WESTAMERICA BANCORPORATION
Form 10-K
February 28, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2010

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: 001-9383

WESTAMERICA BANCORPORATION

(Exact name of the registrant as specified in its charter)

CALIFORNIA	**94-2156203**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901
(Address of principal executive offices) (zip code)
Registrant s telephone number, including area code: (707) 863-6000
Securities registered pursuant to Section 12(b) of the Act:

Title of class:	Name of each exchange on which registered:
Common Stock, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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 if 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 (section 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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K (section 229.405) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

þ

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO þ

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2010 as reported on the NASDAQ Global Select Market, was $1,471,390,970.19. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares outstanding of each of the registrant s classes of common stock, as of the close of business on February 18, 2010 29,014,782 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to registrant s Annual Meeting of Shareholders, to be held on April 28, 2011, are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III to the extent described therein.

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FORWARD-LOOKING STATEMENTS

This report on Form 10-K 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 , pr continue , remain , will , should , may and other similar expressions are intended to identify forward-looking stat but are not the exclusive means of identifying such statements.

These forward-looking statements are based on Management s current knowledge and belief and include information concerning the Company s possible or assumed future financial condition and results of operations. A number of factors, some of which are beyond the Company s ability to predict or control, could cause future results to differ materially from those contemplated. These factors include but are not limited to (1) the length and severity of current difficulties in the national and California economies and the effects of federal 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 including the recent acquisitions of assets and assumption of liabilities from the Federal Deposit Insurance Corporation; (5) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (6) changes in the interest rate environment; (7) changes in the regulatory environment; (8) competitive pressure in the banking industry; (9) operational risks including data processing system failures or fraud; (10) volatility of interest rate sensitive loans, deposits and investments; (11) asset/liability management risks and liquidity risks; and (12) changes in the securities markets. The Company undertakes no obligation to update any forward-looking statements in this report. See also Risk Factors in Item 1A and other risk factors discussed elsewhere in this Report.

PART I

ITEM 1. BUSINESS

Westamerica Bancorporation (the Company) is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (BHCA). Its legal headquarters are located at 1108 Fifth Avenue, San Rafael, California 94901. Principal administrative offices are located at 4550 Mangels Boulevard, Fairfield, California 94534 and its telephone number is (707) 863-6000. The Company provides a full range of banking services to individual and corporate customers in Northern and Central California through its subsidiary bank, Westamerica Bank (WAB or the Bank). The principal communities served are located in Northern and Central California, from Mendocino, Lake and Nevada Counties in the north to Kern County in the south. The Company s strategic focus is on the banking needs of small businesses. In addition, the Bank owns 100% of the capital stock of Community Banker Services Corporation (CBSC), a company engaged in providing the Company and its subsidiaries with data processing services and other support functions.

The Company was incorporated under the laws of the State of California in 1972 as Independent Bankshares Corporation pursuant to a plan of reorganization among three previously unaffiliated Northern California banks. The Company operated as a multi-bank holding company until mid-1983, at which time the then six subsidiary banks were merged into a single bank named Westamerica Bank and the name of the holding company was changed to Westamerica Bancorporation.

The Company acquired five additional banks within its immediate market area during the early to mid 1990 s. In April 1997, the Company acquired ValliCorp Holdings, Inc., parent company of ValliWide Bank, the largest independent bank holding company headquartered in Central California. Under the terms of all of the merger agreements, the Company issued shares of its common stock in exchange for all of the outstanding shares of the acquired institutions. The subsidiary banks acquired were merged with and into WAB. These six aforementioned business combinations were accounted for as poolings-of-interests.

In August, 2000, the Company acquired First Counties Bank. In June of 2002 the Company acquired Kerman State Bank. On March 1, 2005, the Company acquired Redwood Empire Bancorp, the parent company of National Bank of the Redwoods (NBR). These acquisitions were accounted for using the purchase accounting method.

On February 6, 2009, Westamerica Bank acquired the banking operations of County Bank (County) from the Federal Deposit Insurance Corporation (FDIC). The Bank acquired approximately $1.62 billion in assets and assumed approximately $1.58 billion liabilities. The Bank and the FDIC entered loss sharing agreements regarding future losses incurred on acquired loans and foreclosed loan collateral. Under the terms of the loss sharing agreements, the FDIC absorbs 80 percent of losses and is entitled to 80 percent of loss recoveries on the first $269 million of losses, and absorbs 95 percent of losses and is entitled to 95 percent of loss recoveries on losses exceeding $269 million. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. The County acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. The Company recorded a bargain purchase gain totaling $48.8 million resulting from the acquisition, which is a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the estimated fair value of assets purchased exceeded the estimated fair value of liabilities assumed.

On August 20, 2010, Westamerica Bank acquired assets and assumed liabilities of the former Sonoma Valley Bank (Sonoma) from the FDIC. The acquired assets and assumed liabilities were measured at estimated fair values, as required by FASB ASC 805, Business Combinations.

Management made significant estimates and exercised significant judgment in accounting for these 2009 and 2010 acquisitions. Management judgmentally measured loan fair values based on loan file reviews (including borrower financial statements and tax returns), appraised collateral values, expected cash flows, and historical loss factors. Repossessed loan collateral was primarily valued based upon appraised collateral values. The Bank also recorded identifiable intangible assets representing the value of the core deposit customer bases based on Management s evaluation of the cost of such deposits relative to alternative funding sources. In determining the value of the identifiable intangible assets, Management used significant estimates including average lives of depository accounts, future interest rate levels, the cost of servicing various depository products, and other significant estimates. Management used quoted market prices to determine the fair value of investment securities, FHLB advances and other borrowings which were purchased and assumed. See Note 2 of the Notes to Consolidated Financial Statements for additional information regarding the acquisition.

At December 31, 2010, the Company had consolidated assets of approximately $4.9 billion, deposits of approximately $4.1 billion and shareholders equity of approximately $545.3 million. The Company and its subsidiaries employed 999 full-time equivalent staff as of December 31, 2010.

The Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as well as beneficial ownership reports on Forms 3, 4 and 5 are available through the SEC s website (http://www.sec.gov). Such documents are also available free of charge from the Company, as well as the Company s director, officer and employee Code of Conduct and Ethics, by request to:

Westamerica Bancorporation
Corporate Secretary A-2M
Post Office Box 1200
Suisun City, California 94585-1200

Supervision and Regulation

The following is not intended to be an exhaustive description of the statutes and regulations applicable to the Company s or the Bank s business. The description of statutory and regulatory provisions is qualified in its entirety by reference to the particular statutory or regulatory provisions. Moreover, major new legislation and other regulatory changes affecting the Company, the Bank, and the financial services industry in general have occurred in the last several years and can be expected to occur in the future. The nature, timing and impact of new and amended laws and regulations cannot be accurately predicted.

Regulation and Supervision of Bank Holding Companies

The Company is a bank holding company subject to the BHCA. The Company reports to, is registered with, and may be examined by, the Board of Governors of the Federal Reserve System (FRB). The FRB also has the authority to examine the Company s subsidiaries. The costs of any examination by the FRB are payable by the Company. The Company is a bank holding company within the meaning of Section 3700 of the California Financial Code. As such,

the Company and the Bank are subject to examination by, and may be required to file reports with, the California Commissioner of Financial Institutions (the Commissioner).

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The FRB has significant supervisory and regulatory authority over the Company and its affiliates. The FRB requires the Company to maintain certain levels of capital. See Capital Standards. The FRB also has the authority to take enforcement action against any bank holding company that commits any unsafe or unsound practice, or violates certain laws, regulations or conditions imposed in writing by the FRB. Under the BHCA, the Company is required to obtain the prior approval of the FRB before it acquires, merges or consolidates with any bank or bank holding company. Any company seeking to acquire, merge or consolidate with the Company also would be required to obtain the prior approval of the FRB.

The Company is generally prohibited under the BHCA from acquiring ownership or control of more than 5% of any class of voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than banking, managing banks, or providing services to affiliates of the holding company. However, a bank holding company, with the approval of the FRB, may engage, or acquire the voting shares of companies engaged, in activities that the FRB has determined to be closely related to banking or managing or controlling banks. A bank holding company must demonstrate that the benefits to the public of the proposed activity will outweigh the possible adverse effects associated with such activity.

The FRB generally prohibits a bank holding company from declaring or paying a cash dividend that would impose undue pressure on the capital of subsidiary banks or would be funded only through borrowing or other arrangements which might adversely affect a bank holding company s financial position. Under the FRB policy, a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. See the section entitled Restrictions on Dividends and Other Distributions for additional restrictions on the ability of the Company and the Bank to pay dividends.

Transactions between the Company and the Bank are restricted under Regulation W, adopted in 2003. The regulation codifies prior interpretations of the FRB and its staff under Sections 23A and 23B of the Federal Reserve Act. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in covered transactions with affiliates: (a) to an amount equal to 10% of the bank s capital and surplus, in the case of covered transactions with any one affiliate; and (b) to an amount equal to 20% of the bank s capital and surplus, in the case of covered transactions with all affiliates. The Company is considered to be an affiliate of the Bank.

A covered transaction includes, among other things, a loan or extension of credit to an affiliate; a purchase of securities issued by an affiliate; a purchase of assets from an affiliate, with some exceptions; and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Federal regulations governing bank holding companies and change in bank control (Regulation Y) provide for a streamlined and expedited review process for bank acquisition proposals submitted by well-run bank holding companies. These provisions of Regulation Y are subject to numerous qualifications, limitations and restrictions. In order for a bank holding company to qualify as well-run, both it and the insured depository institutions which it controls must meet the well capitalized and well managed criteria set forth in Regulation Y.

On March 11, 2000, the Gramm-Leach-Bliley Act (the GLBA), or the Financial Services Act of 1999 became effective. The GLBA repealed provisions of the Glass-Steagall Act, which had prohibited commercial banks and securities firms from affiliating with each other and engaging in each other s businesses. Thus, many of the barriers prohibiting affiliations between commercial banks and securities firms have been eliminated.

The BHCA was also amended by the GLBA to allow new financial holding companies (FHCs) to offer banking, insurance, securities and other financial products to consumers. Specifically, the GLBA amended section 4 of the BHCA in order to provide for a framework for the engagement in new financial activities. A bank holding company (BHC) may elect to become an FHC if all its subsidiary depository institutions are well capitalized and well managed. If these requirements are met, a BHC may file a certification to that effect with the FRB and declare that it elects to become an FHC. After the certification and declaration is filed, the FHC may engage either de novo or through an acquisition in any activity that has been determined by the FRB to be financial in nature or incidental to such financial activity. BHCs may engage in financial activities without prior notice to the FRB if those activities qualify under the list of permissible activities in section 4(k) of the BHCA. However, notice must be given to the FRB within 30 days after an FHC has commenced one or more of the financial activities. The Company has not elected to become an

FHC.

Regulation and Supervision of Banks

The Bank is a California state-chartered bank and its deposits are insured by the FDIC. The Bank is subject to regulation, supervision and regular examination by the California Department of Financial Institutions (DFI), and the FDIC. The regulations of these agencies affect most aspects of the Bank s business and prescribe permissible types of loans and investments, the amount of required reserves, requirements for branch offices, the permissible scope of its activities and various other requirements.

In addition to federal banking law, the Bank is also subject to applicable provisions of California law. Under California law, the Bank is subject to various restrictions on, and requirements regarding, its operations and administration including the maintenance of branch offices and automated teller machines, capital requirements, deposits and borrowings, shareholder rights and duties, and investment and lending activities.

California law permits a state-chartered bank to invest in the stock and securities of other corporations, subject to a state-chartered bank receiving either general authorization or, depending on the amount of the proposed investment, specific authorization from the Commissioner. In addition, the Federal Deposit Insurance Corporation Improvement Act (FDICIA) imposes limitations on the activities and equity investments of state chartered, federally insured banks. FDICIA also prohibits a state bank from making an investment or engaging in any activity as a principal that is not permissible for a national bank, unless the Bank is adequately capitalized and the FDIC approves the investment or activity after determining that such investment or activity does not pose a significant risk to the deposit insurance fund.

On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws.
- Restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks from availing themselves of such preemption.
- Apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies.
- Require bank regulatory agencies to seek to make their capital requirements for banks countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.
- Change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund (DIF) and increase the floor of the size of the DIF.
- Impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses in the institution itself.
- Require large, publicly traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management.
- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions.
- Make permanent the $250 thousand limit for federal deposit insurance and provide unlimited federal deposit insurance until December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions.
- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Amend the Electronic Fund Transfer Act (EFTA) to, among other things, give the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. While the Company s assets are currently less

than $10 billion, interchange fees charged by larger institutions will likely dictate the level of fees smaller institutions will be able to charge to remain competitive.

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Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate.

Capital Standards

The federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization s operations for both transactions resulting in assets being recognized on the balance sheet as assets, and the extension of credit facilities such as letters of credit and recourse arrangements, which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. government securities, to 100% for assets with relatively higher credit risk, such as certain loans.

A banking organization s risk-based capital ratios are obtained by dividing its qualifying capital by its total risk-adjusted assets and off balance sheet items.

The federal banking agencies take into consideration concentrations of credit risk and risks from nontraditional activities, as well as an institution s ability to manage those risks, when determining the adequacy of an institution s capital. This evaluation is made as a part of the institution s regular safety and soundness examination. The federal banking agencies also consider interest rate risk (related to the interest rate sensitivity of an institution s assets and liabilities, and its off balance sheet financial instruments) in the evaluation of a bank s capital adequacy.

As of December 31, 2010, the Company s and the Bank s respective ratios exceeded applicable regulatory requirements. See Note 10 to the consolidated financial statements for capital ratios of the Company and the Bank, compared to the standards for well capitalized depository institutions and for minimum capital requirements.

Prompt Corrective Action and Other Enforcement Mechanisms

FDICIA requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency.

Safety and Soundness Standards

The Company s ability to pay dividends to its shareholders is subject to the restrictions set forth in the California General Corporation Law or the CGCL. The CGCL provides that a corporation may make a distribution to its shareholders if the corporation s retained earnings equal or exceed the amount of the proposed distribution. The CGCL further provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if the sum of the assets of the corporation (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to 1.25 times its liabilities (not including deferred taxes, deferred income and other deferred credits).

FDICIA also implemented certain specific restrictions on transactions and required federal banking regulators to adopt overall safety and soundness standards for depository institutions related to internal control, loan underwriting and documentation and asset growth. Among other things, FDICIA limits the interest rates paid on deposits by undercapitalized institutions, restricts the use of brokered deposits, limits the aggregate extensions of credit by a depository institution to an executive officer, director, principal shareholder or related interest, and reduces deposit insurance coverage for deposits offered by undercapitalized institutions for deposits by certain employee benefits accounts. The federal banking agencies may require an institution to submit to an acceptable compliance plan as well

as have the flexibility to pursue other more appropriate or effective courses of action given the specific circumstances and severity of an institution s noncompliance with one or more standards.

Federal banking agencies require banks to maintain adequate valuation allowances for potential credit losses. The Company has an internal staff that continually reviews loan quality and reports to the Board of Directors. This analysis includes a detailed review of the classification and categorization of problem loans, assessment of the overall quality and collectibility of the loan portfolio, consideration of loan loss experience, trends in problem loans, concentration of credit risk, and current economic conditions, particularly in the Bank s market areas. Based on this analysis, Management, with the review and approval of the Board, determines the adequate level of allowance required. The allowance is allocated to different segments of the loan portfolio, but the entire allowance is available for the loan portfolio in its entirety.

Restrictions on Dividends and Other Distributions

The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions. FDICIA prohibits insured depository institutions from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if, after such transaction, the institution would be undercapitalized.

In addition to the restrictions imposed under federal law, banks chartered under California law generally may only pay cash dividends to the extent such payments do not exceed the lesser of retained earnings of the bank or the bank s net income for its last three fiscal years (less any distributions to shareholders during this period). In the event a bank desires to pay cash dividends in excess of such amount, the bank may pay a cash dividend with the prior approval of the Commissioner in an amount not exceeding the greatest of the bank s retained earnings, the bank s net income for its last fiscal year or the bank s net income for its current fiscal year.

The federal banking agencies also have the authority to prohibit a depository institution from engaging in business practices which are considered to be unsafe or unsound, possibly including payment of dividends or other payments under certain circumstances even if such payments are not expressly prohibited by statute.

Premiums for Deposit Insurance

Substantially all of the deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating (CAMELS rating). The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings.

In December 2008, the FDIC issued a final rule that raised the then current assessment rates uniformly by 7 basis points for the first quarter of 2009 assessment (basis points representing cents per $100 of assessable deposits). In February 2009, the FDIC issued final rules to amend a restoration plan for the DIF, change the risk-based assessment system and set new assessment rates beginning in the second quarter of 2009. The initial base assessment rates range from 12 to 45 basis points, on an annualized basis. After the effect of potential base-rate adjustments, total base assessment rates range from 7 to 77.5 basis points.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution s total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment was part of the FDIC s efforts to rebuild the DIF.

In November 2009, the FDIC issued a rule that required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011; however, as further discussed below, the FDIC has elected to forego this increase under a new DIF restoration plan adopted in October 2010.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forego the uniform three-basis point increase in initial assessment rates scheduled to take place on January 1, 2011 and maintain the current schedule of assessment rates for all depository institutions. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following

notice-and-comment rulemaking if required.

In November 2010, the FDIC issued a final rule to implement provisions of the Dodd-Frank Act that provide for temporary unlimited coverage for noninterest-bearing transaction accounts. The separate coverage for non-interest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012.

In February 2011, the FDIC issued a final rule changing the deposit insurance assessment base from total domestic deposits to average total assets minus average tangible equity, as required by the Dodd-Frank Act, effective April 1, 2011. The FDIC also issued a final rule revising the deposit insurance assessment system for large institutions having more than $10 billion in assets and another for highly complex institutions that have over $50 billion in assets and are fully owned by a parent with over $500 billion in assets. The Bank is neither a large nor highly complex institution. Under the new assessment rules, the initial base assessment rates range from 5 to 35 basis points, and after potential adjustments for unsecured debt and brokered deposits, assessment rates range from 2.5 to 45 basis points. The Bank expects to pay lower FDIC assessments beginning April 1, 2011 under these new rules.

The Company cannot provide any assurance as to the effect of any future changes in its deposit insurance premium rates.

Community Reinvestment Act and Fair Lending Developments

The Bank is subject to certain fair lending requirements and reporting obligations involving home mortgage lending operations and Community Reinvestment Act (CRA) activities. The CRA generally requires the federal banking agencies to evaluate the record of financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods. In addition to substantive penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities.

Financial Privacy Legislation and Customer Information Security

The GLBA, in addition to the previously described changes in permissible nonbanking activities permitted to banks, BHCs and FHCs, also required the federal banking agencies, among other federal regulatory agencies, to adopt regulations governing the privacy of consumer financial information. The Bank is subject to the FRB s regulations in this area. The federal bank regulatory agencies have established standards for safeguarding nonpublic personal information about customers that implement provisions of the GLBA (the Guidelines). Among other things, the Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

U.S.A. PATRIOT Act

On October 26, 2001, the President signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 or the USA Patriot Act. Title III of the Act is the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001. It includes numerous provisions for fighting international money laundering and blocking terrorist access to the U.S. financial system. The goal of Title III is to prevent the U.S. financial system and the U.S. clearing mechanisms from being used by parties suspected of terrorism, terrorist financing and money laundering.

The provisions of Title III of the USA Patriot Act which affect banking organizations, including the Bank, are generally set forth as amendments to the Bank Secrecy Act. These provisions relate principally to U.S. banking organizations relationships with foreign banks and with persons who are resident outside the United States. The USA Patriot Act does not impose any filing or reporting obligations for banking organizations, but does require certain additional due diligence and recordkeeping practices.

Sarbanes-Oxley Act of 2002

On July 30, 2002, the U.S. Congress enacted the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley). The stated goals of Sarbanes-Oxley are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. Sarbanes-Oxley generally applies to all companies, both U.S. and

non-U.S., that file or are required to file periodic reports under the Securities Exchange Act of 1934 (the Exchange Act).

Sarbanes-Oxley includes very specific additional disclosure requirements and corporate governance rules, required the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues. Sarbanes-Oxley represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees and public company shareholders.

Sarbanes-Oxley addresses, among other matters: (i) independent audit committees for reporting companies whose securities are listed on national exchanges or automated quotation systems (the Exchanges) and expanded duties and responsibilities for audit committees; (ii) certification of financial statements by the chief executive officer and the chief financial officer; (iii) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (iv) a prohibition on insider trading during pension plan black out periods; (v) disclosure of off-balance sheet transactions; (vi) a prohibition on personal loans to directors and officers under most circumstances with exceptions for certain normal course transactions by regulated financial institutions; (vii) expedited electronic filing requirements related to trading by insiders in an issuer s securities on Form 4; (viii) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (ix) accelerated filing of periodic reports; (x) the formation of the Public Company Accounting Oversight Board (PCAOB) to oversee public accounting firms and the audit of public companies that are subject to the securities laws; (xi) auditor independence; (xii) internal control evaluation and reporting; and (xiii) various increased criminal penalties for violations of securities laws.

Given the extensive role of the SEC, the PCAOB and the Exchanges in implementing rules relating to Sarbanes-Oxley s requirements, the federalization of certain elements traditionally within the sphere of state corporate law, the impact of Sarbanes-Oxley on reporting companies has been and will continue to be significant.

Programs To Mitigate Identity Theft

In November 2007, federal banking agencies together with the NCUA and FTC adopted regulations under the Fair and Accurate Credit Transactions Act of 2003 to require financial institutions and other creditors to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with certain new and existing accounts. Covered accounts generally include consumer accounts and other accounts that present a reasonably foreseeable risk of identity theft. Each institution s program must include policies and procedures designed to: (i) identify indicators, or red flags, of possible risk of identity theft; (ii) detect the occurrence of red flags; (iii) respond appropriately to red flags that are detected; and (iv) ensure that the program is updated periodically as appropriate to address changing circumstances. The regulations include guidelines that each institution must consider and, to the extent appropriate, include in its program.

Pending Legislation

Changes to state laws and regulations (including changes in interpretation or enforcement) can affect the operating environment of BHCs and their subsidiaries in substantial and unpredictable ways. From time to time, various legislative and regulatory proposals are introduced. These proposals, if codified, may change banking statutes and regulations and the Company s operating environment in substantial and unpredictable ways. If codified, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. The Company cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon our financial condition or results of operations. It is likely, however, that the current level of enforcement and compliance-related activities of federal and state authorities will continue and potentially increase.

Competition

In the past, the Bank s principal competitors for deposits and loans have been major banks and smaller community banks, savings and loan associations and credit unions. To a lesser extent, competition was also provided by thrift and loans, mortgage brokerage companies and insurance companies. Other institutions, such as brokerage houses, mutual fund companies, credit card companies, and certain retail establishments have offered investment vehicles which also

compete with banks for deposit business. Federal legislation in recent years has encouraged competition between different types of financial institutions and fostered new entrants into the financial services market.

Legislative changes, as well as technological and economic factors, can be expected to have an ongoing impact on competitive conditions within the financial services industry. While the future impact of regulatory and legislative changes cannot be predicted with certainty, the business of banking will remain highly competitive.

ITEM 1A. RISK FACTORS

Readers and prospective investors in the Company s securities should carefully consider the following risk factors as well as the other information contained or incorporated by reference in this report.

The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that Management is not aware of or focused on or that Management currently deems immaterial may also impair the Company s business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Company s financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the company s securities could decline significantly, and investors could lose all or part of their investment in the Company s common stock.

Market and Interest Rate Risk

Changes in interest rates could reduce income and cash flow.

The discussion in this report under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Asset and Liability Management and - Liquidity and Item 7A Quantitative and Qualitative Disclosures About Market Risk is incorporated by reference in this paragraph. The Company s income and cash flow depend to a great extent on the difference between the interest earned on loans and investment securities compared to the interest paid on deposits and other borrowings, and the Company s success in competing for loans and deposits. The Company cannot control or prevent changes in the level of interest rates. They fluctuate in response to general economic conditions, the policies of various governmental and regulatory agencies, in particular, the Federal Open Market Committee of the FRB, and pricing practices of the Company s competitors. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and other borrowings, and the rates received on loans and investment securities and paid on deposits and other liabilities.

Changes in capital market conditions could reduce asset valuations.

Capital market conditions, including liquidity, investor confidence, bond issuer credit worthiness perceived counter-party risk, the supply of and demand for financial instruments, the financial strength of market participants, and other factors, can materially impact the value of the Company s assets. An impairment in the value of the Company s assets could result in asset write-downs, reducing the Company s asset values, earnings, and equity.

Current market developments may adversely affect the Company s industry, business and results of operations.

Declines in the housing market during recent years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors, concerned about the stability of the financial markets generally and the strength of counterparties, have reduced or ceased to provide funding to borrowers, including other financial institutions. The resulting lack of available credit, volatility in the financial markets and reduced business activity could materially and adversely affect the Company s business, financial condition and results of operations.

The soundness of other financial institutions could adversely affect the Company.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of default of the Company s counterparty or client. In addition, the Company s credit risk may be increased when the collateral the Company holds cannot be realized or is liquidated at prices not sufficient to recover the full amount of the secured obligation. There is no assurance that any such losses would not materially and adversely affect the Company s results of operations or earnings.

Shares of Company common stock eligible for future sale could have a dilutive effect on the market for Company common stock and could adversely affect the market price.

The Articles of Incorporation of the Company authorize the issuance of 150 million shares of common stock (and two additional classes of 1 million shares each, denominated Class B Common Stock and Preferred Stock , respectively) of which approximately 29.1 million shares of common stock were outstanding at December 31, 2010. Pursuant to its stock option plans, at December 31, 2010, the Company had outstanding options for 2.4 million shares of common stock, of which 1.9 million were currently exercisable. As of December 31, 2010, 3.7 million shares of Company common stock remained available for grants under the Company s stock option plans. Sales of substantial amounts of Company common stock in the public market could adversely affect the market price of its common stock.

The Company s payment of dividends on common stock could be eliminated or reduced.

Holders of the Company s common stock are entitled to receive dividends only when, as and if declared by the Company s Board of Directors. Although the Company has historically paid cash dividends on the Company s common stock, the Company is not required to do so and the Company s Board of Directors could reduce or eliminate the Company s common stock dividend in the future.

The Company could repurchase shares of its common stock at price levels considered excessive.

The Company repurchases and retires its common stock in accordance with Board of Directors-approved share repurchase programs. At December 31, 2010, approximately 1.9 million shares remained available to repurchase under such plans. The Company has been active in repurchasing and retiring shares of its common stock when alternative uses of excess capital, such as acquisitions, have been limited. The Company could repurchase shares of its common stock at price levels considered excessive, thereby spending more cash on such repurchases as deemed reasonable and effectively retiring fewer shares than would be retired if repurchases were affected at lower prices.

Risks Related to the Nature and Geographical Location of the Company s Business

The Company invests in loans that contain inherent credit risks that may cause the Company to incur losses.

The Company can provide no assurance that the credit quality of the loan portfolio will not deteriorate in the future and that such deterioration will not adversely affect the Company.

