

WESTAMERICA BANCORPORATION

Form 10-Q

November 02, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2016**

**or**

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

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

**Commission file number: 001-09383**

**WESTAMERICA BANCORPORATION**

**(Exact Name of Registrant as Specified in Its Charter)**

**CALIFORNIA**

(State or Other Jurisdiction of

Incorporation or Organization)

**94-2156203**

(I.R.S. Employer

Identification No.)

**1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901**

(Address of Principal Executive Offices) (Zip Code)

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

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

Yes No

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

Yes No

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

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

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

Yes No

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

Title of Class    Shares outstanding as of October 25, 2016

Common Stock,  
No Par Value    25,671,339

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## FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation (the “Company”) 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, future credit quality and performance, the appropriateness of the allowance for loan losses, loan growth or the reduction, mitigation of risk in the Company’s loan and investment portfolios, 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", “estimates”, "intends", "targeted", "projected", “forecast”, "continue", "remain", "will", "should", "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These forward-looking statements are based on Management’s current knowledge and belief and include information concerning the Company’s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company’s ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including a failure or breach in data processing or security systems or those of third party vendors and other service providers, including as a result of cyber attacks or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, fire, flood, drought, and other disasters, on the uninsured value of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company’s market place, and commodities and asset values; (13) changes in the securities markets and (14) the outcome of contingencies, such as legal proceedings. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2015, 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. However, the reader should not consider these factors to be a complete set of all potential risks or uncertainties.

Forward-looking statements speak only as of the date they are made. The Company undertakes no obligation to update any forward-looking statements in this report to reflect circumstances or events that occur after the date forward looking statements are made, except as may be required by law.

**PART I - FINANCIAL INFORMATION****Item 1 Financial Statements**

## WESTAMERICA BANCORPORATION

## CONSOLIDATED BALANCE SHEETS

(unaudited)

	At September 30, 2016 (In thousands)	At December 31, 2015
Assets:		
Cash and due from banks	\$471,367	\$ 433,044
Investment securities available for sale	1,762,408	1,570,216
Investment securities held to maturity, with fair values of: \$1,440,119 at September 30, 2016 and \$1,325,699 at December 31, 2015	1,411,019	1,316,075
Loans	1,364,329	1,533,396
Allowance for loan losses	(26,359 )	(29,771 )
Loans, net of allowance for loan losses	1,337,970	1,503,625
Other real estate owned	3,032	9,264
Premises and equipment, net	37,059	38,693
Identifiable intangibles, net	7,789	10,431
Goodwill	121,673	121,673
Other assets	154,461	165,854
Total Assets	\$5,306,778	\$ 5,168,875
Liabilities:		
Noninterest bearing deposits	\$2,064,988	\$ 2,026,049
Interest bearing deposits	2,579,882	2,514,610
Total deposits	4,644,870	4,540,659
Short-term borrowed funds	56,358	53,028
Other liabilities	42,554	42,983
Total Liabilities	4,743,782	4,636,670
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares Issued and outstanding: 25,665 at September 30, 2016 and 25,528 at December 31, 2015	391,601	378,858
Deferred compensation	1,533	2,578
Accumulated other comprehensive income	9,001	675
Retained earnings	160,861	150,094
Total Shareholders' Equity	562,996	532,205

Total Liabilities and Shareholders' Equity	\$5,306,778	\$ 5,168,875
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See accompanying notes to unaudited consolidated financial statements.

