WESTAMERICA BANCORPORATION
Form 10-Q
August 01, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from __________ to __________.

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

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

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

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

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

Yes þ No o

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

Yes þ No o

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

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

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

Yes o No þ

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

Title of Class	Shares outstanding as of July 23, 2014
Common Stock, No Par Value	26,009,414

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FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are based on Management’s current knowledge and belief and include information concerning the Company’s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company’s ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of difficulties in the global, national and California economies and the effects of government efforts to address those difficulties; (2) liquidity levels in capital markets; (3) fluctuations in asset prices including, but not limited to stocks, bonds, real estate, and commodities; (4) the effect of acquisitions and integration of acquired businesses; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including a failure or breach in data processing systems or those of third party vendors and other service providers, including as a result of cyber attacks or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; (12) the effect of natural disasters, including earthquakes, fire, flood, drought, and other disasters, on the uninsured value of loan collateral, the financial condition of debtors and issuers of investment securities, the economic conditions affecting the Company’s market place, and commodities and asset values, and (13) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2013, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

PART I - FINANCIAL INFORMATION
Item 1 Financial Statements

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

	At June 30, 2014	At December 31, 2013
	(In thousands)	
Assets:		
Cash and due from banks	$484,904	$ 472,028
Investment securities available for sale	1,278,242	1,079,381
Investment securities held to maturity, with fair values of: $1,073,793 at June 30, 2014 and $1,112,676 at December 31, 2013	1,069,135	1,132,299
Loans	1,784,608	1,827,744
Allowance for loan losses	(32,398)	(31,693)
Loans, net of allowance for loan losses	1,752,210	1,796,051
Other real estate owned	8,543	13,320
Premises and equipment, net	37,424	37,314
Identifiable intangibles, net	16,394	18,557
Goodwill	121,673	121,673
Other assets	162,570	176,432
Total Assets	$4,931,095	$ 4,847,055
Liabilities:		
Noninterest bearing deposits	$1,814,023	$ 1,740,182
Interest bearing deposits	2,399,366	2,423,599
Total deposits	4,213,389	4,163,781
Short-term borrowed funds	68,962	62,668
Federal Home Loan Bank advances	20,296	20,577
Term repurchase agreement	10,000	10,000
Other liabilities	79,645	47,095
Total Liabilities	4,392,292	4,304,121
Shareholders' Equity:		
Common stock (no par value), authorized - 150,000 shares Issued and outstanding: 26,074 at June 30, 2014 and 26,510 at December 31, 2013	382,182	378,946
Deferred compensation	2,711	2,711
Accumulated other comprehensive income	12,554	4,313
Retained earnings	141,356	156,964
Total Shareholders' Equity	538,803	542,934
Total Liabilities and Shareholders' Equity	$4,931,095	$ 4,847,055

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands, except per share data)			
Interest and Fee Income:				
Loans	$22,787	$26,180	$45,688	$53,579
Investment securities available for sale	5,875	5,532	11,505	10,868
Investment securities held to maturity	6,741	7,557	13,774	15,287
Total Interest and Fee Income	35,403	39,269	70,967	79,734
Interest Expense:				
Deposits	754	847	1,508	1,746
Short-term borrowed funds	21	26	41	37
Term repurchase agreement	24	25	49	49
Federal Home Loan Bank advances	101	120	200	238
Debt financing	-	201	-	401
Total Interest Expense	900	1,219	1,798	2,471
Net Interest Income	34,503	38,050	69,169	77,263
Provision for Loan Losses	1,000	1,800	2,000	4,600
Net Interest Income After Provision For Loan Losses	33,503	36,250	67,169	72,663
Noninterest Income:				
Service charges on deposit accounts	6,105	6,452	12,115	12,994
Merchant processing services	1,820	2,413	3,744	4,822
Debit card fees	1,534	1,478	2,939	2,836
Other service fees	688	696	1,349	1,458
ATM processing fees	634	721	1,254	1,426
Trust fees	615	585	1,269	1,153
Financial services commissions	221	284	392	464
Other	1,581	1,655	3,126	3,409
Total Noninterest Income	13,198	14,284	26,188	28,562
Noninterest Expense:				
Salaries and related benefits	13,926	14,064	28,052	28,467
Occupancy	3,746	3,638	7,473	7,524
Outsourced data processing services	2,115	2,140	4,220	4,297
Amortization of identifiable intangibles	1,058	1,165	2,163	2,384
Furniture and equipment	1,005	1,021	2,010	1,901
Courier service	665	737	1,275	1,478
Professional fees	577	745	1,007	1,380
Other real estate owned	(270)	278	(620)	612
Other	4,135	4,404	8,250	8,826
Total Noninterest Expense	26,957	28,192	53,830	56,869
Income Before Income Taxes	19,744	22,342	39,527	44,356
Provision for income taxes	4,587	5,230	9,063	9,973
Net Income	$15,157	$17,112	$30,464	$34,383
Average Common Shares Outstanding	26,175	26,890	26,303	27,017
Diluted Average Common Shares Outstanding	26,238	26,898	26,387	27,027