The Company s operations are concentrated geographically in California, and poor economic conditions may cause the Company to incur losses.

Substantially all of the Company s business is located in California. A portion of the loan portfolio of the Company is dependent on real estate. At December 31, 2010, real estate served as the principal source of collateral with respect to approximately 55% of the Company s loan portfolio. The Company s financial condition and operating results will be subject to changes in economic conditions in California. The California economy is currently weak following a severe recession. Much of the California real estate market has experienced a decline in values of varying degrees. This decline is having an adverse impact on the business of some of the Company s borrowers and on the value of the collateral for many of the Company s loans. Economic conditions in California are subject to various uncertainties at this time, including the decline in construction and real estate sectors, the California state government s budgetary difficulties and continuing fiscal difficulties. The Company can provide no assurance that conditions in the California economy will not deteriorate in the future and that such deterioration will not adversely affect the Company.

The markets in which the Company operates are subject to the risk of earthquakes and other natural disasters.

Most of the properties of the Company are located in California. Also, most of the real and personal properties which currently secure some of the Company s loans are located in California. California is a state which is prone to earthquakes, brush fires, flooding and other natural disasters. In addition to possibly sustaining damage to its own properties, if there is a major earthquake, flood, fire or other natural disaster, the Company faces the risk that many of its borrowers may experience uninsured property losses, or sustained job interruption and/or loss which may materially impair their ability to meet the terms of their loan obligations. A major earthquake, flood, fire or other natural disaster in California could have a material adverse effect on the Company s business, financial condition, results of operations and cash flows.

As a financial services company, adverse changes in general business or economic conditions could have a material adverse effect on the Company s financial condition and results of operations.

A sustained or continuing weakness or weakening in business and economic conditions generally or specifically in the principal markets in which the Company does business could have one or more of the following adverse impacts on the Company s business:

- a decrease in the demand for loans and other products and services offered by the Company;
- an increase or decrease in the usage of unfunded credit commitments;
- an impairment of certain intangible assets, such as goodwill;
- an increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company, which could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses, and valuation adjustments on loans held for sale;
- an impairment of certain investment securities, such as state and local municipal securities;
- an impairment of life insurance policies owned by the Company.

Current market conditions have also led to the failure or merger of a number of financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Weak economic conditions can significantly weaken the strength and liquidity of financial institutions. The Federal Reserve is currently maintaining policy and taking actions to increase liquidity and encourage economic growth.

The Company s financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon on the business environment in the markets where the Company operates, in the State of California and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, healthy labor markets, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, high rates of unemployment, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

Overall, during 2009 and 2010, the business environment has been adverse for many households, businesses and government entities in the United States including California. There can be no assurance that these conditions will improve in the near term. Such conditions could adversely affect the credit quality of the Company s loans, the demand for loans, loan volumes and related revenue, securities valuations, results of operations and financial condition.

The value of securities in the Company s investment securities portfolio may be negatively affected by disruptions in securities markets.

The market for some of the investment securities held in the Company s portfolio can be extremely volatile. Volatile market conditions may detrimentally affect the value of these securities, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that the declines in market value will not result in other than temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on the Company s net income and capital levels.

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Regulatory Risks

Restrictions on dividends and other distributions could limit amounts payable to the Company.

As a holding company, a substantial portion of the Company s cash flow typically comes from dividends paid by the Bank. Various statutory provisions restrict the amount of dividends the Company s subsidiaries can pay to the Company without regulatory approval. In addition, if any of the Company s subsidiaries were to liquidate, that subsidiary s creditors will be entitled to receive distributions from the assets of that subsidiary to satisfy their claims against it before the Company, as a holder of an equity interest in the subsidiary, will be entitled to receive any of the assets of the subsidiary.

Adverse effects of changes in banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect the Company.

The Company is subject to significant federal and state regulation and supervision, which is primarily for the benefit and protection of the Company s customers and not for the benefit of investors. In the past, the Company s business has been materially affected by these regulations. This trend is likely to continue in the future. As an example, the FRB has amended Regulation E, which implements the Electronic Fund Transfer Act, and the official staff commentary to the regulation, which interprets the requirements of Regulation E. The final rule limits the ability of a financial institution to assess an overdraft fee for paying automated teller machine (ATM) and one-time debit card transactions that overdraw a consumer s account, unless the consumer affirmatively consents, or opts in, to the institution s payment of overdrafts for these transactions. The rule had a mandatory compliance date of July 1, 2010 for new accounts and August 15, 2010 for existing accounts. Implementation of the new provisions resulted in the reduction of overdraft fees collected by the Bank.

Laws, regulations or policies, including accounting standards and interpretations currently affecting the Company and the Company s subsidiaries, may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, the Company s business may be adversely affected by any future changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement including future acts of terrorism, major U.S. corporate bankruptcies and reports of accounting irregularities at U.S. public companies.

Additionally, the Company s business is affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States of America. Under long- standing policy of the FRB, a BHC is expected to act as a source of financial strength for its subsidiary banks. As a result of that policy, the Company may be required to commit financial and other resources to its subsidiary bank in circumstances where the Company might not otherwise do so. Among the instruments of monetary policy available to the FRB are (a) conducting open market operations in U.S. government securities, (b) changing the discount rates of borrowings by depository institutions, (c) changing interest rates paid on balances financial institutions deposit with the FRB, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the FRB may have a material effect on the Company s business, results of operations and financial condition.

Federal and state governments could pass legislation responsive to current credit conditions.

As an example, the Company could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank s borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Company could experience higher credit losses because of federal or state legislation or regulatory action that limits the Bank s ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

The FDIC insures deposits at insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. Current economic conditions have increased expectations for bank failures, in which case the FDIC would take control of failed banks and ensure payment of deposits up to insured limits using the resources of the Deposit Insurance Fund. In such case, the FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund.

The behavior of depositors in regard to the level of FDIC insurance could cause our existing customers to reduce the amount of deposits held at the Bank, and could cause new customers to open deposit accounts at the Bank. The level and composition of the Bank s deposit portfolio directly impacts the Bank s funding cost and net interest margin.

The FRB has been providing vast amounts of liquidity into the banking system due to current economic and capital market conditions. A reduction in the FRB s activities or capacity could reduce liquidity in the markets, thereby increasing funding costs to the Bank or reducing the availability of funds to the Bank to finance its existing operations.

Systems, Accounting and Internal Control Risks

The accuracy of the Company s judgments and estimates about financial and accounting matters will impact operating results and financial condition.

The discussion under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in this report and the information referred to in that discussion is incorporated by reference in this paragraph. The Company makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Company s operating results and financial condition.

The Company s information systems may experience an interruption or breach in security.

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company s accounting, customer relationship management and other systems. Communication and information systems failures can result from a variety of risks including, but not limited to, telecommunication line integrity, weather, terrorist acts, natural disasters, accidental disasters, unauthorized breaches of security systems, and other events. There can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected by the Company. The occurrence of any such failures, interruptions or security breaches could damage the Company s reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to litigation and possible financial liability, any of which could have a material adverse effect on the Company s financial condition and results of operations.

The Company s controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Company s internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. The Company maintains controls and procedures to mitigate against risks such as processing system failures and errors, and customer or employee fraud, and maintains insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by the Company s internal controls or are not insured against or are in excess of the Company s insurance limits or insurance underwriters financial capacity. Any failure or circumvention of the Company s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company s business, results of operations and financial condition.

The Company may have underestimated losses on loans and loan collateral of the former County Bank or former Sonoma Valley Bank.

On February 6, 2009, the Bank acquired approximately $1.2 billion in loans and repossessed collateral of the former County Bank from the FDIC as its receiver. On August 20, 2010, the Bank acquired approximately $217 million in loans and repossessed loan collateral of the former Sonoma Valley Bank from the FDIC as its receiver. These purchased assets had suffered substantial deterioration, and the Company can provide no assurance that they will not continue to deteriorate now that they are the Bank s assets. If Management s estimates of purchased asset fair values as of the acquisition dates are higher than ultimate cash flows, the recorded carrying amount of the assets may need to be reduced with a corresponding charge to earnings, net of FDIC loss indemnification on County assets.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

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ITEM 2. PROPERTIES

Branch Offices and Facilities

Westamerica Bank is engaged in the banking business through 98 branch offices in 21 counties in Northern and Central California including 14 offices in Fresno County, 13 in Sonoma County, 11 in Marin County, seven each in Merced, Napa and Stanislaus Counties, five each in Lake, Contra Costa and Solano Counties, four in Kern County, three each in Alameda, Sacramento and Tulare Counties, two each in Mendocino, Nevada, and Placer Counties, and one each in San Francisco, Tuolumne, Kings, Madera and Mariposa Counties. WAB believes all of its offices are constructed and equipped to meet prescribed security requirements.

The Company owns 34 branch office locations and one administrative facility and leases 79 facilities. Most of the leases contain multiple renewal options and provisions for rental increases, principally for changes in the cost of living index, and for changes in other operating costs such as property taxes and maintenance.

ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor any of its subsidiaries is a party to any material pending legal proceeding, nor is their property the subject of any material pending legal proceeding, other than ordinary routine legal proceedings arising in the ordinary course of the Company s business. None of these proceedings is expected to have a material adverse impact upon the Company s business, financial position or results of operations.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDERS MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is traded on the NASDAQ Global Select Market (NASDAQ) under the symbol WABC . The following table shows the high and the low sales prices for the common stock, for each quarter, as reported by NASDAQ:

	High	Low
2010:		
First quarter	$ 61.25	$ 50.87
Second quarter	60.37	52.17
Third quarter	55.99	50.04
Fourth quarter	56.72	48.70
2009:		
First quarter	$ 51.29	$ 33.08
Second quarter	56.79	44.13
Third quarter	54.70	45.42
Fourth quarter	56.80	47.08

As of January 31, 2011, there were approximately 7,500 shareholders of record of the Company s common stock.

The Company has paid cash dividends on its common stock in every quarter since its formation in 1972, and it is currently the intention of the Board of Directors of the Company to continue payment of cash dividends on a quarterly basis. There is no assurance, however, that any dividends will be paid since they are dependent upon earnings, cash balances, financial condition and capital requirements of the Company and its subsidiaries as well as policies of the FRB pursuant to the BHCA. See Item 1, Business Supervision and Regulation. As of December 31, 2010, $100 million was allowable for payment of dividends by the Company to its shareholders, under applicable laws and regulations.

The notes to the consolidated financial statements included in this report contain additional information regarding the Company s capital levels, regulations affecting subsidiary bank dividends paid to the Company, the Company s earnings, financial condition and cash flows, and cash dividends declared and paid on common stock.

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As discussed in Note 9 to the consolidated financial statements, in December 1986, the Company declared a dividend distribution of one common share purchase right (the Right) for each outstanding share of common stock. The Rights expired on December 31, 2009.

On February 13, 2009, the Company issued to Treasury a warrant to purchase 246,640 shares of its common stock at an exercise price of $50.92 per share with an expiration date of February 13, 2019.

Stock performance

The following chart compares the cumulative return on the Company s stock during the ten years ended December 31, 2010 with the cumulative return on the S&P 500 composite stock index and NASDAQ S Bank Index. The comparison assumes $100 invested in each on December 31, 2000 and reinvestment of all dividends.

	Period ending					
	2000	2001	2002	2003	2004	2005
Westamerica Bancorporation (WABC)	$ 100.00	$ 94.01	$ 97.60	$ 123.67	$ 147.87	$ 137.68
S&P 500 (SPX)	100.00	88.18	68.69	88.39	97.98	102.80
NASDAQ Bank Index (CBNK)	100.00	112.47	120.29	160.03	181.84	178.32

	Period ending				
	2006	2007	2008	2009	2010
Westamerica Bancorporation (WABC)	$ 134.78	$ 123.00	$ 144.83	$ 161.92	$ 165.94
S&P 500 (SPX)	119.09	125.63	79.25	100.22	115.32
NASDAQ Bank Index (CBNK)	203.04	162.61	127.67	106.86	121.98

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The following chart compares the cumulative return on the Company s stock during the five years ended December 31, 2010 with the cumulative return on the S&P 500 composite stock index and NASDAQ S Bank Index. The comparison assumes $100 invested in each on December 31, 2005 and reinvestment of all dividends.

	Period ending					
	2005	2006	2007	2008	2009	2010
Westamerica Bancorporation (WABC)	$ 100.00	$ 97.89	$ 89.34	$ 105.19	$ 117.15	$ 120.53
S&P 500 (SPX)	100.00	115.84	122.21	77.09	97.49	112.18
NASDAQ Bank Index (CBNK)	100.00	113.86	91.19	71.60	59.92	68.41

ISSUER PURCHASES OF EQUITY SECURITIES

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended December 31, 2010 (in thousands, except per share data).

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31	60	$ 50.76	60	1,935
November 1 through November 30	64	49.73	64	1,871
December 1 through December 31	4	53.90	4	1,867
Total	128	50.35	128	1,867

* Includes 2 thousand, 1 thousand and 4 thousand shares purchased in October, November and December, respectively, by the Company in private transactions with the independent administrator of the Company s Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

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Shares were repurchased during the fourth quarter of 2010 pursuant to a program approved by the Board of Directors on August 26, 2010 authorizing the purchase of up to 2 million shares of the Company s common stock from time to time prior to September 1, 2011.

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ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2010 has been derived from the Company s Consolidated Financial Statements. This information should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein.

WESTAMERICA BANCORPORATION
FINANCIAL SUMMARY
(Dollars in thousands, except per share data)

Year ended December 31:	*2010*	*2009*	*2008*	*2007*	*2006*
Interest income	$ 221,155	$ 241,949	$ 208,469	$ 235,872	$ 246,515
Interest expense	12,840	19,380	33,243	72,555	65,268
Net interest income	208,315	222,569	175,226	163,317	181,247
Provision for loan losses	11,200	10,500	2,700	700	445
Noninterest income:					
Net losses from securities			(56,955)		
Gain on acquisition	178	48,844			
Deposit service charges and other	61,276	63,167	54,899	59,278	55,347
Total noninterest income (loss)	61,454	112,011	(2,056)	59,278	55,347
Noninterest expense					
Visa litigation			(2,338)	2,338	
Other noninterest expense	127,147	140,776	103,099	99,090	101,724
Total noninterest expense	127,147	140,776	100,761	101,428	101,724
Income before income taxes	131,422	183,304	69,709	120,467	134,425
Provision for income taxes	36,845	57,878	9,874	30,691	35,619
Net income	94,577	125,426	59,835	89,776	98,806
Preferred stock dividends and discount accretion		3,963			
Net income applicable to common equity	$ 94,577	$ 121,463	$ 59,835	$ 89,776	$ 98,806
Earnings per share:					
Basic	$ 3.24	$ 4.17	$ 2.07	$ 3.02	$ 3.17
Diluted	3.21	4.14	2.04	2.98	3.11
Per share:					
Dividends paid	$ 1.44	$ 1.41	$ 1.39	$ 1.36	$ 1.30
Book value at December 31	18.74	17.31	14.19	13.60	13.89
Average common shares outstanding	29,166	29,105	28,892	29,753	31,202
Average diluted common shares outstanding	29,471	29,353	29,273	30,165	31,739
	29,090	29,208	28,880	29,018	30,547

Shares outstanding at December 31					
At December 31:					
Originated loans	$ 2,029,541	$ 2,201,088	$ 2,382,426	$ 2,502,976	$ 2,531,734
Purchased covered loans	692,972	855,301			
Purchased non-covered loans	199,571				
Investments	1,252,212	1,111,143	1,237,779	1,578,109	1,780,617
Intangible assets and goodwill	156,277	157,366	136,907	140,148	143,801
Total assets	4,931,524	4,975,501	4,032,934	4,558,959	4,769,335
Total deposits	4,132,961	4,060,208	3,095,054	3,264,790	3,516,734
Short-term borrowed funds	107,385	227,178	457,275	798,599	731,977
Federal Home Loan Bank advances	61,698	85,470			
Debt financing and notes payable	26,363	26,497	26,631	36,773	36,920
Shareholders equity	545,287	505,448	409,852	394,603	424,235
Financial Ratios:					
For the year:					
Return on assets	1.95%	2.39%	1.42%	1.93%	2.01%
Return on common equity	18.11%	25.84%	14.77%	22.11%	23.38%
Net interest margin *	5.54%	5.42%	5.13%	4.40%	4.57%
Net loan losses to average originated loans	0.79%	0.60%	0.44%	0.14%	0.04%
Efficiency ratio **	44.13%	39.74%	51.88%	41.46%	39.12%
At December 31:					
Equity to assets	11.06%	10.16%	10.16%	8.66%	8.90%
Total capital to risk-adjusted assets	15.50%	14.50%	11.76%	10.64%	11.09%
Allowance for loan losses to originated loans	1.76%	1.86%	1.87%	2.10%	2.19%

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

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

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

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion addresses information pertaining to the financial condition and results of operations of Westamerica Bancorporation and subsidiaries (the Company) that may not be otherwise apparent from a review of the consolidated financial statements and related footnotes. It should be read in conjunction with those statements and notes found on pages 53 through 92, as well as with the other information presented throughout the Report.

Critical Accounting Policies

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. 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 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. When third-party information is not available, valuation adjustments are estimated in good faith by Management.

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements. 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 and purchased loan accounting to be the accounting areas requiring the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. A discussion of the factors affecting accounting for the allowance for loan losses and purchased loans is included in the Loan Portfolio Credit Risk discussion below.

Acquisitions

As described in Note 2, Westamerica Bank (Bank) acquired assets and assumed liabilities of the former Sonoma Valley Bank (Sonoma) on August 20, 2010 from the Federal Deposit Insurance Corporation (FDIC).

On February 6, 2009, the Bank acquired assets and assumed liabilities of the former County Bank (County) from the FDIC. The Bank acquired approximately $1.62 billion assets and assumed approximately $1.58 billion liabilities. The Bank and the FDIC entered loss sharing agreements regarding future losses incurred on acquired loans and foreclosed loan collateral. Under the terms of the loss sharing agreements, the FDIC absorbs 80 percent of losses and is entitled to 80 percent of loss recoveries on the first $269 million of losses, and absorbs 95 percent of losses and is entitled to 95 percent of loss recoveries on losses exceeding $269 million. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries.

In both acquisitions, the acquired assets and assumed liabilities were measured at estimated fair values, as required by FASB ASC 805, Business Combinations. Management made significant estimates and exercised significant judgment in accounting for the acquisition. Management judgmentally measured loan fair values based on loan file reviews (including borrower financial statements and tax returns), appraised collateral values, expected cash flows, and historical loss factors. Repossessed loan collateral was primarily valued based upon appraised collateral values. The Bank also recorded identifiable intangible assets representing the value of the core deposit customer bases based on an evaluation of the cost of such deposits relative to alternative funding sources. In determining the value of the

identifiable intangible asset, Management used significant estimates including average lives of depository accounts, future interest rate levels, the cost of servicing various depository products, future FDIC insurance assessments, and other significant estimates. Management used quoted market prices to determine the fair value of investment securities, FHLB advances and other borrowings.

Net Income

For 2010, the Company reported net income applicable to common equity of $94.6 million or $3.21 diluted earnings per common share (EPS), compared with net income applicable to common equity of $121.5 million or $4.14 EPS, for 2009. The 2010 results included a $178 thousand gain on the acquisition of Sonoma compared with a $48.8 million gain on the acquisition of County in 2009. Further, the provision for loan losses increased in 2010 due to an increase in net loan losses and Management s assessment of losses inherent in the loan portfolio not covered by FDIC loss-sharing agreements. In the first quarter of 2009 the Company issued $83.7 million in preferred stock to the United States Department of the Treasury. The Company redeemed $42 million of the preferred stock on September 2, 2009 and the remaining preferred stock on November 18, 2009. The preferred stock redemption required accelerated preferred stock discount accretion of $1.1 million, which reduced EPS $0.04. Also, in 2009, the Company eliminated $587 thousand in tax reserves due to a lapse in the statute of limitations, which reduced tax provisions and increased EPS $0.02.

Components of Net Income

Year ended December 31, (Dollars in thousands except per share amounts)	2010	2009	2008
Net interest and fee income *	$ 226,683	$ 242,218	$ 196,257
Provision for loan losses	(11,200)	(10,500)	(2,700)
Noninterest income (loss)	61,454	112,011	(2,056)
Noninterest expense	(127,147)	(140,776)	(100,761)
Income before income taxes *	149,790	202,953	90,740
Taxes *	(55,213)	(77,527)	(30,905)
Net income	94,577	125,426	59,835
Preferred dividends and discount accretion		(3,963)	
Net income applicable to common equity	$ 94,577	$ 121,463	$ 59,835
Net income applicable to common equity per average fully-diluted common share	$ 3.21	$ 4.14	$ 2.04
Net income applicable to common equity as a percentage of average shareholders equity	18.11%	25.84%	14.77%
Net income applicable to common equity as a percentage of average total assets	1.95%	2.39%	1.42%

* Fully taxable equivalent (FTE)

Comparing 2010 to 2009, net income applicable to common equity decreased $26.9 million, primarily due to a $48.8 million gain on acquisition in 2009, lower net interest income (FTE) and higher provision for loan losses, partially offset by decreases in noninterest expense and income tax provision (FTE) and the elimination of preferred stock dividends and discount accretion. The lower net interest income (FTE) was primarily caused by a lower volume of average interest earning assets, lower yields on investments and higher rates paid on borrowings, partially offset by higher yields on loans, lower average balances of interest-bearing liabilities and lower rates paid on interest-bearing deposits. The provision for loan losses increased $700 thousand, reflecting Management s assessment of losses inherent in the loan portfolio not covered by loss-sharing agreements with the FDIC and purchased loan credit-default discounts. Noninterest income decreased $50.6 million largely due to a $48.8 million acquisition gain in 2009. Noninterest expense declined $13.6 million primarily due to decreases in personnel, occupancy and equipment expenses subsequent to integrating the acquired County operations and lower FDIC insurance assessments. The income tax provision (FTE) decreased $22.3 million. Net income applicable to common equity in 2009 reflected

$4.0 million in preferred stock dividends and discount accretion.

Comparing 2009 to 2008, net income applicable to common equity increased $61.6 million, due to higher net interest income (FTE), higher service charges on deposit accounts, the bargain purchase gain and 2008 securities losses and impairment charges, partially offset by increases in the provision for loan losses, noninterest expense and income tax provision (FTE) and the 2008 gain on sale of Visa common stock and reversal of noninterest expense related to Visa litigation contingencies. The higher net interest income (FTE) was mainly generated by loans acquired from County, lower rates paid on interest-bearing deposits and other short-term borrowings, and lower average balances of borrowings, partially offset by lower yields on loans, lower average investments and higher average balances of interest-bearing deposits. The provision for loan losses increased $7.8 million reflecting higher net loan losses and Management s assessment of losses inherent in the loan portfolio not covered by loss-sharing agreements with the FDIC and purchased loan credit-default discounts. Noninterest income increased $114.1 million in 2009 compared with 2008 largely due to higher service charges on deposit accounts earned from assumed deposits, the bargain purchase gain and the 2008 securities losses, partially offset by the 2008 gain on Visa common stock and reversal of Visa litigation expense. The income tax provision (FTE) increased $46.6 million due to higher profitability.

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Net Interest Income

The Company s primary source of revenue is net interest income, or the difference between interest income earned on loans and investment securities and interest expense paid on interest-bearing deposits and other borrowings. Net interest income (FTE) in 2010 decreased $15.5 million or 6.4% from 2009, to $226.7 million. Comparing 2009 to 2008, net interest income (FTE) increased $46.0 million or 23.4% from 2008, to $242.2 million.

Components of Net Interest Income

Year ended December 31, (Dollars in thousands)	2010	2009	2008
Interest and fee income	$ 221,155	$ 241,949	$ 208,469
Interest expense	(12,840)	(19,380)	(33,243)
FTE adjustment	18,368	19,649	21,031
Net interest income (FTE)	$ 226,683	$ 242,218	$ 196,257
Net interest margin (FTE)	5.54%	5.42%	5.13%

Comparing 2010 with 2009, net interest income (FTE) decreased primarily due to a lower volume of average interest earning assets (down $378 million) and lower yields on investments (down 0.29%), partially offset by higher yields on loans (up 0.12%), lower average balances of interest-bearing liabilities (down $287 million) and lower rates paid on interest-bearing deposits (down 0.2%).

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

At December 31, 2010, purchased FDIC covered loans represented 24 percent of the Company s loan portfolio. Under the terms of the FDIC loss-sharing agreements, the FDIC is obligated to reimburse the Bank 80 percent of loan interest income foregone on covered loans. Such reimbursements are limited to the lesser of 90 days contractual interest or actual unpaid contractual interest at the time a principal loss is recognized in respect to the underlying loan.

Comparing 2010 with 2009, interest and fee income (FTE) was down $22.1 million or 8.4%. The decrease resulted from a lower volume of average interest earning assets and lower yields on investment securities, partially offset by higher yields on loans. Average interest earning assets decreased $378 million or 8.5% in 2010 compared with 2009 due to a $273 million decrease in average loans and a $105 million decrease in average investments. The decrease in the average balance of the loan portfolio was attributable to decreases in average balances of taxable commercial loans (down $92 million), residential real estate loans (down $75 million), indirect automobile loans (down $50 million), commercial real estate loans (down $38 million), tax-exempt commercial loans (down $20 million) and construction loans (down $11 million). The average investment portfolio decreased $105 million largely due to declines in average balances of residential collateralized mortgage obligations (down $87 million), residential mortgage backed securities (down $41 million) and municipal securities (down $31 million), partially offset by increases in average balances of $34 million of corporate securities and $20 million of U.S. government sponsored entity obligations.

The average yield on interest earning assets in 2010 was 5.85%, unchanged from 2009. The loan portfolio yield in 2010 compared with 2009 period was higher by 0.12%, due to increases in yields on taxable commercial loans (up 0.58%) and construction loans (up 1.36%), partially offset by a 0.35% decrease in yields on residential real estate loans. The investment portfolio yield decreased from 5.42% in 2009 to 5.13% in 2010 as maturities and paydowns on higher yielding portfolio securities were replaced with newly purchased securities bearing lower yields. Current market yields are generally lower than the blended yields on existing portfolios. Yields on U.S. government sponsored entity obligations decreased 2.7%. Yields on municipal securities and U.S. Treasuries declined 0.08% and 2.24%, respectively.

Comparing 2010 with 2009, interest expense declined $6.5 million or 33.7%, primarily due to lower average balances of interest-bearing liabilities and lower rates on interest-bearing deposits. The Company s average checking and savings deposits represented 77% of total deposits in 2010 compared with 74% in 2009. As a result, the Company s reliance on higher-costing time deposits was reduced. Average interest-bearing liabilities in 2010 fell by $287 million from 2009 mainly due to decreases in average balances of federal funds purchased (down $108 million), FHLB advances (down $45 million), time deposits less than $100 thousand (down $100 million), time deposits $100 thousand or more (down $57 million) and money market checking accounts (down $14 million), partially offset by increases in the average balance of money market savings (up $24 million) and regular savings (up $16 million). Rates paid on interest-bearing liabilities averaged 0.45% in 2010 compared with 0.62% in 2009. The average rate paid on interest-bearing deposits declined 0.2% to 0.34% in 2010 compared with 2009 mainly due to lower rates on time deposits less than $100 thousand (down 0.49%), time deposits $100 thousand or more (down 0.26%), preferred money market savings (down 0.16%) and regular savings (down 0.08%).