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## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months	
	2016	2015	2016	2015
	(In thousands, except per share data)			
Interest and Fee Income:				
Loans	\$ 16,968	\$ 19,378	\$ 52,904	\$ 59,643
Investment securities available for sale	8,796	7,880	24,855	23,347
Investment securities held to maturity	7,704	7,041	23,083	19,651
Total Interest and Fee Income	33,468	34,299	100,842	102,641
Interest Expense:				
Deposits	512	573	1,586	1,816
Short-term borrowed funds	11	12	30	44
Federal Home Loan Bank advances	-	-	-	1
Total Interest Expense	523	585	1,616	1,861
Net Interest Income	32,945	33,714	99,226	100,780
Reversal of Provision for Loan Losses	(3,200 )	-	(3,200 )	-
Net Interest Income After Reversal of Provision For Loan Losses	36,145	33,714	102,426	100,780
Noninterest Income:				
Service charges on deposit accounts	5,303	5,581	15,790	16,981
Debit card fees	1,587	1,538	4,724	4,528
Merchant processing services	1,532	1,485	4,699	4,971
Trust fees	686	682	2,004	2,061
Other service fees	671	693	1,951	2,041
ATM processing fees	600	616	1,860	1,828
Financial services commissions	118	177	411	527
Other	1,101	1,221	3,590	3,625
Total Noninterest Income	11,598	11,993	35,029	36,562
Noninterest Expense:				
Salaries and related benefits	13,063	12,761	39,067	39,795
Occupancy	3,749	3,746	10,546	11,199
Outsourced data processing services	2,114	2,115	6,375	6,334
Professional fees	1,693	746	3,183	1,876
Furniture and equipment	1,211	1,075	3,611	3,353
Amortization of identifiable intangibles	867	952	2,642	2,908
Courier service	451	604	1,458	1,744
Other real estate owned	(206 )	83	(487 )	451
Other	3,146	4,091	10,780	12,136
Total Noninterest Expense	26,088	26,173	77,175	79,796
Income Before Income Taxes	21,655	19,534	60,280	57,546
Provision for income taxes	6,027	4,677	15,880	13,371

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Net Income	\$ 15,628	\$ 14,857	\$ 44,400	\$ 44,175
Average Common Shares Outstanding	25,641	25,530	25,558	25,565
Diluted Average Common Shares Outstanding	25,687	25,565	25,595	25,585
Per Common Share Data:				
Basic earnings	\$0.61	\$0.58	\$1.74	\$1.73
Diluted earnings	0.61	0.58	1.73	1.73
Dividends paid	0.39	0.38	1.17	1.14

See accompanying notes to unaudited consolidated financial statements.

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## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Net income	\$15,628	\$14,857	\$44,400	\$44,177
Other comprehensive (loss) income:				
(Decrease) increase in net unrealized gains on securities available for sale	(4,992 )	5,522	14,319	3,242
Deferred tax benefit (expense)	2,099	(2,321 )	(6,020 )	(1,363)
(Decrease) increase in net unrealized gains on securities available for sale, net of tax	(2,893 )	3,201	8,299	1,879
Post-retirement benefit transition obligation amortization	15	15	45	45
Deferred tax expense	(6 )	(6 )	(18 )	(18)
Post-retirement benefit transition obligation amortization, net of tax	9	9	27	27
Total other comprehensive (loss) income	(2,884 )	3,210	8,326	1,906
Total comprehensive income	\$12,744	\$18,067	\$52,726	\$46,083

See accompanying notes to unaudited consolidated financial statements.

## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

	Common Shares Outstanding	Common Stock	Deferred Compensation	Accumulated Other Comprehensive Income	Retained Earnings	Total
	(In thousands)					
Balance, December 31, 2014	25,745	\$378,132	\$ 2,711	\$ 5,292	\$140,468	\$526,603
Net income for the period					44,175	44,175
Other comprehensive income				1,906		1,906
Exercise of stock options	108	4,848				4,848
Tax benefit decrease upon exercise and expiration of stock options		(1,215 )				(1,215 )
Restricted stock activity	17	874	(133 )			741
Stock based compensation		987				987
Stock awarded to employees	2	89				89
Retirement of common stock	(342 )	(5,066 )			(9,962 )	(15,028 )
Dividends					(29,168 )	(29,168 )
Balance, September 30, 2015	25,530	\$378,649	\$ 2,578	\$ 7,198	\$145,513	\$533,938
Balance, December 31, 2015	25,528	\$378,858	\$ 2,578	\$ 675	\$150,094	\$532,205
Net income for the period					44,400	44,400
Other comprehensive income				8,326		8,326
Exercise of stock options	258	11,588				11,588
Tax benefit increase upon exercise and expiration of stock options		199				199
Restricted stock activity	15	1,798	(1,045 )			753
Stock based compensation		1,142				1,142
Stock awarded to employees	1	75				75
Retirement of common stock	(137 )	(2,059 )			(3,721 )	(5,780 )
Dividends					(29,912 )	(29,912 )
Balance, September 30, 2016	25,665	\$391,601	\$ 1,533	\$ 9,001	\$160,861	\$562,996

See accompanying notes to unaudited consolidated financial statements.