Per Common Share Data:				
Basic earnings	$0.58	$0.64	$1.16	$1.27
Diluted earnings	0.58	0.64	1.15	1.27
Dividends paid	0.38	0.37	0.76	0.74

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,			
	2014	2013	2014	2013
	(In thousands)			
Net Income	$15,157	$17,112	$30,464	$34,383
Other comprehensive income:				
Increase (decrease) in net unrealized gains on securities available for sale	6,366	(18,733)	14,189	(17,461)
Deferred tax (expense) benefit	(2,677)	7,876	(5,966)	7,342
Increase (decrease) in net unrealized gains on securities available for sale, net of tax	3,689	(10,857)	8,223	(10,119)
Post-retirement benefit transition obligation amortization	15	15	30	30
Deferred tax expense	(6)	(6)	(12)	(12)
Post-retirement benefit transition obligation amortization, net of tax	9	9	18	18
Total Other Comprehensive Income (Loss)	3,698	(10,848)	8,241	(10,101)
Total Comprehensive Income	$18,855	$6,264	$38,705	$24,282

See accompanying notes to unaudited consolidated financial statements.

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

	Common Shares Outstanding	Common Stock	Accumulated Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
			(In thousands)			
Balance, December 31, 2012	27,213	$ 372,012	$ 3,101	$ 14,625	$ 170,364	$560,102
Net income for the period					34,383	34,383
Other comprehensive loss				(10,101)		(10,101)
Exercise of stock options	157	6,414				6,414
Tax benefit decrease upon exercise of stock options		(201)				(201)
Restricted stock activity	15	1,068	(390)			678
Stock based compensation		730				730
Stock awarded to employees	1	61				61
Purchase and retirement of stock	(617)	(8,586)			(18,807)	(27,393)
Dividends					(20,051)	(20,051)
Balance, June 30, 2013	26,769	$ 371,498	$ 2,711	$ 4,524	$ 165,889	$544,622
Balance, December 31, 2013	26,510	$ 378,946	$ 2,711	$ 4,313	$ 156,964	$542,934
Net income for the period					30,464	30,464
Other comprehensive income				8,241		8,241
Exercise of stock options	252	12,178				12,178
Tax benefit decrease upon exercise of stock options		(396)				(396)
Restricted stock activity	19	1,027				1,027
Stock based compensation		700				700
Stock awarded to employees	1	69				69
Purchase and retirement of stock	(708)	(10,342)			(26,013)	(36,355)
Dividends					(20,059)	(20,059)
Balance, June 30, 2014	26,074	$ 382,182	$ 2,711	$ 12,554	$ 141,356	$538,803

See accompanying notes to unaudited consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended June 30,	
	2014	2013
	(In thousands)	
Operating Activities:		
Net income	$ 30,464	$ 34,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,210	9,032
Loan loss provision	2,000	4,600
Net amortization of deferred loan fees	(134)	(202)
Decrease in interest income receivable	105	88
Increase in net deferred tax asset	(2,624)	(2,644)
Decrease in other assets	1,426	8,174
Stock option compensation expense	700	730
Tax benefit decrease upon exercise of stock options	396	201
(Decrease) increase in income taxes payable	(66)	30
(Decrease) increase in interest expense payable	(1)	9
Increase (decrease) in other liabilities	7,147	(5,482)
Gain on sale of other assets	(400)	(548)
Net loss on sale of premises and equipment	17	9
Originations of mortgage loans for resale	-	(240)
Proceeds from sale of mortgage loans originated for resale	-	241
Net gain on sale of foreclosed assets	(810)	(556)
Writedown of foreclosed assets	108	1,062
Net Cash Provided by Operating Activities	45,538	48,887
Investing Activities:		
Net repayments of loans	42,381	167,500
Proceeds from FDIC1 loss-sharing indemnification	6,703	4,039
Purchases of investment securities available for sale	(382,123)	(275,460)
Proceeds from sale/maturity/calls of securities available for sale	225,777	77,558
Purchases of investment securities held to maturity	(18,373)	(87,643)
Proceeds from maturity/calls of securities held to maturity	74,179	107,428
Purchases of premises and equipment	(1,696)	(1,110)
Net change in FRB2/FHLB3 securities	3,248	1,488
Proceeds from sale of foreclosed assets	6,080	9,401
Net Cash (Used in) Provided by Investing Activities	(43,824)	3,201
Financing Activities:		
Net change in deposits	49,689	(130,915)
Net change in short-term borrowings and FHLB3 advances	6,105	12,952
Exercise of stock options	12,178	6,414
Tax benefit decrease upon exercise of stock options	(396)	(201)
Retirement of common stock including repurchases	(36,355)	(27,393)
Common stock dividends paid	(20,059)	(20,051)
Net Cash Provided by (Used in) Financing Activities	11,162	(159,194)

Net Change In Cash and Due from Banks	12,876	(107,106)
Cash and Due from Banks at Beginning of Period	472,028	491,382
Cash and Due from Banks at End of Period	$ 484,904	$ 384,276
Supplemental Cash Flow Disclosures:		
Supplemental disclosure of non cash activities:		
Loan collateral transferred to other real estate owned	$ 968	$ 3,932
Securities purchases pending settlement	(25,537)	-
Supplemental disclosure of cash flow activities:		
Interest paid for the period	1,957	2,722
Income tax payments for the period	11,754	12,779

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 for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three and six months ended June 30, 2014 and 2013 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

Note 2: Accounting Policies

The Company’s accounting policies are discussed in Note 1 to the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. Certain amounts in prior periods have been reclassified to conform to the current presentation.

