WESTAMERICA BANCORPORATION
Form 10-Q
November 03, 2017

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, 2017

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	**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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 26, 2017
Common Stock, No Par Value	26,345,570

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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 reduction, mitigation of risk in the Company’s loan and investment securities 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 the Company’s assets and 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. However, the reader should not consider the above-mentioned 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. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2016, 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.

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PART I - FINANCIAL INFORMATION

Item 1 Financial Statements

WESTAMERICA BANCORPORATION

CONSOLIDATED BALANCE SHEETS

(unaudited)

	At September 30, 2017	At December 31, 2016
	(In thousands)	
Assets:		
Cash and due from banks	$561,757	$462,271
Investment securities available for sale	2,090,477	1,890,758
Investment securities held to maturity, with fair values of: $1,208,279 at September 30, 2017 and $1,340,741 at December 31, 2016	1,204,240	1,346,312
Loans	1,284,782	1,352,711
Allowance for loan losses	(23,628)	(25,954)
Loans, net of allowance for loan losses	1,261,154	1,326,757
Other real estate owned	1,426	3,095
Premises and equipment, net	35,507	36,566
Identifiable intangibles, net	4,605	6,927
Goodwill	121,673	121,673
Other assets	164,969	171,724
Total Assets	$5,445,808	$5,366,083
Liabilities:		
Noninterest-bearing deposits	$2,128,342	$2,089,443
Interest-bearing deposits	2,606,238	2,615,298
Total deposits	4,734,580	4,704,741
Short-term borrowed funds	66,337	59,078
Other liabilities	40,934	40,897
Total Liabilities	4,841,851	4,804,716
Contingencies (Note 10)		
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares Issued and outstanding: 26,319 at September 30, 2017 and 25,907 at December 31, 2016	425,655	404,606
Deferred compensation	1,533	1,533

Accumulated other comprehensive loss	(3,433)	(10,074)
Retained earnings	180,202	165,302
Total Shareholders' Equity	603,957	561,367
Total Liabilities and Shareholders' Equity	$5,445,808	$5,366,083

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2017	2016	2017	2016
	(In thousands, except per share data)			
Interest and Loan Fee Income:				
Loans	$15,082	$16,968	$46,330	$52,904
Investment securities available for sale	11,347	8,796	32,305	24,855
Investment securities held to maturity	6,716	7,704	20,997	23,083
Total Interest and Loan Fee Income	33,145	33,468	99,632	100,842
Interest Expense:				
Deposits	461	512	1,395	1,586
Short-term borrowed funds	12	11	34	30
Total Interest Expense	473	523	1,429	1,616
Net Interest and Loan Fee Income	32,672	32,945	98,203	99,226
Reversal of Provision for Loan Losses	-	(3,200)	(1,900)	(3,200)
Net Interest and Loan Fee Income After Reversal of Provision for Loan Losses	32,672	36,145	100,103	102,426
Noninterest Income:				
Service charges on deposit accounts	4,989	5,303	14,857	15,790
Merchant processing services	2,153	1,532	6,080	4,699
Debit card fees	1,784	1,587	4,851	4,724
Trust fees	718	686	2,136	2,004
ATM processing fees	684	600	1,914	1,860
Other service fees	652	671	1,964	1,951
Financial services commissions	148	118	484	411
Other noninterest income	1,420	1,101	4,042	3,590
Total Noninterest Income	12,548	11,598	36,328	35,029
Noninterest Expense:				
Salaries and related benefits	12,816	13,063	38,867	39,067
Occupancy	3,665	3,749	10,807	10,546
Outsourced data processing services	2,383	2,114	6,710	6,375
Furniture and equipment	1,242	1,211	3,764	3,611
Amortization of identifiable intangibles	760	867	2,322	2,642
Professional fees	512	1,693	1,533	3,183
Courier service	451	451	1,310	1,458
Other real estate owned	221	(206)	54	(487)
Other noninterest expense	2,064	3,146	7,758	10,780
Total Noninterest Expense	24,114	26,088	73,125	77,175
Income Before Income Taxes	21,106	21,655	63,306	60,280

