
| Taxable | (288) | 139 | (149) |
| Tax-exempt (1) | (114) | 8 | (106) |
| Commercial real estate | (840) | (99) | (939) |
| Real estate construction | (78) | (396) | (474) |
| Real estate residential | (111) | (5) | (116) |
| Consumer | (223) | (271) | (494) |
| Total loans (1) | (1,654) | (624) | (2,278) |
| Total decrease in interest and fee income (1) | (1,114) | (1,413) | (2,527) |
| Decrease in interest expense: | | | |
| Deposits: | | | |
| Savings and interest-bearing transaction | (3) | (5) | (8) |
| Time less than $100,000 | (17) | (16) | (33) |
| Time $100,000 or more | (15) | (15) | (30) |
| Total interest-bearing deposits | (35) | (36) | (71) |
| Short-term borrowed funds | - | (3) | (3) |
| Term repurchase agreement | (1) | - | (1) |
| Federal Home Loan Bank advances | (3) | (1) | (4) |
| Debt financing | - | - | - |
| Total decrease in interest expense | (39) | (40) | (79) |
| Decrease in net interest and fee income (1) | $ (1,075) | $ (1,373) | $ (2,448) |

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

Provision for Loan Losses

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

The Company provided $2.8 million each for loan losses in the first quarter of 2013, the first quarter of 2012 and the fourth quarter of 2012. The Company recorded purchased County Bank and Sonoma Valley Bank loans at estimated

fair value upon the acquisition dates, February 6, 2009 and August 20, 2010, respectively. Such estimated fair values were recognized for individual loans, although small balance homogenous loans were pooled for valuation purposes. The valuation discounts recorded for purchased loans included Management's assessment of the risk of principal loss under economic and borrower conditions prevailing on the dates of purchase. The purchased County Bank loans are "covered" by loss-sharing agreements the Company entered with the FDIC which mitigates losses during the term of the agreements. Any deterioration in estimated value related to principal loss subsequent to the acquisition dates requires additional loss recognition through a provision for loan losses. 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, | | December 31, |
| | 2013 | 2012 | 2012 |
| | (In thousands) | | |
| Service charges on deposit accounts | $6,542 | $7,095 | $ 6,722 |
| Merchant processing services | 2,409 | 2,393 | 2,401 |
| Debit card fees | 1,358 | 1,163 | 1,357 |
| Other service fees | 762 | 696 | 679 |
| ATM processing fees | 705 | 933 | 749 |
| Trust fees | 568 | 489 | 552 |
| Safe deposit rental | 195 | 197 | 175 |
| Check sale income | 183 | 211 | 203 |
| Financial services commissions | 180 | 171 | 148 |
| Other noninterest income | 1,376 | 1,321 | 1,208 |
| Total | $14,278 | $14,669 | $ 14,194 |

Noninterest income for the first quarter of 2013 declined by $391 thousand from the same period in 2012. Service charges on deposits decreased $553 thousand or 7.8% due to declines in fees charged on overdrawn and insufficient funds accounts (down $272 thousand) and lower deficit fees charged on analyzed accounts (down $211 thousand). ATM processing fees decreased $228 thousand mainly because the Bank customers had fewer transactions at non-Westamerica ATMs and other cash dispenser terminals. Debit card fees increased $195 thousand or 16.8% primarily due to increased transactions.

In the first quarter of 2013, noninterest income increased $84 thousand compared with the fourth quarter of 2012. Service charges on deposits decreased $180 thousand or 2.7% due to declines in fees charged on overdrawn and insufficient funds accounts (down $209 thousand) and lower deficit fees charged on analyzed accounts (down $48 thousand), partially offset by fee increases on savings accounts (up $77 thousand).