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

Recently Adopted Accounting Standards

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

Recently Issued Accounting Standards

FASB ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Trans–actions, Repurchase Financings, and Disclosures, was issued on June 12, 2014. The Update improves the financial reporting of repur–chase agreements and other similar transactions through a change in accounting for repurchase-to-ma–turity transactions and repurchase financings, and the introduction of two new disclosure requirements. New disclosures are required for (1) transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the trans–ferred financial asset throughout the term of the transaction and (2) repurchase agreements, secu–rities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrow–ings about the nature of collateral pledged and the time to maturity of those transactions.

The Company will be required to adhere to new disclosure requirements when the Update is adopted April 1, 2015 for the interim period ending June 30, 2015.

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

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

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

Note 3: Investment Securities

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

	Investment Securities Available for Sale At June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 3,499	$ 11	$ -	$ 3,510
Securities of U.S. Government sponsored entities	340,440	321	(322)	340,439
Residential mortgage-backed securities	28,376	2,004	(21)	30,359
Commercial mortgage-backed securities	3,118	19	(2)	3,135
Obligations of states and political subdivisions	176,129	9,914	(217)	185,826
Residential collateralized mortgage obligations	250,549	665	(11,023)	240,191
Asset-backed securities	8,982	3	(39)	8,946
FHLMC(1) and FNMA(2) stock	804	16,395	-	17,199
Corporate securities	442,427	4,008	(470)	445,965
Other securities	2,039	759	(126)	2,672
Total	$ 1,256,363	$ 34,099	$ (12,220)	$ 1,278,242

(1) Federal Home Loan Mortgage Corporation
(2) Federal National Mortgage Association

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

	Investment Securities Held to Maturity At June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities of U.S. Government sponsored entities	$ 1,287	$ -	$ (2)	$ 1,285
Residential mortgage-backed securities	61,430	1,189	(54)	62,565
Obligations of states and political subdivisions	721,818	10,263	(5,219)	726,862
Residential collateralized mortgage obligations	284,600	1,990	(3,509)	283,081

Total	$ 1,069,135	$ 13,442	$ (8,784)	$ 1,073,793

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

	Investment Securities Available for Sale At December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 3,500	$ 9	$ (3)	$ 3,506
Securities of U.S. Government sponsored entities	131,080	75	(663)	130,492
Residential mortgage-backed securities	32,428	1,763	(15)	34,176
Commercial mortgage-backed securities	3,411	19	(5)	3,425
Obligations of states and political subdivisions	186,082	5,627	(323)	191,386
Residential collateralized mortgage obligations	266,890	730	(14,724)	252,896
Asset-backed securities	14,653	3	(101)	14,555
FHLMC and FNMA stock	804	12,568	-	13,372
Corporate securities	430,794	2,901	(1,264)	432,431
Other securities	2,049	1,251	(158)	3,142
Total	$ 1,071,691	$ 24,946	$ (17,256)	$ 1,079,381

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

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

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

	At June 30, 2014			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$22,823	$23,079	$ 11,873	$ 12,295

Over 1 to 5 years	723,230	727,551	209,887	212,693
Over 5 to 10 years	145,153	148,748	274,837	277,158
Over 10 years	80,271	85,308	226,508	226,001
Subtotal	971,477	984,686	723,105	728,147
Mortgage-backed securities and residential collateralized mortgage obligations	282,043	273,685	346,030	345,646
Other securities	2,843	19,871	-	-
Total	$1,256,363	$1,278,242	$ 1,069,135	$ 1,073,793

	At December 31, 2013			
	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Maturity in years:				
1 year or less	$75,385	$75,609	$ 9,639	$ 9,900
Over 1 to 5 years	536,333	538,111	187,051	189,827
Over 5 to 10 years	66,669	68,166	314,630	310,104
Over 10 years	87,722	90,484	246,988	233,017
Subtotal	766,109	772,370	758,308	742,848
Mortgage-backed securities and residential collateralized mortgage obligations	302,729	290,497	373,991	369,828
Other securities	2,853	16,514	-	-
Total	$1,071,691	$1,079,381	$ 1,132,299	$ 1,112,676

Expected maturities of mortgage-backed securities can differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. In addition, such factors as prepayments and interest rates may affect the yield on the carrying value of mortgage-backed securities. At June 30, 2014 and December 31, 2013, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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