Provision for income taxes	6,089	6,027	17,441	15,880
Net Income	$15,017	$15,628	$45,865	$44,400
Average Common Shares Outstanding	26,309	25,641	26,260	25,558
Average Diluted Common Shares Outstanding	26,404	25,687	26,379	25,595
Per Common Share Data:				
Basic earnings	$0.57	$0.61	$1.75	$1.74
Diluted earnings	0.57	0.61	1.74	1.73
Dividends paid	0.39	0.39	1.17	1.17

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	For the Three Months		For the Nine Months	
	Ended September 30,			
	2017	2016	2017	2016
	(In thousands)			
Net income	$15,017	$15,628	$45,865	$44,400
Other comprehensive income (loss):				
Changes in unrealized gains and losses on securities available for sale	4,179	(4,992)	11,413	14,319
Deferred tax (expense) benefit	(1,757)	2,099	(4,799)	(6,020)
Changes in unrealized gains and losses on securities available for sale, net of tax	2,422	(2,893)	6,614	8,299
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 income (loss)	2,431	(2,884)	6,641	8,326
Total comprehensive income	$17,448	$12,744	$52,506	$52,726

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 (loss)	Retained Earnings	Total
	(In thousands)					
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
Balance, December 31, 2016	25,907	$404,606	$ 1,533	$ (10,074)	$165,302	$561,367
Net income for the period					45,865	45,865
Other comprehensive income				6,641		6,641
Exercise of stock options	403	18,988				18,988
Restricted stock activity	13	707				707
Stock based compensation		1,368				1,368
Stock awarded to employees	2	76				76
Retirement of common stock	(6)	(90)			(224)	(314)
Dividends					(30,741)	(30,741)
Balance, September 30, 2017	26,319	$425,655	$ 1,533	$ (3,433)	$180,202	$603,957

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
Operating Activities:		
Net income	$45,865	$44,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,807	14,211
Reversal of provision for loan losses	(1,900)	(3,200)
Net amortization of deferred loan cost (fees)	34	(281)
Decrease in interest income receivable	713	475
Life insurance premiums paid	(126)	(126)
Increase in other assets	(2,088)	(627)
Increase in income taxes payable	2,461	403
Decrease in net deferred tax asset	895	3,258
Tax benefit increase upon exercise and expiration of stock options	-	(199)
Stock option compensation expense	1,368	1,142
Decrease in interest expense payable	(8)	(19)
(Decrease) increase in other liabilities	(1,142)	143
Net writedown of premises and equipment	60	21
Net gain on sale of foreclosed assets	(72)	(1,182)
Writedown of foreclosed assets	219	759
Net Cash Provided by Operating Activities	65,086	59,178
Investing Activities:		
Net repayments of loans	69,319	171,573
Net (payments) receipts under FDIC[1] indemnification agreements	(63)	3,180
Purchases of investment securities available for sale	(433,525)	(812,697)
Proceeds from sale/maturity/calls of securities available for sale	238,888	632,795
Purchases of investment securities held to maturity	-	(246,956)
Proceeds from maturity/calls of securities held to maturity	135,208	141,770
Purchases of premises and equipment	(1,980)	(1,299)
Net change in FRB[2] stock	1	-
Proceeds from sale of foreclosed assets	1,521	7,143
Net Cash Provided by (Used in) Investing Activities	9,369	(104,491)
Financing Activities:		
Net change in deposits	29,839	104,211
Net change in short-term borrowings	7,259	3,330
Exercise of stock options	18,988	11,588
Tax benefit increase upon exercise and expiration of stock options	-	199

Retirement of common stock	(314)	(5,780)
Common stock dividends paid	(30,741)	(29,912)
Net Cash Provided by Financing Activities	25,031	83,636
Net Change In Cash and Due from Banks	99,486	38,323
Cash and Due from Banks at Beginning of Period	462,271	433,044
Cash and Due from Banks at End of Period	$561,757	$471,367
Supplemental Cash Flow Disclosures:		
Supplemental disclosure of non cash activities:		
Loan collateral transferred to other real estate owned	$-	$488
Securities purchases pending settlement	811	171
Supplemental disclosure of cash flow activities:		
Interest paid for the period	1,437	1,635
Income tax payments for the period	14,657	14,032

See accompanying notes to unaudited consolidated financial statements.

