WESTAMERICA BANCORPORATION
Form 10-Q
April 30, 2010

Table of Contents

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

(Mark One)

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

For the quarterly period ended March 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 Registrant as Specified in Its Charter)

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

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901
(Address of Principal Executive Offices) (Zip Code)
Registrant s Telephone Number, Including Area Code (707) 863-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

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

Title of Class	Shares outstanding as of April 23, 2010
Common Stock, No Par Value	29,324,047

TABLE OF CONTENTS

	Page
Forward Looking Statements	3
PART I FINANCIAL INFORMATION	
Item 1 Financial Statements	4
Notes to Unaudited Condensed Consolidated Financial Statements	8
Financial Summary	21
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3 Quantitative and Qualitative Disclosures about Market Risk	41
Item 4 Controls and Procedures	41
PART II OTHER INFORMATION	
Item 1 Legal Proceedings	41
Item 1A Risk Factors	42
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3 Defaults upon Senior Securities	42
Item 4 Reserved	42
Item 5 Other Information	43
Item 6 Exhibits	43
Signatures	44
Exhibit Index	45

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)
Exhibit 32.1 - Certification of Chief Executive Officer Required by 18 U.S.C. Section 1350
Exhibit 32.2 - Certification of Chief Financial Officer Required by 18 U.S.C. Section 1350

Table of Contents

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of the Company or its management or board of directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as believes , anticipates , expects , intends , targeted , 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 acquisition of County Bank assets and assumption of County Bank 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. The reader is directed to the Company s annual report on Form 10-K for the year ended December 31, 2009, for further discussion of factors which could affect the Company s business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(unaudited)

	At March 31, **2010**	At December 31, **2009**
	(In thousands)	
Assets:		
Cash and cash equivalents	$ 253,229	$ 361,135
Money market assets	342	442
Investment securities available for sale	414,987	384,208
Investment securities held to maturity, with fair values of:		
$701,768 at March 31, 2010	690,585	
$736,270 at December 31, 2009		726,935
Non-covered loans	2,146,580	2,201,088
Allowance for loan losses	(40,316)	(41,043)
Non-covered loans, net of allowance for loan losses	2,106,264	2,160,045
Covered loans	809,503	855,301
Total loans	2,915,767	3,015,346
Other real estate owned	14,266	12,642
Covered other real estate owned	22,305	23,297
Premises and equipment, net	37,423	38,098
Identifiable intangibles	34,070	35,667
Goodwill	121,699	121,699
Interest receivable and other assets	240,822	256,032
Total Assets	$ 4,745,495	$ 4,975,501
Liabilities:		
Deposits:		
Noninterest bearing	$ 1,376,760	$ 1,428,432
Interest bearing:		
Transaction	653,872	669,004
Savings	957,126	971,384
Time	907,271	991,388
Total deposits	3,895,029	4,060,208
Short-term borrowed funds	211,756	227,178
Federal Home Loan Bank advances	10,306	85,470
Debt financing and Notes payable	26,464	26,497
Liability for interest, taxes and other expenses	82,809	70,700
Total Liabilities	4,226,364	4,470,053

Shareholders Equity:		
Common stock, authorized 150,000 shares		
Issued and outstanding:		
29,206 at March 31, 2010	369,497	
29,208 at December 31, 2009		366,247
Deferred compensation	2,485	2,485
Accumulated other comprehensive income	4,796	3,714
Retained earnings	142,353	133,002
Total Shareholders Equity	519,131	505,448
Total Liabilities and Shareholders Equity	$ 4,745,495	$ 4,975,501

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three months ended March 31,	
	2010	**2009**
	(In thousands, except per share data)	
Interest Income:		
Loans	$ 44,702	$ 45,095
Money market assets and funds sold	1	1
Investment securities available for sale		
Taxable	2,151	1,867
Tax-exempt	1,744	1,872
Investment securities held to maturity		
Taxable	2,277	4,790
Tax-exempt	5,128	5,560
Total Interest Income	56,003	59,185
Interest Expense:		
Transaction deposits	217	205
Savings deposits	739	900
Time deposits	1,532	2,679
Short-term borrowed funds	537	495
Federal Home Loan Bank advances	84	131
Notes payable	425	423
Total Interest Expense	3,534	4,833
Net Interest Income	52,469	54,352
Provision for Loan Losses	2,800	1,800
Net Interest Income After Provision For Loan Losses	49,669	52,552
Noninterest Income:		
Service charges on deposit accounts	8,742	8,422
Merchant credit card	2,221	2,432
Debit card	1,174	856
ATM and interchange	891	813
Trust fees	381	364
Financial services commissions	149	154
Other	1,912	2,083
Gain on acquisition		48,844
Total Noninterest Income	15,470	63,968
Noninterest Expense:		