	Investment Securities Available for Sale At June 30, 2014								
	No. of Investment Positions	Less than 12 months		No. of Investment Positions	12 months or longer		No. of Investment Positions	Total	
		Fair Value	Unrealized Losses		Fair Value	Unrealized Losses		Fair Value	Unrealized Losses
	($ in thousands)								
Securities of U.S. Government sponsored entities	7	$166,393	$ (286)	1	$9,964	$ (36)	8	$176,357	$ (322)
Residential mortgage- backed securities	-	-	-	2	836	(21)	2	836	(21)
Commercial mortgage- backed securities	-	-	-	1	910	(2)	1	910	(2)
Obligations of states and political subdivisions	12	5,188	(75)	19	5,509	(142)	31	10,697	(217)
Residential collateralized mortgage obligations	1	1	-	31	217,989	(11,023)	32	217,990	(11,023)
Asset-backed securities	-	-	-	1	3,898	(39)	1	3,898	(39)
Corporate securities	15	35,071	(243)	4	29,350	(227)	19	64,421	(470)
Other securities	-	-	-	1	1,874	(126)	1	1,874	(126)

Total	35	$206,653	$ (604)	60	$270,330	$ (11,616)	95	$476,983	$ (12,220)

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

	Investment Securities Held to Maturity At June 30, 2014								
	No. of Investment Positions	Less than 12 months Fair Value	Unrealized Losses	No. of Investment Positions	12 months or longer Fair Value	Unrealized Losses	No. of Investment Positions	Total Fair Value	Unrealized Losses
	($ in thousands)								
Securities of U.S. Government sponsored entities	1	$1,285	$(2)	-	$-	$-	1	$1,285	$(2)
Residential mortgage-backed securities	1	2,930	(30)	2	3,403	(24)	3	6,333	(54)
Obligations of states and political subdivisions	67	50,734	(223)	220	186,639	(4,996)	287	237,373	(5,219)
Residential collateralized mortgage obligations	7	47,807	(266)	24	135,553	(3,243)	31	183,360	(3,509)
Total	76	$102,756	$(521)	246	$325,595	$(8,263)	322	$428,351	$(8,784)

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

The Company does not intend to sell any investments and has concluded that it is more likely than not that it will not be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of June 30, 2014.

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

As of June 30, 2014, $870,761 thousand of investment securities were pledged to secure public deposits, short-term borrowed funds, and term repurchase agreements, compared to $778,588 thousand at December 31, 2013.

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

Investment Securities Available for Sale
At December 31, 2013

	No. of Investment Positions	Less than 12 months Fair Value	Unrealized Losses	No. of Investment Positions	12 months or longer Fair Value	Unrealized Losses	No. of Investment Positions	Total Fair Value	Unrealized Losses
	($ in thousands)								
U.S. Treasury securities	1	$ 2,994	$ (3)	-	$ -	$ -	1	$ 2,994	$ (3)
Securities of U.S. Government sponsored entities	15	91,669	(663)	-	-	-	15	91,669	(663)
Residential mortgage-backed securities	3	864	(15)	-	-	-	3	864	(15)
Commercial mortgage-backed securities	1	1,072	(5)	-	-	-	1	1,072	(5)
Obligations of states and political subdivisions	35	17,516	(222)	11	3,214	(101)	46	20,730	(323)
Residential collateralized mortgage obligations	34	187,848	(12,326)	6	40,575	(2,398)	40	228,423	(14,724)
Asset-backed securities	1	5,002	(1)	1	4,475	(100)	2	9,477	(101)
Corporate securities	25	117,751	(1,087)	2	9,824	(177)	27	127,575	(1,264)
Other securities	-	-	-	1	1,842	(158)	1	1,842	(158)
Total	115	$ 424,716	$ (14,322)	21	$ 59,930	$ (2,934)	136	$ 484,646	$ (17,256)

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

Investment Securities Held to Maturity
At December 31, 2013

	No. of Investment Positions	Less than 12 months Fair Value	Unrealized Losses	No. of Investment Positions	12 months or longer Fair Value	Unrealized Losses	No. of Investment Positions	Total Fair Value	Unrealized Losses
	($ in thousands)								
Securities of U.S. Government sponsored entities	1	$ 1,597	$ (4)	-	$ -	$ -	1	$ 1,597	$ (4)
Residential mortgage-backed securities	13	38,396	(616)	1	392	(8)	14	38,788	(624)
Obligations of states and political subdivisions	530	355,797	(14,893)	64	64,427	(6,774)	594	420,224	(21,667)
	42	214,981	(5,175)	5	14,120	(427)	47	229,101	(5,602)

Residential collateralized mortgage obligations									
Total	586	$610,771	$ (20,688)	70	$78,939	$ (7,209)	656	$689,710	$ (27,897)

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

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

	For the Three Months Ended June 30,		For the Six Months	
	2014	2013	2014	2013
	(In thousands)			
Taxable	$5,876	$5,591	$11,559	$11,125
Tax-exempt	6,740	7,498	13,720	15,030
Total interest income from investment securities	$12,616	$13,089	$25,279	$26,155