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Noninterest Expense

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

| | For the Three Months Ended | | |
|---|---|---|---|
| | March 31, | | December 31, |
| | 2013 | 2012 | 2012 |
| | (In thousands) | | |
| Salaries and related benefits | $14,403 | $15,046 | $ 13,555 |
| Occupancy | 3,886 | 3,934 | 3,851 |
| Outsourced data processing services | 2,157 | 2,083 | 2,213 |
| Amortization of identifiable intangibles | 1,219 | 1,402 | 1,292 |
| Equipment | 880 | 851 | 892 |
| Courier service | 741 | 785 | 768 |
| Professional fees | 635 | 767 | 761 |
| Telephone | 448 | 376 | 511 |
| Loan expense | 417 | 627 | 467 |
| Other real estate owned | 334 | 230 | 322 |
| Postage | 300 | 372 | 301 |
| Stationery and supplies | 281 | 243 | 275 |
| Advertising/public relations | 145 | 151 | 223 |
| Operational losses | 128 | 173 | 113 |
| Other noninterest expense | 2,703 | 2,994 | 2,689 |
| Total | $28,677 | $30,034 | $ 28,233 |

Noninterest expense decreased $1.4 million or 4.5% in the first quarter 2013 compared with the same period in 2012 primarily due to lower personnel costs, loan administration expenses, intangible amortization and professional fees. Salaries and related benefits declined $643 thousand or 4.3% due to lower incentives and employee attrition. Loan expense decreased $210 thousand due to lower fees waived on charged off loans and lower appraisal fees. Amortization of identifiable intangibles decreased $183 thousand as assets are amortized on a declining balance method. Professional fees decreased $132 thousand due to lower legal fees relating to nonperforming assets.

In the first quarter of 2013, noninterest expense increased $444 thousand compared with the fourth quarter of 2012. Salaries and related benefits increased $848 thousand primarily due to higher payroll taxes and other employee benefits. Professional fees declined $126 thousand due to lower legal fees associated with nonperforming assets.

Provision for Income Tax

During the first quarter of 2013, the Company recorded income tax provision (FTE) of $9.4 million, compared with $12.5 million and $10.3 million for the first and fourth quarters of 2012, respectively. The current quarter provision represents an effective tax rate (FTE) of 35.2%, compared with 37.4% and 35.0% for the first and fourth quarters of 2012, respectively. The decline in the effective tax rate from the first quarter 2012 to both the fourth quarter 2012 and first quarter 2013 is attributable to tax-exempt income elements representing a greater proportion of pre-tax book income. The Company earns interest on municipal loans and investment securities which are federally tax-exempt and recognizes life insurance policy benefits which are exempt from federal and state taxes; on a combined basis, these tax-exempt items equaled 34%, 38% and 42% of pre-tax book income for the first quarter 2012, fourth quarter 2012, and first quarter 2013, respectively.

Loan Portfolio Credit Risk

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

- The Bank maintains a Loan Review Department which reports directly to the Board of Directors. The Loan Review Department performs independent evaluations of loans and assigns credit risk grades to evaluated loans using grading standards employed by bank regulatory agencies. Those loans judged to carry higher risk attributes are referred to as "classified loans." Classified loans receive elevated management attention to maximize collection.

- The Bank maintains two loan administration offices whose sole responsibility is to manage and collect classified loans.

Classified loans with higher levels of credit risk are further designated as "nonaccrual loans." Management places classified loans on nonaccrual status when full collection of contractual interest and principal payments is in doubt. Uncollected 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 loans following placement on nonaccrual status. 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 (commonly referred to as "Other Real Estate Owned").

Nonperforming Assets

| | At March 31, | | At December 31, |
|---|---|---|---|
| | 2013 | 2012 | 2012 |
| | (In thousands) | | |
| Originated: | | | |
| Nonperforming nonaccrual loans | $7,005 | $9,976 | $ 10,016 |
| Performing nonaccrual loans | 1,154 | 6,374 | 1,759 |
| Total nonaccrual loans | 8,159 | 16,350 | 11,775 |
| Accruing loans 90 or more days past due | 305 | 359 | 455 |
| Total nonperforming loans | 8,464 | 16,709 | 12,230 |
| Other real estate owned | 7,691 | 13,624 | 9,295 |
| Total nonperforming assets | $16,155 | $30,333 | $ 21,525 |
| | | | |
| Purchased covered: | | | |
| Nonperforming nonaccrual loans | $9,578 | $4,510 | $ 11,698 |
| Performing nonaccrual loans | 2,299 | 2,165 | 1,323 |
| Total nonaccrual loans | 11,877 | 6,675 | 13,021 |
| Accruing loans 90 or more days past due | 88 | 520 | 155 |
| Total nonperforming loans | 11,965 | 7,195 | 13,176 |
| Other real estate owned | 13,713 | 15,810 | 13,691 |
| Total nonperforming assets | $25,678 | $23,005 | $ 26,867 |
| | | | |
| Purchased non-covered: | | | |
| Nonperforming nonaccrual loans | $6,052 | $13,948 | $ 7,038 |
| Performing nonaccrual loans | 3,060 | 7,056 | 461 |
| Total nonaccrual loans | 9,112 | 21,004 | 7,499 |
| Accruing loans 90 or more days past due | - | - | 4 |
| Total nonperforming loans | 9,112 | 21,004 | 7,503 |
| Other real estate owned | 1,980 | 6,543 | 3,366 |
| Total nonperforming assets | $11,092 | $27,547 | $ 10,869 |