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

(2) Federal Reserve Bank ("FRB")

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, 2017 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, 2016.

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, 2016. 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 is included in the “Provision for Loan Losses,” “Loan Portfolio Credit Risk” and “Allowance for Loan Losses” discussion below. Certain amounts in prior periods have been reclassified to conform to the current presentation.

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 Adopted Accounting Standards

FASB Accounting Standards Update (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 adopted the ASU provisions effective January 1, 2017, which has the potential to create volatility in the book tax provision at the time nonqualified stock options are exercised or expire. During the first nine months of 2017, 403 thousand shares were issued due to the exercise of nonqualified stock options resulting in a tax deduction exceeding related share based compensation by $1.6 million. The first nine months of 2017 income tax provision was $688 thousand lower than would have been under accounting standards prior to the adoption of ASU 2016-09. The Company elected to account for forfeitures as they occur.

Recently Issued Accounting Standards

FASB ASU 2014-09, *Revenue (Topic 606): Revenue from Contracts with Customers,* was issued May 2014. The ASU specifies a standardized approach for revenue recognition across industries and transactions. The scope of the ASU does not include revenue streams covered by other ASU topics; thus, Topic 606 does not apply to revenue related to financial instruments, guarantees and leases, such as the Company’s net interest income.

Approximately 73% of our revenue, including all of our net interest income and a portion of our noninterest income, is out of scope of the guidance. The contracts that are in scope of the guidance are primarily related to service charges and fees on deposit accounts, merchant processing fees, trust fees and other service charges, commissions and fees. We have created an implementation team that is analyzing the individual contracts in scope to determine if our current accounting will change. This review is expected be completed in the fourth quarter of 2017.

The Company will be required to adopt the ASU on January 1, 2018. The Company intends to adopt the accounting standard during the first quarter of 2018, as required. The Company has not yet selected a transition method. The Company's preliminary analysis suggests that the adoption of this accounting standard is not expected to have a material impact on the Company's consolidated financial statements.

FASB 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, and for those equity securities with readily determinable fair values, the Company plans to elect the retrospective transition approach with a cumulative effect adjustment to the balance sheet and for those equity securities that do not have readily determinable fair values, the Company plans to elect the prospective transition approach. The adoption of this accounting standard on the Company's consolidated financial statements will be subject to the price volatility of the equity investments.

FASB 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, and plans to elect the modified retrospective transition approach. Management is evaluating the impact that the ASU will have on the Company's financial statements. As of December 31, 2016, the Company leased 61 of its operating facilities; the remaining minimum lease payments were $20.8 million. The Company does not expect a material change in noninterest expenses upon adoption of the new standard.

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 consolidated financial statements. The ultimate adjustment to the allowance for loan losses will be accomplished through an offsetting after-tax adjustment to shareholders' equity. Management expects the Company and the Bank to meet all regulatory capital adequacy requirements to which they are subject following adoption of the new standard. Economic conditions and the composition of the Company's loan portfolio at the time of adoption will influence the extent of the adopting accounting adjustment.

FASB ASU 2017-08, *Receivables – Non-Refundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, was issued March 2017. The ASU will shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity.

The Company will be required to adopt the ASU provisions on January 1, 2019. Management is evaluating the impact 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, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	$122,280	$ 19	$ (1,840)	$120,459
Agency residential mortgage-backed securities (MBS)	754,138	1,091	(16,011)	739,218
Non-agency residential MBS	164	1	-	165
Agency commercial MBS	1,916	-	(14)	1,902
Securities of U.S. Government entities	1,783	-	(14)	1,769
Obligations of states and political subdivisions	176,182	4,929	(1,610)	179,501
FHLMC[1] and FNMA[2] stock	749	8,811	-	9,560
Corporate securities	1,037,173	2,943	(4,027)	1,036,089
Other securities	2,000	-	(186)	1,814
Total	$2,096,385	$ 17,794	$ (23,702)	$2,090,477