## WESTAMERICA BANCORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Operating Activities:		
Net income	\$44,400	\$44,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,211	12,379
Reversal of provision for loan losses	(3,200 )	-
Net amortization of deferred loan fees	(281 )	(263 )
Decrease in interest income receivable	475	757
(Increase) decrease in other assets	(753 )	107
Increase (decrease) in income taxes payable	403	(257 )
Decrease in net deferred tax asset	3,258	968
Decrease in interest expense payable	(19 )	(56 )
Decrease in other liabilities	143	(2,571 )
Stock option compensation expense	1,142	987
Tax benefit (increase) decrease upon exercise and expiration of stock options	(199 )	1,215
Net writedown/loss on sale of premises and equipment	21	24
Net gain on sale of foreclosed assets	(1,182 )	(73 )
Writedown of foreclosed assets	759	315
Net Cash Provided by Operating Activities	59,178	57,707
Investing Activities:		
Net repayments of loans	171,573	124,615
Change in payable to FDIC <sup>(1)</sup>	3,180	-
Purchases of investment securities available for sale	(812,697)	(828,169)
Proceeds from sale/maturity/calls of securities available for sale	632,795	858,850
Purchases of investment securities held to maturity	(246,956)	(366,247)
Proceeds from maturity/calls of securities held to maturity	141,770	117,877
Purchases of premises and equipment	(1,299 )	(4,049 )
Net change in FRB <sup>(2)</sup> /FHLB <sup>(3)</sup> securities	-	940
Proceeds from sale of foreclosed assets	7,143	1,774
Net Cash Used in Investing Activities	(104,491)	(94,409 )
Financing Activities:		
Net increase in deposits	104,211	17,737
Net increase (decrease) in short-term borrowings and FHLB <sup>(3)</sup> advances	3,330	(52,721 )
Exercise of stock options/issuance of shares	11,588	4,848
Tax benefit increase (decrease) upon exercise and expiration of stock options	199	(1,215 )
Retirement of common stock	(5,780 )	(15,028 )
Common stock dividends paid	(29,912 )	(29,168 )
Net Cash Provided by (Used in) Financing Activities	83,636	(75,547 )

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Net Change In Cash and Due from Banks	38,323	(112,249)
Cash and Due from Banks at Beginning of Period	433,044	380,836
Cash and Due from Banks at End of Period	\$471,367	\$268,587

Supplemental Cash Flow Disclosures:

Supplemental disclosure of non cash activities:

Loan collateral transferred to other real estate owned	\$488	\$4,911
Securities purchases pending settlement	171	-

Supplemental disclosure of cash flow activities:

Interest paid for the period	1,635	1,941
Income tax payments for the period	14,032	12,596

See accompanying notes to unaudited consolidated financial statements.

(1) Federal Deposit Insurance Corporation ("FDIC")

(2) Federal Reserve Bank ("FRB")

(3) Federal Home Loan Bank ("FHLB")

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission and follow general practices within the banking industry. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three and nine months ended September 30, 2016 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, 2015.

### Note 2: Accounting Policies

The most significant accounting policies followed by the Company are presented 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, 2015. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, Management has identified the allowance for loan losses accounting to be the accounting area requiring the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. A discussion of the factors affecting accounting for the allowance for loan losses and purchased loans is included in the "Loan Portfolio Credit Risk" discussion below.

Application of these principles requires the Company to make certain estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain accounting policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment writedown or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on

quoted market prices or are provided by other third-party sources, when available.

#### Recently Issued Accounting Standards

FASB Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, was issued January 2016. The ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the ASU changes the income statement impact of equity investments held by the Company and the requirement for the Company to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

The Company will be required to adopt the ASU provisions on January 1, 2018. Management does not expect the adoption of the ASU to have a material effect on the Company's financial statements.

FASB Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, was issued February 25, 2016. The provisions of the new standard require lessees to recognize most leases on-balance sheet, increasing reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP.

The Company will be required to adopt the ASU provisions January 1, 2019, utilizing the modified retrospective transition approach. Management is evaluating the impact that the ASU will have on the Company's financial statements.



FASB ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, was issued March 30, 2016. The provisions of the new standard changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification.

The Company will be required to adopt the ASU provisions January 1, 2017. Management does not expect the adoption of the ASU to have a material effect on the Company's financial statements. The most notable impact will be the effect of Excess Tax Benefits on the provision for income taxes.