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Note 4: Loans and Allowance for Credit Losses

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

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

	At June 30, 2014					
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment & Other	Total
			(In thousands)			
Originated loans	$368,853	$ 584,058	$ 9,802	$ 163,287	$ 391,278	$1,517,278
Purchased covered loans:						
Gross purchased covered loans	-	-	-	3,298	15,400	18,698
Credit risk discount	-	-	-	(434)	(95)	(529)
Purchased non-covered loans:						
Gross purchased non-covered loans	23,114	185,497	3,147	985	47,611	260,354
Credit risk discount	(1,858)	(7,544)	(50)	(262)	(1,479)	(11,193)
Total	$390,109	$ 762,011	$ 12,899	$ 166,874	$ 452,715	$1,784,608

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

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

	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Impaired purchased loans	(In thousands)	

Carrying amount at the beginning of the period	$ 4,936	$ 14,629
Reductions during the period	(586)	(9,693)
Carrying amount at the end of the period	$ 4,350	$ 4,936

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

	For the Six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Accretable yield:	(In thousands)	
Balance at the beginning of the period	$ 2,505	$ 4,948
Reclassification from nonaccretable difference	1,597	12,504
Accretion	(2,063)	(14,947)
Balance at the end of the period	$ 2,039	$ 2,505
Accretion	$ (2,063)	$ (14,947)
Reduction in FDIC indemnification asset	211	11,438
(Increase) in interest income	$ (1,852)	$ (3,509)

The following summarizes activity in the allowance for credit losses:

Allowance for Credit Losses
For the Three Months Ended June 30, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Balance at beginning of period	$4,243	$ 11,259	$ 445	$ 491	$ 2,813	$ 2,574	$ -	$ 10,284	$32,109
Additions:									
Provision	1,085	(610)	(3)	(52)	(75)	115	-	540	1,000
Deductions:									
Chargeoffs	(150)	-	-	(30)	(1,301)	-	-	-	(1,481)
Recoveries	119	15	-	-	618	18	-	-	770
Net loan (losses) recoveries	(31)	15	-	(30)	(683)	18	-	-	(711)
Balance at end of period	5,297	10,664	442	409	2,055	2,707	-	10,824	32,398
Liability for off-balance sheet credit exposure	1,733	24	165	-	465	243	23	40	2,693
Total allowance for credit losses	$7,030	$ 10,688	$ 607	$ 409	$ 2,520	$ 2,950	$ 23	$ 10,864	$35,091

Allowance for Credit Losses
For the Six Months Ended June 30, 2014

	Commercial	Commercial	Construction	Residential	Consumer	Purchased	Purchased	Unallocated	Total

		Real Estate		Real Estate	Installment and Other	Non-covered Loans	Covered Loans		
					(In thousands)				
Allowance for loan losses:									
Balance at beginning of period	$4,005	$ 12,070	$ 602	$ 405	$ 3,198	$ -	$ 1,561	$ 9,852	$31,693
Additions:									
Provision	1,215	(1,584)	(163)	34	139	1,387	-	972	2,000
Deductions:									
Chargeoffs	(210)	-	-	(30)	(2,300)	(260)	-	-	(2,800)
Recoveries	287	178	3	-	1,018	19	-	-	1,505
Net loan recoveries (losses)	77	178	3	(30)	(1,282)	(241)	-	-	(1,295)
Indemnification expiration	-	-	-	-	-	1,561	(1,561)	-	-
Balance at end of period	5,297	10,664	442	409	2,055	2,707	-	10,824	32,398
Liability for off-balance sheet credit exposure	1,733	24	165	-	465	243	23	40	2,693
Total allowance for credit losses	$7,030	$ 10,688	$ 607	$ 409	$ 2,520	$ 2,950	$ 23	$ 10,864	$35,091

Allowance for Credit Losses
For the Three Months Ended June 30, 2013

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Balance at beginning of period	$5,536	$ 10,965	$ 480	$ 539	$ 2,768	$ -	$ 738	$ 9,328	$30,354
Additions:									
Provision	(1,301)	660	(2)	15	225	116	46	2,041	1,800
Deductions:									
Chargeoffs	(148)	(427)	-	(22)	(896)	(116)	(517)	-	(2,126)
Recoveries	297	77	-	-	506	-	18	-	898
Net loan recoveries (losses)	149	(350)	-	(22)	(390)	(116)	(499)	-	(1,228)
Balance at end of period	4,384	11,275	478	532	2,603	-	285	11,369	30,926
Liability for off-balance sheet credit exposure	1,698	1	127	-	473	-	-	394	2,693
	$6,082	$ 11,276	$ 605	$ 532	$ 3,076	$ -	$ 285	$ 11,763	$33,619