The growth in average interest earning assets in 2009 compared with 2008 was attributable to the acquisition of County loans from the FDIC. The average balance of such loans for 2009 was $897.9 million. Average interest earning assets increased $650.0 million or 17.0% for 2009 compared with 2008. A $794.4 million increase in the average balance of the loan portfolio was attributable to increases in average balances of commercial real estate loans (up $447.2 million), taxable commercial loans (up $311.0 million) and consumer loans (up $91.0 million), partially offset by a $36.2 million decrease in the average balance of residential real estate loans and a $21.9 million decrease in the average balance of tax-exempt commercial loans. The acquired County loan portfolio did not contain significant volumes of tax-exempt commercial loans or residential real estate loans. Average investments decreased by $144.4 million due to declines in the average balances of U.S. government sponsored entity obligations (down $108.8 million), municipal securities (down $20.3 million) and a $41.9 million decline in average balances of FHLMC and FNMA stock resulting from an impairment charge in 2008, partially offset by a $18.7 million increase in the average balance of mortgage backed securities and collateralized mortgage obligations.

The average yield on interest earning assets in 2009 was 5.85% compared with 6.00% in 2008. The loan portfolio yield in 2009 compared with 2008 was lower by 0.29%, due to decreases in yields on taxable commercial loans (down 1.24%), commercial real estate loans (down 0.47%) and real estate construction loans (down 2.34%), partially offset by consumer loans (up 0.13%) and tax-exempt commercial loans (up 0.12%). The investment portfolio yield decreased by 0.06%. The decrease resulted from a 0.11% decline in yields on mortgage backed securities and collateralized mortgage obligations and a 4.92% decline in yields on corporate and other securities which was affected primarily by suspended dividends on FHLMC and FNMA preferred stock, partially offset by higher yields on U.S. government sponsored entity obligations (up 0.04%).

Comparing 2009 with 2008, interest expense decreased $13.9 million due to lower rates paid, lower average balances of short-term borrowings and higher levels of shareholders equity, offset in part by higher average balances of interest-bearing deposits. Average interest-bearing liabilities in 2009 rose by $568.1 million or 22.1% over 2008 mainly through the County acquisition. A $729.1 million growth in interest-bearing deposits was mostly attributable to increases in average balances of time deposits less than $100 thousand (up $264.2 million), time deposits over $100 thousand (up $118.3 million), money market checking accounts (up $154.9 million), money market savings (up $125.0 million) and regular savings (up $72.4 million). Short-term borrowings decreased $153.7 million, mainly the net result of lower average balances of federal funds purchased (down $303.8 million) and sweep accounts (down $13.2 million), partially offset by higher average balances of repurchase agreements (up $86.6 million) and FHLB advances (up $79.4 million). Average balances of long-term debt also declined $7.2 million. Rates paid on interest-bearing liabilities averaged 0.62% in 2009 compared with 1.29% in 2008. The average rate paid on interest-bearing deposits declined 0.53% to 0.54% in 2009 mainly due to lower rates on time deposits less than $100 thousand (down 1.71%), time deposits over $100 thousand (down 1.23%) and preferred money market savings (down 0.94%). Rates on short-term borrowings were also lower by 1.02% largely due to federal funds (down 1.99%) and repurchase agreements (down 1.26%).

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

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

	Year Ended December 31, 2010		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Rates Earned/ Paid
Assets			
Money market assets and funds sold	$ 1,820	$ 2	0.11%
Investment securities:			
Available for sale			
Taxable	299,730	8,806	2.94%
Tax-exempt (1)	183,484	11,982	6.53%
Held to maturity			
Taxable	175,475	7,641	4.35%
Tax-exempt (1)	479,969	30,075	6.27%
Loans:			
Commercial			
Taxable	536,530	34,140	6.36%
Tax-exempt (1)	166,702	10,941	6.56%
Commercial real estate	1,245,369	81,755	6.56%
Real estate construction	68,602	3,711	5.41%
Real estate residential	357,398	15,668	4.38%
Consumer	579,432	34,802	6.01%
Total Loans (1)	2,954,033	181,017	6.13%
Interest earning assets (1)	4,094,511	239,523	5.85%
Other assets	758,969		
Total assets	$ 4,853,480		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,412,702		
Savings and interest-bearing transaction	1,676,882	3,543	0.21%
Time less than $100,000	358,096	1,769	0.49%
Time $100,000 or more	550,810	3,406	0.62%
Total interest-bearing deposits	2,585,788	8,718	0.34%
Short-term borrowed funds	202,663	1,991	0.97%
Federal Home Loan Bank advances	34,378	437	1.25%
Debt financing and notes payable	26,433	1,694	6.41%

Total interest-bearing liabilities	2,849,262	12,840	0.45%
Other liabilities	69,333		
Shareholders equity	522,183		
Total liabilities and shareholders equity	$ 4,853,480		
Net interest spread (2)			5.40%
Net interest income and interest margin (1)(3)		$ 226,683	5.54%

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

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

(3) Net interest margin is computed by dividing net interest income by total average interest earning assets.

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

	Year Ended December 31, 2009		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Rates Earned/ Paid
Assets			
Money market assets and funds sold	$ 841	$ 3	0.36%
Investment securities:			
Available for sale			
Taxable	240,829	9,002	3.74%
Tax-exempt (1)	166,669	11,217	6.73%
Held to maturity			
Taxable	307,763	13,971	4.54%
Tax-exempt (1)	529,597	33,334	6.29%
Loans:			
Commercial			
Taxable	629,027	36,360	5.78%
Tax-exempt (1)	186,295	12,362	6.64%
Commercial real estate	1,283,114	84,473	6.58%
Real estate construction	79,425	3,213	4.05%
Real estate residential	431,931	20,640	4.73%
Consumer	617,169	37,023	6.00%
Total Loans (1)	3,226,961	194,071	6.01%
Interest earning assets (1)	4,472,660	261,598	5.85%
Other assets	613,977		
Total assets	$ 5,086,637		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,354,534		
Savings and interest-bearing transaction	1,648,095	4,677	0.28%
Time less than $100,000	458,117	4,506	0.98%
Time $100,000 or more	607,642	5,366	0.88%
Total interest-bearing deposits	2,713,854	14,549	0.54%
Short-term borrowed funds	316,306	2,132	0.67%
Federal Home Loan Bank advances	79,417	1,010	1.25%
Debt financing and notes payable	26,567	1,689	6.36%
Total interest-bearing liabilities	3,136,144	19,380	0.62%
Other liabilities	71,635		
Shareholders equity	524,324		
Total liabilities and shareholders equity	$ 5,086,637		

Net interest spread (2)		5.23%
Net interest income and interest margin (1)(3)	$ 242,218	5.42%

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

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

(3) Net interest margin is computed by dividing net interest income by total average interest earning assets.

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

	Year Ended December 31, 2008		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Rates Earned/ Paid
Assets			
Money market assets and funds sold	$ 817	$ 3	0.37%
Investment securities:			
Available for sale			
Taxable	205,138	8,854	4.32%
Tax-exempt (1)	196,993	13,795	7.00%
Held to maturity			
Taxable	436,041	19,237	4.41%
Tax-exempt (1)	551,120	34,328	6.23%
Loans:			
Commercial			
Taxable	318,075	22,341	7.02%
Tax-exempt (1)	208,155	13,575	6.52%
Commercial real estate	835,925	58,913	7.05%
Real estate construction	76,086	4,863	6.39%
Real estate residential	468,140	22,683	4.85%
Consumer	526,175	30,908	5.87%
Total Loans (1)	2,432,556	153,283	6.30%
Interest earning assets (1)	3,822,665	229,500	6.00%
Other assets	397,098		
Total assets	$ 4,219,763		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,181,679		
Savings and interest-bearing transaction	1,301,556	5,642	0.43%
Time less than $100,000	193,889	5,209	2.69%
Time $100,000 or more	489,326	10,331	2.11%
Total interest-bearing deposits	1,984,771	21,182	1.07%
Short-term borrowed funds	549,438	9,958	1.81%
Debt financing and notes payable	33,807	2,103	6.22%
Total interest-bearing liabilities	2,568,016	33,243	1.29%
Other liabilities	64,992		
Shareholders equity	405,076		
Total liabilities and shareholders equity	$ 4,219,763		
Net interest spread (2)			4.71%

Net interest income and interest margin (1)(3)	$ 196,257	5.13%

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

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

(3) Net interest margin is computed by dividing net interest income by total average interest earning assets.

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

Summary of Changes in Interest Income and Expense

Years Ended December 31,	2010 Compared with 2009		
(In thousands)	Volume	Rate	Total
Increase (decrease) in interest and fee income:			
Money market assets and funds sold	$ 2	$ (3)	$ (1)
Investment securities:			
Available for sale Taxable	1,950	(2,146)	(196)
Tax- exempt (1)	1,106	(341)	765
Held to maturity Taxable	(5,782)	(548)	(6,330)
Tax- exempt (1)	(3,110)	(149)	(3,259)
Loans:			
Commercial:			
Taxable	(5,666)	3,446	(2,220)
Tax- exempt (1)	(1,287)	(134)	(1,421)
Commercial real estate	(2,478)	(240)	(2,718)
Real estate construction	(480)	978	498
Real estate residential	(3,363)	(1,609)	(4,972)
Consumer	(2,267)	46	(2,221)
Total loans (1)	(15,541)	2,487	(13,054)
Total decrease in interest and fee income (1)	(21,375)	(700)	(22,075)
Increase (decrease) in interest expense:			
Deposits:			
Savings/ interest-bearing	80	(1,214)	(1,134)
Time less than $100,000	(834)	(1,903)	(2,737)
Time $100,000 or more	(466)	(1,494)	(1,960)
Total interest-bearing	(1,220)	(4,611)	(5,831)
Short-term borrowed funds	(920)	779	(141)
Federal Home Loan Bank advances	(645)	72	(573)
Notes and mortgages payable	(9)	14	5
Total decrease in interest expense	(2,794)	(3,746)	(6,540)
(Decrease) increase in net interest income (1)	$ (18,581)	$ 3,046	$ (15,535)

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

Summary of Changes in Interest Income and Expense

Years Ended December 31,	2009 Compared with 2008		
(In thousands)	Volume	Rate	Total
Increase (decrease) in interest and fee income:			
Money market assets and funds sold	$	$	$
Investment securities:			
Available for sale Taxable	1,412	(1,264)	148
Tax- exempt (1)	(2,063)	(515)	(2,578)
Held to maturity Taxable	(5,812)	546	(5,266)
Tax- exempt (1)	(1,370)	376	(994)
Loans:			
Commercial:			
Taxable	18,549	(4,530)	14,019
Tax- exempt (1)	(1,452)	239	(1,213)
Commercial real estate	29,641	(4,081)	25,560
Real estate construction	197	(1,847)	(1,650)
Real estate residential	(1,742)	(301)	(2,043)
Consumer	5,435	680	6,115
Total loans (1)	50,628	(9,840)	40,788
Total increase (decrease) in interest and fee income (1)	42,795	(10,697)	32,098
Increase (decrease) in interest expense:			
Deposits:			
Savings/ interest-bearing	1,268	(2,233)	(965)
Time less than $100,000	4,022	(4,725)	(703)
Time $100,000 or more	2,059	(7,024)	(4,965)
Total interest-bearing	7,349	(13,982)	(6,633)
Short-term borrowed funds	(3,280)	(4,546)	(7,826)
Federal Home Loan Bank advances	1,010		1,010
Notes and mortgages payable	(460)	46	(414)
Total increase (decrease) in interest expense	4,619	(18,482)	(13,863)
Increase in net interest income (1)	$ 38,176	$ 7,785	$ 45,961

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

Provision for Loan Losses

The Company manages credit costs by consistently enforcing conservative underwriting and administration procedures and aggressively pursuing collection efforts with debtors experiencing financial difficulties. County loans purchased from the FDIC are covered by loss-sharing agreements the Company entered into with the FDIC. Further, the Company recorded the purchased County loans at estimated fair value upon acquisition as of February 6, 2009. Due to the loss-sharing agreements and February 6, 2009 fair value recognition, the Company did not record a provision for loan losses during 2010 related to covered loans. The Company recorded purchased Sonoma loans at estimated fair value upon acquisition as of August 20, 2010. Due to the fair value recognition, the Company did not

record a provision for loan losses for the period August 20, 2010 through December 31, 2010 related to purchased Sonoma loans. In Management s judgment, the acquisition date purchased loan credit default discounts remaining at December 31, 2010 represent appropriate loss estimates for default risk inherent in the purchased loans. In 2010, the provision for loan losses was $11.2 million, compared to $10.5 million for 2009 and $2.7 million for 2008. The provision reflects Management s assessment of credit risk in the loan portfolio for each of the periods presented. For further information regarding credit risk, the FDIC loss-sharing agreements, net credit losses and the allowance for loan losses, see the Loan Portfolio Credit Risk and Allowance for Credit Losses sections of this report.

Noninterest Income

Components of Noninterest Income

Years Ended December 31, (In thousands)	2010	2009	2008
Service charges on deposit accounts	$ 33,517	$ 36,392	$ 29,762
Merchant credit card fees	9,057	9,068	10,525
Debit card fees	4,888	4,875	3,769
ATM fees and interchange	3,848	3,693	2,923
Other service charges	2,768	2,200	2,025
Trust fees	1,705	1,429	1,227
Check sale income	893	887	736
Safe deposit rental	678	697	593
Financial services commissions	747	583	830
Gain on acquisition	178	48,844	
Securities losses and impairment			(62,653)
Gain on sale of Visa common stock			5,698
Other noninterest income	3,175	3,343	2,509
Total	$ 61,454	$ 112,011	$ (2,056)

In 2010 noninterest income decreased $50.6 million compared with 2009 primarily due to the $48.8 million gain on acquisition of County in 2009. Service charges on deposits decreased $2.9 million or 7.9% due to declines in fees charged on overdrawn and insufficient accounts (down $2.4 million) and deficit fees charged on analyzed accounts (down $839 thousand), partially offset by service fees charged on checking accounts (up $373 thousand). New regulations over overdraft fees were adopted July 1, 2010 and limited the Bank s ability to assess overdraft fees. Other noninterest income fell $168 thousand mostly due to miscellaneous fees and a gain on sale of foreclosed assets in 2009. The decline in other noninterest income was partially offset by a $490 thousand gain on sale of other assets in 2010. Other categories of fees partially offset the decline in noninterest income. Other service fees increased $568 thousand or 25.8% mainly due to increases in check cashing fees, internet banking fees and foreign currency commissions. Trust fees increased $276 thousand or 19.3% mostly due to new trust assets. Financial service commissions increased $164 thousand or 28.1%. ATM fees and interchange income was higher by $155 thousand or 4.2% due to increased transaction volumes.

In 2009, noninterest income was $112.0 million compared with a noninterest loss of $2.1 million in 2008 primarily due to a $48.8 million gain on acquisition and a $6.6 million or 22.3% increase in service charges on deposit accounts in 2009 and because noninterest income in 2008 was reduced by $59.4 million in losses on sale and other than temporary impairment charges on FHLMC and FNMA preferred stock. Higher service charges on deposit accounts were attributable to growth in deposit accounts through the County acquisition in February 2009. Debit card fees and ATM fees and interchange income increased $1.1 million or 29.3% and $770 thousand or 26.3%, respectively, mainly due to an increased customer base through the County acquisition. Other noninterest income increased $908 thousand largely due to $938 thousand in miscellaneous income from County operations. Merchant credit card income declined $1.5 million or 13.8% primarily due to lower transaction volume and the impact of prevailing economic conditions on consumer spending. The County acquisition was accounted for under the acquisition method of accounting. The purchased assets and assumed liabilities were recorded at their acquisition date fair values, and identifiable intangible assets were recorded at fair value. The gain on acquisition totaling $48.8 million resulted from the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. Offsetting the increase was a $5.7 million gain on sale of Visa common stock in 2008 and a $247 thousand decrease in financial services commissions.

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Noninterest Expense

Components of Noninterest Expense

Years Ended December 31, (Dollars in thousands)	2010	2009	2008
Salaries and related benefits	$ 61,748	$ 65,391	$ 51,492
Occupancy	15,633	18,748	13,703
Outsourced data processing	8,957	9,000	8,440
Amortization of intangible assets	6,333	6,697	3,221
FDIC insurance assessments	5,168	6,260	518
Equipment	4,325	5,859	3,801
Courier service	3,495	3,808	3,322
Professional fees	3,376	3,583	2,624
Loan expenses	1,639	2,031	911
Telephone	1,590	1,977	1,368
Postage	1,540	2,110	1,487
Stationery and supplies	1,285	1,555	1,170
OREO expense	895	616	255
Advertising and public relations	880	995	843
Operational losses	828	953	845
In-house meetings	726	1,177	837
Customer checks	660	749	920
Correspondent service charges	280	1,072	634
Visa litigation			(2,338)
Other	7,789	8,195	6,708
Total	$ 127,147	$ 140,776	$ 100,761
Noninterest expense to revenues (efficiency ratio)(FTE)	44.1%	39.7%	51.9%
Average full-time equivalent staff	1,015	1,115	891
Total average assets per full-time staff	$ 4,782	$ 4,562	$ 4,736

In 2010 noninterest expense decreased $13.6 million or 9.7% compared with 2009 primarily due to lower personnel, occupancy and equipment expenses resulting from the systems integrations and branch consolidations following the County acquisition and lower FDIC insurance assessments. Salaries and related benefits decreased $3.6 million or 5.6% primarily due to a reduction in salaries, executive bonus and workers compensation expense, partially offset by higher payroll taxes and group health insurance costs, annual merit increases and higher stock based compensation. Occupancy and equipment expenses decreased $3.1 million or 16.6% and $1.5 million or 26.2%, respectively, mainly due to branch and administrative office consolidations. FDIC insurance assessments decreased $1.1 million or 17.4% mostly due to a non-routine assessment charged in 2009. Amortization of intangibles declined $364 thousand or 5.4% as intangible assets are amortized on a declining balance method. A $792 thousand or 73.9% decrease in correspondent service charges was mostly attributable to higher interest received on reserve balances held with the Federal Reserve Bank. Loan expense decreased $392 thousand or 19.3% generally because 2009 included servicing fees on factoring receivables acquired from County; such factoring receivables were fully liquidated in April 2009. Offsetting the decline were higher credit report expenses. Telephone expense declined $387 thousand or 19.6% mainly due to branch and administrative office consolidations. In-house meeting expense decreased $451 thousand or 38.3% generally because 2009 included employee travel and lodging expenses related to the County integration. Professional fees declined $207 thousand or 5.8% mainly because 2009 included County related accounting and consulting fees. Postage also decreased $570 thousand or 27.0% primarily because 2009 included County related

expense. Other categories which decreased from 2009 were courier service expense (down $313 thousand or 8.2%), stationery and supplies expense (down $270 thousand or 17.4%), operational losses (down $125 thousand or 13.1%) and advertising/public relations expense (down $115 thousand or 11.6%). Other noninterest expense decreased $406 thousand or 5.0% mainly because 2009 included lower cash surrender value accumulation for insurance policies, partially offset by a $400 thousand reduction in provision for loan commitments 2009. Offsetting the decreases in noninterest expense was OREO expense which increased $279 thousand or 45.3% mostly due to additional writedowns of foreclosed assets and higher levels of expenses due to higher volumes of foreclosed loan collateral.

Noninterest expense increased $40.0 million or 39.7% in 2009 compared with 2008 mainly due to acquisition related incremental costs, higher FDIC insurance assessments and the reversal of a $2.3 million accrual for Visa related litigation in 2008. County branch consolidations and system integrations occurred in August 2009. Salaries and related benefits increased $13.9 million or 27.0% primarily due to personnel costs related to the County acquisition. Occupancy expense increased $5.0 million or 36.8% mainly due to rent and maintenance costs for County s branches and administrative offices. Equipment expense increased $2.1 million primarily due to additional expenses for former County branches. FDIC insurance assessments increased from $517 thousand in 2008 to $6.3 million in 2009 due to an increase in FDIC assessment rates to cover losses of failed banks. Amortization of deposit intangibles increased $3.5 million due to amortization of the core deposit intangible asset recognized for the assumed County deposit base. Professional fees increased $959 thousand generally due to higher legal and other professional fees. Postage increased $623 thousand mainly due to mailings of welcome packages and branch consolidation notices to acquired County customers. Stationary and supplies expense increased $385 thousand mostly due to printing welcome packages and branch consolidation notices to customers and supplying former County branches with Westamerica forms. Loan expense increased $1.1 million due to the County acquisition. Other categories of expenses increased due to the acquisition including outsourced data processing services expense (up $560 thousand), courier services (up $486 thousand), telephone expense (up $609 thousand), correspondent service charges (up $438 thousand), in-house meeting expense (up $340 thousand), operational losses (up $108 thousand) and advertising and public relations expenses (up $152 thousand). Other miscellaneous noninterest expense also increased $1.8 million mainly due to a $682 thousand increase in low income housing investment amortization, a $495 thousand increase in ATM and debit card network fees and insurance costs (up $176 thousand), partially offset by a $200 thousand lower provision for unfunded loan commitments. Under the terms of the FDIC loss-sharing agreements related to County, the Bank receives reimbursement from the FDIC for collection and administrative costs related to covered assets on which a loss has been recognized. FDIC expense reimbursements reduce the Bank s overall cost of collection of covered assets.

Provision for Income Tax

The income tax provision (FTE) was $55.2 million in 2010 compared with $77.5 million in 2009. The 2010 effective tax rate (FTE) was 36.9% compared to 38.2% in 2009. The lower effective tax rate (FTE) in 2010 is primarily attributable to tax-exempt interest income representing a higher proportion of pre-tax income and increased limited partnership tax credits.

The income tax provision (FTE) was $77.5 million in 2009 compared with $30.9 million in 2008. The increase in pretax earnings was greater than the increase in the preference items. As such, the 2009 effective tax rate was 38.2% compared with 34.1% in 2008. The tax provision in 2009 included a $587 thousand reduction in income tax provision as the Company reversed tax reserves for uncertain tax positions upon the expiration of the statute of limitations for the 2005 federal return. In 2008, the Company filed its 2007 federal income tax return. Amounts included in that filed return were reconciled to estimates of such amounts used to recognize the 2007 federal income tax provision. As a result, a reduction in the tax provision in the amount of $877 thousand was recognized in 2008 to adjust the 2007 tax estimates to amounts included in the filed tax return. The adjustment primarily resulted from higher than anticipated tax credits earned on limited partnership investments providing low-income housing and housing for the elderly in our Northern and Central California communities. In 2008, the Company further reduced its tax provision by $114 thousand to reflect a reduction in its unrecognized tax benefits due to a lapse in the statute of limitations.

The Emergency Economic Stabilization Act, signed into law on October 3, 2008, provided ordinary tax treatment to losses on FHLMC and FNMA preferred stock held on September 6, 2008 or sold on or after January 1, 2008. As a result, the Company s losses on FNMA and FHLMC preferred stock receive ordinary tax treatment for federal tax purposes. The State of California categorizes these losses as capital losses requiring capital gains for realization.

Investment Portfolio

The Company maintains a securities portfolio consisting of securities issued by U.S. Government sponsored entities, state and political subdivisions, corporations and asset-backed and other securities. Investment securities are held in safekeeping by an independent custodian.

Investment securities assigned to the available for sale portfolio are generally used to supplement the Company s liquidity, provide a prudent yield, and provide collateral for public deposits and other borrowing facilities. Unrealized

net gains and losses on available for sale securities are recorded as an adjustment to equity, net of taxes, but are not reflected in the current earnings of the Company. If Management determines depreciation in any available for sale security is other than temporary, a securities loss will be recognized as a charge to earnings. If a security is sold, any gain or loss is recorded as a credit or charge to earnings and the equity adjustment is reversed. At December 31, 2010, the Company held $671.5 million in securities classified as investments available for sale with a duration of 4.3 years. At December 31, 2010, an unrealized gain of $706 thousand, net of taxes $409 thousand, related to these securities was included in shareholders equity.

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Securities assigned to the held to maturity portfolio earn a prudent yield, provide liquidity from maturities and paydowns, and provide collateral to pledge for federal, state and local government deposits and other borrowing facilities. The held to maturity investment portfolio had a duration of 2.6 years at December 31, 2010 and, on the same date, those investments included $562.5 million in fixed-rate and $18.2 million in adjustable-rate securities. If Management determines depreciation in any held to maturity security is other than temporary, a securities loss will be recognized as a charge to earnings. The Company had no trading securities at December 31, 2010, 2009 and 2008. For more information on investment securities, see the notes accompanying the consolidated financial statements.

The following table shows the fair value carrying amount of the Company s investment securities available for sale as of the dates indicated:

Available for Sale Portfolio

At December 31, (In thousands)	2010	2009	2008
U.S. Treasury securities	$ 3,542	$ 2,987	$ 3,082
Securities of U.S. Government sponsored entities	172,877	21,041	11,077
Residential mortgage backed securities	109,829	146,005	41,240
Commercial mortgage backed securities	5,065		
Obligations of States and political subdivisions	261,133	158,193	161,046
Residential collateralized mortgage obligations	25,603	41,410	59,851
Asset-backed securities	8,286	8,339	6,447
FHLMC and FNMA stock	655	1,573	821
Corporate securities	79,191		
Other securities	5,303	4,660	4,890
Total	$ 671,484	$ 384,208	$ 288,454

The increase in residential mortgage backed securities from 2008 to 2009 was primarily due to $130 million in County residential mortgage backed securities purchased from the FDIC at fair value on February 6, 2009, partially reduced by paydowns.

The following table sets forth the relative maturities and contractual yields of the Company s available for sale securities (stated at fair value) at December 31, 2010. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate.

Available for Sale Maturity Distribution

At December 31, 2010, (Dollars in thousands)	Within one year	After one but within five years	After five but within ten years	After ten years	Mortgage-backed	Other	Total
U.S. Treasury securities	$	$ 3,542	$	$	$	$	$ 3,542
Interest rate	%	1.03%	%	%	%	%	1.03%
U.S. Government sponsored entities		171,797	1,080				172,877
Interest rate		1.71%	5.29%				1.74%
States and political subdivisions	15,995	65,540	63,723	115,875			261,133
Interest rate (FTE)	4.29%	6.90%	6.51%	6.15%			6.35%
Asset-backed securities				8,286			8,286
Interest rate (FTE)				0.51%			0.51%

Corporate securities	5,465	73,726					79,191
Interest rate	0.67%	1.84%					1.77%
Subtotal	21,460	314,605	64,803	124,161			525,029
Interest rate	3.37%	2.81%	6.49%	5.77%			4.01%
Mortgage backed securities and residential collateralized mortgage obligations					140,497		140,497
Interest rate					4.63%		4.63%
Other without set maturities						5,958	5,958
Interest rate						6.69%	6.69%
Total	$ 21,460	$ 314,605	$ 64,803	$ 124,161	$ 140,497	$ 5,958	$ 671,484
Interest rate	3.37%	2.81%	6.49%	5.77%	4.63%	6.69%	4.18%

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The following table shows the carrying amount (amortized cost) and fair value of the Company s investment securities held to maturity as of the dates indicated:

Held to Maturity Portfolio

At December 31, (In thousands)	2010	2009	2008
Securities of U.S. Government sponsored entities	$	$	$ 110,000
Residential mortgage backed securities	40,531	61,893	85,676
Obligations of States and political subdivisions	455,372	516,596	545,237
Residential collateralized mortgage obligations	84,825	148,446	208,412
Total	$ 580,728	$ 726,935	$ 949,325
Fair value	$ 594,711	$ 736,270	$ 950,210

The following table sets forth the relative maturities and contractual yields of the Company s held to maturity securities at December 31, 2009. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate.