FASB ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, was issued on June 16, 2016. The ASU significantly changes estimates for credit losses related to financial assets measured at amortized cost and certain other contracts. For estimating credit losses, the FASB is replacing the incurred loss model with the current expected credit loss (CECL) model, which will accelerate recognition of credit losses. Additionally, credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses under the new standard. The Company will also be required to provide additional disclosures related to the financial assets within the scope of the new standard.

The Company will be required to adopt the ASU provisions on January 1, 2020. Management is evaluating the impact that the ASU will have on the Company's financial statements.

### Note 3: Investment Securities

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

	Investment Securities Available for Sale At September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	\$171,579	\$ 300	\$ (33 )	\$171,846
Agency residential mortgage-backed securities (MBS)	499,860	1,712	(1,883 )	499,689
Non-agency residential MBS	301	1	-	302
Non-agency commercial MBS	2,127	1	(10 )	2,118

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Obligations of states and political subdivisions	177,786	8,086	(378 )	185,494
Asset-backed securities	1,003	-	(3 )	1,000
FHLMC <sup>(1)</sup> and FNMA <sup>(2)</sup> stock	775	3,481	-	4,256
Corporate securities	891,335	5,808	(1,911 )	895,232
Other securities	2,034	577	(140 )	2,471
Total	\$1,746,800	\$ 19,966	\$ (4,358 )	\$1,762,408

(1) Federal Home Loan Mortgage Corporation

(2) Federal National Mortgage Association

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

Investment Securities Held to Maturity				
At September 30, 2016				
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
(In thousands)				
Securities of U.S. government sponsored entities	\$621	\$ 3	\$ -	\$624
Agency residential MBS	712,470	10,210	(194 )	722,486
Non-agency residential MBS	5,678	54	(1 )	5,731
Agency commercial MBS	9,404	24	(163 )	9,265
Obligations of states and political subdivisions	682,846	19,508	(341 )	702,013
Total	\$1,411,019	\$ 29,799	\$ (699 )	\$1,440,119

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

Investment Securities Available for Sale				
At December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
Securities of U.S. Government sponsored entities	\$302,292	\$ 255	\$(665 )	\$301,882
Agency residential MBS	208,046	1,407	(6,909 )	202,544
Non-agency residential MBS	354	16	-	370
Non-agency commercial MBS	2,383	5	(9 )	2,379
Obligations of states and political subdivisions	148,705	8,861	(57 )	157,509
Asset-backed securities	2,025	-	(22 )	2,003
FHLMC <sup>(1)</sup> and FNMA <sup>(2)</sup> stock	775	3,554	-	4,329
Corporate securities	902,308	882	(6,821 )	896,369
Other securities	2,039	952	(160 )	2,831
Total	\$1,568,927	\$ 15,932	\$(14,643 )	\$1,570,216

(1) Federal Home Loan Mortgage Corporation

(2) Federal National Mortgage Association

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

	Investment Securities Held to Maturity At December 31, 2015			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
Securities of U.S. government sponsored entities	\$764	\$ -	\$ -	\$764
Agency residential MBS	595,503	1,810	(4,966 )	592,347
Non-agency residential MBS	9,667	185	-	9,852
Agency commercial MBS	16,258	20	(274 )	16,004
Obligations of states and political subdivisions	693,883	13,638	(789 )	706,732
Total	\$1,316,075	\$ 15,653	\$ (6,029 )	\$1,325,699

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

	At September 30, 2016			
	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	\$ 159,685	\$ 160,009	\$ 18,809	\$ 19,437
Over 1 to 5 years	745,541	750,330	290,412	295,190
Over 5 to 10 years	301,266	308,276	308,222	319,417
Over 10 years	35,211	34,957	66,024	68,593
Subtotal	1,241,703	1,253,572	683,467	702,637
MBS	502,288	502,109	727,552	737,482
Other securities	2,809	6,727	-	-
Total	\$ 1,746,800	\$ 1,762,408	\$ 1,411,019	\$ 1,440,119

	At December 31, 2015			
	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	\$ 136,717	\$ 136,976	\$ 20,709	\$ 21,354
Over 1 to 5 years	1,049,786	1,044,453	259,556	262,163
Over 5 to 10 years	166,352	173,585	289,568	296,352
Over 10 years	2,475	2,749	124,814	127,627
Subtotal	1,355,330	1,357,763	694,647	707,496
MBS	210,783	205,293	621,428	618,203
Other securities	2,814	7,160	-	-
Total	\$ 1,568,927	\$ 1,570,216	\$ 1,316,075	\$ 1,325,699