Salaries and related benefits		15,892		16,371
Occupancy		3,777		5,410
Outsourced data processing services		2,240		2,104
Amortization of identifiable intangibles		1,598		1,685
Furniture and equipment		1,051		1,222
Courier service		907		898
Professional fees		663		888
FDIC insurance assessments		1,320		157
Other		4,583		5,388
Total Noninterest Expense		32,031		34,123
Income Before Income Taxes		33,108		82,397
Provision for income taxes		9,532		29,572
Net Income		23,576		52,825
Preferred stock dividends and discount accretion				578
Net Income Applicable to Common Equity	$	23,576	$	52,247
Average Common Shares Outstanding		29,228		28,876
Diluted Average Common Shares Outstanding		29,596		29,105
Per Common Share Data:				
Basic earnings	$	0.81	$	1.81
Diluted earnings		0.80		1.80
Dividends paid		0.36		0.36

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME
(unaudited)

	Common Shares Outstanding	Preferred Stock	Common Stock	Deferred Compensation	Accumulated Comprehensive Income	Retained Earnings	Total
				(In thousands)			
Balance, December 31, 2008	28,880	$	$ 352,265	$ 2,409	$ 1,040	$ 54,138	$ 409,852
Comprehensive income							
Net income for the period						52,825	52,825
Other comprehensive income, net of tax:							
Net unrealized gain on securities available for sale					1,225		1,225
Post-retirement benefit transition obligation amortization					9		9
Total comprehensive income							54,059
Issuance of preferred stock and related warrants		82,519	1,207				83,726
Preferred stock dividends and discount accretion		31				(578)	(547)
Exercise of stock options	9		299				299
Stock option tax benefits			3				3
Stock based compensation			294				294
Stock awarded to employees	1		46				46
Purchase and retirement of stock	(16)		(197)			(470)	(667)
Dividends						(10,397)	(10,397)
Balance, March 31, 2009	28,874	$ 82,550	$ 353,917	$ 2,409	$ 2,274	$ 95,518	$ 536,668
Balance, December 31, 2009	29,208	$	$ 366,247	$ 2,485	$ 3,714	$ 133,002	$ 505,448
Comprehensive income							
Net income for the period						23,576	23,576
Other comprehensive income, net of tax:							

Net unrealized gain on securities available for sale					1,073		1,073
Post-retirement benefit transition obligation amortization					9		9
Total comprehensive income							24,658
Exercise of stock options	85		3,697				3,697
Stock option tax benefits			259				259
Stock based compensation			360				360
Stock awarded to employees	1		49				49
Purchase and retirement of stock	(88)		(1,115)			(3,689)	(4,804)
Dividends						(10,536)	(10,536)
Balance, March 31, 2010	29,206	$	$ 369,497	$ 2,485	$ 4,796	$ 142,353	$ 519,131

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the three months ended March 31, 2010	2009
	(In thousands)	
Operating Activities:		
Net income	$ 23,576	$ 52,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,411	2,675
Loan loss provision	2,800	1,800
Net amortization of deferred loan cost (fees)	70	(156)
Decrease (increase) in interest income receivable	258	(5,865)
Gain on acquisition		(48,844)
(Increase) decrease in other assets	(8,655)	27,928
Increase in income taxes payable	12,593	27,654
(Decrease) increase in interest expense payable	(66)	623
Increase in other liabilities	1,108	6,276
Stock option compensation expense	360	294
Stock option tax benefits	(259)	(3)
Gain on sale of property and equipment	(463)	
Net loss (gain) on sale of property acquired in satisfaction of debt	352	(110)
Writedown of property acquired in satisfaction of debt	249	65
Net Cash Provided by Operating Activities	35,334	65,162
Investing Activities:		
Net repayments of loans	89,819	96,009
Proceeds from FDIC loss-sharing agreement	19,863	
Purchases of investment securities available for sale	(53,537)	
Proceeds from maturity/calls of securities available for sale	22,621	24,964
Proceeds from maturity/calls of securities held to maturity	36,350	33,581
Proceeds from sale of FRB/FHLB* stock	2,763	
Proceeds from sale of property acquired in satisfaction of debt	4,860	1,118
Purchases of property, plant and equipment	(258)	(102)
Proceeds from sale of property, plant and equipment	603	
Net cash acquired from acquisitions		44,397
Net Cash Provided by Investing Activities	123,084	199,967
Financing Activities:		
Net decrease in deposits	(164,280)	(71,307)
Net decrease in short-term borrowings	(90,660)	(256,616)
Exercise of stock options	3,697	299
Proceeds from issuance of preferred stock		83,726