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, 2013, the Bank's nonaccrual loans reflected this diversification: nonaccrual originated loans with a carrying value totaling $8 million comprised twenty borrowers, nonaccrual purchased covered loans with a carrying value totaling $12 million comprised fifteen borrowers, and nonaccrual purchased non-covered loans with a carrying value totaling $9 million

comprised fourteen 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.

The former County Bank loans and repossessed loan collateral were purchased from the FDIC with indemnifying loss-sharing agreements. The loss-sharing agreements significantly reduce the credit risk of these purchased assets during the term of the agreements. 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 $1.3 billion acquired loan and repossessed loan collateral portfolio was $161 million representing estimated losses inherent in the assets at the acquisition date.

Purchased Covered Assets

| | At March 31, | | At December 31, | February 6, |
|---|---|---|---|---|
| | 2013 | 2012 | 2012 | 2009 |
| | (In thousands) | | | |
| Non-residential assets | $ 363,940 | $ 511,536 | $ 384,285 | $ 1,298,526 |
| Residential assets | 23,534 | 30,909 | 25,570 | 40,955 |
| Total indemnified assets | 387,474 | 542,445 | 409,855 | 1,339,481 |
| Credit risk discount | (22,660 ) | (37,503 ) | (26,128 ) | (161,203 ) |
| Other adjustments | 1,933 | 1,971 | 2,247 | 5,407 |
| Carrying value of covered assets | $ 366,747 | $ 506,913 | $ 385,974 | $ 1,183,685 |
| | | | | |
| Comprised of: | | | | |
| Purchased covered loans | $ 353,034 | $ 491,103 | $ 372,283 | $ 1,174,353 |
| Covered other real estate owned | 13,713 | 15,810 | 13,691 | 9,332 |
| Carrying value of covered assets | $ 366,747 | $ 506,913 | $ 385,974 | $ 1,183,685 |

Aggregate indemnified losses from February 6, 2009 through March 31, 2013 have been $135 million, which includes principal losses, loss in value of other real estate owned, loss on sale of other real estate owned, and reimbursement of incurred collection and asset management expenses such as legal fees, property taxes, appraisals and other customary expenses. Purchased covered asset principal losses have been primarily offset against the estimated credit risk discount, although some losses exceeding the purchase date estimated credit risk discount have been provided for and charged-off against the allowance for credit losses.

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 $123 million, $139 million and $122 million at March 31, 2013, March 31, 2012 and December 31, 2012, respectively.

As noted above, FDIC loss indemnification of covered non-residential assets expires February 6, 2014; loss exposure on such assets after February 6, 2014 will be represented by such assets' carrying values at such time. Loss exposure for loans is mitigated by the borrowers' financial condition and ability to repay their loans, loan collateral values, the amount of credit risk discount remaining at such time, any existing borrower guarantees which are perfected and have economic value, and the allowance for credit losses. Loss exposure for other real estate owned is mitigated by the value of the repossessed loan collateral, less disposition costs.

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 Acquired with Deteriorated Credit Quality. The allowance for credit losses represents Management's estimate of credit losses in excess of these reductions to the carrying value of loans within the loan portfolio.