Expected maturities of mortgage-related 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-related securities. At September 30, 2016 and December 31, 2015, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

Investment Securities Available for Sale									
At September 30, 2016									
	No. of	Less than 12 months	Unrealized	No. of	12 months or longer	Unrealized	No. of	Total	Unrealized
	Investment	Fair Value	Losses	Investment	Fair Value	Losses	Investment	Fair Value	Losses
	Positions			Positions			Positions		
	(\$ in thousands)								
Securities of U.S.									
Government sponsored entities	3	\$39,965	\$(33 )	-	\$-	\$-	3	\$39,965	\$(33 )
Agency residential MBS	9	109,244	(222 )	28	133,665	(1,661 )	37	242,909	(1,883 )
Non-agency residential MBS	1	31	-	-	-	-	1	31	-
Non-agency commercial MBS	1	324	(4 )	1	794	(6 )	2	1,118	(10 )
Obligations of states and political subdivisions	30	42,214	(356 )	3	1,118	(22 )	33	43,332	(378 )
Asset-backed securities	-	-	-	1	1,000	(3 )	1	1,000	(3 )
Corporate securities	25	136,421	(704 )	26	102,085	(1,207 )	51	238,506	(1,911 )
Other securities	-	-	-	1	1,860	(140 )	1	1,860	(140 )
Total	69	\$328,199	\$(1,319 )	60	\$240,522	\$(3,039 )	129	\$568,721	\$(4,358 )

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

Investment Securities Held to Maturity									
At September 30, 2016									
	No. of	Less than 12 months	Unrecognized	No. of	12 months or longer	Unrecognized	No. of	Total	Unrecognized
	Investment	Fair Value	Losses	Investment	Fair Value	Losses	Investment	Fair Value	Losses
	Positions			Positions			Positions		
	(\$ in thousands)								
Agency residential MBS	6	\$12,463	\$(79 )	3	\$11,615	\$(115 )	9	\$24,078	\$(194 )
Non-agency residential MBS	1	1,253	(1 )	-	-	-	1	1,253	(1 )
Agency commercial MBS	-	-	-	1	7,250	(163 )	1	7,250	(163 )
Obligations of states and political subdivisions	31	30,041	(182 )	9	6,779	(159 )	40	36,820	(341 )
Total	38	\$43,757	\$(262 )	13	\$25,644	\$(437 )	51	\$69,401	\$(699 )

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

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of September 30, 2016.

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

As of September 30, 2016, \$755,762 thousand of investment securities were pledged to secure public deposits and short-term borrowed funds. As of December 31, 2015, \$738,865 thousand of investment securities were pledged to secure public deposits and short-term borrowed funds.



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

Investment Securities Available for Sale									
At December 31, 2015									
	No. of	Less than 12 months	Unrealized	No. of	12 months or longer	Unrealized	No. of	Total	Unrealized
	Investment	Fair Value	Losses	Investment	Fair Value	Losses	Investment	Fair Value	Losses
	Positions			Positions			Positions		
	(\$ in thousands)								
Securities of U.S.									
Government sponsored entities	8	\$121,392	\$(665 )	-	\$-	\$-	8	\$121,392	\$(665 )
Agency residential MBS	2	12,491	(366 )	31	161,296	(6,543 )	33	173,787	(6,909 )
Non-agency commercial MBS	1	1,071	-	1	855	(9 )	2	1,926	(9 )
Obligations of states and political subdivisions	3	2,728	(18 )	4	1,644	(39 )	7	4,372	(57 )
Asset-backed securities	-	-	-	1	2,003	(22 )	1	2,003	(22 )
Corporate securities	97	548,177	(5,442 )	25	86,762	(1,379 )	122	634,939	(6,821 )
Other securities	-	-	-	1	1,840	(160 )	1	1,840	(160 )
Total	111	\$685,859	\$(6,491 )	63	\$254,400	\$(8,152 )	174	\$940,259	\$(14,643 )