[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 September 30, 2017			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
Agency residential MBS	$574,017	$ 949	$ (6,802)	$568,164
Non-agency residential MBS	4,628	67	-	4,695

Agency commercial MBS	9,114	1	(82)	9,033
Obligations of states and political subdivisions	616,481	10,999	(1,093)	626,387
Total	$1,204,240	$ 12,016	$ (7,977)	$1,208,279

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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, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	$141,599	$ 35	$ (2,974)	$138,660
Agency residential MBS	711,623	921	(21,045)	691,499
Non-agency residential MBS	272	-	(1)	271
Securities of U.S. Government entities	2,041	-	(16)	2,025
Obligations of states and political subdivisions	182,230	5,107	(3,926)	183,411
Asset-backed securities	696	-	(1)	695
FHLMC[(1)] and FNMA[(2)] stock	749	10,120	-	10,869
Corporate securities	866,835	1,690	(7,668)	860,857
Other securities	2,034	621	(184)	2,471
Total	$1,908,079	$ 18,494	$ (35,815)	$1,890,758

[(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, 2016			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	$581	$ 1	$ -	$582
Agency residential MBS	668,235	1,122	(8,602)	660,755
Non-agency residential MBS	5,370	76	-	5,446
Agency commercial MBS	9,332	11	(143)	9,200
Obligations of states and political subdivisions	662,794	6,031	(4,067)	664,758
Total	$1,346,312	$ 7,241	$ (12,812)	$1,340,741

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, 2017			
	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	$208,391	$208,764	$37,548	$38,399
Over 1 to 5 years	861,895	860,966	278,240	281,577
Over 5 to 10 years	219,648	221,949	290,869	296,357
Over 10 years	45,701	44,370	9,824	10,054
Subtotal	1,335,635	1,336,049	616,481	626,387
MBS	758,001	743,054	587,759	581,892
Other securities	2,749	11,374	-	-
Total	$2,096,385	$2,090,477	$1,204,240	$1,208,279

	At December 31, 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	$154,693	$154,835	$14,961	$15,639
Over 1 to 5 years	750,834	745,219	292,024	292,062
Over 5 to 10 years	238,077	239,153	318,580	319,587
Over 10 years	47,756	44,416	37,810	38,052
Subtotal	1,191,360	1,183,623	663,375	665,340
MBS	713,936	693,795	682,937	675,401
Other securities	2,783	13,340	-	-
Total	$1,908,079	$1,890,758	$1,346,312	$1,340,741

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, 2017 and December 31, 2016, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

	Investment Securities Available for Sale							
	At September 30, 2017							
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total
	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value
	($ in thousands)							
Securities of U.S. Government sponsored entities	6	$89,046	$(1,169)	2	$29,328	$(671)	8	$118,374
Agency residential MBS	15	336,023	(8,283)	37	202,746	(7,728)	52	538,769
Non-agency residential MBS	1	6	-	-	-	-	1	6
Agency commercial MBS	1	1,902	(14)	-	-	-	1	1,902
Securities of U.S. Government entities	1	896	(6)	2	873	(8)	3	1,769
Obligations of states and political subdivisions	35	28,910	(592)	24	35,329	(1,018)	59	64,239
Corporate securities	36	299,545	(1,672)	26	166,386	(2,355)	62	465,931
Other securities	-	-	-	1	1,814	(186)	1	1,814
Total	95	$756,328	$(11,736)	92	$436,476	$(11,966)	187	$1,192,804

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

	Investment Securities Held to Maturity At September 30, 2017								
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total	
	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unreco Losses
	($ in thousands)								
Agency residential MBS	64	$494,096	$(6,320)	8	$19,092	$(482)	72	$513,188	$(6,80
Agency commercial MBS	-	-	-	1	7,101	(82)	1	7,101	(82
Obligations of states and political subdivisions	42	40,023	(417)	26	27,693	(676)	68	67,716	(1,09
Total	106	$534,119	$(6,737)	35	$53,886	$(1,240)	141	$588,005	$(7,97

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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, 2017.