Held to Maturity Maturity Distribution

At December 31, 2010, (Dollars in thousands)	Within One year	After one but within five years	After five but within ten years	After ten years	Mortgage-backed	Total
States and political subdivisions	$ 6,057	$ 92,837	$ 351,407	$ 5,071	$	$ 455,372
Interest rate (FTE)	6.48%	5.95%	6.17%	3.02%		6.15%
Mortgage backed securities and residential collateralized mortgage obligations					125,356	125,356
Interest rate					4.37%	4.37%
Total	$ 6,057	$ 92,837	$ 351,407	$ 5,071	$ 125,356	$ 580,728
Interest rate	6.48%	5.95%	6.17%	3.02%	4.37%	5.77%

Loan Portfolio

For management purposes, the Company segregates its loan portfolio into three segments. Loans originated by the Company following its loan underwriting policies and procedures are separated from purchased loans. Former County Bank loans purchased from the FDIC with loss-sharing agreements on February 6, 2009 are segregated as are former Sonoma Valley Bank loans purchased from the FDIC on August 20, 2010.

The following table shows the composition of the loan portfolio of the Company by type of loan and type of borrower, on the dates indicated:

Originated Loan Portfolio Distribution

At December 31, (In thousands)	2010	2009	2008	2007	2006
Commercial	$ 474,183	$ 498,594	$ 524,786	$ 532,650	$ 556,564
Commercial real estate	757,140	801,008	817,423	856,581	907,259

Real estate construction	26,145	32,156	52,664	97,464	70,650
Real estate residential	310,196	371,197	458,447	484,549	507,553
Consumer	461,877	498,133	529,106	531,732	489,708
Total loans	$ 2,029,541	$ 2,201,088	$ 2,382,426	$ 2,502,976	$ 2,531,734

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Purchased Covered Loan Portfolio Distribution

At December 31, (In thousands)	2010	2009
Commercial	$ 168,985	$ 253,349
Commercial real estate	390,682	445,440
Real estate construction	28,380	40,460
Real estate residential	18,374	18,521
Consumer	86,551	97,531
Total loans	$ 692,972	$ 855,301

Purchased Non-covered Loan Portfolio Distribution

At December 31, (In thousands)	2010
Commercial	$ 15,420
Commercial real estate	122,888
Real estate construction	21,620
Real estate residential	7,055
Consumer	32,588
Total loans	$ 199,571

The following table shows the maturity distribution and interest rate sensitivity of commercial, commercial real estate, and construction loans at December 31, 2010. Balances exclude residential real estate loans and consumer loans totaling $916.6 million. These types of loans are typically paid in monthly installments over a number of years.

Loan Maturity Distribution

At December 31, 2010 (In thousands)	Within One Year	One to Five Years	After Five Years	Total
Commercial and commercial real estate *	$ 758,864	$ 979,298	$ 191,136	$ 1,929,298
Real estate construction	76,145			76,145
Total	$ 835,009	$ 979,298	$ 191,136	$ 2,005,443
Loans with fixed interest rates	$ 204,968	$ 281,159	$ 180,770	$ 666,897
Loans with floating or adjustable interest rates	630,041	698,139	10,366	1,338,546
Total	$ 835,009	$ 979,298	$ 191,136	$ 2,005,443

* Includes demand loans

Commitments and Letters of Credit

The Company issues formal commitments on lines of credit to well-established and financially responsible commercial enterprises. Such commitments can be either secured or unsecured and are typically in the form of revolving lines of credit for seasonal working capital needs. Occasionally, such commitments are in the form of letters of credit to facilitate the customers particular business transactions. Commitment fees are generally charged for commitments and letters of credit. Commitments on lines of credit and letters of credit typically mature within one

year. For further information, see the notes accompanying the consolidated financial statements.

Loan Portfolio Credit Risk

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

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

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

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

On February 6, 2009, the Bank purchased loans and repossessed loan collateral of the former County Bank from the FDIC. This purchase transaction included loss-sharing agreements with the FDIC wherein the FDIC and the Bank share losses on the purchased assets. The loss-sharing agreements significantly reduce the credit risk of these purchased assets. In evaluating credit risk, Management separates the Bank s total loan portfolio between those loans qualifying under the FDIC loss-sharing agreements (referred to as purchased covered loans) and loans not qualifying under the FDIC loss-sharing agreements (referred to as purchased non-covered loans and originated loans). At December 31, 2010, purchased covered loans totaled $693 million, or 24 percent of total loans, originated loans totaled $2.0 billion, or 69 percent and purchased non-covered loans totaled $200 million, or 7 percent of total loans.

Purchased Covered Loans and Repossessed Loan Collateral (Purchased Covered Assets)

Purchased covered loans and repossessed loan collateral qualify under loss-sharing agreements with the FDIC. Under the terms of the loss-sharing agreements, the FDIC absorbs 80 percent of losses and shares in 80 percent of loss recoveries on the first $269 million in losses on purchased covered assets (First Tier), and absorbs 95 percent of losses and shares in 95 percent of loss recoveries if losses on purchased covered assets exceed $269 million (Second Tier). The term of the loss-sharing agreement on residential real estate assets is ten years, while the term for loss-sharing on non-residential real estate assets is five years with respect to losses and eight years with respect to loss recoveries.

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

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

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

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

Management has judged the likelihood of experiencing losses of a magnitude to trigger Second Tier FDIC reimbursement as remote. The Bank s maximum after-tax exposure to Second Tier losses is $18 million as of December 31, 2010, which would be realized only if all purchased covered assets at December 31, 2010 generated no future cash flows.

Purchased covered assets have declined since the acquisition date, and losses have been offset against the estimated credit risk discount. Purchased covered assets totaled $715 million at December 31, 2010, net of a credit risk discount of $62 million, compared to $879 million at December 31, 2009, net of a credit risk discount of $93 million. Purchased covered assets are evaluated for risk classification without regard to FDIC indemnification such that Management can identify purchased covered assets with potential payment problems and devote appropriate credit administration practices to maximize collections. Classified purchased covered assets without regard to FDIC indemnification totaled $195 million and $205 million at December 31, 2010 and December 31, 2009, respectively. FDIC indemnification limits the Company s loss exposure to covered classified assets.

In Management s judgment, the credit risk discount recognized for the purchased County Bank assets remains adequate as an estimate of credit risk inherent in purchased covered assets as of December 31, 2010. In the event credit risk deteriorates beyond that estimated by Management, losses in excess of the credit risk discount would be recognized through a provision for loan losses, net of related FDIC loss indemnification.

Classified Purchased Covered Loans and Repossessed Loan Collateral (Classified Purchased Covered Assets)

The following is a summary of classified purchased covered loans and repossessed loan collateral without regard to FDIC indemnification:

	At December 31,	
	2010	2009
	(In thousands)	
Classified Purchased Covered Assets		
Classified loans	$ 173,064	$ 181,516
Repossessed loan collateral	21,791	23,297
Total	$ 194,855	$ 204,813

Nonperforming Purchased Covered Loans and Repossessed Loan Collateral (Nonperforming Purchased Covered Assets)

The following is a summary of nonperforming purchased covered assets:

	At December 31,	
	2010	2009
	(Dollars in thousands)	
Nonperforming Purchased Covered Assets		
Nonperforming, nonaccrual loans	$ 28,581	$ 66,965
Performing, nonaccrual loans	18,564	18,183
Total nonaccrual loans	47,145	85,148
Loans 90 days past due and still accruing	355	210
Total nonperforming loans	47,500	85,358
Repossessed loan collateral	21,791	23,297
Total	$ 69,291	$ 108,655
As a percentage of total purchased covered assets	9.69%	12.37%

Nonperforming purchased covered assets of the former County Bank are being administered by the Bank s loan administration offices which are exclusively devoted to managing classified assets. The Bank applies strategies and tactics to maximize collections. Nonperforming purchased covered assets have declined $39.4 million in the twelve

months ended December 31, 2010 due to the Bank s asset workout practices. No assurance can be given that increases in classified purchased covered assets will not occur in the future.

The amount of gross interest income that would have been recorded if all nonaccrual purchased covered loans had been current in accordance with their original terms while outstanding was $4.3 million in 2010 and $3.9 million in 2009. The amount of interest income that was recognized on nonaccrual purchased covered loans from cash payments made in 2010 and 2009 was $5.3 million and $1.7 million, respectively. The yield on these cash payments was 8.16% for the year ended December 31, 2010 compared with 2.90% for the year ended December 31, 2009.

There were no cash payments received in 2010 which were applied against the book balance of nonaccrual purchased covered loans outstanding at December 31, 2010. Similarly, there were no cash payments received in 2009 which were applied against the book balances of nonaccrual purchased covered loans outstanding at December 31, 2009.

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Purchased Non-covered Loans and Repossessed Loan Collateral (Purchased Non-covered Assets)

The purchased non-covered loans of the former Sonoma Valley Bank generally carry terms and conditions inferior to that deemed prudent by Management. Management expects higher loss rates on purchased non-covered assets than on originated assets.

The Bank recorded purchased non-covered assets at estimated fair value on the August 20, 2010 acquisition date. The credit risk discount ascribed to the $217 million acquired loan and repossessed loan collateral portfolio was $36 million representing estimated losses inherent in the assets at the acquisition date.

In Management s judgment, the credit risk discount recognized for the purchased Sonoma Valley Bank assets remains adequate as an estimate of credit risk inherent in purchased non-covered assets as of December 31, 2010. In the event credit risk deteriorates beyond that estimated by Management, losses in excess of the credit risk discount would be recognized through a provision for loan losses, net of related FDIC loss indemnification.

Classified Purchased Non-covered Loans and Repossessed Loan Collateral (Classified Purchased Non-covered Assets)

The following is a summary of classified purchased non-covered loans and repossessed loan collateral:

	At December 31, 2010 (In thousands)	
Classified Purchased Non-covered Assets		
Classified loans	$	51,253
Repossessed loan collateral		2,196
Total	$	53,449

Nonperforming Purchased Non-covered Loans and Repossessed Loan Collateral (Nonperforming Purchased Non-covered Assets)

The following is a summary of nonperforming purchased non-covered assets:

	At December 31, 2010 (Dollars in thousands)	
Nonperforming Purchased Non-covered Assets		
Nonperforming, nonaccrual loans	$	29,311
Performing, nonaccrual loans		9,852
Total nonaccrual loans		39,163
Loans 90 days past due and still accruing		1
Total nonperforming loans		39,164
Repossessed loan collateral		2,196
Total	$	41,360
As a percentage of total purchased non-covered assets		20.50%

Nonperforming purchased non-covered assets of the former Sonoma Valley Bank are being administered by the Bank s loan administration offices which are exclusively devoted to managing classified assets. The Bank applies strategies and tactics to maximize collections. No assurance can be given that increases in classified purchased non-covered

assets will not occur in the future.
The amount of gross interest income that would have been recorded if all nonaccrual purchased non-covered loans, including loans that were, but are no longer on nonaccrual at year end, had been current in accordance with their original terms while outstanding was approximately $968 thousand in the period from August 20, 2010 through December 31, 2010, compared with $24 thousand recorded as interest income.
The amount of cash payments received in the period from August 20, 2010 through December 31, 2010, which were applied against the book balance of nonaccrual purchased non-covered loans, including loans that were but are no longer on nonaccrual at year end, totaled approximately $570 thousand.

Classified Originated Loans and Repossessed Loan Collateral (Classified Originated Assets)

The following is a summary of classified originated loans and repossessed loan collateral:

	At December 31,	
	2010	2009
	(In thousands)	
Classified Originated Assets		
Classified loans	$ 61,980	$ 57,241
Repossessed loan collateral	11,424	12,642
Total	$ 73,404	$ 69,883

Nonperforming Originated Loans and Repossessed Loan Collateral (Nonperforming Originated Assets)

The following is a summary of nonperforming originated assets on the dates indicated:

	At December 31,	
	2010	2009
	(Dollars in thousands)	
Nonperforming Originated Assets		
Nonperforming, nonaccrual loans	$ 20,845	$ 19,837
Performing, nonaccrual loans	23	25
Total nonaccrual loans	20,868	19,862
Loans 90 days past due and still accruing	766	800
Total nonperforming loans	21,634	20,662
Repossessed loan collateral	11,424	12,642
Total	$ 33,058	$ 33,304
As a percentage of total originated assets	1.62%	1.50%

Nonaccrual originated loans increased $1.0 million during the year ended December 31, 2010. Weak economic conditions have reduced some borrowers ability to repay loans and reduced collateral values, particularly real estate values. Forty loans comprised the $20.9 million in nonaccrual originated loans as of December 31, 2010.

The amount of gross interest income that would have been recorded if all nonaccrual originated loans had been current in accordance with their original terms while outstanding during the period was $1.2 million in 2010, $1.3 million in 2009 and $665 thousand in 2008. The amount of interest income that was recognized on nonaccrual originated loans from cash payments made in 2010, 2009 and 2008 was $780 thousand, $407 thousand and $511 thousand, respectively. Yields on these cash payments were 3.87%, 1.72% and 4.72%, respectively, for the year ended December 31, 2010, December 31, 2009 and December 31, 2008. Cash payments received in 2010, which were applied against the book balance of performing and nonperforming nonaccrual originated loans outstanding at December 31, 2010, totaled $-0- thousand, compared with approximately $1 thousand and $-0- thousand for the years ended December 31, 2009 and 2008, respectively.

Classified originated assets could fluctuate from period to period. The performance of any individual loan can be affected by external factors such as the interest rate environment, economic conditions, collateral values or factors particular to the borrower. No assurance can be given that additional increases in classified originated assets will not occur in the future.

The Company had no restructured loans meeting the definition of "troubled debt restructurings" under ASC 310-40, "Troubled Debt Restructurings by Creditors" as of December 31, 2010 and December 31, 2009.

Delinquent originated commercial, construction and commercial real estate loans on accrual status were as follows:

	At December 31,	
	2010	2009
	(Dollars in thousands)	
Originated Commercial Loans:		
30-89 days delinquent:		
Dollar amount	$ 7,274	$ 10,677
Percentage of total originated commercial loans	1.53%	2.14%
90 or more days delinquent:		
Dollar amount	$	$
Percentage of total originated commercial loans	%	%
Originated Construction Loans:		
30-89 days delinquent:		
Dollar amount	$ 4,022	$ 149
Percentage of total originated construction loans	15.38%	0.46%
90 or more days delinquent:		
Dollar amount	$	$
Percentage of total originated construction loans	%	%
Originated Commercial Real Estate Loans:		
30-89 days delinquent:		
Dollar amount	$ 14,037	$ 12,158
Percentage of total originated commercial real estate loans	1.85%	1.52%
90 or more days delinquent:		
Dollar amount	$	$
Percentage of total originated commercial real estate loans	%	%

The Company s residential real estate loan underwriting standards for first mortgages limit the loan amount to no more than 80 percent of the appraised value of the property serving as collateral for the loan at the time of origination, and require verification of income of the borrower(s). The Company had no sub-prime originated loans as of December 31, 2010 and December 31, 2009. At December 31, 2010, $1.9 million originated residential real estate loans were on nonaccrual status.

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Delinquent originated residential real estate, indirect automobile and other consumer loans on accrual status were as follows:

	At December 31,	
	2010	2009
	(Dollars in thousands)	
Originated Residential Real Estate Loans:		
30-89 days delinquent:		
Dollar amount	$ 2,552	$ 3,064
Percentage of total originated residential real estate loans	0.82%	0.83%
90 or more days delinquent:		
Dollar amount	$	$
Percentage of total originated residential real estate loans	%	%
Originated Indirect Automobile Loans:		
30-89 days delinquent:		
Dollar amount	$ 6,382	$ 6,506
Percentage of total originated indirect automobile loans	1.60%	1.49%
90 or more days delinquent:		
Dollar amount	$ 647	$ 723
Percentage of total originated indirect automobile loans	0.16%	0.17%
Other Originated Consumer Loans:		
30-89 days delinquent:		
Dollar amount	$ 488	$ 762
Percentage of total other originated consumer loans	0.79%	1.25%
90 or more days delinquent:		
Dollar amount	$ 119	$ 77
Percentage of total other originated consumer loans	0.19%	0.13%

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

Allowance for Credit Losses

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

Management determined the fair value credit risk discounts assigned to loans purchased on February 6, 2009 and August 20, 2010 remained adequate as an estimate of credit losses inherent in purchased loans as of December 31, 2010.

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

Year ended December 31, (Dollars in thousands)	2010	2009	2008	2007	2006
Total originated loans outstanding at period end	$ 2,029,541	$ 2,201,088	$ 2,382,426	$ 2,502,976	$ 2,531,734
Average originated loans outstanding during the period	2,111,506	2,329,019	2,432,556	2,511,763	2,576,791
Analysis of the Allowance					
Balance, beginning of period	$ 43,736	$ 47,563	$ 55,799	$ 59,023	$ 59,537
Provision for loan losses	11,200	10,500	2,700	700	445
Provision for unfunded credit commitments		(400)	(200)	(400)	5
Loans charged off:					
Commercial	(6,844)	(6,066)	(1,262)	(1,648)	(1,176)
Commercial real estate	(1,256)		(34)		
Real estate construction	(1,668)	(1,333)	(5,348)		
Real estate residential	(1,686)	(506)	(131)		
Consumer	(8,814)	(9,362)	(5,638)	(4,033)	(2,446)
Total chargeoffs	(20,268)	(17,267)	(12,413)	(5,681)	(3,622)
Recoveries of loans previously charged off:					
Commercial	948	490	331	1,060	1,149
Commercial real estate	4				
Real estate construction		664			
Real estate residential					
Consumer	2,709	2,186	1,346	1,097	1,509
Total recoveries	3,661	3,340	1,677	2,157	2,658
Net loan losses	(16,607)	(13,927)	(10,736)	(3,524)	(964)
Balance, end of period	$ 38,329	$ 43,736	$ 47,563	$ 55,799	$ 59,023
Components:					
Allowance for loan losses	$ 35,636	$ 41,043	$ 44,470	$ 52,506	$ 55,330
Reserve for unfunded credit commitments	2,693	2,693	3,093	3,293	3,693
Allowance for credit losses	$ 38,329	$ 43,736	$ 47,563	$ 55,799	$ 59,023
Net loan losses to average originated loans	0.79%	0.60%	0.44%	0.14%	0.04%
Allowance for loan losses as a percentage of originated loans outstanding	1.76%	1.86%	1.87%	2.10%	2.19%

The Company s originated loans outstanding declined over the five years presented in the above table. During 2006 and 2007, in Management s opinion, competitive loan underwriting terms were too liberal to ensure high-quality loan originations, and loan pricing was not sufficient to ensure adequate profitability over the expected loan durations. The Company s competitive posture during this period resulted in declining loan volumes. A severe recession and weak economic conditions impacted loan volumes throughout 2008, 2009 and 2010.

During 2008, 2009 and 2010, net loan losses increased due to weak economic conditions and declines in the value of real estate collateral. Accordingly, Management increased the provision for loan losses. The allowance for loan losses as a percentage of originated loans outstanding has gradually declined from 2006 through 2010. The decline is generally due to the realization of losses in 2008 through 2010 which were inherent in the loan portfolio in earlier years, and a reduction in the Company s exposure to higher-risk originated real estate construction loans.

The Company s allowance for credit losses is maintained at a level considered adequate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due, nonperforming loans and classified loans, FDIC loss-sharing coverage relative to purchased covered loan carrying amounts, credit default discounts ascribed to purchased loans, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to impaired loans whose full collectibility is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. A second allocation is based in part on quantitative analyses of historical credit loss experience, in which criticized and classified credit balances identified through an independent internal credit review process are analyzed using a linear regression model to determine standard loss rates. The results of this analysis are applied to current criticized and classified loan balances to allocate the allowance to the respective segments of the loan portfolio. In addition, loans with similar characteristics not usually criticized using regulatory

guidelines are analyzed based on historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Given currently weak economic conditions, Management is applying further analysis to consumer loans. Current levels of indirect automobile loan losses are compared to initial allowance allocations and, based on Management judgment, additional allocations are applied, if needed, to estimate losses. For residential real estate loans, Management is comparing ultimate loss rates on foreclosed residential real estate properties and applying such loss rates to nonaccrual residential real estate loans. Based on this analysis, Management exercises judgment in allocating additional allowance if deemed appropriate to estimate losses on residential real estate loans. Last, allocations are made to non-criticized and non-classified commercial loans based on historical loss rates and other statistical data.

The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. It addresses additional qualitative factors consistent with Management s analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company s general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company s loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific loan category in a statistically meaningful manner and are difficult to quantify with a specific number. Management assigns a range of estimated risk to the qualitative risk factors described above based on Management s judgment as to the level of risk, and assigns a quantitative risk factor from a range of loss estimates to determine the appropriate level of the unallocated portion of the allowance. Management considers the $38.3 million allowance for credit losses to be adequate as a reserve against originated credit losses as of December 31, 2010.

The following table presents the allocation of the allowance for credit losses as of December 31 for the years indicated:

Allocation of the Allowance for Credit Losses

At December 31, (Dollars in thousands)	2010 Allocation of the Allowance Balance	2010 Loans as Percent of Total Non-covered Loans	2009 Allocation of the Allowance Balance	2009 Loans as Percent of Total Non-covered Loans	2008 Allocation of the Allowance Balance	2008 Loans as Percent of Total Non-covered Loans	2007 Allocation of the Allowance Balance	2007 Loans as Percent of Total Non-covered Loans	2006 Allocation of the Allowance Balance	2006 Loans as Percent of Total Non-covered Loans
Commercial	$ 9,878	23%	$ 9,190	23%	$ 12,833	22%	$ 16,890	21%	$ 14,454	22%
Commercial real estate	9,607	38%	9,918	36%	10,941	35%	10,343	35%	8,763	36%
Real estate construction	3,559	1%	2,968	1%	4,725	2%	5,403	4%	3,942	3%
Real estate residential	617	15%	1,529	17%	367	19%	388	19%	1,219	20%
Consumer	6,982	23%	8,424	23%	6,331	22%	4,626	21%	4,132	19%
Unallocated portion	7,686		11,707		12,366		18,149		26,513	
Total	$ 38,329	100%	$ 43,736	100%	$ 47,563	100%	$ 55,799	100%	$ 59,023	100%

The allocation to loan portfolio segments changed from December 31, 2009 to December 31, 2010. The increase in allocation for originated commercial loans was substantially attributable to an increase in criticized originated commercial loans outstanding, partially offset by lower commitments. The allocation for originated commercial real estate loans decreased mostly due to a lower volume of loans, partially offset by an increase in criticized loans. The increase in allocation to originated real estate construction loans reflects an increase in impaired loans, partially offset by a decline in originated criticized construction loans outstanding. The decrease in the allocation to originated real estate residential loans is due to a lower outstanding balance of the originated real estate residential loan portfolio and Management s judgment regarding the appropriate allocation based on recent foreclosure losses and levels of originated nonaccrual mortgages. The lower allocation for originated consumer loans was primarily due to a lower outstanding balance of originated delinquent consumer loans and Management s judgment regarding the appropriate allocation based on current levels of originated auto loan charge-offs.

The unallocated portion of the allowance for credit losses decreased $4.1 million from December 31, 2009 to December 31, 2010. The unallocated allowance is established to provide for probable losses that have been incurred, but not reflected in the allocated allowance. At December 31, 2010 and December 31, 2009, Management s evaluations of the unallocated portion of the allowance for credit losses attributed significant risk levels to developing economic and business conditions ($1.2 million and $2.3 million, respectively), external competitive issues ($0.6 million and $0.8 million, respectively), internal credit administration considerations ($1.2 million and $2.0 million, respectively), and delinquency and problem loan trends ($2.5 million and $3.5 million, respectively). The change in the amounts allocated to the above qualitative risk factors was based upon Management s judgment, review of trends in its originated loan portfolio, extent of migration of previously non-classified originated loans to classified status, levels of the allowance allocated to portfolio segments, and current economic conditions in its marketplace. Based on Management s analysis and judgment, the amount of the unallocated portion of the allowance for credit losses was $7.6 million at December 31, 2010, compared to $11.7 million at December 31, 2009.

The allocation to loan portfolio segments changed from December 31, 2008 to December 31, 2009. The decrease in allocation for originated commercial loans reflects Management s evaluation of loss rates against originated commercial loan performance metrics. The decrease in allocation to originated real estate construction loans reflects a decrease in criticized originated construction loans outstanding. The elevated allocation for originated residential real estate loans is attributable to Management s judgment regarding the appropriate allocation based on recent foreclosure losses and increased levels of nonaccrual originated mortgages. The higher allocation for originated consumer loans was primarily due to Management s judgment regarding the appropriate allocation based on current levels of originated auto loan chargeoffs.

The unallocated portion of the allowance for credit losses declined $659 thousand from December 31, 2008 to December 31, 2009. At December 31, 2009 and December 31, 2008, Management s evaluations of the unallocated portion of the allowance for credit losses attributed significant risk levels to developing economic and business conditions ($2.3 million and $3.4 million, respectively), external competitive issues ($0.8 million and $1.2 million, respectively), internal credit administration considerations ($2.0 million and $1.4 million), and delinquency and problem loan trends ($3.5 million and $3.5 million, respectively). The change in the amounts allocated to the above qualitative risk factors was based upon Management s judgment, review of trends in its loan portfolio, levels of the allowance allocated to portfolio segments, and current economic conditions in its marketplace. Based on Management s analysis and judgment, the amount of the unallocated portion of the allowance for credit losses was $11.7 million at December 31, 2009, compared to $12.4 million at December 31, 2008.

Impaired Loans

The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. The measurement of impairment may be based on (i) the present value of the expected cash flows of the impaired loan discounted at the loan s original effective interest rate, (ii) the observable market price of the impaired loan or (iii) the fair value of the collateral of a collateral-dependent loan. The Company does not apply this definition to smaller-balance loans that are collectively evaluated for credit risk. In assessing impairment, the Company reviews all nonaccrual commercial and construction loans with outstanding principal balances in excess of $1 million. Nonaccrual commercial and construction loans with outstanding principal balances less than $1 million, and large groups of smaller-balance homogeneous loans such as installment, personal revolving credit and residential real estate loans, are evaluated collectively for impairment under the Company s standard loan loss reserve methodology.

Impaired purchased loans were recorded at fair value on the acquisition date.