Total allowance for credit losses

Allowance for Credit Losses
For the Six Months Ended June 30, 2013

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Balance at beginning of period	$6,445	$ 10,063	$ 484	$ 380	$ 3,194	$ -	$ 1,005	$ 8,663	$30,234
Additions:									
Provision	(770)	1,653	(6)	261	507	116	133	2,706	4,600
Deductions:									
Chargeoffs	(2,050)	(539)	-	(109)	(2,205)	(116)	(876)	-	(5,895)
Recoveries	759	98	-	-	1,107	-	23	-	1,987
Net loan losses	(1,291)	(441)	-	(109)	(1,098)	(116)	(853)	-	(3,908)
Balance at end of period	4,384	11,275	478	532	2,603	-	285	11,369	30,926
Liability for off-balance sheet credit exposure	1,698	1	127	-	473	-	-	394	2,693
Total allowance for credit losses	$6,082	$ 11,276	$ 605	$ 532	$ 3,076	$ -	$ 285	$ 11,763	$33,619

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

Allowance for Credit Losses and Recorded Investment in Loans Evaluated for Impairment
At June 30, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for credit losses:									
Individually evaluated for impairment	$88	$-	$-	$-	$-	$895	$-	$-	$983
Collectively evaluated for impairment	6,942	10,688	607	409	2,520	2,055	23	10,864	34,108
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	$7,030	$10,688	$607	$409	$2,520	$2,950	$23	$10,864	$35,091
Carrying value of									

loans:									
Individually evaluated for impairment	$ 3,605	$ 4,544	$ -	$ -	$ -	$ 13,525	$ -	$ -	$ 21,674
Collectively evaluated for impairment	365,248	579,514	9,802	163,287	391,278	231,524	17,931	-	1,758,584
Purchased loans with evidence of credit deterioration	-	-	-	-	-	4,112	238	-	4,350
Total	$ 368,853	$ 584,058	$ 9,802	$ 163,287	$ 391,278	$ 249,161	$ 18,169	$ -	$ 1,784,608

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

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installmen and Other	Purchased Non-covered Loans	Purchased Covered Loans	Unallocated	Total
					(In thousands)				
Allowance for credit losses:									
Individually evaluated for impairment	$ 100	$ 1,243	$ -	$ -	$ -	$ -	$ 153	$ -	$ 1,496
Collectively evaluated for impairment	5,563	10,827	639	405	3,695	-	1,408	10,353	32,890
Purchased loans with evidence of credit deterioration	-	-	-	-	-	-	-	-	-
Total	$ 5,663	$ 12,070	$ 639	$ 405	$ 3,695	$ -	$ 1,561	$ 10,353	$ 34,386
Carrying value of loans:									
Individually evaluated for impairment	$ 3,901	$ 3,357	$ -	$ -	$ -	$ 3,785	$ 9,999	$ -	$ 21,042
Collectively evaluated for impairment	334,923	593,296	10,723	176,196	400,888	47,571	238,169	-	1,801,766
Purchased loans with evidence of credit deterioration	-	-	-	-	-	2,434	2,502	-	4,936
Total	$ 338,824	$ 596,653	$ 10,723	$ 176,196	$ 400,888	$ 53,790	$ 250,670	$ -	$ 1,827,744

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 June 30, 2014

	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer Installment and Other	Purchased Non-covered Loans	Purchased Covered Loans (1)	Total
	(In thousands)							
Grade:								
Pass	$351,083	$ 536,579	$ 9,802	$ 161,240	$ 390,135	$ 196,299	$ 17,185	$1,662,323
Substandard	16,881	47,479	-	2,047	952	63,567	1,513	132,439
Doubtful	889	-	-	-	41	345	-	1,275
Loss	-	-	-	-	150	143	-	293
Credit risk discount	-	-	-	-	-	(11,193)	(529)	(11,722)
Total	$368,853	$ 584,058	$ 9,802	$ 163,287	$ 391,278	$ 249,161	$ 18,169	$1,784,608

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

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

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

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

The following tables summarize loans by delinquency and nonaccrual status:

Summary of Loans by Delinquency and Nonaccrual Status
At June 30, 2014

	Current and Accruing	30-59 Days Past Due and Accruing	60-89 Days Past Due and Accruing	Past Due 90 days or More and Accruing	Nonaccrual	Total Loans
	(In thousands)					
Commercial	$ 366,089	$ 1,269	$ 124	$ -	$ 1,371	$ 368,853
Commercial real estate	575,114	2,048	1,459	-	5,437	584,058

Construction	9,802	-	-	-	-	9,802
Residential real estate	160,413	2,874	-	-	-	163,287
Consumer installment & other	387,956	2,517	470	183	152	391,278
Total originated loans	1,499,374	8,708	2,053	183	6,960	1,517,278
Purchased non-covered loans	231,827	2,694	687	351	13,602	249,161
Purchased covered loans	17,743	426	-	-	-	18,169
Total	$ 1,748,944	$ 11,828	$ 2,740	$ 534	$ 20,562	$ 1,784,608

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

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Interest income that would have been recognized had the loans performed in accordance with their original terms	$276	$434	$534	$903
Less: Interest income recognized on nonaccrual loans	(25)	(3)	(69)	(93)
Total reduction of interest income	$251	$431	$465	$810

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at June 30, 2014 and December 31, 2013.