The following table summarizes the allowance for credit losses, chargeoffs and recoveries of the Company for the periods indicated:

| | For the Three Months Ended | | |
|---|---|---|---|
| | March 31, | | December 31, |
| | 2013 | 2012 | 2012 |
| | (In thousands) | | |
| Analysis of the Allowance for Credit Losses | | | |
| Balance, beginning of period | $32,927 | $35,290 | $ 33,659 |
| Provision for loan losses | 2,800 | 2,800 | 2,800 |
| Provision for unfunded commitments | - | - | - |
| Loans charged off | | | |
| Commercial | (1,902) | (862) | (3,228) |
| Commercial real estate | (113) | (948) | (86) |
| Real estate construction | - | - | (126) |
| Real estate residential | (87) | (870) | - |
| Consumer | (1,308) | (1,653) | (1,382) |
| Purchased covered loans | (359) | (365) | (230) |
| Purchased non-covered loans | - | - | 450 |
| Total chargeoffs | (3,769) | (4,698) | (4,602) |
| Recoveries of loans previously charged off | | | |
| Commercial | 462 | 389 | 200 |
| Commercial real estate | 21 | - | 25 |
| Real estate construction | - | 2 | - |
| Consumer | 601 | 779 | 755 |
| Purchased covered loans | 5 | 14 | 90 |
| Total recoveries | 1,089 | 1,184 | 1,070 |
| Net loan (losses) | (2,680) | (3,514) | (3,532) |
| Balance, end of period | $33,047 | $34,576 | $ 32,927 |
| Components: | | | |
| Allowance for loan losses | $30,354 | $31,883 | $ 30,234 |
| Liability for off-balance sheet credit exposure | 2,693 | 2,693 | 2,693 |
| Allowance for credit losses | $33,047 | $34,576 | $ 32,927 |
| Net loan (losses) recoveries: | | | |
| Originated loans | $(2,326) | $(3,163) | $ (3,842) |
| Purchased covered loans | (354) | (351) | (140) |
| Purchased non-covered loans | - | - | 450 |
| Net loan losses (recoveries) as a percentage of average loans: | | | |
| Originated loans | 0.57 % | 0.69 % | 0.91 % |
| Purchased covered loans | 0.39 % | 0.28 % | 0.14 % |
| Purchased non-covered loans | - % | - % | (2.31 %) |

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 and classified loans, FDIC loss-sharing indemnification, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to impaired loans whose full collectability of principal is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. The Company evaluates all classified loans and nonaccrual loans with outstanding principal balances in excess of $500 thousand, and all

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

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

The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. The unallocated allowance addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in loan chargeoff history (external factors). The external factors evaluated by the Company and the judgmental amount of unallocated reserve assigned by Management as of March 31, 2013 are: economic and business conditions $1.1 million, external competitive issues $800 thousand, 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 and the judgmental amount of unallocated reserve assigned by Management are: loan review system $800 thousand, adequacy of lending Management and staff $800 thousand, loan policies and procedures $800 thousand, purchased loans $568 thousand, concentrations of credit $800 thousand, 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.

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

| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Non-covered Loans | Purchased Covered Loans | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | | | |
| Allowance for loan losses: | | | | | | | | | |
| Balance at beginning of period | $6,445 | $10,063 | $484 | $380 | $3,194 | $- | $1,005 | $8,663 | $30,234 |
| Additions: | | | | | | | | | |
| Provision | 531 | 994 | (4) | 246 | 281 | - | 87 | 665 | 2,800 |
| Deductions: | | | | | | | | | |
| Chargeoffs | (1,902) | (113) | - | (87) | (1,308) | - | (359) | - | (3,769) |
| Recoveries | 462 | 21 | - | - | 601 | - | 5 | - | 1,089 |
| Net loan losses | (1,440) | (92) | - | (87) | (707) | - | (354) | - | (2,680) |
| Balance at end of period | 5,536 | 10,965 | 480 | 539 | 2,768 | - | 738 | 9,328 | 30,354 |
| Liability for off-balance sheet credit exposure | 1,663 | 3 | - | - | 453 | - | - | 574 | 2,693 |
| Total allowance for credit losses | $7,199 | $10,968 | $480 | $539 | $3,221 | $- | $738 | $9,902 | $33,047 |