The following summarizes the Company s recorded investment in impaired originated loans for the dates indicated:

At December 31, (In thousands)	2010	2009
Total impaired loans	$ 12,748	$ 2,447
Specific reserves	$ 1,365	$ 617

At December 31, 2010 and 2009, the Company measured impairment using the fair value of loan collateral. The average balance of the Company s impaired originated loans for the year ended December 31, 2010 was $2.5 million compared with $5.3 million in 2009. All impaired loans are on nonaccrual status.

Asset/Liability and Market Risk Management

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

Interest Rate Risk

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

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

The Company s asset and liability position was estimated to be neutral at December 31, 2010; the simulation model employed by Management measured similar amounts of increased interest income and interest expense in the most likely scenarios with rising interest rates. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company s exposure to interest rate risk.

Management assesses interest rate risk by comparing the Company s most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, using the current composition of the Company s balance sheet and assuming no change in the federal funds rate and no change in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are not estimated to change by a meaningful amount compared to the Company s most likely net income plan for the twelve months ending December 31, 2011. Conversely, using the current composition of the Company s balance sheet and assuming an increase of 100 bp in the federal funds rate and an increase of 60 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are not estimated to change by a meaningful amount compared to the Company s most likely net income plan for the twelve months ending December 31, 2011. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation. The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company s Board of Directors.

Market Risk Equity Markets

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

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

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Market Risk Other

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

Liquidity and Funding

The Company s routine sources of liquidity are operating earnings, investment securities, consumer and other loans, deposits, and other borrowed funds. During 2010, the Company s operating activities generated $115 million in liquidity providing adequate funds to pay common shareholders $42 million in dividends and fund $29 million in stock repurchases. Investing activities were a net source of cash in 2010. Loans provided $299 million in liquidity from scheduled payments, paydowns and maturities, net of loan fundings. The Company purchased $483 million in investment securities using $131 million in cash and $352 million from paydowns and maturities of investment securities. The Company primarily purchased securities of U.S. Government sponsored entities, obligations of states and political subdivisions, and corporate securities to offset decreases in residential mortgage backed securities and residential collateralized mortgage obligations. Other sources of cash from investing activities include net cash of $58 million from an acquisition, proceeds of $41 million under FDIC loss-sharing agreements and proceeds of $32 million from sale of foreclosed assets. Cash was applied to reduce short term borrowings by $206 million and to meet a net reduction in deposits totaling $177 million. The Company projects $196 million in additional liquidity from investment security paydowns and maturities in the twelve months ending December 31, 2011. At December 31, 2010, indirect automobile loans totaled $400 million, which were experiencing stable monthly principal payments of approximately $16 million during the last three months of 2010.

During 2009, the Company s operating activities generated $149 million in liquidity, providing adequate funds to pay common shareholders $41 million in dividends. Further, investment securities provided $332.5 million in liquidity from paydowns and maturities, and loans provided $447.3 million in liquidity from scheduled payments and maturities, net of loan fundings. During 2009, a portion of the liquidity from investment securities and loans provided funds to reduce short term borrowings by $472 million and to meet a net reduction in deposits totaling $262.0 million.

The Company held $1.3 billion in total investment securities at December 31, 2010. Under certain deposit, borrowing and other arrangements, the Company must pledge investment securities as collateral. At December 31, 2010, such collateral requirements totaled approximately $898 million. At December 31, 2010, $581 million of the Company s investment securities were classified as available-for-sale , and as such, could provide additional liquidity if sold, subject to the Company s ability to meet continuing collateral requirements.

At December 31, 2010, $260.8 million in collateralized mortgage obligations (CMOs) and residential mortgage backed securities (MBSs) were held in the Company s investment portfolios. None of the CMOs or MBSs are backed by sub-prime mortgages. The CMOs and MBSs have been experiencing stable principal paydowns of approximately $12.9 million per month during the last three months. In addition, at December 31, 2010, the Company had customary lines for overnight borrowings from other financial institutions in excess of $700 million, under which $-0- was outstanding. Additionally, the Company has access to borrowing from the Federal Reserve. The Company s short-term debt rating from Fitch Ratings is F1. The Company s long-term debt rating from Fitch Ratings is A with a stable outlook. Management expects the Company could access additional long-term debt financing if desired. In Management s judgment, the Company s liquidity position is strong and asset liquidations or additional long-term debt are considered unnecessary to meet the ongoing liquidity needs of the Company.

The Company anticipates maintaining its cash levels throughout 2011. Loan demand from credit-worthy borrowers throughout 2011 will be dictated by economic and competitive conditions. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to changes in interest rates. The growth of deposit balances is subject to competitive pressures, the success of the Company s sales efforts, delivery of superior customer service and market conditions. Changes in interest rates, most notably rising interest rates, could impact deposit volumes in the future. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, to reduce borrowings or purchase investment securities. However, due to the general economic environment, competition and regulatory uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends are expected to continue subject to the Board s

discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

Westamerica Bancorporation (Parent Company) is a separate entity and apart from Westamerica Bank (Bank) and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for the payment of dividends declared for its shareholders, and interest and principal on outstanding debt. Substantially all of the Parent Company s revenues are obtained from subsidiary dividends and service fees. Payment of dividends to the Parent Company by the Bank is limited under California law. The amount that can be paid in any calendar year, without prior approval from the state regulatory agency, cannot exceed the net profits (as defined) for the preceding three calendar years less distributions in that period. The Company believes that such restriction will not have an impact on the Parent Company s ability to meet its ongoing cash obligations. During 2010, 2009 and 2008, the Bank declared dividends to the Company of $69 million, $93 million and $100 million, respectively.

Contractual Obligations

The following table sets forth the known contractual obligations, except short-term borrowing arrangements and post retirement benefit plans, of the Company at December 31, 2010:

At December 31, 2010 (In thousands)	Within One Year	Over One to Three Years	Over Three to Five Years	After Five Years	Total
Long-Term Debt Obligations	$	$ 15,000	$	$ 10,000	$ 25,000
Federal Home Loan Bank advances	20,000	20,000	20,000		60,000
Operating Lease Obligations	9,192	14,790	7,812	1,397	33,191
Purchase Obligations	7,932				7,932
Total	$ 37,124	$ 49,790	$ 27,812	$ 11,397	$ 126,123

Long-term debt obligations and operating lease obligations may be retired prior to the contractual maturity as discussed in the notes to the consolidated financial statements. The purchase obligation consists of the Company s minimum liability under a contract with a third-party automation services provider.

Capital Resources

The Company has historically generated high levels of earnings, which provides a means of raising capital. The Company s net income as a percentage of average shareholders equity (return on equity or ROE) has been 14.8% in 2008, 25.8% in 2009 and 18.1% in 2010. The Company also raises capital as employees exercise stock options, which are awarded as a part of the Company s executive compensation programs to reinforce shareholders interests in the Management of the Company. Capital raised through the exercise of stock options totaled $22.8 million in 2008, $9.6 million in 2009 and $16.7 million in 2010.

The Company paid common dividends totaling $40.2 million in 2008, $41.1 million in 2009, and $42.1 million in 2010, which represent dividends per common share of $1.39, $1.41, and $1.44, respectively. In 2009, the Company was not able to, without the consent of the Treasury, increase the cash dividend on the Company s common stock above $0.35 per share, the amount of the last quarterly cash dividend per share declared prior to October 14, 2008 while the Treasury Preferred Stock was outstanding. This restriction was removed upon full redemption of the Treasury Preferred Stock on November 18, 2009. The Company s earnings have historically exceeded dividends paid to shareholders. The amount of earnings in excess of dividends gives the Company resources to finance growth and maintain appropriate levels of shareholders equity. In the absence of profitable growth opportunities, the Company has repurchased and retired its common stock as another means to return earnings to shareholders. The Company repurchased and retired 719 thousand shares valued at $35.9 million in 2008, 42 thousand shares valued at $2.0 million in 2009, and 533 thousand shares valued at $28.7 million in 2010. Share repurchases in most of 2009 were restricted to amounts conducted in coordination with employee benefit programs under the terms of the February 13, 2009 issuance of Treasury Preferred Stock until complete redemption of the same preferred stock on November 18, 2009.

The Company s primary capital resource is shareholders equity, which increased $39.8 million or 7.9% in 2010 from the previous year, primarily the net result of $94.6 million in net income earned during the year, and $16.7 million in

issuance of stock in connection with exercises of employee stock options, offset by $42.1 million in common dividends paid, and $28.7 million in stock repurchases.

The Company s ratio of equity to total assets was 11.06% at December 31, 2010 and 10.16% at December 31, 2009.

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Capital to Risk-Adjusted Assets

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

At December 31,	2010	2009	Minimum Regulatory Requirement	Well Capitalized
Tier I Capital	14.21%	13.20%	4.00%	6.00%
Total Capital	15.50%	14.50%	8.00%	10.00%
Leverage ratio	8.44%	7.60%	4.00%	5.00%

The Company s risk-based capital ratios increased at December 31, 2010, compared with December 31, 2009, primarily due to equity capital increasing relatively faster than risk-weighted assets.

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

At December 31,	2010	2009	Minimum Regulatory Requirement	Well Capitalized
Tier I Capital	13.87%	13.39%	4.00%	6.00%
Total Capital	15.33%	14.88%	8.00%	10.00%
Leverage ratio	8.19%	7.67%	4.00%	5.00%

The risk-based capital ratios increased at December 31, 2010, compared with December 31, 2009, due to retention of earnings, partially offset by an increase in risk-weighted assets. FDIC-covered assets are included in the 20% risk-weighted category due to loss sharing agreements, which expire on February 5, 2019 as to the residential real estate loans and on February 5, 2014 as to non-residential real estate loans. At such dates, previously FDIC-indemnified assets will be included in the 100% risk-weight category.

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

Deposit categories

The Company primarily attracts deposits from local businesses and professionals, as well as through retail savings and checking accounts, and, to a more limited extent, certificates of deposit.

The following table summarizes the Company s average daily amount of deposits and the rates paid for the periods indicated:

Deposit Distribution and Average Rates Paid

Years Ended December 31, (Dollars in thousands)	2010 Average Balance	2010 Percentage of Total Deposits	2010 Rate	2009 Average Balance	2009 Percentage of Total Deposits	2009 Rate	2008 Average Balance	2008 Percentage of Total Deposits	2008 Rate
Noninterest bearing demand	$ 1,412,702	35.3%	%	$ 1,354,534	33.3%	%	$ 1,181,679	37.3%	%
Interest bearing:									
Transaction	682,278	17.1%	0.13%	696,638	17.1%	0.14%	541,727	17.1%	0.26%
Savings	994,604	24.9%	0.27%	951,457	23.4%	0.39%	759,829	24.0%	0.56%
Time less than $100 thousand	358,096	8.9%	0.49%	458,117	11.3%	0.98%	193,889	6.1%	2.69%

Time $100 thousand or more	550,810	13.8%	0.62%	607,642	14.9%	0.88%	489,326	15.5%	2.11%
Total	$ 3,998,490	100.0%	0.34%	$ 4,068,388	100.0%	0.54%	$ 3,166,450	100.0%	1.07%

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The Company s strategy includes building the value of its deposit base by building balances of lower-costing deposits and avoiding reliance on higher-costing time deposits. From 2009 to 2010 the deposit composition shifted from higher costing time deposits to lower costing checking and savings accounts. The Company s average checking and savings accounts represented 77% of total deposits in 2010 compared with 74% in 2009. During 2010, total average deposits declined by $69.9 million or 1.7% from 2009 due to an $100.0 million decrease in average time deposits less than $100 thousand, a $56.8 million decrease in average time deposits $100 thousand or more and a $14.4 million decrease in average transaction accounts, partially offset by a $58.2 million increase in average noninterest bearing demand deposits and a $43.1 million increase in average savings deposits.

During 2009, total average deposits increased by $901.9 million or 28.5% from 2008 due to growth in deposit accounts assumed from the County acquisition on February 6, 2009, including increases in noninterest bearing demand deposits (up $172.9 million), interest-bearing transaction accounts (up $154.9 million), savings deposits (up $191.6 million), time deposits less than $100 thousand (up $264.2 million) and time deposits $100 thousand or more (up $118.3 million).

Total time deposits were $895.6 million and $991.4 million at December 31, 2010 and 2009, respectively. The following table sets forth, by time remaining to maturity, the Company s total domestic time deposits. The Company has no foreign time deposits.

(In thousands)	December 31, 2010
2011	$ 772,138
2012	60,367
2013	26,034
2014	12,689
2015	20,778
Thereafter	3,570
Total	$ 895,576

The following sets forth, by time remaining to maturity, the Company s domestic time deposits in amounts of $100 thousand or more:

Deposits Over $100,000 Maturity Distribution

(In thousands)	December 31, 2010
Three months or less	$ 410,094
Over three through six months	52,355
Over six through twelve months	46,453
Over twelve months	45,027
Total	$ 553,929

Short-term Borrowings

The following table sets forth the short-term borrowings of the Company:

Short-Term Borrowings Distribution

At December 31, (In thousands)	2010	2009	2008
Federal funds purchased	$	$	$ 335,000
Other borrowed funds:			

Customer sweep accounts	105,237	109,332	119,015
Term repurchase agreements		99,044	
Securities sold under repurchase agreements with customers	1,148	3,102	3,260
Line of credit	1,000	15,700	
Total short term borrowings	$ 107,385	$ 227,178	$ 457,275

The term repurchase agreement matured on December 15, 2010.

Further detail of federal funds purchased and other borrowed funds is as follows:

Years Ended December 31, (Dollars in thousands)	2010	2009	2008
Federal funds purchased balances and rates paid on outstanding amount:			
Average balance for the year	$	$ 107,732	$ 411,488
Maximum month-end balance during the year		365,000	665,000
Average interest rate for the year	%	0.18%	2.17%
Average interest rate at period end	%	%	0.16%
Sweep accounts balances and rates paid on outstanding amount:			
Average balance for the year	$ 101,690	$ 113,167	$ 126,394
Maximum month-end balance during the year	116,179	124,557	134,610
Average interest rate for the year	0.32%	0.41%	0.57%
Average interest rate at period end	0.22%	0.35%	0.53%
Term repurchase agreements balances and rates paid outstanding amount:			
Average balance for the year	$ 94,842	$ 90,344	$
Maximum month-end balance during the year	99,920	99,044	
Average interest rate for the year	1.61%	1.53%	%
Average interest rate at period end	%	1.55%	%
Securities sold under repurchase agreements balances and rates paid outstanding amount:			
Average balance for the year	$ 2,314	$ 2,991	$ 6,698
Maximum month-end balance during the year	3,380	3,567	8,644
Average interest rate for the year	0.42%	0.61%	1.87%
Average interest rate at period end	0.35%	0.51%	1.06%
Line of credit balances and rates paid outstanding amount:			
Average balance for the year	$ 3,817	$ 2,071	$ 4,858
Maximum month-end balance during the year	9,200	17,877	17,808
Average interest rate for the year	3.42%	3.13%	3.47%
Average interest rate at period end	4.10%	2.99%	%

Financial Ratios

The following table shows key financial ratios for the periods indicated:

At and for the years ended December 31,	2010	2009	2008
Return on average total assets	1.95%	2.39%	1.42%
Return on average common shareholders equity	18.11%	25.84%	14.77%
Average shareholders equity as a percentage of:			
Average total assets	10.76%	10.31%	9.60%
Average total loans	17.68%	16.25%	16.65%
Average total deposits	13.06%	12.89%	12.79%
Common dividend payout ratio	45%	34%	68%

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

currency exchange risk and commodity price risk, are not significant in the normal course of the Company s business activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Westamerica Bancorporation and subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2010. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2010 based upon criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management determined that the Company s internal control over financial reporting was effective as of December 31, 2010 based on the criteria in Internal Control - Integrated Framework issued by COSO.

The Company s independent registered public accounting firm has issued an attestation report on Management s assessment of the Company s internal control over financial reporting. This report is included below.

Dated February 25, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Westamerica Bancorporation:

We have audited Westamerica Bancorporation and subsidiaries (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 25, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP
San Francisco, California
February 25, 2011

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CONSOLIDATED BALANCE SHEETS

(In thousands)

December 31,	*2010*	*2009*
Assets		
Cash and due from banks	$ 338,793	$ 361,135
Money market assets	392	442
Investment securities available for sale	671,484	384,208
Investment securities held to maturity (fair values of $594,711 at December 31, 2010 and $736,270 at December 31, 2009)	580,728	726,935
Purchased covered loans	692,972	855,301
Purchased non-covered loans	199,571	
Originated loans	2,029,541	2,201,088
Allowance for loan losses	(35,636)	(41,043)
Total loans	2,886,448	3,015,346
Non-covered other real estate owned	13,620	12,642
Covered other real estate owned	21,791	23,297
Premises and equipment, net	36,278	38,098
Identifiable intangibles	34,604	35,667
Goodwill	121,673	121,699
Interest receivable and other assets	225,713	256,032
Total Assets	$ 4,931,524	$ 4,975,501
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 1,454,663	$ 1,428,432
Interest bearing deposits	2,678,298	2,631,776
Total deposits	4,132,961	4,060,208
Short-term borrowed funds	107,385	227,178
Federal Home Loan Bank advances	61,698	85,470
Debt financing and notes payable	26,363	26,497
Liability for interest, taxes and other expenses	57,830	70,700
Total Liabilities	4,386,237	4,470,053
Shareholders Equity		
Common Stock (no par value)		
Authorized 150,000 shares		
Issued and outstanding 29,090 at December 31, 2010 and 29,208 at December 31, 2009	378,885	366,247
Deferred compensation	2,724	2,485
Accumulated other comprehensive Income	159	3,714
Retained earnings	163,519	133,002

Total Shareholders Equity	545,287	505,448
Total Liabilities and Shareholders Equity	$ 4,931,524	$ 4,975,501

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

For the years ended December 31,	*2010*	*2009*	*2008*
Interest and Fee Income			
Loans	$ 177,224	$ 189,801	$ 148,659
Money market assets and funds sold	2	3	3
Investment securities available for sale	16,766	16,547	18,211
Investment securities held to maturity	27,163	35,598	41,596
Total Interest and Fee Income	221,155	241,949	208,469
Interest Expense			
Deposits	8,718	14,549	21,182
Short-term borrowed funds	1,991	2,132	9,958
Federal Home Loan Bank advances	437	1,010	
Debt financing and notes payable	1,694	1,689	2,103
Total Interest Expense	12,840	19,380	33,243
Net Interest Income	208,315	222,569	175,226
Provision for Loan Losses	11,200	10,500	2,700
Net Interest Income After Provision for Loan Losses	197,115	212,069	172,526
Noninterest Income			
Service charges on deposit accounts	33,517	36,392	29,762
Merchant credit card	9,057	9,068	10,525
Debit card	4,888	4,875	3,769
ATM and interchange	3,848	3,693	2,923
Trust fees	1,705	1,429	1,227
Financial services commissions	747	583	830
Gain on acquisition	178	48,844	
Net losses from equity securities			(56,955)
Other	7,514	7,127	5,863
Total Noninterest Income (Loss)	61,454	112,011	(2,056)
Noninterest Expense			
Salaries and related benefits	61,748	65,391	51,492
Occupancy	15,633	18,748	13,703
Outsourced data processing services	8,957	9,000	8,440
Amortization of intangibles	6,333	6,697	3,221
FDIC insurance assessments	5,168	6,260	518
Furniture and equipment	4,325	5,859	3,801
Courier Service	3,495	3,808	3,322
Professional fees	3,376	3,583	2,624
Visa litigation			(2,338)
Other	18,112	21,430	15,978

Total Noninterest Expense		127,147		140,776		100,761
Income Before Income Taxes		131,422		183,304		69,709
Provision for income taxes		36,845		57,878		9,874
Net Income		94,577		125,426		59,835
Preferred stock dividends and discount accretion				3,963		
Net Income Applicable to Common Equity	$	94,577	$	121,463	$	59,835
Average Common Shares Outstanding		29,166		29,105		28,892
Diluted Average Common Shares Outstanding		29,471		29,353		29,273
Per Common Share Data						
Basic earnings	$	3.24	$	4.17	$	2.07
Diluted earnings		3.21		4.14		2.04
Dividends paid		1.44		1.41		1.39

See accompanying notes to the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME
(In thousands)

	Shares	*Preferred Stock*	*Common Stock*	*Deferred Compensation*	*Accumulated Other Comprehensive (Loss) Income*	*Retained Earnings*	*Total*
December 31, 2007	29,018	$	$ 334,211	$ 2,990	$ (4,520)	$ 61,922	$ 394,603
Comprehensive income							
Net income for the year 2008						59,835	59,835
Other comprehensive income, net of tax:							
Increase in net unrealized gains on securities available for sale					5,524		5,524
Post-retirement benefit transition obligation amortization					36		36
Total comprehensive income							65,395
Exercise of stock options	567		22,830				22,830
Stock option tax benefits			1,130				1,130
Restricted stock activity	11		1,261	(581)			680
Stock based compensation			1,193				1,193
Stock awarded to employees	3		171				171
Purchase and retirement of stock	(719)		(8,531)			(27,383)	(35,914)
Dividends						(40,236)	(40,236)
December 31, 2008	28,880		352,265	2,409	1,040	54,138	409,852
Comprehensive income							
Net income for the year 2009						125,426	125,426
Other comprehensive income, net of tax:							
					2,638		2,638

Increase in net unrealized gains on securities available for sale							
Post-retirement benefit transition obligation amortization					36		36
Total comprehensive income							128,100
Issuance of preferred stock and related warrants		82,519	1,207				83,726
Redemption of preferred stock		(83,726)					(83,726)
Preferred stock dividends and discount accretion		1,207				(3,963)	(2,756)
Exercise of stock options	361		9,610				9,610
Stock option tax benefits			2,188				2,188
Restricted stock activity	7		251	76			327
Stock based compensation			1,132				1,132
Stock awarded to employees	2		102				102
Purchase and retirement of stock	(42)		(508)			(1,538)	(2,046)
Dividends						(41,061)	(41,061)
December 31, 2009	29,208		366,247	2,485	3,714	133,002	505,448
Comprehensive income							
Net income for the year 2010						94,577	94,577
Other comprehensive income, net of tax:							
Decrease in net unrealized gains on securities available for sale					(3,591)		(3,591)
Post-retirement benefit transition obligation amortization					36		36
Total comprehensive income							91,022

Exercise of stock options	406		16,688				16,688
Stock option tax benefits			1,004				1,004
Restricted stock activity	7		194	239			433
Stock based compensation			1,380				1,380
Stock awarded to employees	2		125				125
Purchase and retirement of stock	(533)		(6,753)			(21,966)	(28,719)
Dividends						(42,094)	(42,094)
December 31, 2010	29,090	$	$ 378,885	$ 2,724	$ 159	$ 163,519	$ 545,287

See accompanying notes to the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

For the years ended December 31,	*2010*	*2009*	*2008*
Operating Activities:			
Net income	$ 94,577	$ 125,426	$ 59,835
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization/accretion	15,327	10,429	9,438
Loan loss provision	11,200	10,500	2,700
Net amortization of deferred loan (fees) cost	(100)	470	124
Decrease (increase) in interest income receivable	1,094	(1,900)	3,480
(Increase) decrease in deferred taxes	(12,335)	17,176	(7,819)
Decrease (increase) in other assets	23,404	12,704	(9,814)
Stock option compensation expense	1,380	1,132	1,193
Excess tax benefits from stock-based compensation	(1,004)	(2,188)	(1,130)
(Decrease) increase in income taxes payable	(565)	2,316	141
Increase (decrease) in interest expense payable	17	(439)	(3,527)
(Decrease) increase in other liabilities	(16,767)	21,830	(18,677)
Gain on acquisition	(178)	(48,844)	
Loss on sale and impairment of investment securities			62,653
Gain on sale of Visa common stock			(5,698)
Gain on sale of real estate and other assets	(211)		
Net (gain) loss on sales/write-down of fixed assets	(434)	40	12
Originations of mortgage loans for resale	(332)	(68)	(1,269)
Net proceeds from sale of mortgage loans originated for resale	344	70	1,283
Net write-down/(gain)loss on sale of foreclosed assets	(447)	375	195
Net Cash Provided By Operating Activities	114,970	149,029	93,120
Investing Activities			
Net repayments of loans	299,432	447,277	106,279
Proceeds from FDIC loss-sharing agreement	41,048	43,176	
Net cash acquired from acquisition	57,895	44,397	
Purchases of investment securities available for sale	(482,356)	(22,992)	(6,430)
Proceeds from maturity/calls of securities available for sale	201,442	105,097	197,594
Purchases of securities held to maturity		(522)	
Proceeds from maturity/calls of securities held to maturity	146,206	225,913	95,962
Purchases of property, plant and equipment	(1,448)	(14,179)	(1,905)
Proceeds from sale of branch, property and equipment	603	79	
Purchases of FRB/FHLB* securities			(147)
Proceeds from sale of FRB/FHLB/FHLMC* securities	3,948	1,502	11,887
Proceeds from sale of Visa common stock			5,698
Proceeds from sale of foreclosed assets	31,745	11,082	311
Net Cash Provided By Investing Activities	298,515	840,830	409,249
Financing Activities			
Net change in deposits	(176,887)	(261,968)	(169,736)

Net change in short-term borrowings	(205,819)	(471,574)	(341,324)
Repayments of notes payable			(10,000)
Proceeds from issuance of preferred stock and warrants		83,726	
Redemption of preferred stock		(83,726)	
Preferred stock dividends		(2,756)	
Exercise of stock options/issuance of shares	16,688	9,610	22,830
Excess tax benefits from stock-based compensation	1,004	2,188	1,130
Retirement of common stock including repurchases	(28,719)	(2,046)	(35,914)
Common stock dividends paid	(42,094)	(41,061)	(40,236)
Net Cash Used In Financing Activities	(435,827)	(767,607)	(573,250)
Net Change In Cash and Due from Banks	(22,342)	222,252	(70,881)
Cash and Due from Banks at Beginning of Year	361,135	138,883	209,764
Cash and Due from Banks at End of Year	$ 338,793	$ 361,135	$ 138,883
Supplemental Disclosures:			
Supplemental disclosure of noncash activities:			
Loans transferred to other real estate owned	$ 30,770	$ 38,185	$ 3,432
(Decrease) increase in unrealized gains on securities available for sale, net of tax	(3,591)	2,638	5,524
Supplemental disclosure of cash flow activity:			
Interest paid for the period	15,414	27,558	36,770
Income tax payments for the period	50,388	36,852	24,056
Acquisitions:			
Assets acquired	$ 315,083	$ 1,624,464	
Liabilities assumed	314,905	1,575,620	
Net	178	48,844	

See accompanying notes to the consolidated financial statements.

* Federal Reserve Bank (FRB), Federal Home Loan Bank (FHLB) and Federal Home Loan Mortgage Corp. (FHLMC)

WESTAMERICA BANCORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Business and Accounting Policies

Westamerica Bancorporation, a registered bank holding company (the Company), provides a full range of banking services to corporate and individual customers in Northern and Central California through its subsidiary bank, Westamerica Bank (the Bank). The Bank is subject to competition from both financial and nonfinancial institutions and to the regulations of certain agencies and undergoes periodic examinations by those regulatory authorities.