The following summarizes impaired loans:

	Impaired Loans At June 30, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
Impaired loans with no related allowance recorded:			
Commercial	$2,984	$ 3,445	$ -
Commercial real estate	15,450	18,041	-
Construction	2,034	2,498	-
Consumer installment and other	1,230	1,352	-
Impaired loans with an allowance recorded:			
Commercial	1,138	2,436	350
Commercial real estate	6,330	9,796	633

Total:			
Commercial	$4,122	$ 5,881	$ 350
Commercial real estate	21,780	27,837	633
Construction	2,034	2,498	-
Consumer installment and other	1,230	1,352	-

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

Impaired loans include troubled debt restructured loans. Impaired loans at June 30, 2014, included $5,332 thousand of restructured loans, including $262 thousand that were on nonaccrual status. Impaired loans at December 31, 2013, included $5,453 thousand of restructured loans, including $529 thousand that were on nonaccrual status.

	Impaired Loans							
	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2014		2013		2014		2013	
	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
				(In thousands)				
Commercial	$4,437	$ 60	$11,473	$ 52	$4,639	$ 127	$12,601	$ 106
Commercial real estate	19,800	153	27,166	205	19,549	270	27,836	505
Construction	2,035	-	2,397	25	2,147	-	2,254	51
Residential real estate	162	-	558	-	162	-	621	-
Consumer installment and other	1,324	7	1,059	8	1,520	15	1,511	15
Total	$27,758	$ 220	$42,653	$ 290	$28,017	$ 412	$44,823	$ 677

The following table provides information on troubled debt restructurings:

	Troubled Debt Restructurings At June 30, 2014			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
			(In thousands)	

Commercial	4	$	3,299	$	2,992	$	262
Commercial real estate	2		2,291		2,326		-
Consumer installment and other	1		18		14		-
Total	7	$	5,608	$	5,332	$	262

	Troubled Debt Restructurings At June 30, 2013			
	Number of Contracts	Pre-Modification Carrying Value	Period-End Carrying Value	Period-End Individual Impairment Allowance
			(In thousands)	
Commercial	4	$ 1,991	$ 1,759	$ -
Commercial real estate	3	6,295	6,255	147
Total	7	$ 8,286	$ 8,014	$ 147

During the three and six months ended June 30, 2014, the Company modified one loan with a carrying value of $98 thousand and two loans with a total carrying value of $115 thousand, respectively, that were considered troubled debt restructurings. During the three and six months ended June 30, 2013, the Company modified three loans with a total carrying value of $1,010 thousand and four loans with a total carrying value of $3,019 thousand, respectively, that were considered troubled debt restructurings. The concessions granted in the two restructurings completed in the first six months of 2014 consisted of modification of payment terms to extend the maturity date to allow for deferred principal repayment. The concessions granted in the four restructurings completed in the first six months of 2013 consisted of modification of payment terms to lower the interest rate and extend the maturity date to allow for deferred principal repayment. During the three and six months ended June 30, 2014, no troubled debt restructured loans defaulted. During the three and six months ended June 30, 2013, a commercial real estate loan with a carrying value of $3,954 thousand defaulted. A troubled debt restructuring is considered to be in default when payments are ninety days or more past due.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). The carrying value of the FHLB advances was $20,296 thousand and $20,577 thousand at June 30, 2014 and December 31, 2013, respectively. The loans restricted due to collateral requirements approximate $22,101 thousand and $24,242 thousand at June 30, 2014 and December 31, 2013, respectively. The FHLB does not have the right to sell or repledge such loans.

There were no loans held for sale at June 30, 2014 and December 31, 2013.

Note 5: Concentration of Credit Risk

The Company's business activity is with customers in Northern and Central California. The loan portfolio is well diversified within the Company's geographic market, although the Company has significant credit arrangements that are secured by real estate collateral. In addition to real estate loans outstanding as disclosed in Note 4, the Company had loan commitments and standby letters of credit related to real estate loans of $67,487 thousand and $62,277 thousand at June 30, 2014 and December 31, 2013, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios at origination generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans.

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Note 6: Other Assets

Other assets consisted of the following:

	At June 30, 2014	At December 31, 2013
	(In thousands)	
Cost method equity investments:		
Federal Reserve Bank stock (1)	$14,069	$ 14,069
Federal Home Loan Bank stock (2)	940	4,188
Other investments	316	376
Total cost method equity investments	15,325	18,633
Life insurance cash surrender value	44,938	43,896
Net deferred tax asset	49,482	53,281
Limited partnership investments	16,893	18,198
Interest receivable	18,820	18,925
FDIC indemnification receivable	-	4,032
Prepaid assets	5,604	5,229
Other assets	11,508	14,238
Total other assets	$162,570	$ 176,432

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

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

Note 7: Goodwill and Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the six months ended June 30, 2014 and year ended December 31, 2013. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the six months ended June 30, 2014 and year ended December 31, 2013, no such adjustments were recorded.