Recorded Investment in Loans Evaluated for Impai

| | At March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial | Commercial Real Estate | Construction | Residential Real Estate | Consumer Installment and Other | Purchased Non-covered Loans | Purcha Cove Loa |
| | (In thousands) | | | | | | |
| Allowance for credit losses: | | | | | | | |
| Individually evaluated for impairment | $886 | $584 | $- | $- | $100 | $- | $723 |
| Collectively evaluated for impairment | 6,313 | 10,384 | 480 | 539 | 3,121 | - | 15 |
| Purchased loans with evidence of credit deterioration | - | - | - | - | - | - | - |
| Total | $7,199 | $10,968 | $480 | $539 | $3,221 | $- | $738 |
| Carrying value of loans: | | | | | | | |
| Individually evaluated for impairment | $2,171 | $3,319 | $- | $- | $- | $5,196 | $16,0 |
| Collectively evaluated for impairment | 316,331 | 621,866 | 7,920 | 213,919 | 447,870 | 59,348 | 329, |
| Purchased loans with evidence of credit deterioration | - | - | - | - | - | 5,960 | 7,58 |
| Total | $318,502 | $625,185 | $7,920 | $213,919 | $447,870 | $70,504 | $353, |

Management considers the $33.0 million allowance for credit losses to be adequate as a reserve against credit losses inherent in the loan portfolio as of March 31, 2013.

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

Asset/Liability and Market Risk Management

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

Interest Rate Risk

Interest rate risk is a significant market risk affecting the Company. Interest rate risk results from many factors. Assets and liabilities may mature or re-price at different times. Assets and liabilities may re-price 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.

The Federal Open Market Committee's March 20, 2013 press release stated "the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent". In this context, Management's most likely earnings forecast for the twelve months ending March 31, 2014 assumes market interest rates remain relatively stable and yields on newly originated or refinanced loans and on purchased investment securities will reflect current interest rates, which are lower than yields on the Company's older dated loans and investment securities.

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

The Company's asset and liability position ranged from "neutral" to slightly "liability sensitive" at March 31, 2013, 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 "liability sensitive" position results in a slightly larger change in interest expense than in interest income resulting from application of assumed interest rate changes. 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. Management's interest rate risk management is currently biased toward stable interest

rates in the near-term, and ultimately, 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.

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. The financial condition and liquidity of debtors issuing bonds and debtors whose mortgages or other obligations are securitized can directly impact the credit quality of the Company’s investment portfolio requiring the Company to recognize other than temporary impairment charges. Other types of market risk, such as foreign currency exchange risk and commodity price risk, are not significant in the normal course of the Company's business activities.

Liquidity and Funding

The objective of liquidity management is to manage cash flow and liquidity reserves so that they are adequate to fund the Company's operations and meet obligations and other commitments on a timely basis and at a reasonable cost. The Company achieves this objective through the selection of asset and liability maturity mixes that it believes best meet its needs. The Company's liquidity position is enhanced by its ability to raise additional funds as needed in the wholesale markets.

In recent years, the Company's deposit base has provided the majority of the Company's funding requirements. This relatively stable and low-cost source of funds, along with shareholders' equity, provided 97 percent and 96 percent of funding for average total assets in the first quarter 2013 and the year 2012, respectively. The stability of the Company’s funding from customer deposits is reliant on the confidence clients have in the Company. The Company places a very high priority in maintaining this confidence through conservative credit and capital management practices and by maintaining an appropriate level of liquidity reserves.

Effective December 31, 2010, the Dodd-Frank Act required unlimited FDIC deposit insurance on all non-interest bearing transaction accounts and mandated participation by all member banks. This requirement and mandate expired on December 31, 2012, at which time unlimited FDIC insurance on non-interest bearing transaction accounts came to an end. Upon expiration, the standard maximum FDIC insurance coverage returned to $250,000 for non-interest bearing transaction accounts. The change in deposit insurance did not have a significant impact to the Company's deposit levels.

During 2012 and the first quarter of 2013, non-deposit funding has been obtained through short-term borrowings, a term repurchase agreement, Federal Home Loan Bank advances, and long-term debt financing. These non-deposit sources of funds comprise a modest portion of total funding.

Liquidity is further provided by assets such as balances held at the Federal Reserve Bank, investment securities, and amortizing loans. The Company's investment securities portfolio provides a substantial secondary liquidity reserve. The Company held $2.1 billion in total investment securities at March 31, 2013. Under certain deposit, borrowing and other arrangements, the Company must hold and pledge investment securities as collateral. At March 31, 2013, such collateral requirements totaled approximately $872 million.