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

Summary of Significant Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The following is a summary of significant policies used in the preparation of the accompanying financial statements.

Accounting Estimates. Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments about future economic and market conditions. These estimates and judgments may affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Although the estimates contemplate current conditions and how Management expects them to change in the future, it is reasonably possible that in 2011 actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial conditions. The most significant of these involve the Allowance for Credit Losses, as discussed below under Allowance for Credit Losses, estimated fair values of purchased loans, as discussed below under Purchased Loans, and the evaluation of other than temporary impairment, as discussed below under Securities.

As described in Note 2 below, the Bank acquired assets and assumed liabilities of the former Sonoma Valley Bank (Sonoma) on August 20, 2010. The acquired assets and assumed liabilities were measured at estimated fair values, as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 805, Business Combinations. Management made significant estimates and exercised significant judgment in accounting for the acquisition. Management judgmentally measured loan fair values based on loan file reviews (including borrower financial statements and tax returns), appraised collateral values, expected cash flows, and historical loss factors. Repossessed loan collateral was primarily valued based upon appraised collateral values. The Bank also recorded an identifiable intangible asset representing the value of the core deposit customer base of Sonoma based on Management s evaluation of the cost of such deposits relative to alternative funding sources. In determining the value of the identifiable intangible asset, Management used significant estimates including average lives of depository accounts, future interest rate levels, the cost of servicing various depository products, FDIC assessment rates and other significant estimates. Management used quoted market prices to determine the fair value of investment securities and FHLB advances.

The Bank acquired assets and assumed liabilities of the former County on February 6, 2009 from the Federal Deposit Insurance Corporation (FDIC). The acquired assets and assumed liabilities of County were measured at estimated fair values, as required by the acquisition method of accounting for business combinations (FASB ASC 805, Business Combinations, formerly FASB Statement No. 141 (revised 2007)). Management made significant estimates and exercised significant judgment in accounting for the acquisition of County. Management judgmentally assigned risk ratings to loans. The assigned risk ratings, appraised collateral values, expected cash flows, current interest rates, and statistically derived loss factors were used to measure fair values for loans. Repossessed loan collateral was primarily valued based upon appraised collateral values. Due to the loss-sharing agreements with the FDIC, the Bank recorded a receivable from the FDIC equal to 80 percent of the loss estimates embedded in the fair values of loans and repossessed loan collateral. The Bank also recorded an identifiable intangible asset representing the value of the core deposit customer base of County based on an appraisal performed by an independent third party. In determining the value of the identifiable intangible asset, the third-party appraiser used significant estimates including average lives of depository accounts, future interest rate levels, the cost of servicing various depository products, and other significant

estimates. Management used quoted market prices to determine the fair value of investment securities, FHLB advances and other borrowings.

The acquired assets of Sonoma include loans which are not indemnified by the Federal Deposit Insurance Corporation (FDIC). The acquired loans of County Bank are indemnified under loss-sharing agreements with the FDIC, as described in Note 2 to the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Pursuant to acquisition accounting, the loans in each business combination were measured at their estimated fair value at the respective acquisition date. This method of measuring the carrying value of purchased loans differs from loans originated by the Company, and as such, the Company identifies purchased loans not indemnified by the FDIC as Purchased Non-covered Loans and purchased loans indemnified by the FDIC as Purchased Covered Loans. Loans originated by the Company are measured at the principal amount outstanding, net of unearned discount and unamortized deferred fees and costs. These loans are identified as Originated Loans.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all the Company s subsidiaries. Significant intercompany transactions have been eliminated in consolidation. The Company does not maintain or conduct transactions with any unconsolidated special purpose entities other than limited partnerships sponsored by third parties.

Cash Equivalents. Cash equivalents include Due From Banks balances and Federal Funds Sold which are both readily convertible to known amounts of cash and are generally 90 days or less from maturity at the time of purchase, presenting insignificant risk of changes in value due to interest rate changes.

Securities. Investment securities consist of debt securities of the U.S. Treasury, government sponsored entities, states, counties, municipalities, corporations, mortgage-backed securities, and equity securities. Securities transactions are recorded on a trade date basis. The Company classifies its debt and marketable equity securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those debt securities which the Company has the ability and intent to hold until maturity. Securities not included in trading or held to maturity are classified as available for sale. Trading and available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization of premiums or accretion of discounts. Unrealized gains and losses on trading securities are included in earnings. Unrealized gains and losses, net of the related tax effect, on available for sale securities are reported as a separate component of shareholders equity.

A decline in the market value of any available for sale or held to maturity security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. Unrealized investment securities losses are evaluated at least quarterly to determine whether such declines in value should be considered other than temporary and therefore be subject to immediate loss recognition in income. Although these evaluations involve significant judgment, an unrealized loss in the fair value of a debt security is generally deemed to be temporary when the fair value of the security is below the carrying value primarily due to changes in risk-free interest rates, there has not been significant deterioration in the financial condition of the issuer, and the Company does not intend to sell or be required to sell the securities before recovery of its amortized cost. An unrealized loss in the value of an equity security is generally considered temporary when the fair value of the security declined primarily due to current market conditions and not deterioration in the financial condition of the issuer, the Company expects the fair value of the security to recover in the near term and the Company does not intend to sell or be required to sell the securities before recovery of its amortized cost. Other factors that may be considered in determining whether a decline in the value of either a debt or an equity security is other than temporary include ratings by recognized rating agencies, actions of commercial banks or other lenders relative to the continued extension of credit facilities to the issuer of the security, the financial condition, capital strength and near-term prospects of the issuer, and recommendations of investment advisors or market analysts.

Purchase premiums are amortized and purchase discounts are accreted over the estimated life of the related investment security as an adjustment to yield using the effective interest method. Unamortized premiums, unaccreted discounts, and early payment premiums are recognized in interest income upon disposition of the related security. Interest and dividend income are recognized when earned. Realized gains and losses from the sale of available for sale securities are included in earnings using the specific identification method.

Loans. Loans are stated at the principal amount outstanding, net of unearned discount and unamortized deferred fees and costs. Interest is accrued daily on the outstanding principal balances. Loans which are more than 90 days delinquent with respect to interest or principal, unless they are well secured and in the process of collection, and other loans on which full recovery of principal or interest is in doubt, are placed on nonaccrual status. Interest previously accrued on loans placed on nonaccrual status is charged against interest income. In addition, some loans secured by real estate with temporarily impaired values and commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status (performing nonaccrual loans) even though the borrowers continue to repay the loans as scheduled. When the ability to fully collect nonaccrual loan principal is in doubt,

payments received are applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Performing nonaccrual loans are reinstated to accrual status when improvements in credit quality eliminate the doubt as to the full collectibility of both interest and principal. Certain consumer loans or auto receivables are charged to the allowance for credit losses when they become 120 days past due. The Company recognizes a loan as impaired when, based on current information and events, it is probable that it will be unable to collect both the contractual interest and principal payments as scheduled in the loan agreement. Income recognition on impaired loans conforms to that used on nonaccrual loans. In certain circumstances, the Company might agree to restructured loan terms with borrowers experiencing financial difficulties; such restructured loans are evaluated under ASC 310-40, Troubled Debt Restructurings by Creditors.

Nonrefundable fees and certain costs associated with originating or acquiring loans are deferred and amortized as an adjustment to interest income over the contractual loan lives. Upon prepayment, unamortized loan fees, net of costs, are immediately recognized in interest income. Other fees, including those collected upon principal prepayments, are included in interest income when received. Loans held for sale are identified upon origination and are reported at the lower of cost or market value on an aggregate loan basis.

Purchased loans. Purchased loans are recorded at estimated fair value on the date of purchase. Impaired purchased loans are accounted for under FASB ASC 310-30, Loans and Debt Securities with Deteriorated Credit Quality, when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. Evidence of credit quality deterioration as of the purchase date may include attributes such as past due and nonaccural status. Generally, purchased loans that meet the Company s definition for nonaccrual status fall within the scope of FASB ASC 310-30. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows result in a reversal of the provision for loan losses to the extent of prior charges, or a reclassification of the difference from nonaccretable to accretable with a positive impact on interest income. Any excess of expected cash flows over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. Further, the Company elected to analogize to ASC 310-30 and account for all other loans that had a discount due in part to credit not within the scope of ASC 310-30 using the same methodology.

Covered loans. Loans covered under loss-sharing or similar credit protection agreements with the FDIC are reported in loans exclusive of the expected reimbursement cash flows from the FDIC. Covered loans are initially recorded at fair value at the acquisition date. Subsequent decreases in the amount expected to be collected results in a provision for loan losses and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss impacting earnings. Interest is accrued daily on the outstanding principal balances. Covered loans which are more than 90 days delinquent with respect to interest or principal, unless they are well secured and in the process of collection, and other covered loans on which full recovery of principal or interest is in doubt, are placed on nonaccrual status. Interest previously accrued on covered loans placed on nonaccrual status is charged against interest income, net of estimated FDIC reimbursements of such accrued interest. In addition, some covered loans secured by real estate with temporarily impaired values and covered commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status even though the borrowers continue to repay the loans as scheduled (covered performing nonaccrual loans). Covered performing nonaccrual loans are reinstated to accrual status when improvements in credit quality eliminate the doubt as to the full collectibility of both interest and principal.

Allowance for Credit Losses. The allowance for credit losses is established through provisions for credit losses charged to income. Losses on loans, including impaired loans, are charged to the allowance for credit losses when all or a portion of the recorded amount of a loan is deemed to be uncollectible. Recoveries of loans previously charged off are credited to the allowance when realized. The Company s allowance for credit losses is maintained at a level considered adequate to provide for losses that can be estimated based upon specific and general conditions. These include conditions unique to individual borrowers, as well as overall credit loss experience, the amount of past due,

nonperforming and classified loans, recommendations of regulatory authorities, prevailing economic conditions, FDIC loss-sharing or similar credit protection agreements and other factors. A portion of the allowance is specifically allocated to impaired loans whose full collectibility is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. A second allocation is based in part on quantitative analyses of historical credit loss experience, in which criticized and classified loan balances identified through an internal loan review process are analyzed using a linear regression model to determine standard loss rates. The results of this analysis are applied to current criticized and classified loan balances to allocate the reserve to the respective commercial, commercial real estate, and construction segments of the loan portfolio. In addition,

residential real estate and consumer loans which have similar characteristics and are not usually criticized using regulatory guidelines are analyzed and reserves established based on the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Last, allocations are made to non-criticized and non-classified commercial, commercial real estate and construction loans based on historical loss rates. The remainder of the reserve is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. It addresses additional qualitative factors consistent with Management s analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company s general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have yet been recognized in past loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses that are attributable to general attributes of the Company s loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific category in a statistically meaningful manner and are difficult to quantify with a specific number.

Liability for Off-Balance Sheet Credit Exposures. A liability for off-balance sheet credit exposures is established through expense recognition. Off-balance sheet credit exposures relate to letters of credit and unfunded loan commitments for commercial and construction loans. Historical credit loss factors for commercial and construction loans are applied to the amount of these off-balance sheet credit exposures to estimate inherent losses.

Other Real Estate Owned. Other real estate owned is comprised of property acquired through foreclosure proceedings, acceptances of deeds-in-lieu of foreclosure and, if applicable, vacated bank properties. Losses recognized at the time of acquiring property in full or partial satisfaction of debt are charged against the allowance for credit losses. Other real estate owned is recorded at the lower of the related loan balance or fair value of the collateral, generally based upon an independent property appraisal, less estimated disposition costs. Subsequently, other real estate owned is valued at the lower of the amount recorded at the date acquired or the then current fair value less estimated disposition costs. Subsequent losses incurred due to any decline in annual independent property appraisals are recognized as noninterest expense. Routine holding costs, such as property taxes, insurance and maintenance, and losses from sales and dispositions, are recognized as noninterest expense.

Covered Other Real Estate Owned. Other real estate owned covered under loss-sharing agreements with the FDIC is reported exclusive of expected reimbursement cash flows from the FDIC. Upon transferring covered loan collateral to covered other real estate owned status, acquisition date fair value discounts on the related loans are also transferred to covered other real estate owned. Fair value adjustments on covered other real estate owned result in a reduction of the covered other real estate carrying amount and a corresponding increase in the estimated FDIC reimbursement, with the estimated net loss charged against earnings.

Premises and Equipment. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed substantially on the straight-line method over the estimated useful life of each type of asset. Estimated useful lives of premises and equipment range from 20 to 50 years and from 3 to 20 years, respectively. Leasehold improvements are amortized over the terms of the lease or their estimated useful life, whichever is shorter.

Intangible assets. Intangible assets are comprised of goodwill, core deposit intangibles and other identifiable intangibles acquired in business combinations. Intangible assets with definite useful lives are amortized on an accelerated basis over their respective estimated useful lives not exceeding 15 years. If an event occurs that indicates the carrying amount of an intangible asset may not be recoverable, Management reviews the asset for impairment. Any goodwill and any intangible asset acquired in a purchase business combination determined to have an indefinite useful life is not amortized, but is evaluated for impairment annually.

Impairment of Long-Lived Assets. The Company reviews its long-lived and certain intangible assets for impairment whenever events or changes indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying

amount or fair value less costs to sell.

Income taxes. The Company and its subsidiaries file consolidated tax returns. The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes, resulting in two components of income tax expense: current and deferred. Current income tax expense approximates taxes to be paid or refunded for the current period. The Company determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to Management s judgment that realization is more likely than not. A tax position that meets the more likely than not recognition threshold is measured to determine the amount of benefit to recognize. The tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. Interest and penalties are recognized as a component of income tax expense.

Derivative Instruments and Hedging Activities. The Company s accounting policy for derivative instruments requires the Company to recognize those items as assets or liabilities in the statement of financial position and measure them at fair value. Hybrid financial instruments are single financial instruments that contain an embedded derivative. The Company s accounting policy is to record certain hybrid financial instruments at fair value without separating the embedded derivative.

Stock Options. The Company applies FASB ASC 718 Compensation Stock Compensation, to account for stock based awards granted to employees using the fair value method. The Company recognizes compensation expense for restricted performance share grants over the relevant attribution period. Restricted performance share grants have no exercise price, therefore, the intrinsic value is measured using an estimated per share price at the vesting date for each restricted performance share. The estimated per share price is adjusted during the attribution period to reflect actual stock price performance. The Company s obligation for unvested outstanding restricted performance share grants is classified as a liability until the vesting date due to a cash settlement feature, at which time the issued shares become classified as shareholders equity.

Extinguishment of Debt. Gains and losses, including fees, incurred in connection with the early extinguishment of debt are charged to current earnings as reductions in noninterest income.

Postretirement Benefits. The Company uses an actuarial-based accrual method of accounting for post-retirement benefits.

Other. Securities and other property held by the Bank in a fiduciary or agency capacity are not included in the financial statements since such items are not assets of the Company or its subsidiaries.

Recently Adopted Accounting Pronouncements

In 2010, the Company adopted the following new accounting guidance:

FASB ASC 860, as amended, *Transfers and Servicing*, has been amended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. This Standard is effective for transfers occurring on or after January 1, 2010. The adoption of this Statement did not have any effect on the Company s financial statements at the date of adoption.

FASB ASC 810, as amended, *Consolidation*, has been amended to improve financial reporting by enterprises involved with variable interest entities. Specifically to address: (1) the effects on certain provisions as a result of the elimination of the qualifying special-purpose entity concept in ASC 860, *Transfers and Servicing,* and (2) constituent concerns about the application of certain key provisions of the Standard, including those in which the accounting and disclosures do not always provide timely and useful information about an enterprise s involvement in a variable interest entity. The adoption of this Statement did not have any effect on the Company s financial statements at the date of adoption.

FASB Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures (Topic 820)*, issued January 2010 and effective January 1, 2010, requires new disclosures for: (1) transfers in and out of Levels 1 and 2, including separate disclosure of significant amounts and a description of the reasons for the transfers; and (2) separate presentation of information about purchases, sales, issuances, and settlements (on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The Update clarifies existing disclosure requirements for: (1) Level of disaggregation, which provides measurement disclosures for each class of assets and liabilities, emphasizing that judgment should be used in determining the appropriate classes of assets and liabilities; and (2) inputs and valuation techniques for both recurring and nonrecurring Level 2 and Level 3 fair value measurements. This update also includes conforming amendments to the guidance on employer s disclosures about postretirement benefit plan assets changing the terminology of major categories of assets to classes of assets and providing a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. The adoption of this Update did not have a significant effect on the Company s financial statements at the date of adoption.

FASB ASU 2010-18, *Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset (Topic 310)*, was issued April 2010 and was effective for modifications of loans accounted for within pools

under Subtopic 310-30 occurring in the first interim or annual period ending after July 15, 2010. As a result of the amendments in this Update, modification of loans within the pool does not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a trouble debt restructuring. An entity continues to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. However, loans within the scope of Subtopic 310-30 that are accounted for individually will continue to be subject to the troubled debt restructuring accounting provisions. The provisions of this Update will be applied prospectively. Upon initial adoption of the guidance in this Update, an entity was allowed to make a one-time election to terminate accounting for loans as a pool under Subtopic 310-30. The election was allowed to be applied on a pool-by-pool basis and did not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The adoption of this Update did not have a significant effect on the Company s financial statements.

FASB ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310)*, was issued July 2010. The guidance significantly expands the disclosures that the Company makes about the credit quality of financing receivables and the allowance for credit losses. The objectives of the enhanced disclosures are to provide financial statement users with additional information about the nature of credit risks inherent in the Company s financing receivables, how credit risk is analyzed and assessed when determining the allowance for credit losses, and the reasons for the change in the allowance for credit losses. The disclosures as of the end of the reporting period were effective for the Company s interim and annual periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for the Company s interim and annual periods beginning on or after December 15, 2010. The adoption of this Update required enhanced disclosures in the Company s financial statements.

Note 2: Acquisitions

On August 20, 2010, the Bank purchased substantially all the assets and assumed substantially all the liabilities of Sonoma from the FDIC, as Receiver of Sonoma. Sonoma operated 3 commercial banking branches within Sonoma County, California. The FDIC took Sonoma under receivership upon Sonoma s closure by the California Department of Financial Institutions at the close of business August 20, 2010. Westamerica Bank purchased substantially all of Sonoma s net assets at a discount of $43 million and paid a $5 million deposit premium.

The Sonoma acquisition was accounted for under the purchase method of accounting in accordance with FASB ASC 805, Business Combinations. The statement of net assets acquired as of August 20, 2010 and the resulting bargain purchase gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of a merger as information relative to closing date fair values becomes available. A bargain purchase gain totaling $178 thousand resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. Sonoma s results of operations prior to the acquisition are not included in Westamerica s statement of income.

Statement of Net Assets Acquired (at fair value)

	At August 20, 2010 (In thousands)	
Assets		
Cash and due from banks	$	57,895
Money market assets		26,050
Securities		7,223
Loans		213,664
Other real estate owned		2,916
Core deposit intangible		5,270
Other assets		2,065
Total Assets	$	315,083
Liabilities		
Deposits		252,563
Federal Home Loan Bank advances		61,872
Liabilities for interest and other expenses		470
Total Liabilities		314,905

Net assets acquired	$ 178

	At August 20, 2010 (In thousands)
Sonoma Valley Bank tangible shareholder s equity	$ 13,923
Adjustments to reflect assets acquired and liabilities assumed at fair value:	
Cash payment from FDIC	21,270
Loans and leases, net	(34,562)
Other real estate owned	(1,491)
Other assets	(811)
Core deposit intangible	5,270
Deposits	(1,233)
Federal Home Loan Bank advances	(1,872)
Other liabilities	(316)
Gain on acquisition	$ 178

On February 6, 2009, the Bank purchased substantially all the assets and assumed substantially all the liabilities of County from the FDIC as Receiver of County. County operated 39 commercial banking branches primarily within California s central valley region between Sacramento and Fresno. The FDIC took County under receivership upon County s closure by the California Department of Financial Institutions at the close of business February 6, 2009. The Bank submitted a bid for the acquisition of County with the FDIC on February 3, 2009. The FDIC approved the Bank s bid upon reviewing three competing bids and determining the Bank s bid would be the least costly to the Deposit Insurance Fund. The Bank s bid included the purchase of substantially all County assets at a cost of assuming all County deposits and certain other liabilities. No cash or other consideration was paid by the Bank. Further, the Bank and the FDIC entered loss-sharing agreements regarding future losses incurred on loans and foreclosed loan collateral existing at February 6, 2009. Under the terms of the loss-sharing agreements, the FDIC absorbs 80 percent of losses and is entitled to 80 percent of loss recoveries on the first $269 million of losses, and absorbs 95 percent of losses and is entitled to 95 percent of loss recoveries on losses exceeding $269 million. The term for loss-sharing on residential real estate loans is ten years, while the term for loss-sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. As a result of the loss-sharing agreements with the FDIC, the Company recorded a receivable of $129 million at the time of acquisition.

The County acquisition was accounted for under the acquisition method of accounting in accordance with FASB ASC 805, Business Combinations. The statement of net assets acquired as of February 6, 2009 and the resulting bargain purchase gain are presented in the following table. The purchased assets and assumed liabilities were recorded at their respective acquisition date fair values, and identifiable intangible assets were recorded at fair value. A bargain purchase gain totaling $48.8 million resulted from the acquisition and is included as a component of noninterest income on the statement of income. The amount of the gain is equal to the amount by which the fair value of assets purchased exceeded the fair value of liabilities assumed. The acquisition resulted in a gain due to County s impaired capital condition at the time of the acquisition. County s results of operations prior to the acquisition are not included in Westamerica s statement of income.

Statement of Net Assets Acquired (at fair value)

	At February 6, 2009 (In thousands)	
Assets		
Cash and cash equivalents	$	44,668
Federal funds sold		12,760
Securities		173,839
Loans		1,174,353
Core deposit intangible		28,107
Other real estate owned		9,332
Other assets		181,405
Total Assets	$	1,624,464
Liabilities		
Deposits		1,234,123
Federal funds purchased and securities sold under repurchase agreements		153,169
Other borrowed funds		187,252
Liabilities for interest and other expenses		1,076
Total Liabilities		1,575,620

Net assets acquired	$	48,844

	At February 6, 2009 (In thousands)	
County Bank tangible stockholder s equity	$	58,623
Adjustments to reflect assets acquired and liabilities assumed at fair value:		
Loans and leases, net		(150,326)
Other real estate owned		(5,470)
FDIC loss-sharing receivable (included in other assets)		128,962
Core deposit intangible		28,107
Deposits		(10,823)
Securities sold under repurchase agreements		(2,061)
Other borrowed funds		1,832
Gain on acquisition	$	48,844

Note 3: Investment Securities

The amortized cost, unrealized gains and losses, and estimated market value of the available for sale investment securities portfolio as of December 31, 2010, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
U.S. Treasury securities	$ 3,554	$	$ (12)	$ 3,542
Securities of U.S. Government sponsored entities	175,080	162	(2,365)	172,877
Residential mortgage-backed securities	105,702	4,142	(15)	109,829
Commercial mortgage-backed securities	5,081	7	(23)	5,065
Obligations of States and political subdivisions	264,757	2,423	(6,047)	261,133
Residential collateralized mortgage obligations	24,709	894		25,603
Asset-backed securities	9,060		(774)	8,286
FHLMC and FNMA stock	824	42	(211)	655
Corporate securities	79,356	200	(365)	79,191
Other securities	2,655	2,699	(51)	5,303
Total	$ 670,778	$ 10,569	$ (9,863)	$ 671,484

The amortized cost, unrealized gains and losses, and estimated market value of the held to maturity investment securities portfolio as of December 31, 2010, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(In thousands)		
Residential mortgage backed securities	$ 40,531	$ 1,797	$	$ 42,328
Obligations of States and political subdivisions	455,372	13,142	(1,142)	467,372
Residential collateralized mortgage obligations	84,825	2,198	(2,012)	85,011
Total	$ 580,728	$ 17,137	$ (3,154)	$ 594,711

The amortized cost, unrealized gains and losses, and estimated market value of the available for sale investment securities portfolio as of December 31, 2009, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
U.S. Treasury securities	$ 2,987	$	$	$ 2,987
Securities of U.S. Government sponsored entities	21,018	48	(25)	21,041
Residential mortgage-backed securities	143,625	2,504	(124)	146,005
Obligations of States and political subdivisions	155,093	4,077	(977)	158,193
Residential collateralized mortgage obligations	40,981	652	(223)	41,410
Asset-backed securities	10,000		(1,661)	8,339
FHLMC and FNMA stock	824	750	(1)	1,573
Other securities	2,778	1,926	(44)	4,660

Total	$ 377,306	$ 9,957	$ (3,055)	$ 384,208

The amortized cost, unrealized gains and losses, and estimated market value of the held to maturity investment securities portfolio as of December 31, 2009, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
		(In thousands)		
Residential mortgage backed securities	$ 61,893	$ 1,752	$	$ 63,645
Obligations of States and political subdivisions	516,596	12,528	(2,190)	526,934
Residential collateralized mortgage obligations	148,446	3,352	(6,107)	145,691
Total	$ 726,935	$ 17,632	$ (8,297)	$ 736,270

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The amortized cost and estimated market value of securities as of December 31, 2010, by contractual maturity, are shown in the following table:

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
	(In thousands)			
Maturity in years:				
1 year or less	$ 21,362	$ 21,460	$ 6,057	$ 6,103
1 to 5 years	315,777	314,605	92,837	95,608
5 to 10 years	64,565	64,804	351,407	360,602
Over 10 years	130,103	124,160	5,071	5,059
Subtotal	531,807	525,029	455,372	467,372
Mortgage-backed securities and residential collateralized mortgage obligations	135,492	140,497	125,356	127,339
Other securities	3,479	5,958		
Total	$ 670,778	$ 671,484	$ 580,728	$ 594,711

The amortized cost and estimated market value of securities as of December 31, 2009, by contractual maturity, are shown in the following table:

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Estimated Market Value	Amortized Cost	Estimated Market Value
	(In thousands)			
Maturity in years:				
1 year or less	$ 12,763	$ 12,852	$ 8,303	$ 8,389
1 to 5 years	86,757	88,759	58,111	60,075
5 to 10 years	61,532	62,933	413,720	421,955
Over 10 years	28,046	26,016	36,462	36,515
Subtotal	189,098	190,560	516,596	526,934
Mortgage-backed securities and residential collateralized mortgage obligations	184,606	187,415	210,339	209,336
Other securities	3,602	6,233		
Total	$ 377,306	$ 384,208	$ 726,935	$ 736,270

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 December 31, 2010 and 2009, the Company had no high-risk collateralized mortgage obligations as defined by regulatory guidelines.