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, 2017, $771,257 thousand of investment securities were pledged to secure public deposits and short-term borrowed funds. As of December 31, 2016, $768,845 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, 2016							
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total
	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value	Unrealized Losses	Investment Positions	Fair Value
	($ in thousands)							
Securities of U.S. Government sponsored entities	8	$117,227	$(2,974)	-	$-	$-	8	$117,227
Agency residential MBS	21	524,269	(16,494)	28	122,901	(4,551)	49	647,170
Non-agency residential MBS	2	246	(1)	-	-	-	2	246
Securities of U.S. Government entities	2	1,253	(9)	1	772	(7)	3	2,025
Obligations of states and political subdivisions	43	57,989	(3,905)	3	1,117	(21)	46	59,106
Asset-backed securities	-	-	-	1	695	(1)	1	695

Corporate securities	53	385,175	(6,551)	27	96,145	(1,117)	80	481,320	
Other securities	-	-	-	1	1,816	(184)	1	1,816	
Total	129	$1,086,159	$(29,934)	61	$223,446	$(5,881)	190	$1,309,605	

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

	Investment Securities Held to Maturity At December 31, 2016								
	No. of	Less than 12 months		No. of	12 months or longer		No. of	Total	
	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unrecognized Losses	Investment Positions	Fair Value	Unreco Losses
	($ in thousands)								
Agency residential MBS	66	$569,876	$(8,285)	3	$10,480	$(317)	69	$580,356	$(8,60
Agency commercial MBS	-	-	-	1	7,214	(143)	1	7,214	(143
Obligations of states and political subdivisions	295	272,496	(3,710)	12	13,126	(357)	307	285,622	(4,06
Total	361	$842,372	$(11,995)	16	$30,820	$(817)	377	$873,192	$(12,8

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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	
	2017	2016	2017	2016
	(In thousands)			
Taxable	$12,957	$11,024	$37,584	$31,256
Tax-exempt from regular federal income tax	5,106	5,476	15,718	16,682
Total interest income from investment securities	$18,063	$16,500	$53,302	$47,938

Note 4: Loans and Allowance for Loan Losses

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

	At September 30, 2017	At December 31, 2016
	(In thousands)	
Commercial	$316,891	$354,697
Commercial Real Estate	573,717	542,171
Construction	4,992	2,555
Residential Real Estate	69,124	87,724
Consumer Installment & Other	320,058	365,564
Total	$1,284,782	$1,352,711

Total loans outstanding reported above include loans purchased from the FDIC of $90,708 thousand and $121,210 thousand at September 30, 2017 and December 31, 2016, respectively. Loans purchased from the FDIC were separately reported in prior periods and have been reclassified into their respective categories in the current presentation.

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

	For the Nine Months Ended September 30, 2017	For the Year Ended December 31, 2016
Accretable yield:	(In thousands)	
Balance at the beginning of the period	$ 1,237	$ 1,259
Reclassification from nonaccretable difference	1,504	3,912
Accretion	(1,862)	(3,934)
Balance at the end of the period	$ 879	$ 1,237
Accretion	$ (1,862)	$ (3,934)
Change in FDIC indemnification	192	1,053
(Increase) in interest income	$ (1,670)	$ (2,881)

The following summarizes activity in the allowance for loan losses:

	Allowance for Loan Losses For the Three Months Ended September 30, 2017						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Balance at beginning of period	$ 8,167	$ 3,545	$ 160	$ 1,105	$ 7,215	$ 3,911	$ 24,103
Additions:							
(Reversal) provision	(391)	288	136	(50)	167	(150)	-
Deductions:							
Chargeoffs	(132)	-	-	-	(886)	-	(1,018)
Recoveries	128	-	-	-	415	-	543
Net loan losses	(4)	-	-	-	(471)	-	(475)
Total allowance for loan losses	$ 7,772	$ 3,833	$ 296	$ 1,055	$ 6,911	$ 3,761	$ 23,628