Westamerica Bancorporation ("Parent Company") is a separate entity 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. The $15 million note issued by the Parent Company, as described in Note 8 to the unaudited consolidated financial statements, matures October 31, 2013. Substantially all of the Parent Company's revenues are obtained from subsidiary dividends and service fees. The Bank’s dividends paid to the Parent Company provided adequate cash flow for the Parent Company in the first quarter 2013 and first quarter 2012 to pay shareholder dividends of $10 million in each respective period, and retire common stock in the amount of $15 million and $11 million, respectively. 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.

Liquidity risk can result from the mismatching of asset and liability cash flows, or from disruptions in the financial markets. 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 Federal Reserve Bank reserve requirements, 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.

Capital Resources

The Company has historically generated relatively high levels of earnings, which provides a means of raising capital. The Company's net income as a percentage of average shareholders' equity (“return on equity” or “ROE”) has been 12.9% (annualized) in the first quarter of 2013, 14.9% in 2012 and 16.1% in 2011. The Company also raises capital as employees exercise stock options. Capital raised through the exercise of stock options totaled $6.2 million in the first quarter of 2013, $7.6 million in 2012 and $14.4 million in 2011.

The Company paid common dividends totaling $10.1 million in the first quarter of 2013, $41.0 million in 2012 and $41.7 million in 2011, which represent dividends per common share of $0.37, $1.48 and $1.45, 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 provide returns to shareholders. The Company repurchased and retired 347 thousand shares valued at $15.4 million in the first quarter of 2013, 1.1 million shares valued at $51.5 million in 2012 and 1.3 million shares valued at $60.5 million in 2011.

The Company's ratio of equity to total assets was 11.44% at March 31, 2013 compared to 11.31% at December 31, 2012.

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.

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Capital to Risk-Adjusted Assets

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

| | At March 31, 2013 | At March 31, 2012 | At December 31, 2012 | Minimum Regulatory Requirement | Well-capitalized by Regulatory Definition |
|---|---|---|---|---|---|
| Tier I Capital | 14.71 % | 14.83 % | 15.06 % | 4.00 % | 6.00 % |
| Total Capital | 15.99 % | 16.09 % | 16.33 % | 8.00 % | 10.00 % |
| Leverage ratio | 8.56 % | 8.36 % | 8.56 % | 4.00 % | 5.00 % |

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

| | At March 31, 2013 | At March 31, 2012 | At December 31, 2012 | Minimum Regulatory Requirement | Well-capitalized by Regulatory Definition |
|---|---|---|---|---|---|
| Tier I Capital | 13.57 % | 14.13 % | 14.14 % | 4.00 % | 6.00 % |
| Total Capital | 15.07 % | 15.62 % | 15.62 % | 8.00 % | 10.00 % |
| Leverage ratio | 7.85 % | 7.92 % | 7.99 % | 4.00 % | 5.00 % |

FDIC-covered assets are generally included in the 20% risk-weighted category due to loss-sharing agreements, under which loss reimbursement expires on February 6, 2019 as to the residential real estate covered assets and on February 6, 2014 as to non-residential real estate covered assets. Subsequent to such dates, previously FDIC-indemnified assets will generally be included in the 100% risk-weight category.

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

- Redefine the type of capital which qualifies as regulatory capital in a manner which is more restrictive than current rules,
- Introduce a new "Common Equity Tier 1" capital measurement,
- Establish higher minimum levels of capital,
- Introduce a "capital conservation buffer,"
- Increase the risk-weighting of certain assets and commitments, in particular construction loans, loans on nonaccrual status, loans 90 days or more past due, short-term credit commitments, and deferred tax assets, and
- Alter the risk-weightings on residential real estate loans based on loan quality (underwriting standards and terms) and the loan-to-value ratio determined at time of origination or subsequent restructuring or modification.

Under the proposals, any bank subject to the rules which is unable to maintain its "capital conservation buffer" will be restricted in the payment of discretionary executive compensation and shareholder distributions, as an example dividends and share repurchases. The proposals have phase-in schedules for the various provisions; the higher minimum capital requirements are fully phased-in by January 1, 2015 and the "capital conservation buffer" and changed risk-weightings are fully phased-in by January 1, 2019. The proposals have not been amended or finalized as of March 31, 2013.