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An analysis of gross unrealized losses of the available for sale investment securities portfolio as of December 31, 2010, follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Treasury securities	$ 3,542	$ (12)	$	$	$ 3,542	$ (12)
Securities of U.S. Government sponsored entities	146,083	(2,365)			146,083	(2,365)
Residential mortgage backed securities	1,534	(15)			1,534	(15)
Commercial mortgage backed securities	3,028	(23)			3,028	(23)
Obligations of States and political subdivisions	132,014	(5,505)	10,341	(542)	142,355	(6,047)
Asset-backed securities			8,286	(774)	8,286	(774)
FHLMC and FNMA stock	550	(211)			550	(211)
Corporate securities	44,752	(365)			44,752	(365)
Other securities	1		1,948	(51)	1,949	(51)
Total	$ 331,504	$ (8,496)	$ 20,575	$ (1,367)	$ 352,079	$ (9,863)

An analysis of gross unrealized losses of the held to maturity investment securities portfolio as of December 31, 2010, follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Obligations of States and political subdivisions	$ 22,157	$ (382)	$ 18,663	$ (760)	$ 40,820	$ (1,142)
Residential collateralized mortgage obligations			20,182	(2,012)	20,182	(2,012)
Total	$ 22,157	$ (382)	$ 38,845	$ (2,772)	$ 61,002	$ (3,154)

The unrealized losses on the Company s investments in collateralized mortgage obligations and asset backed securities were caused by market conditions for these types of investments. The Company evaluates these securities on a quarterly basis including changes in security ratings issued by ratings agencies, 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 AAA rated by one or more major rating agencies.

The unrealized losses on the Company s investments in obligations of states and political subdivisions were caused by conditions in the municipal securities market. The Company s investments in obligations of states and political subdivisions primarily finance essential community services such as school districts, water delivery systems, hospitals and fire protection services. Further, these bonds are primarily bank qualified issues whereby the issuing authority s

total debt issued in any one year does not exceed $30 million, thereby qualifying the bonds for tax-exempt status for federal income tax purposes. Bank qualified bonds are relatively small in amount providing a high degree of diversification within the Company s investment portfolio. The Company evaluates these securities quarterly to determine if a change in security rating has occurred or the municipality has experienced financial difficulties. Substantially all of these securities continue to be investment grade rated.

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 December 31, 2010.

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

As of December 31, 2010, $898 million of investment securities were pledged to secure public deposits and short-term funding needs, compared to $1.03 billion at December 31, 2009.

An analysis of gross unrealized losses of the available for sale investment securities portfolio as of December 31, 2009, follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Treasury securities	$ 2,987	$	$	$	$ 2,987	$
Securities of U.S. Government sponsored entities	19,979	(25)			19,979	(25)
Residential mortgage backed securities	17,885	(124)			17,885	(124)
Obligations of States and political subdivisions	25,050	(795)	3,866	(182)	28,916	(977)
Residential collateralized mortgage obligations	9,896	(37)	5,002	(186)	14,898	(223)
Asset-backed securities			8,339	(1,661)	8,339	(1,661)
FHLMC and FNMA stock	4	(1)			4	(1)
Other securities			1,956	(44)	1,956	(44)
Total	$ 75,801	$ (982)	$ 19,163	$ (2,073)	$ 94,964	$ (3,055)

An analysis of gross unrealized losses of the held to maturity investment securities portfolio as of December 31, 2009, follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Obligations of States and political subdivisions	$ 46,111	$ (995)	$ 16,964	$ (1,195)	$ 63,075	$ (2,190)
Residential collateralized mortgage obligations	7,639	(42)	30,674	(6,065)	38,313	(6,107)
Total	$ 53,750	$ (1,037)	$ 47,638	$ (7,260)	$ 101,388	$ (8,297)

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Note 4: Loans and Allowance for Credit Losses

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

	At December 31, 2010	At December 31, 2009
	(In thousands)	
Originated loans:		
Commercial	$ 474,183	$ 498,594
Commercial real estate	757,140	801,008
Construction	26,145	32,156
Residential real estate	310,196	371,197
Consumer installment & other	461,877	498,133
Total	$ 2,029,541	$ 2,201,088

The carrying amount of purchased covered loans, consisted of impaired and non impaired purchased covered loans, is shown in the following table.

	As of December 31, 2010			As of December 31, 2009		
	Impaired Purchased Covered Loans	Non Impaired Purchased Covered Loans	Total Purchased Covered Loans	Impaired Purchased Covered Loans	Non Impaired Purchased Covered Loans	Total Purchased Covered Loans
	(In thousands)			(In thousands)		
Purchased covered loans:						
Commercial	$ 10,014	$ 158,971	$ 168,985	$ 8,538	$ 244,811	$ 253,349
Commercial real estate	14,079	376,603	390,682	19,870	425,570	445,440
Construction	9,073	19,307	28,380	14,378	26,082	40,460
Residential real estate	138	18,236	18,374	138	18,383	18,521
Consumer installment & other	252	86,299	86,551	272	97,259	97,531
Total	$ 33,556	$ 659,416	$ 692,972	$ 43,196	$ 812,105	$ 855,301

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

	Year ended December 31, 2010	February 6, 2009 through December 31, 2009 (refined)
	(In thousands)	
Carrying amount at the beginning of the period	$ 43,196	$ 80,544
Reductions during the period	(9,640)	(37,348)

Carrying amount at the end of the period	$	33,556	$	43,196

Impaired purchased covered loans had an unpaid principal balance (less prior charge-offs) of $48 million, $70 million and $164 million at December 31, 2010, December 31, 2009 and February 6, 2009, respectively.

The carrying amount of the purchased non-covered loans at December 31, 2010, consisted of impaired and non impaired purchased non-covered loans, is shown in the following table.

	Impaired Purchased Non-covered Loans	Non Impaired Purchased Non-covered Loans	Total Purchased Non-covered Loans
		(In thousands)	
Purchased non-covered loans:			
Commercial	$ 415	$ 15,005	$ 15,420
Commercial real estate	22,988	99,900	122,888
Construction	6,514	15,106	21,620
Residential real estate	311	6,744	7,055
Consumer installment & other	1,790	30,798	32,588
Total	$ 32,018	$ 167,553	$ 199,571

The following table represents the non impaired purchased non-covered loans receivable at the acquisition date of August 20, 2010. The amounts include principal only and do not reflect accrued interest as of the date of acquisition or beyond (in thousands):

Gross contractual loan principal payment receivable	$ 188,206
Estimate of contractual principal not expected to be collected	(15,058)
Fair value of non impaired purchased loans receivable	$ 175,922

The Company applied the cost recovery method to impaired purchased non-covered loans at the acquisition date of August 20, 2010 due to the uncertainty as to the timing of expected cash flows as reflected in the following table (in thousands):

Contractually required payments receivable (including interest)	$ 70,882
Nonaccretable difference	(33,140)
Cash flows expected to be collected	37,742
Accretable difference	
Fair value of loans acquired	$ 37,742

Changes in the carrying amount of impaired purchased non-covered loans were as follows for the period from August 20, 2010 (acquisition date) through December 31, 2010 (in thousands):

Carrying amount at the beginning of the period	$ 37,742
Reductions during the period	(5,724)
Carrying amount at the end of the period	$ 32,018

Impaired purchased non-covered loans had an unpaid principal balance (less prior charge-offs) of $51 million and $60 million at December 31, 2010 and August 20, 2010, respectively.

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The following summarizes activity in the allowance for credit losses:

	Allowance for Credit Losses For the Year Ended December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
	(In thousands)						
Allowance for credit losses:							
Beginning balance	$ 9,190	$ 9,918	$ 2,968	$ 1,529	$ 8,424	$ 11,707	$ 43,736
Charge-offs	(6,844)	(1,256)	(1,668)	(1,686)	(8,814)		(20,268)
Recoveries	948	4			2,709		3,661
Provision	6,584	941	2,259	774	4,663	(4,021)	11,200
Ending balance	$ 9,878	$ 9,607	$ 3,559	$ 617	$ 6,982	$ 7,686	$ 38,329
Components:							
Allowance for loan losses	$ 8,094	$ 9,607	$ 3,260	$ 617	$ 6,372	$ 7,686	$ 35,636
Liability for off-balance sheet credit exposure	1,784		299		610		2,693
Total	$ 9,878	$ 9,607	$ 3,559	$ 617	$ 6,982	$ 7,686	$ 38,329
Ending balance: individually evaluated for impairment	$	$	$ 1,365	$	$	$	$ 1,365
Ending balance: collectively evaluated for impairment	$ 9,878	$ 9,607	$ 2,194	$ 617	$ 6,982	$ 7,686	$ 36,964
Ending balance: loans acquired with deteriorated quality	$	$	$	$	$	$	$

The recorded investment in loans related to the allowance for credit losses was as follows:

	At December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
	(In thousands)						
Purchased loans principal balance	$ 215,728	$ 554,619	$ 60,983	$ 26,420	$ 128,959	$	$ 986,709
	(31,323)	(41,049)	(10,983)	(991)	(9,820)		(94,166)

Default risk purchase discount							
Purchased loans recorded investment	184,405	513,570	50,000	25,429	119,139		892,543
Originated loans	474,183	757,140	26,145	310,196	461,877		2,029,541
Ending balance	$ 658,588	$ 1,270,710	$ 76,145	$ 335,625	$ 581,016	$	$ 2,922,084

The recorded investment in loans was evaluated for impairment as follows:

	At December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Consumer	Unallocated	Total
	(In thousands)						
Individually evaluated for impairment	$ 11,947	$ 7,004	$ 7,421	$	$	$	$ 26,372
Collectively evaluated for impairment	$ 636,212	$ 1,226,639	$ 53,137	$ 335,176	$ 578,974	$	$ 2,830,138
Loans acquired with deteriorated quality	$ 10,429	$ 37,067	$ 15,587	$ 449	$ 2,042	$	$ 65,574

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. These assigned risk grades are subjected to the Bank s routine regulatory examinations. Loans judged to carry lower-risk attributes are assigned a pass grade, with a minimal likelihood of loss. Loans judged to carry higher-risk attributes are referred to as classified loans, and are further disaggregated, with increasing expectations for loss recognition, as substandard, doubtful, and loss. If the Bank becomes aware of deterioration in a borrower s performance or financial condition between Loan Review examinations, assigned risk grades will be re-evaluated promptly. Credit risk grades assigned by the Loan Review Department are subject to review by the Bank s regulatory authority during regulatory examinations.

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

	Originated Loans At December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Indirect Automobile	Other consumer	Total Originated Loans
	(In thousands)						
Grade:							
Pass	$ 427,878	$ 718,124	$ 18,073	$ 305,433	$ 398,805	$ 59,984	$ 1,928,297
Special mention	17,731	19,216		1,749		568	39,264
Substandard	27,801	19,800	8,072	3,014	311	1,481	60,479
Doubtful	773				61	28	862
Loss					636	3	639
Total	$ 474,183	$ 757,140	$ 26,145	$ 310,196	$ 399,813	$ 62,064	$ 2,029,541

	Purchased Covered Loans At December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Indirect Automobile	Other consumer	Total Purchased Covered Loans
	(In thousands)						
Grade:							
Pass	$ 97,652	$ 281,679	$ 1,721	$ 12,688	$	$ 88,733	$ 482,473
Special mention	17,485	44,355	615				62,455
Substandard	82,657	86,720	30,890	5,345		1,034	206,646
Doubtful	430	1,105	345	865		2	2,747
Loss						435	435
Default risk purchase discount	(29,239)	(23,177)	(5,191)	(524)		(3,653)	(61,784)
Total	$ 168,985	$ 390,682	$ 28,380	$ 18,374	$	$ 86,551	$ 692,972

	Purchased Non-covered Loans At December 31, 2010						
	Commercial	Commercial Real Estate	Construction	Residential Real Estate	Indirect Automobile	Other consumer	Total Purchased Non-covered Loans
	(In thousands)						
Grade:							
Pass	$ 12,748	$ 78,899	$ 5,335	$ 6,157	$	$ 25,184	$ 128,323

Special mention	2,282	15,589	4,604			2,748	25,223
Substandard	1,980	33,796	15,110	1,365		9,690	61,941
Doubtful	494	12,476	2,363			1,132	16,465
Loss						1	1
Default risk purchase discount	(2,084)	(17,872)	(5,792)	(467)		(6,167)	(32,382)
Total	$ 15,420	$ 122,888	$ 21,620	$ 7,055	$	$ 32,588	$ 199,571

The following tables summarize loans by delinquency and nonaccrual status:

	Originated Loans At December 31, 2010					
	Past Due					
	30-89 Days Past Due and Accruing	90 days or More and Accruing	Total Past Due and Accruing	Current and Accruing	Nonaccrual	Total Originated Loans
	(In thousands)					
Commercial	$ 7,274	$	$ 7,274	$ 458,061	$ 8,848	$ 474,183
Commercial Real Estate	14,037		14,037	737,167	5,936	757,140
Construction	4,022		4,022	18,073	4,050	26,145
Residential Real Estate	2,552		2,552	305,709	1,935	310,196
Indirect Automobile	6,382	647	7,029	392,784		399,813
Other Consumer	488	119	607	61,358	99	62,064
Total	$ 34,755	$ 766	$ 35,521	$ 1,973,152	$ 20,868	$ 2,029,541

	Purchased Covered Loans At December 31, 2010					
	Past Due					
	30-89 Days Past Due and Accruing	90 days or More and Accruing	Total Past Due and Accruing	Current and Accruing	Nonaccrual	Total Purchased Covered Loans
	(In thousands)					
Commercial	$ 12,692	$	$ 12,692	$ 144,307	$ 11,986	$ 168,985
Commercial Real Estate	12,413		12,413	355,518	22,751	390,682
Construction	415		415	17,508	10,457	28,380
Residential Real Estate	128		128	16,568	1,678	18,374
Other Consumer	2,200	355	2,555	83,723	273	86,551
Total	$ 27,848	$ 355	$ 28,203	$ 617,624	$ 47,145	$ 692,972

	Purchased Non-covered Loans At December 31, 2010					
	Past Due					
	30-89 Days Past Due and Accruing	90 days or More and Accruing	Total Past Due and Accruing	Current and Accruing	Nonaccrual	Total Purchased Non-covered Loans
	(In thousands)					
Commercial	$ 1,089	$	$ 1,089	$ 13,969	$ 362	$ 15,420

Commercial Real Estate	2,860		2,860	93,384	26,644	122,888
Construction				13,390	8,230	21,620
Residential Real Estate	3,336		3,336	3,408	311	7,055
Other Consumer	1,503	1	1,504	27,468	3,616	32,588
Total	$ 8,788	$ 1	$ 8,789	$ 151,619	$ 39,163	$ 199,571

The following summarizes the impaired loans:

	Impaired Loans At December 31, 2010		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
With no related allowance recorded:			
Commercial	$ 22,376	$ 35,027	
Commercial Real Estate	44,071	67,905	
Construction	19,308	36,244	
Residential Real Estate	449	451	
Other Consumer	2,042	3,077	
With an allowance recorded:			
Construction	3,700	3,700	1,365
Total:			
Commercial	22,376	35,027	
Commercial Real Estate	44,071	67,905	
Construction	23,008	39,944	1,365
Residential Real Estate	449	451	
Other Consumer	2,042	3,077	

The Company had no troubled debt restructurings at December 31, 2010.

Nonaccrual originated loans at December 31, 2010 and 2009 were $20.9 million and $19.9 million, respectively. The following is a summary of the effect of nonaccrual originated loans on interest income for the years ended December 31:

	2010	2009	2008
	(In thousands)		
Interest income that would have been recognized had the loans performed in accordance with their original terms	$ 1,199	$ 1,317	$ 665
Less: Interest income recognized on nonaccrual loans	(780)	(407)	(511)
Total reduction of interest income	$ 419	$ 910	$ 154

Nonaccrual purchased covered loans at December 31, 2010 and 2009 were $47.1 million and $85.1 million, respectively. The following is a summary of the effect of nonaccrual purchased covered loans on interest income for the years ended December 31:

	2010	2009
	(In thousands)	
Interest income that would have been recognized had the loans performed in accordance with their original terms	$ 4,321	$ 3,878
Less: Interest income recognized on nonaccrual loans	(5,297)	(1,667)
Total (addition) reduction of interest income	$ (976)	$ 2,211

The following is a summary of the effect of nonaccrual purchased non-covered loans on interest income from the August 20, 2010 purchase date through December 31:

	2010 (In thousands)
Interest income that would have been recognized had the loans performed in accordance with their original terms	$ 968
Less: Interest income recognized on nonaccrual loans	(24)
Total (addition) reduction of interest income	$ 944

There were no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2010.

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). At December 31, 2010, loans pledged to secure borrowing totaled $138.0 million. The FHLB does not have the right to sell or repledge such loans.

There were no loans held for sale at December 31, 2010 and 2009.

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 $13.0 million and $12.8 million at December 31, 2010 and 2009, respectively. The Company requires collateral on all real estate loans with loan-to-value ratios generally no greater than 75% on commercial real estate loans and no greater than 80% on residential real estate loans at origination.

Note 6: Premises and Equipment

Premises and equipment as of December 31 consisted of the following:

	Cost	Accumulated Depreciation and Amortization	Net Book Value
		(In thousands)	
2010			
Land	$ 11,395	$	$ 11,395
Buildings and improvements	42,783	(22,052)	20,731
Leasehold improvements	6,225	(5,308)	917
Furniture and equipment	16,364	(13,129)	3,235
Total	$ 76,767	$ (40,489)	$ 36,278
2009			
Land	$ 11,490	$	$ 11,490
Buildings and improvements	43,833	(21,786)	22,047
Leasehold improvements	6,140	(5,012)	1,128
Furniture and equipment	15,551	(12,118)	3,433
Total	$ 77,014	$ (38,916)	$ 38,098

Depreciation of premises and equipment included in noninterest expense amounted to $3.1 million in 2010, $3.3 million in 2009, and $2.9 million in 2008.

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 years ended December 31, 2010 and December 31, 2009. 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 year ended December 31, 2010 and December 31, 2009, no such adjustments were recorded.

The changes in the carrying value of goodwill were (in thousands):

December 31, 2008	$ 121,699

December 31, 2009	$	121,699
Recognition of stock option tax benefits for the exercise of options converted upon merger		(26)
December 31, 2010	$	121,673

The gross carrying amount of intangible assets and accumulated amortization was (in thousands):

	December 31,			
	2010		2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	$ 56,808	$ (24,719)	$ 51,538	$ (19,160)
Merchant Draft Processing Intangible	10,300	(7,785)	10,300	(7,011)
Total Intangible Assets	$ 67,108	$ (32,504)	$ 61,838	$ (26,171)

As of December 31, 2010, the current year and estimated future amortization expense for intangible assets was (in thousands):

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
Twelve months ended December 31, 2010 (actual)	$ 5,559	$ 774	$ 6,333
Estimate for year ended December 31,			
2011	5,351	624	5,975
2012	4,868	500	5,368
2013	4,304	400	4,704
2014	3,946	324	4,270
2015	3,594	262	3,856
2016	3,292	212	3,504

Note 8: Deposits and Borrowed Funds

Debt financing and notes payable, including the unsecured obligations of the Company, as of December 31, were as follows:

	2010	2009
	(In thousands)	
Senior fixed-rate note(1)	$ 15,000	$ 15,000
Subordinated fixed-rate note(2)	11,363	11,497
Total debt financing and notes payable Parent	$ 26,363	$ 26,497

(1) Senior note, issued by Westamerica Bancorporation, originated in October 2003 and maturing October 31, 2013. Interest of 5.31% per annum is payable semiannually on April 30 and October 31, with original principal payment due at maturity.

(2) Subordinated debt, assumed by Westamerica Bancorporation March 1, 2005, originated February 22, 2001. Par amount $10 million, interest of 10.2% per annum, payable semiannually. Matures February 22, 2031, redeemable February 22, 2011 at a premium and February 22, 2021 at par.

The senior note is subject to financial covenants requiring the Company to maintain, at all times, certain minimum levels of consolidated tangible net worth and maximum levels of capital debt. The Company believes it is in compliance with all of the covenants in the senior note indenture as of December 31, 2010.

Short-term borrowed funds include federal funds purchased, business customers sweep accounts, outstanding amounts under a $35 million unsecured line of credit, and securities sold with repurchase agreements which are held in the custody of independent securities brokers. Interest paid on time deposits with balances in excess of $100 thousand was $3.4 million in 2010 and $5.4 million in 2009.

The following table summarizes deposits and borrowed funds of the Company for the periods indicated:

	2010			2009		
	Balance At December 31,	Average Balance	Weighted Average Rate	Balance At December 31,	Average Balance	Weighted Average Rate
	(Dollars in thousands)			(Dollars in thousands)		
Federal funds purchased	$	$	%	$	$ 107,732	0.18%
Sweep accounts	105,237	101,690	0.32	109,332	113,167	0.41
Term repurchase agreements		94,842	1.61	99,044	90,344	1.53
Federal Home Loan Bank advances	61,698	34,378	1.25	85,470	79,417	1.25
Securities sold under repurchase agreements	1,148	2,314	0.42	3,102	2,991	0.61
Line of credit	1,000	3,817	3.42	15,700	2,071	3.13
Time deposits Over $100 thousand	553,929	550,810	0.61	574,153	607,642	0.88

	2010 Highest Balance at Any Month-end	2009 Highest Balance at Any Month-end
	(In thousands)	
Federal funds purchased	$	$ 365,000
Sweep accounts	116,179	124,557
Term repurchase agreement	99,920	98,964
Federal Home Loan Bank advances	72,016	86,916
Securities sold under repurchase agreements	3,380	3,567
Line of credit	9,200	17,877

Note 9: Shareholders Equity

On February 13, 2009, the Company issued to the United States Department of the Treasury (the Treasury) 83,726 shares of Series A Fixed Rate Cumulative Perpetual Preferred Stock (the Series A Preferred Stock), having a liquidation preference of $1,000 per share. The structure of the Series A Preferred Stock included cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. On September 2, 2009 and November 18, 2009, the Company redeemed 41,863 shares and 41,863 shares, respectively, of its Series A Preferred Stock at $1,000 per share. Prior to redemption, under the terms of the Series A Preferred Stock, the Company could not declare or pay any dividends or make any distribution on its common stock, other than regular quarterly cash dividends not exceeding $0.35 or dividends payable only in shares of its common stock, or repurchase its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Securities Purchase Agreement with the Treasury. The Treasury, as part of the preferred stock issuance, received a warrant to purchase 246,640 shares of the Company s common stock at an exercise price of $50.92. The proceeds from Treasury were allocated based on the relative fair value of the warrant as compared with the fair value of the preferred stock. The fair value of the warrant was determined using a valuation model which incorporates assumptions including the Company s common stock price, dividend yield, stock price volatility, the risk-free interest rate, and other assumptions. The Company allocated

$1.2 million of the proceeds from the Series A Preferred Stock to the warrant. The discount on the preferred stock was accreted to par value during the term the Series A Preferred Stock was outstanding, and reported as a reduction to net income applicable to common equity over that period.

The Company grants stock options and restricted performance shares to employees in exchange for employee services, pursuant to the shareholder-approved 1995 Stock Option Plan, which was amended and restated in 2003. Stock options are granted with an exercise price equal to the fair market value of the related common stock on the grant date and generally become exercisable in equal annual installments over a three-year period with each installment vesting on the anniversary date of the grant. Each stock option has a maximum ten-year term. A restricted performance share grant becomes vested after three years of being awarded, provided the Company has attained its performance goals for such three-year period.

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The following table summarizes information about stock options granted under the Plans as of December 31, 2010. The intrinsic value is calculated as the difference between the market value as of December 31, 2010 and the exercise price of the shares. The market value as of December 31, 2010 was $55.47 as reported by the NASDAQ Global Select Market:

	Options Outstanding				Options Exercisable			
Range of Exercise Price	Number Outstanding at 12/31/2010 (in thousands)	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price	Number Outstanding at 12/31/2010 (in thousands)	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price
35 - 40	291	$ 4,565	1.1	$ 39	291	$ 4,565	1.1	$ 39
40 - 45	518	6,627	4.3	42	371	4,955	2.9	41
45 - 50	625	3,547	4.7	49	560	3,078	4.4	49
50 - 55	711	1,727	5.6	52	711	1,727	5.6	52
55 - 60	272		9.1	57				
$35 - 60	2,417	$ 16,466	5.0	48	1,933	$ 14,325	4.1	47

The Company applies the Roll-Geske option pricing model (Modified Roll) to determine grant date fair value of stock option grants. This model modifies the Black-Scholes Model to take into account dividends and American options. During the twelve months ended December 31, 2010, 2009 and 2008, the Company granted 296 thousand, 246 thousand, and 256 thousand stock options, respectively. The following weighted average assumptions were used in the option pricing to value stock options granted in the periods indicated:

For the twelve months ended December 31,	2010	2009	2008
Expected volatility*1	17%	18%	15%
Expected life in years*2	4.5	4.0	4.0
Risk-free interest rate*3	2.15%	1.25%	2.66%
Expected dividend yield	2.44%	3.41%	2.78%
Fair value per award	$ 6.77	$ 4.51	$ 6.77

*1 Measured using daily price changes of Company s stock over respective expected term of the option and the implied volatility derived from the market prices of the Company s stock and traded options.

*2 The number of years that the Company estimates that the options will be outstanding prior to exercise

*3 The risk-free rate over the expected life based on the US Treasury yield curve in effect at the time of the grant

Employee stock option grants are being expensed by the Company over the grants three year vesting period. The Company issues new shares upon the exercise of options. The number of shares authorized to be issued for options is 3.7 million.

A summary of option activity during the twelve months ended December 31, 2010 is presented below:

	Shares (In Thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)

Outstanding at January 1, 2010	2,563	$ 45.84	
Granted	296	56.63	
Exercised	(405)	41.20	
Forfeited or expired	(37)	51.42	
Outstanding at December 31, 2010	2,417	47.85	5.0
Exercisable at December 31, 2010	1,933	47.00	4.1

A summary of the Company s nonvested option activity during the twelve months ended December 31, 2010 is presented below:

	Shares (In Thousands)	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	423	
Granted	297	
Vested	(199)	
Forfeited	(37)	
Nonvested at December 31, 2010	484	$ 5.06

The weighted average estimated grant date fair value for options granted under the Company s stock option plan during the twelve months ended December 31, 2010, 2009 and 2008 was $6.77, $4.51 and $6.77 per share, respectively. The total remaining unrecognized compensation cost related to nonvested awards as of December 31, 2010 is $1.5 million and the weighted average period over which the cost is expected to be recognized is 1.8 years.
The total intrinsic value of options exercised during the twelve months ended December 31, 2010, 2009 and 2008 was $5.7 million, $8.9 million and $7.7 million, respectively. The total fair value of RPSs that vested during the twelve months ended December 31, 2010, 2009 and 2008 was $594 thousand, $443 thousand and $705 thousand, respectively. The total fair value of options vested during the twelve months ended December 31, 2010, 2009 and 2008 was $1.1 million, $1.2 million and $1.8 million, respectively. The actual tax benefit recognized for the tax deductions from the exercise of options totaled $1.0 million, $2.2 million and $1.1 million, respectively, for the twelve months ended December 31, 2010, 2009 and 2008.
A summary of the status of the Company s restricted performance shares as of December 31, 2010 and 2009 and changes during the twelve months ended on those dates, follows (in thousands):

	2010	2009
Outstanding at January 1,	49	44
Granted	17	19
Issued upon vesting	(10)	(9)
Forfeited	(1)	(5)
Outstanding at December 31,	55	49

As of December 31, 2010 and 2009, the restricted performance shares had a weighted-average contractual life of 1.1 years and 1.4 years, respectively. The compensation cost that was charged against income for the Company s restricted performance shares granted was $910 thousand and $960 thousand for the twelve months ended December 31, 2010 and 2009, respectively. There were no stock appreciation rights or incentive stock options granted in the twelve months ended December 31, 2010 and 2009.
The Company repurchases and retires its common stock in accordance with Board of Directors approved share repurchase programs. At December 31, 2010, approximately 1.9 million shares remained available to repurchase under such plans.
Shareholders have authorized two additional classes of stock of one million shares each, to be denominated Class B Common Stock and Preferred Stock, respectively, in addition to the 150 million shares of common stock presently authorized. At December 31, 2010, no shares of Class B Common Stock or Preferred Stock were outstanding.