Allowance for Loan Losses
For the Nine Months Ended September 30, 2017

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Balance at beginning of period	$8,327	$ 3,330	$ 152	$ 1,330	$ 7,980	$ 4,835	$25,954
Additions:							
(Reversal) provision	(220)	415	(1,755)	(275)	1,009	(1,074)	(1,900)
Deductions:							
Chargeoffs	(961)	-	-	-	(3,783)	-	(4,744)
Recoveries	626	88	1,899	-	1,705	-	4,318
Net loan (losses) recoveries	(335)	88	1,899	-	(2,078)	-	(426)
Total allowance for loan losses	$7,772	$ 3,833	$ 296	$ 1,055	$ 6,911	$ 3,761	$23,628

Allowance for Loan Losses
For the Three Months Ended September 30, 2016

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Balance at beginning of period	$10,402	$ 3,912	$ 167	$ 1,636	$ 7,651	$ 5,142	$28,910
Additions:							
(Reversal) provision	(3,642)	(822)	(22)	(193)	1,777	(298)	(3,200)
Deductions:							
Chargeoffs	(88)	-	-	-	(1,848)	-	(1,936)
Recoveries	1,739	509	-	-	337	-	2,585
Net loan recoveries (losses)	1,651	509	-	-	(1,511)	-	649
Total allowance for loan losses	$8,411	$ 3,599	$ 145	$ 1,443	$ 7,917	$ 4,844	$26,359

Allowance for Loan Losses
For the Nine Months Ended September 30, 2016

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						

Allowance for loan losses:							
Balance at beginning of period	$9,559	$ 4,212	$ 235	$ 1,801	$ 8,001	$ 5,963	$29,771
Additions:							
(Reversal) provision	(2,827)	(1,152)	(90)	(358)	2,346	(1,119)	(3,200)
Deductions:							
Chargeoffs	(2,024)	-	-	-	(3,568)	-	(5,592)
Recoveries	3,703	539	-	-	1,138	-	5,380
Net loan recoveries (losses)	1,679	539	-	-	(2,430)	-	(212)
Total allowance for loan losses	$8,411	$ 3,599	$ 145	$ 1,443	$ 7,917	$ 4,844	$26,359

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

	Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment						
	At September 30, 2017						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Individually evaluated for impairment	$4,922	$154	$-	$-	$-	$-	$5,076
Collectively evaluated for impairment	2,850	3,679	296	1,055	6,911	3,761	18,552
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-
Total	$7,772	$3,833	$296	$1,055	$6,911	$3,761	$23,628
Carrying value of loans:							
Individually evaluated for impairment	$10,749	$13,973	$-	$211	$-	$-	$24,933
Collectively evaluated for impairment	306,113	559,182	4,992	68,913	319,889	-	1,259,089
Purchased loans with evidence of credit deterioration	29	562	-	-	169	-	760
Total	$316,891	$573,717	$4,992	$69,124	$320,058	$-	$1,284,782

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	Allowance for Loan Losses and Recorded Investment in Loans Evaluated for Impairment At December 31, 2016						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Individually evaluated for impairment	$5,048	$-	$ -	$-	$-	$ -	$5,048
Collectively evaluated for impairment	3,279	3,330	152	1,330	7,980	4,835	20,906
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-
Total	$8,327	$3,330	$ 152	$1,330	$7,980	$ 4,835	$25,954
Carrying value of loans:							
Individually evaluated for impairment	$11,174	$12,706	$ -	$835	$-	$ -	$24,715
Collectively evaluated for impairment	343,494	528,957	2,555	86,889	365,236	-	1,327,131
Purchased loans with evidence of credit deterioration	29	508	-	-	328	-	865
Total	$354,697	$542,171	$ 2,555	$87,724	$365,564	$ -	$1,352,711

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, 2017

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Grade:						
Pass	$304,710	$551,222	$ 4,992	$66,164	$317,933	$1,245,021
Substandard	12,181	22,495	-	2,960	1,603	39,239
Doubtful	-	-	-	-	6	6
Loss	-	-	-	-	516	516
Total	$316,891	$573,717	$ 4,992	$69,124	$320,058	$1,284,782

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, 2016					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Total
	(In thousands)					
Grade:						
Pass						