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

Management has evaluated the capital structure and assets for the Company and the Bank as of March 31, 2013 assuming (1) the Federal Reserve's proposed rules were currently fully phased-in and (2) the FDIC indemnification of the Bank's purchased covered assets had expired, causing an increase in risk-weightings on such assets. Based on this evaluation, the Company and the Bank currently maintain capital in excess of all the proposed regulatory ratios, as follows:

| | Proposed Minimum Capital Requirement | | "Well-capitalized" Under PCA Proposal | | Proposed Minimum Plus "Capital Conservation Buffer" | | Proforma Measurements as of March 31, 2013 Assuming New Proposals Fully Phased-in and Covered Asset Indemnification Expired | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Company | | Bank | |
| Capital Measurement: | | | | | | | | | | |
| Leverage | 4.00 | % | 5.00 | % | 4.00 | % | 8.84 | % | 8.12 | % |
| Common Equity Tier 1 | 4.50 | % | 6.50 | % | 7.00 | % | 13.77 | % | 12.71 | % |
| Tier I Capital | 6.00 | % | 8.00 | % | 8.50 | % | 13.77 | % | 12.71 | % |
| Total Capital | 8.00 | % | 10.00 | % | 10.50 | % | 14.84 | % | 13.79 | % |

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

Credit risk and interest rate risk are the most significant market risks affecting the Company, and equity price risk can also affect the Company's financial results. These risks are described in the preceding sections regarding "Loan Portfolio Credit Risk," and "Asset/Liability and Market Risk Management." 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.

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, 2013.

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 material information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is communicated to the Company's management, including

the principal executive officer and the principal financial officer, to allow for timely decisions regarding required disclosures. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2013 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, 2012 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, 2013.

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs* | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| | (In thousands, except per share data) | | | |
| January 1 through January 31 | 124 | $44.19 | 124 | 1,364 |
| February 1 through February 28 | 129 | 44.36 | 129 | 1,235 |
| March 1 through March 31 | 94 | 45.00 | 94 | 1,141 |
| Total | 347 | $44.47 | 347 | 1,141 |

* Includes 5 thousand, 8 thousand and 6 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 2013 pursuant to a program approved by the Board of Directors on July 26, 2012, authorizing the purchase of up to 2 million shares of the Company's common stock from time to time prior to September 1, 2013.

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.



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Item 5. Other Information

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

Proxies for the Annual Meeting of shareholders held on April 25, 2013, were solicited pursuant Regulation 14A of the Securities Exchange Act of 1934. The Report of Inspector of election indicates that 23,442,021 shares of the Common Stock of the Company, out of 27,159,429 shares outstanding on the February 25, 2013 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 | 19,569,357 | 122,910 | 3,749,754 | 0 |
| Louis E. Bartolini | 19,493,679 | 198,588 | 3,749,754 | 0 |
| E. Joseph Bowler | 19,611,586 | 80,681 | 3,749,754 | 0 |
| Arthur C. Latno, Jr. | 16,932,960 | 2,759,307 | 3,749,754 | 0 |
| Patrick D. Lynch | 19,493,387 | 198,880 | 3,749,754 | 0 |
| Catherine C. MacMillan | 19,577,750 | 114,517 | 3,749,754 | 0 |
| Ronald A. Nelson | 19,578,103 | 114,164 | 3,749,754 | 0 |
| David L. Payne | 19,418,539 | 273,728 | 3,749,754 | 0 |
| Edward B. Sylvester | 19,536,893 | 155,374 | 3,749,754 | 0 |

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

| For | Against | Abstain | Non-Votes | Uncast |
|---|---|---|---|---|
| 19,254,408 | 167,020 | 270,839 | 3,749,754 | 0 |

3. Approval of Selection of KPMG as Company's Independent Auditors for Fiscal Year 2013

| For | Against | Abstain | Non-Votes | Uncast |
|---|---|---|---|---|
| 23,216,067 | 61,547 | 164,407 | 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 1, 2013

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, 2013, is formatted in XBRL interactive data files: (i) Consolidated Statements of Income for the three months ended March 31, 2013 and 2012; (ii) Consolidated Balance Sheets at March 31, 2013, and December 31, 2012; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, (iv) Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2013 and 2012; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and (vi) Notes to the unaudited Consolidated Financial Statements.