In December 1986, the Company declared a dividend distribution of one common share purchase right (the Right) for each outstanding share of common stock. The Rights expired on December 31, 2009.

Note 10: Risk-Based Capital

The Company and the Bank are subject to various regulatory capital adequacy requirements administered by federal and state agencies. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate discretionary actions by regulators that, if undertaken, could have a direct, material effect on the Company s financial statements. Quantitative measures, established by the regulators to ensure capital adequacy, require that the Company and the Bank maintain minimum

ratios of capital to risk-weighted assets. There are two categories of capital under the guidelines. Tier 1 capital includes common shareholders equity and qualifying preferred stock less goodwill, identifiable intangible assets, and other adjustments including the unrealized net gains and losses, after taxes, on available for sale securities. Tier 2 capital includes preferred stock not qualifying for Tier 1 capital, mandatory convertible debt, subordinated debt, certain unsecured senior debt and the allowance for loan losses, subject to limitations within the guidelines. Under the guidelines, capital is compared to the relative risk of the balance sheet, derived from applying one of four risk weights (0%, 20%, 50% and 100%) to various categories of balance sheet assets and unfunded commitments to extend credit, primarily based on the credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

As of December 31, 2010, the Company and the Bank met all capital adequacy requirements to which they are subject.

The most recent notification from the Federal Reserve Board categorized the Company and the Bank as well capitalized under the FDICIA regulatory framework for prompt corrective action. To be well capitalized, the institution must maintain a total risk-based capital ratio as set forth in the following table and not be subject to a capital directive order. Since that notification, there are no conditions or events that Management believes have changed the risk-based capital category of the Company or the Bank.

The following tables show capital ratios for the Company and the Bank as of December 31, 2010 and 2009:

December 31, 2010	Amount	Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions Ratio
			(Dollars in thousands)			
Total Capital (to risk-weighted assets)						
Consolidated Company	$ 449,876	15.50%	$ 232,144	8.00%	$ 290,180	10.00%
Westamerica Bank	438,872	15.33%	229,032	8.00%	286,290	10.00%
Tier 1 Capital (to risk-weighted assets)						
Consolidated Company	412,463	14.21%	116,072	4.00%	174,108	6.00%
Westamerica Bank	397,054	13.87%	114,516	4.00%	171,774	6.00%
Leverage Ratio *						
Consolidated Company	412,463	8.44%	195,580	4.00%	244,475	5.00%
Westamerica Bank	397,054	8.19%	194,006	4.00%	242,508	5.00%

December 31, 2009	Amount	Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions Ratio
			(Dollars in thousands)			
Total Capital (to risk-weighted assets)						
Consolidated Company	$ 406,339	14.50%	$ 224,241	8.00%	$ 280,301	10.00%
Westamerica Bank	411,310	14.88%	221,177	8.00%	276,471	10.00%

Tier 1 Capital (to risk-weighted assets)						
Consolidated Company	370,011	13.20%	112,120	4.00%	168,180	6.00%
Westamerica Bank	370,321	13.39%	110,588	4.00%	165,882	6.00%
Leverage Ratio *						
Consolidated Company	370,011	7.60%	194,625	4.00%	243,281	5.00%
Westamerica Bank	370,321	7.67%	193,092	4.00%	241,365	5.00%

* The leverage ratio consists of Tier 1 capital divided by average assets, excluding certain intangible assets, during the most recent calendar quarter. The minimum leverage ratio guideline is 3.00% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings and, in general, are considered top-rated, strong banking organizations.

Note 11: Income Taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the amounts reported in the financial statements of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Amounts for the current year are based upon estimates and assumptions as of the date of these financial statements and could vary significantly from amounts shown on the tax returns as filed.

The components of the net deferred tax asset as of December 31 are as follows:

	2010	2009
	(In thousands)	
Deferred tax asset		
Allowance for credit losses	$ 15,948	$ 18,363
State franchise taxes	4,686	4,792
Deferred compensation	13,329	13,888
Real estate owned	379	97
Estimated loss on acquired assets	21,239	32,408
Post retirement benefits	1,354	1,379
Employee benefit accruals	1,141	1,037
Limited partnership investments	1,430	1,161
Impaired capital assets	21,129	20,977
Capital loss carryforward	794	794
Premises and equipment	216	45
Other	1,566	2,496
Subtotal deferred tax asset	83,211	97,436
Valuation allowance		
Total deferred tax asset	83,211	97,436
Deferred tax liability		
Net deferred loan fees	402	691
Intangible assets	13,611	15,643
Securities available for sale	368	2,587
Leases	1,024	994
Gain on acquired net assets	3,621	5,358
FDIC indemnification receivable	15,729	35,693
Other	393	742
Total deferred tax liability	35,148	61,708
Net deferred tax asset	$ 48,063	$ 35,728

Based on Management s judgment, a valuation allowance is not needed to reduce the gross deferred tax asset because it is more likely than not that the gross deferred tax asset will be realized through recoverable taxes or future taxable income. In making such determination, Management considered future income from FDIC indemnification payments will be realized as losses on acquired assets are realized. Net deferred tax assets are included with interest receivable and other assets in the Consolidated Balance Sheets.

The provision for federal and state income taxes consists of amounts currently payable and amounts deferred which, for the years ended December 31, are as follows:

	2010	2009	2008
		(In thousands)	
Current income tax expense:			
Federal	$ 34,531	$ 27,595	$ 12,858
State	13,075	14,196	9,798
Total current	47,606	41,791	22,656
Deferred income tax (benefit) expense:			
Federal	(10,155)	11,884	(9,397)
State	(606)	4,203	(3,385)
Total deferred	(10,761)	16,087	(12,782)
Provision for income taxes	$ 36,845	$ 57,878	$ 9,874

The provision for income taxes differs from the provision computed by applying the statutory federal income tax rate to income before taxes, as follows:

	2010	2009	2008
		(In thousands)	
Federal income taxes due at statutory rate	$ 45,998	$ 64,157	$ 24,398
Reductions in income taxes resulting from:			
Interest on state and municipal securities not taxable for federal income tax purposes	(11,875)	(12,742)	(13,164)
State franchise taxes, net of federal income tax benefit	8,104	11,959	4,168
Limited partnerships	(3,521)	(3,233)	(3,100)
Dividend received deduction	(21)	(32)	(584)
Cash value life insurance	(953)	(715)	(783)
Other	(887)	(1,516)	(1,061)
Provision for income taxes	$ 36,845	$ 57,878	$ 9,874

At December 31, 2010, the company had no net operating loss and general tax credit carryforwards for tax return purposes.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits follow:

	2010	2009
	(In thousands)	
Balance at January 1,	$ 241	$ 803
Additions for tax positions taken in the current period	86	48
Reductions for tax positions taken in the current period		
Additions for tax positions taken in prior years	43	29
Reductions for tax positions taken in prior years		
Decreases related to settlements with taxing authorities		
Decreases as a result of a lapse in statute of limitations	(111)	(639)
Balance at December 31,	$ 259	$ 241

The Company does not anticipate any significant increase or decrease in unrecognized tax benefits during 2011. Unrecognized tax benefits at December 31, 2010 and 2009 include accrued interest and penalties of $26 thousand and $35 thousand, respectively. If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate.

The Company classifies interest and penalties as a component of the provision for income taxes. The tax years ended December 31, 2010, 2009, 2008 and 2007 remain subject to examination by the Internal Revenue Service. The tax years ended December 31, 2010, 2009, 2008, 2007 and 2006 remain subject to examination by the California Franchise Tax Board. The Company amended its 2005 and 2006 federal tax return related to one tax item. Both 2005 and 2006 federal tax returns remain open to examination with regard to this item. The deductibility of these tax positions will be determined through examination by the appropriate tax jurisdictions or the expiration of the tax statute of limitations.

Note 12: Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale investment securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as certain loans held for investment and other assets. These nonrecurring fair value

adjustments typically involve the lower-of-cost-or-fair value accounting or impairment or write-down of individual assets.

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

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

Level 1 Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 includes U.S. Treasury 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, municipal bonds and residential collateralized mortgage obligations as well as other real estate owned and impaired loans collateralized by real property where the fair value is generally based upon independent market prices or appraised values of the collateral.

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

Assets Recorded at Fair Value on a Recurring Basis

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

	At December 31, 2010			
	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	$ 3,542	$ 3,542	$	$
Securities of U.S. Government sponsored entities	172,877	172,877		
Municipal bonds:				
Federally Tax-exempt California	83,616		83,616	
Federally Tax-exempt 29 other states	170,741		170,741	
Taxable California	6,276		6,276	
Taxable 1 other state	500		500	
Residential mortgage-backed securities (MBS):				
Guaranteed by GNMA	43,557		43,557	
Issued by FNMA and FHLMC	66,272		66,272	
Residential collateralized mortgage obligations:				
Issued or guaranteed by FNMA, FHLMC, or GNMA	18,010		18,010	
All other	7,593		7,593	
Commercial mortgage-backed securities	5,065		5,065	
Asset-backed securities government guaranteed student loans	8,286		8,286	
FHLMC and FNMA stock	655	655		
Corporate securities	79,191		79,191	
Other securities	5,303	3,342	1,961	

Total securities available for sale	$	671,484	$	180,416	$	491,068	$	

There were no significant transfers in or out of Levels 1 and 2 for the twelve months ended December 31, 2010.

	At December 31, 2009			
	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	$ 2,987	$ 2,987	$	$
Securities of U.S. Government sponsored entities	21,041	21,041		
Municipal bonds:				
Federally Tax-exempt California	56,431		56,431	
Federally Tax-exempt 25 other states	97,094		97,094	
Taxable California	4,668		4,668	
Residential mortgage-backed securities (MBS):				
Guaranteed by GNMA	54,361		54,361	
Issued by FNMA and FHLMC	91,644		91,644	
Residential collateralized mortgage obligations:				
Issued or guaranteed by FNMA, FHLMC, or GNMA	29,536		29,536	
All other	11,874		11,874	
Asset-backed securities government guaranteed student loans	8,339		8,339	
FHLMC and FNMA stock	1,573	1,573		
Other securities	4,660	2,703	1,957	
Total securities available for sale	$ 384,208	$ 28,304	$ 355,904	$

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis that were still held in the balance sheet at December 31, 2010 and 2009, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at period end.

	At December 31, 2010				
	Fair Value	Level 1	Level 2	Level 3	Total losses
	(In thousands)				
Originated other real estate owned (1)	$ 1,863	$	$ 1,863	$	$ (664)
Originated impaired loans (2)	4,780		4,780		$ (829)
Total assets measured at fair value on a nonrecurring basis	$ 6,643	$	$ 6,643	$	$ (1,493)

At December 31, 2009

	Fair Value	Level 1	Level 2	Level 3	Total losses
			(In thousands)		
Originated other real estate owned (1)	$ 413	$	$ 413	$	$ (233)
Originated impaired loans (2)	2,447		2,447		
Total assets measured at fair value on a nonrecurring basis	$ 2,860	$	$ 2,860	$	$ (233)

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

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

Disclosures about Fair Value of Financial Instruments

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

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

Money Market Assets The carrying amount of money market assets approximate fair value due to the relatively short period of time between their origination and their expected realization.

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

Loans Loans were separated into two groups for valuation. Variable rate loans, except for those described below, which reprice frequently with changes in market rates were valued using historical cost. Fixed rate loans and variable rate loans that have reached their minimum contractual interest rates were valued by discounting the future cash flows expected to be received from the loans using current interest rates charged on loans with similar characteristics. Additionally, the allowance for loan losses of $35.6 million at December 31, 2010 and $41.0 million at December 31, 2009 and the fair value discount due to credit default risk associated with purchased covered and purchased non-covered loans of $61.8 million and $32.4 million, respectively at December 31, 2010 and $93.3 million associated with purchased covered loans at December 31, 2009 were applied against the estimated fair values to recognize estimated future defaults of contractual cash flows. The Company does not consider these values to be a liquidation price for the loans.

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

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

Short-Term Borrowed Funds The carrying amount of securities sold under agreement to repurchase and other short-term borrowed funds approximate fair value due to the relatively short period of time between their origination and their expected realization. The fair values of term repurchase agreements were estimated by using interpolated yields for financial instruments with similar characteristics.

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

Debt Financing and Notes Payable The fair values of debt financing and notes payable were estimated by using interpolated yields for financial instruments with similar characteristics.

Restricted Performance Share Grants The fair value of liabilities for unvested restricted performance share grants recorded in Other Liabilities were estimated using quoted prices as described above for Level 1 valuation.

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

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

	At December 31, 2010		At December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets				
Cash and due from banks	$ 338,793	$ 338,793	$ 361,135	$ 361,135
Money market assets	392	392	442	442
Investment securities held to maturity	580,728	594,711	726,935	736,270
Loans	2,886,448	2,923,612	3,015,346	3,024,866
Other assets FDIC receivable	44,738	44,353	85,787	83,806
Financial Liabilities				
Deposits	4,132,961	4,135,113	4,060,208	4,061,380
Short-term borrowed funds	107,385	107,385	227,178	228,463
Federal Home Loan Bank Advances	61,698	61,833	85,470	85,601
Debt financing and notes payable	26,363	26,811	26,497	23,520
Other liabilities restricted performance share grants	2,259	2,259	1,942	1,942

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

Note 13: Lease Commitments

Thirty-four banking offices and a centralized administrative service center are owned and seventy-nine facilities are leased. Substantially all the leases contain multiple renewal options and provisions for rental increases, principally for cost of living index. The Company also leases certain pieces of equipment.

Minimum future rental payments under noncancelable operating leases as of December 31, 2010, are as follows:

	(In thousands)
2011	$ 9,192
2012	7,952
2013	6,838
2014	4,789
2015	3,023
Thereafter	1,397
Total minimum lease payments	$ 33,191

The total minimum lease payments have not been reduced by minimum sublease rentals of $10,156 thousand due in the future under noncancelable subleases. Total rentals for premises, net of sublease income, included in noninterest expense were $6.9 million in 2010, $7.2 million in 2009 and $6.0 million in 2008. During 2009, the Company was obligated to pay monthly lease payments on County facilities until vacated.

Note 14: Commitments and Contingent Liabilities

Loan commitments are agreements to lend to a customer provided there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements. Loan commitments are subject to the Company s normal credit policies and collateral requirements. Unfunded loan commitments were $422.7 million and $482.0 million at December 31, 2010 and 2009, respectively. Standby letters of credit commit the Company to make payments on behalf of customers when

certain specified future events occur. Standby letters of credit are primarily issued to support customers short-term financing requirements and must meet the Company s normal credit policies and collateral requirements. Standby letters of credit outstanding totaled $25.5 million and $27.4 million at December 31, 2010 and 2009, respectively. The Company also had commitments for commercial and similar letters of credit of $3.4 million and $176 thousand at December 31, 2010 and 2009, respectively.

During 2007, the Visa Inc. (Visa) organization of affiliated entities announced that it completed restructuring transactions in preparation for an initial public offering planned for early 2008, and, as part of those transactions, the Bank s membership interest in Visa U.S.A. was exchanged for an equity interest in Visa Inc. In accordance with Visa s by-laws, the Bank and other Visa U.S.A. member banks are obligated to share in Visa s litigation obligations which existed at the time of the restructuring transactions. On November 7, 2007, Visa announced that it had reached a settlement with American Express related to an antitrust lawsuit. Visa has disclosed other antitrust lawsuits which existed at the time of the restructuring transactions. In consideration of the American Express settlement and other antitrust lawsuits filed against Visa, the Company recorded in the fourth quarter of 2007 a liability and corresponding expense of $2,338 thousand. In the first quarter 2008, Visa funded a litigation settlement escrow using proceeds from its initial public offering. Upon the escrow funding, the Company relieved its liability with a corresponding expense reversal in the amount of $2,338 thousand.

On October 27, 2008, Visa announced that it had reached a settlement with Discover Financial Services related to an antitrust lawsuit that existed at the time of Visa s restructuring requiring the payment of the settlement to be funded from the litigation settlement escrow. On December 22, 2008, Visa announced that it had funded its litigation settlement escrow in an amount sufficient to meet such litigation obligation pursuant to Visa s amended and restated Certificate of Incorporation approved by Visa s shareholders on December 16, 2008. As such, the Company did not record a liability for this settlement.

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

Note 15: Retirement Benefit Plans

The Company sponsors a defined contribution Deferred Profit-Sharing Plan covering substantially all of its salaried employees with one or more years of service. Eligible employees become vested in account balances ratably over a five or six-year period, depending on years of service at January 1, 2007. Company contributions charged to noninterest expense were $1.7 million in 2010, $1.2 million in 2009 and $1.2 million in 2008.

In addition to the Deferred Profit-Sharing Plan, all salaried employees are eligible to participate in the Tax Deferred Savings/Retirement Plan (ESOP) upon completion of a 90-day introductory period. The Tax Deferred Savings/ Retirement Plan (ESOP) allows employees to defer a portion of their salaries as contributions to this Plan. The Company makes matching contributions to employee accounts which vest immediately; such contributions charged to compensation expense were $1.4 million in 2010, $1.4 million in 2009 and $1.3 million in 2008.

The Company offers a continuation of group insurance coverage to qualifying employees electing early retirement, for the period from the date of retirement until age 65. For eligible employees the Company pays a portion of these early retirees insurance premiums which are determined at their date of retirement. The Company reimburses a portion of Medicare Part B premiums for all qualifying retirees over age 65 and their spouses. Eligibility for post-retirement medical benefits is based on age and years of service, and restricted to employees hired prior to February 1, 2006. The Company uses an actuarial-based accrual method of accounting for post-retirement benefits. Prior to 2008, the Company used a September 30 measurement date. Effective December 31, 2008, the Company measures its benefit obligations as of the balance sheet date. The change in measurement date did not have a material impact on the Company s financial statements.

The following tables set forth the net periodic post-retirement benefit cost for the years ended December 31 and the funded status of the post-retirement benefit plan and the change in the benefit obligation as of December 31:

Net Periodic Benefit Cost

(In thousands)	2010	2009	2008
Service cost	$ (371)	$ (357)	$ (317)
Interest cost	193	210	235
Amortization of unrecognized transition obligation	61	61	61

Net periodic cost	(117)	(86)	(21)

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Other Changes in Benefit Obligations Recognized in Other Comprehensive Income

Amortization of unrecognized transition obligation, net of tax		(36)		(36)		(36)
Total recognized in net periodic benefit cost and accumulated other comprehensive income	$	(153)	$	(122)	$	(57)

The remaining transition obligation cost for this post-retirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $61 thousand.

Obligation and Funded Status

(In thousands)		2010		2009		2008
Change in benefit obligation						
Benefit obligation at beginning of year	$	3,519	$	3,813	$	4,046
Service cost		(371)		(357)		(317)
Interest cost		193		210		235
Benefits paid		(163)		(147)		(151)
Benefit obligation at end of year	$	3,178	$	3,519	$	3,813
Accumulated post retirement benefit obligation attributable to:						
Retirees	$	1,990	$	2,241	$	2,724
Fully eligible participants		951		1,044		895
Other		237		234		194
Total	$	3,178	$	3,519	$	3,813
Fair value of plan assets	$		$		$	
Accumulated post retirement benefit obligation in excess of plan assets	$	3,178	$	3,519	$	3,813

Additional Information

Assumptions

	2010	2009	2008
Weighted-average assumptions used to determine benefit obligations as of December 31 Discount rate	5.50%	5.50%	5.80%
Weighted-average assumptions used to determine net periodic benefit cost as of December 31 Discount rate	5.50%	5.80%	6.50%

The above discount rate is based on the Corporate AA Moody s bond rate, the term of which approximates the term of the benefit obligations. The Company reserves the right to terminate or alter post-employment health benefits, which is considered in estimating the increase in the cost of providing such benefits. The assumed annual average rate of inflation used to measure the expected cost of benefits covered by the plan was 4.50% for 2011 and beyond.

Assumed benefit inflation rates have a significant effect on the amounts reported for health care plans. A one percentage point change in the assumed benefit inflation rate would have the following effect on 2010 results:

	One Percentage	One Percentage

(In thousands)	Point Increase	Point Decrease
Effect on total service and interest cost components	$ 158	$ (134)
Effect on post-retirement benefit obligation	388	(326)

Estimated future benefit payments	
(In thousands)	
2011	$ 167
2012	163
2013	160
2014	157
2015	154
Years 2016-2020	719

Note 16: Related Party Transactions

Certain of the Directors, executive officers and their associates have had banking transactions with subsidiaries of the Company in the ordinary course of business. With the exception of the Company s Employee Loan Program, all outstanding loans and commitments included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, did not involve more than a normal risk of collectibility, and did not present other favorable features. As part of the Employee Loan Program, all employees, including executive officers, are eligible to receive mortgage loans at one percent below Westamerica Bank s prevailing interest rate at the time of loan origination. All loans to executive officers under the Employee Loan Program are made by Westamerica Bank in compliance with the applicable restrictions of Section 22(h) of the Federal Reserve Act.

The table below reflects information concerning loans to certain directors and executive officers and/or family members during 2010 and 2009:

	2010	2009
	(Dollars in thousands)	
Beginning balance	$ 1,196	$ 1,291
Originations	129	47
Payoffs/principal payments	(126)	(142)
At December 31,	$ 1,199	$ 1,196
Percent of total loans outstanding	0.04%	0.04%

Note 17: Regulatory Matters

Payment of dividends to the Company by the Bank is limited under regulations for state chartered banks. The amount that can be paid in any calendar year, without prior approval from regulatory agencies, cannot exceed the net profits (as defined) for the preceding three calendar years less dividends paid. Under this regulation, the Bank sought and obtained approval during 2010 to pay to the Company dividends of $68.8 million. The Company consistently has paid quarterly dividends to its shareholders since its formation in 1972. As of December 31, 2010, $164 million was available for payment of dividends by the Company to its shareholders.

The Bank is required to maintain reserves with the Federal Reserve Bank equal to a percentage of its reservable deposits. The Bank s daily average on deposit at the Federal Reserve Bank was $215.6 million in 2010 and $78.0 million in 2009, which amounts meet or exceed the Bank s required reserves.

Note 18: Other Comprehensive Income

The components of other comprehensive (loss) income and other related tax effects were:

		2010	
(In thousands)	Before tax	Tax effect	Net of tax
Securities available for sale:			
Net unrealized losses arising during the year	$ (6,197)	$ 2,606	$ (3,591)
Reclassification of gains included in net income			
Net unrealized losses arising during the year	(6,197)	2,606	(3,591)
Post-retirement benefit obligation	61	(25)	36
Other comprehensive loss	$ (6,136)	$ 2,581	$ (3,555)

2009

(In thousands)	Before tax	Tax effect	Net of tax
Securities available for sale:			
Net unrealized gains arising during the year	$ 4,552	$ (1,914)	$ 2,638
Reclassification of gains included in net income			
Net unrealized gains arising during the year	4,552	(1,914)	2,638
Post-retirement benefit obligation	61	(25)	36
Other comprehensive income	$ 4,613	$ (1,939)	$ 2,674

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(In thousands)	2008 Before tax	2008 Tax effect	2008 Net of tax
Securities available for sale:			
Net unrealized losses arising during the year	$ (47,423)	$ 19,940	$ (27,483)
Reclassification of losses included in net income	56,955	(23,948)	33,007
Net unrealized gains arising during the year	9,532	(4,008)	5,524
Post-retirement benefit obligation	61	(25)	36
Other comprehensive income	$ 9,593	$ (4,033)	$ 5,560

Cumulative other comprehensive (loss) income balances were:

(In thousands)	Post-retirement Benefit Obligation	Net Unrealized gains(losses) on securities	Cumulative Other Comprehensive (Loss) Income
Balance, December 31, 2007	$ (358)	$ (4,162)	$ (4,520)
Net change	36	5,524	5,560
Balance, December 31, 2008	(322)	1,362	1,040
Net change	36	2,638	2,674
Balance, December 31, 2009	(286)	4,000	3,714
Net change	36	(3,591)	(3,555)
Balance, December 31, 2010	$ (250)	$ 409	$ 159

Note 19: Earnings Per Common Share

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

(In thousands, except per share data)	2010	2009	2008
Net income	$ 94,577	$ 125,426	$ 59,835
Less: Preferred stock dividends and discount accretion		3,963	
Net income applicable to common equity (numerator)	$ 94,577	$ 121,463	$ 59,835
Basic earnings per common share			
Weighted average number of common shares outstanding basic (denominator)	29,166	29,105	28,892
Basic earnings per common share	$ 3.24	$ 4.17	$ 2.07
Diluted earnings per common share			
Weighted average number of common shares outstanding basic	29,166	29,105	28,892

Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise	305	248	381
Weighted average number of common shares outstanding diluted (denominator)	29,471	29,353	29,273
Diluted earnings per common share	$ 3.21	$ 4.14	$ 2.04

For the years ended December 31, 2010, 2009, and 2008, options to purchase 380 thousand, 788 thousand and 634 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted earnings per common share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

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Note 20: Westamerica Bancorporation (Parent Company Only)
Statements of Income and Comprehensive Income

For the years ended December 31,	2010	2009	2008
		(In thousands)	
Dividends from subsidiaries	$ 68,784	$ 92,785	$ 101,270
Interest income	11	180	263
Other income	7,262	6,979	5,543
Total income	76,057	99,944	107,076
Interest on borrowings	1,824	1,749	2,271
Salaries and benefits	7,219	7,182	6,487
Other expense	1,749	2,643	2,256
Total expenses	10,792	11,574	11,014
Income before taxes and equity in undistributed income of subsidiaries	65,265	88,370	96,062
Income tax benefit	1,416	2,279	2,074
Earnings of subsidiaries greater (less) than subsidiary dividends	27,896	34,777	(38,301)
Net income	94,577	125,426	59,835
Other comprehensive income (loss), net of tax	(3,555)	2,674	5,560
Comprehensive income	$ 91,022	$ 128,100	$ 65,395

Balance Sheets

Balances as of December 31,	2010	2009
	(In thousands)	
Assets		
Cash and due from banks	$ 1,205	$ 1,200
Money market assets and investment securities available for sale	3,342	2,703
Investment in subsidiaries	545,307	521,414
Premises and equipment, net	11,107	11,612
Accounts receivable from subsidiaries	700	689
Other assets	28,830	27,134
Total assets	$ 590,491	$ 564,752
Liabilities		
Debt financing and notes payable	$ 27,673	$ 42,507
Other liabilities	17,531	