The carrying values of goodwill were:

	At June 30, 2014	At December 31, 2013
	(In thousands)	
Goodwill	$121,673	$ 121,673

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

	At June 30, 2014		At December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Core Deposit Intangibles	$56,808	$ (41,237)	$ 56,808	$ (39,242)
Merchant Draft Processing Intangible	10,300	(9,477)	10,300	(9,309)
Total Identifiable Intangible Assets	$67,108	$ (50,714)	$ 67,108	$ (48,551)

As of June 30, 2014, the current year and estimated future amortization expense for identifiable intangible assets was:

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
		(In thousands)	
Six months ended June 30, 2014 (actual)	$1,995	$ 168	$2,163
Estimate for year ended December 31, 2014	3,946	324	4,270
2015	3,594	262	3,856
2016	3,292	212	3,504
2017	2,913	164	3,077
2018	1,892	29	1,921
2019	538	-	538

Note 8: Deposits and Borrowed Funds

The following table provides additional detail regarding deposits:

	Deposits At June 30, 2014	At December 31, 2013
	(In thousands)	
Noninterest-bearing	$1,814,023	$ 1,740,182
Interest-bearing:		
Transaction	756,596	763,088
Savings	1,198,353	1,167,744
Time	444,417	492,767
Total deposits	$4,213,389	$ 4,163,781

Demand deposit overdrafts of $6,516 thousand and $3,002 thousand were included as loan balances at June 30, 2014 and December 31, 2013, respectively. Interest expense for aggregate time deposits with individual account balances in excess of $100 thousand was $233 thousand and $464 thousand in the second quarter and first six months of 2014, respectively and $283 thousand and $587 thousand in the second quarter and first six months of 2013, respectively.

Short-term borrowed funds of $68,962 thousand and $62,668 thousand at June 30, 2014 and December 31, 2013, respectively, represent securities sold under agreements to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. Securities sold under repurchase agreements are held in the custody of independent securities brokers. The carrying amount of the securities approximates $211,852 thousand and $113,902 thousand at June 30, 2014 and December 31, 2013, respectively. The short-term borrowed funds mature on an overnight basis.

Federal Home Loan Bank ("FHLB") advances with a carrying value of $20,296 thousand at June 30, 2014 and $20,577 thousand at December 31, 2013 are secured by residential real estate loans and securities, the amount of such loans and securities approximates $30,602 thousand at June 30, 2014 and $32,953 thousand at December 31, 2013. The FHLB advances are due in full at par value upon their maturity dates: $20,000 thousand mature in January 2015. The FHLB advances may be paid off prior to such maturity dates subject to prepayment fees.

The $10,000 thousand term repurchase agreement at June 30, 2014 and December 31, 2013 represents securities sold under an agreement to repurchase the securities. As the Company is obligated to repurchase the securities, the transfer of the securities is accounted for as a secured borrowing rather than a sale. Securities sold under repurchase agreements are held in the custody of independent securities brokers. The carrying amount of the related securities is approximately $10,288 thousand at June 30, 2014 and $11,278 thousand at December 31, 2013. The term repurchase agreement matures in full in August 2014.

The Company has a $35,000 thousand unsecured line of credit which had no outstanding balance at June 30, 2014 and December 31, 2013. The line of credit has a variable interest rate, which was 2.0% per annum at June 30, 2014, with interest payable monthly on outstanding advances. Advances may be made up to the unused credit limit through March 18, 2015.

Note 9: Fair Value Measurements

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

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

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

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

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Level 2 includes mortgage-backed securities, corporate securities, asset-backed securities, municipal bonds and residential collateralized mortgage obligations.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The Company relies on independent vendor pricing services to measure fair value for investment securities available for sale and investment securities held to maturity. The Company employs three pricing services. To validate the pricing of these vendors, the Company routinely randomly selects securities for pricing by two or more of the vendors; significant pricing differences, if any, are evaluated using all available independent quotes with the lowest quote generally used as the fair value estimate. In addition, the Company conducts "other than temporary impairment (OTTI)" analysis on a quarterly basis; securities selected for OTTI analysis include all securities at a market price below 95 percent of par value and with a market to book ratio below 95:100. As with any valuation technique used to estimate fair value, changes in underlying assumptions used could significantly affect the results of current and future values. Accordingly, these fair value estimates may not be realized in an actual sale of the securities.

When the Company changes its valuation assumptions for measuring financial assets and financial liabilities at fair value, either due to changes in current market conditions or other factors, it may need to transfer those assets or liabilities to another level in the hierarchy based on the new assumptions used. The Company recognizes these transfers at the end of the reporting period that the transfers occur. For the six months ended June 30, 2014 and year ended December 31, 2013, there were no transfers in or out of levels 1, 2 or 3.

Assets Recorded at Fair Value on a Recurring Basis

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

	At June 30, 2014			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
U.S. Treasury securities	$3,510	$3,510	$ -	$ -
Securities of U.S. Government sponsored entities	340,439	340,439	-	-
Residential mortgage-backed securities	30,359	-	30,359	-
Commercial mortgage-backed securities	3,135	-	3,135	-
Obligations of states and political subdivisions	185,826	-	185,826	-