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

Investment Securities Held to Maturity									
At December 31, 2015									
	No. of	Less than 12 months	Unrecognized	No. of	12 months or longer	Unrecognized	No. of	Total	Unrecognized
	Investment	Fair Value	Losses	Investment	Fair Value	Losses	Investment	Fair Value	Losses
	Positions			Positions			Positions		
	(\$ in thousands)								
Agency residential MBS	41	\$426,317	\$(3,490 )	13	\$62,041	\$(1,476 )	54	\$488,358	\$(4,966 )
Agency commercial MBS	-	-	-	2	13,951	(274 )	2	13,951	(274 )
Obligations of states and political subdivisions	55	44,585	(249 )	54	42,081	(540 )	109	86,666	(789 )
Total	96	\$470,902	\$(3,739 )	69	\$118,073	\$(2,290 )	165	\$588,975	\$(6,029 )

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

	For the Three Months Ended September 30,		For the Nine Months	
	2016	2015	2016	2015
	(In thousands)			
Taxable	\$ 11,024	\$ 9,120	\$ 31,256	\$ 25,067
Tax-exempt from regular federal income tax	5,476	5,801	16,682	17,931
Total interest income from investment securities	\$ 16,500	\$ 14,921	\$ 47,938	\$ 42,998

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**Note 4: Loans and Allowance for Loan Losses**

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

	At September 30, 2016					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	
	(In thousands)					
Originated loans	\$331,429	\$480,950	\$2,282	\$91,934	\$335,629	\$1,242,224
Purchased covered loans	-	-	-	2,233	9,512	11,745
Purchased non-covered loans:						
Gross purchased non-covered loans	12,337	74,595	153	224	27,973	115,282
Purchased loan discount	(682 )	(3,197 )	-	(23 )	(1,020 )	(4,922 )
Total	\$343,084	\$552,348	\$2,435	\$94,368	\$372,094	\$1,364,329

	At December 31, 2015					Total
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	
	(In thousands)					
Originated loans	\$368,117	\$517,070	\$2,978	\$117,631	\$346,043	\$1,351,839
Purchased covered loans:						
Gross purchased covered loans	-	-	-	2,385	11,828	14,213
Purchased loan discount	-	-	-	(133 )	(19 )	(152 )
Purchased non-covered loans:						
Gross purchased non-covered loans	15,620	124,650	973	231	32,454	173,928
Purchased loan discount	(989 )	(4,264 )	-	(23 )	(1,156 )	(6,432 )
Total	\$382,748	\$637,456	\$3,951	\$120,091	\$389,150	\$1,533,396

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

	For the Nine Months Ended September 30, 2016	For the Year Ended December 31, 2015
Impaired purchased loans	(In thousands)	
Carrying amount at the beginning of the period	\$3,887	\$4,672

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Reductions during the period	(2,651 )	(785 )
Carrying amount at the end of the period	\$ 1,236	\$ 3,887

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

	For the Nine Months Ended September 30, 2016	For the Year Ended December 31, 2015
Accretable yield:	(In thousands)	
Balance at the beginning of the period	\$ 1,259	\$ 2,261
Reclassification from nonaccretable difference	3,322	3,051
Accretion	(2,936 )	(4,053 )
Balance at the end of the period	\$ 1,645	\$ 1,259
Accretion	\$(2,936 )	\$(4,053 )
Change in FDIC indemnification	995	698
(Increase) in interest income	\$(1,941 )	\$(3,355 )

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The following summarizes activity in the allowance for loan losses:

Allowance for Loan Losses									
For the Three Months Ended September 30, 2016									
	Commercial Real Estate	Commercial 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	\$10,402	\$3,912	\$127	\$1,601	\$6,616	\$1,044	\$66	\$5,142	\$28,910
Additions:									
Provision	(3,638)	(328)	9	(193)	1,651	(399)	(4)	(298)	(3,200)
Deductions:									
Chargeoffs	(88)	-	-	-	(1,736)	(112)	-	-	(1,936)
Recoveries	1,735	15	-	-	337	498	-	-	2,585
Net loan recoveries (losses)	1,647	15	-	-	(1,399)	386	-	-	649
Total allowance for loan losses	\$8,411	\$3,599	\$136	\$1,408	\$6,868	\$1,031	\$62	\$4,844	\$26,359

Allowance for Loan Losses									
For the Nine Months Ended September 30, 2016									
	Commercial Real Estate	Commercial 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	\$9,559	\$4,224	\$177	\$1,801	\$7,080	\$967	\$-	\$5,963	\$29,771
Additions:									
Provision	(1,641)	(670)	(41)	(393)	2,074	(1,472)	62	(1,119)	(3,200)
Deductions:									
Chargeoffs	(2,024)	-	-	-	(3,418)	(150)	-	-	(5,592)
Recoveries	2,517	45	-	-	1,132	1,686	-	-	5,380
Net loan recoveries (losses)	493	45	-	-	(2,286)	1,536	-	-	(212)
Total allowance for loan losses	\$8,411	\$3,599	\$136	\$1,408	\$6,868	\$1,031	\$62	\$4,844	\$26,359

Allowance for Loan Losses  
For the Three Months Ended September 30, 2015

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	Commercial Real Estate	Commercial 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	\$7,107	\$4,896	\$403	\$2,058	\$7,248	\$1,244	\$-	\$7,872	\$30,828
Additions:									
Provision	1,246	(96 )	(205 )	(50 )	367	(15 )	65	(1,312 )	-
Deductions:									
Chargeoffs	(239 )	(449 )	-	-	(773 )	-	-	-	(1,461 )
Recoveries	300	27	-	-	336	6	-	-	669
Net loan recoveries (losses)	61	(422 )	-	-	(437 )	6	-	-	(792 )
Total allowance for loan losses	\$8,414	\$4,378	\$198	\$2,008	\$7,178	\$1,235	\$65	\$6,560	\$30,036

Allowance for Loan Losses  
For the Nine Months Ended September 30, 2015

	Commercial Real Estate	Commercial 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	\$5,460	\$4,245	\$644	\$2,241	\$7,717	\$2,120	\$-	\$9,058	\$31,485
Additions:									
Provision	2,840	525	(446 )	(233 )	436	(689 )	65	(2,498 )	-
Deductions:									
Chargeoffs	(700 )	(449 )	-	-	(2,344 )	(431 )	-	-	(3,924 )
Recoveries	814	57	-	-	1,369	235	-	-	2,475
Net loan recoveries (losses)	114	(392 )	-	-	(975 )	(196 )	-	-	(1,449 )
Total allowance for loan losses	\$8,414	\$4,378	\$198	\$2,008	\$7,178	\$1,235	\$65	\$6,560	\$30,036

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

Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment  
At September 30, 2016

	Commercial Commercial Estate	Commercial Real Estate	Constructi Real Estate	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
(In thousands)									
Allowance for loan losses: Individually evaluated for impairment	\$5,070	\$216	\$-	\$-	\$-	\$-	\$-	\$-	\$5,286
Collectively evaluated for impairment	3,341	3,383	136	1,408	6,868	1,031	62	4,844	21,073
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	\$8,411	\$3,599	\$136	\$1,408	\$6,868	\$1,031	\$62	\$4,844	\$26,359
Carrying value of loans: Individually evaluated for impairment	\$11,210	\$5,270	\$-	\$-	\$-	\$6,125	\$-	\$-	\$22,605
Collectively evaluated for impairment	320,219	475,680	2,282	91,934	335,629	103,189	11,555	-	1,340,488
Purchased loans with evidence of credit deterioration	-	-	-	-	-	1,046	190	-	1,236
Total	\$331,429	\$480,950	\$2,282	\$91,934	\$335,629	\$110,360	\$11,745	\$-	\$1,364,329

Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment  
At December 31, 2015

	Commercial Commercial Estate	Commercial Real Estate	Constructi Real Estate	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
(In thousands)									
Allowance for loan losses:	\$4,942	\$585	\$-	\$-	\$-	\$-	\$-	\$-	\$5,527

Individually evaluated for impairment									
Collectively evaluated for impairment	4,617	3,639	177	1,801	7,080	967	-	5,963	24,244
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	\$9,559	\$4,224	\$177	\$1,801	\$7,080	\$967	\$-	\$5,963	\$29,771
Carrying value of loans:									
Individually evaluated for impairment	\$12,587	\$5,541	\$-	\$-	\$-	\$11,777	\$-	\$-	\$29,905
Collectively evaluated for impairment	355,530	511,529	2,978	117,631	346,043	152,038	13,855	-	1,499,604
Purchased loans with evidence of credit deterioration	-	-	-	-	-	3,681	206	-	3,887
Total	\$368,117	\$517,070	\$2,978	\$117,631	\$346,043	\$167,496	\$14,061	\$-	\$1,533,396

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 Department evaluations occur every calendar quarter. If the Bank becomes aware of deterioration in a borrower's performance or financial condition between Loan Review Department examinations, assigned risk grades are re-evaluated promptly. Credit risk grades assigned by the Loan Review Department are subject to review by the Bank's regulatory authorities during regulatory examinations.

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

Credit Risk Profile by Internally Assigned Grade

At September 30, 2016

Commercial Real Estate	Commercial Construction	Residential Real	Consumer Installment	Purchased Non-covered	Purchased Covered	Total
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	(In thousands)			Estate	and Other	Loans	Loans <sup>(1)</sup>	
Grade:								
Pass	\$318,077	\$466,364	\$ 2,282	\$ 88,920	\$ 334,163	\$ 101,295	\$ 10,126	\$1,321,227
Substandard	13,352	14,586	-	3,014	1,000	13,983	1,619	47,554
Doubtful	-	-	-	-	26	-	-	26
Loss	-	-	-	-	440	4	-	444
Purchased loan discount	-	-	-	-	-	(4,922 )	-	(4,922 )
Total	\$331,429	\$480,950	\$ 2,282	\$ 91,934	\$ 335,629	\$ 110,360	\$ 11,745	\$1,364,329

<sup>(1)</sup> 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, 2015

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans <sup>(1)</sup>	Total
(In thousands)								
Grade:								
Pass	\$353,474	\$496,744	\$2,978	\$114,525	\$344,876	\$149,100	\$12,563	\$1,474,260
Substandard	14,643	20,326	-	3,106	781	24,810	1,650	65,316
Doubtful	-	-	-	-	12	18	-	30
Loss	-	-	-	-	374	-	-	374
Purchased loan discount	-	-	-	-	-	(6,432)	(152)	(6,584)
Total	\$368,117	\$517,070	\$2,978	\$117,631	\$346,043	\$167,496	\$14,061	\$1,533,396

<sup>(1)</sup> 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 September 30, 2016

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Loans
(In thousands)						
Commercial	\$330,596	\$647	\$186	\$-	\$-	\$331,429
Commercial real estate	474,741	914	-	-	5,295	480,950
Construction	2,282	-	-	-	-	2,282
Residential real estate	90,713	908	-	-	313	91,934
Consumer installment and other	331,310	3,198	683	438	-	335,629
Total originated loans	1,229,642	5,667	869	438	5,608	1,242,224
Purchased non-covered loans	105,255	4,030	370	49	656	110,360
Purchased covered loans	11,716	-	-	-	29	11,745
Total	\$1,346,613	\$9,697	\$1,239	\$487	\$6,293	\$1,364,329

Summary of Loans by Delinquency and Nonaccrual Status  
At December 31, 2015

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	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual	Total Loans
	(In thousands)					
Commercial	\$365,450	\$1,777	\$122	\$-	\$768	\$368,117
Commercial real estate	504,970	5,930	726	-	5,444	517,070
Construction	2,978	-	-	-	-	2,978
Residential real estate	115,575	1,202	414	-	440	117,631
Consumer installment and other	341,566	3,263	919	295	-	346,043
Total originated loans	1,330,539	12,172	2,181	295	6,652	1,351,839
Purchased non-covered loans	158,554	589	7	-	8,346	167,496
Purchased covered loans	13,929	132	-	-	-	14,061
Total	\$1,503,022	\$12,893	\$2,188	\$295	\$14,998	\$1,533,396

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

	For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$193	\$315	\$756	\$969
Less: Interest income (recognized) reversed on nonaccrual loans	(500)	17	(1,033)	(308)
Total (addition) reduction of interest income	\$(307)	\$332	\$(277)	\$661

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at September 30, 2016 and December 31, 2015.

The following summarizes impaired loans:

	Impaired Loans At September 30, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
Impaired loans with no related allowance recorded:			
Commercial	\$1,058	\$1,145	\$ -
Commercial real estate	8,013	9,560	-
Construction	-	-	-
Residential real estate	533	563	-
Consumer installment and other	611	718	-
Impaired loans with an allowance recorded:			
Commercial	10,202	10,211	5,070
Commercial real estate	4,410	5,427	216
Construction	-	-	-
Residential real estate	-	-	-
Consumer installment and other	-	-	-
Total:			
Commercial	\$11,260	\$11,356	\$ 5,070
Commercial real estate	12,423	14,987	216
Construction	-	-	-

Residential real estate	533	563	-
Consumer installment and other	611	718	-

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