Stock option tax benefits	259	3
Repurchases/retirement of stock	(4,804)	(667)
Dividends paid	(10,536)	(10,397)
Net Cash Used in Financing Activities	(266,324)	(254,959)
Net Increase (Decrease) In Cash and Cash Equivalents	(107,906)	10,170
Cash and Cash Equivalents at Beginning of Period	361,135	138,883
Cash and Cash Equivalents at End of Period	$ 253,229	$ 149,053
Supplemental Cash Flow Disclosures:		
Supplemental disclosure of non cash activities:		
Loan collateral transferred to other real estate owned	$ 6,092	$ 15,716
Unrealized gain on securities available for sale, net	1,073	1,225
Supplemental disclosure of cash flow activities:		
Interest paid for the period	4,457	5,954
Income tax payments for the period	3,500	1,400
Acquisitions:		
Assets acquired	$	$ 1,624,464
Liabilities assumed		1,575,620
Net	$	$ 48,844

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

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the three months ended March 31, 2010 and 2009 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

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.

Note 2: Accounting Policies

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may significantly affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities.

Management exercises judgment to estimate the appropriate level of the allowance for credit losses and purchased impaired loans, which are discussed in Note 1 to the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Certain amounts in prior periods have been reclassified to conform to the current presentation.

Recently Adopted Accounting Pronouncements

In the first quarter of 2010, the Company adopted the following new accounting pronouncements:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860 as amended, *Transfers and Servicing* (formerly FASB Statement No. 166, *Accounting for Transfers of Financial Assets an amendment of the provisions contained in* FASB ASC 860)

FASB ASC 810, *Consolidation* as amended (formerly FASB Statement No. 167, *Amendments to FASB ASC 810, Consolidation*)

FASB Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosure (Topic 820)*

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. Specifically to address: (1) practices that have developed since initial issuance, that are not consistent with the original intent and key requirements of that Standard and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Standard must be applied to transfers occurring on or after January 1, 2010, the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. 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 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.

Note 3: Investment Securities

The amortized cost, unrealized gains and losses accumulated in other comprehensive income, and fair value of the available for sale investment securities portfolio as of March 31, 2010, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury securities	$ 2,991	$ 3	$	$ 2,994
Securities of U.S. Government sponsored entities	41,101	70	(18)	41,153
Mortgage-backed securities	139,430	3,283	(53)	142,660
Obligations of States and political subdivisions	164,705	3,714	(1,007)	167,412
Collateralized mortgage obligations	34,577	889	(13)	35,453
Asset-backed securities	10,000		(1,221)	8,779
FHLMC and FNMA stock	824	806	(1)	1,629
Corporate securities	9,827	21	(5)	9,843
Other securities	2,778	2,324	(38)	5,064
Total	$ 406,233	$ 11,110	$ (2,356)	$ 414,987

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed securities	$ 56,992	$ 1,905	$	$ 58,897
Obligations of States and political subdivisions	500,472	12,951	(1,689)	511,734

Collateralized mortgage obligations	133,121	3,397	(5,381)	131,137
Total	$ 690,585	$ 18,253	$ (7,070)	$ 701,768

Table of Contents

The amortized cost, unrealized gains and losses accumulated in other comprehensive income, and fair 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
Mortgage-backed securities	143,625	2,504	(124)	146,005
Obligations of States and political subdivisions	155,093	4,077	(977)	158,193
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 fair value of the held to maturity investment securities portfolio as of December 31, 2009 follows:

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

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

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(In thousands)		
Maturity in years:				
1 year or less	$ 12,507	$ 12,601	$ 8,441	$ 8,509
1 to 5 years	102,789	104,567	61,474	63,542
5 to 10 years	65,983	67,271	401,322	410,347
Over 10 years	37,518	35,899	29,235	29,336
Subtotal	218,797	220,338	500,472	511,734
Mortgage-backed securities and collateralized mortgage obligations	174,007	178,113	190,113	190,034
Corporate and other securities	13,429	16,536		

Total	$ 406,233	$ 414,987	$ 690,585	$ 701,768

The amortized cost and fair 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	Fair Value	Amortized Cost	Fair 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 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.
An analysis of gross unrealized losses of the available for sale investment securities portfolio as of March 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)					
Securities of U.S. Government sponsored entities	$ 15,066	$ (18)	$	$	$ 15,066	$ (18)
Mortgage-backed securities	5,453	(53)			5,453	(53)
Obligations of States and political subdivisions	26,397	(519)	12,456	(488)	38,853	(1,007)
Collateralized mortgage obligations	880	(3)	1,922	(10)	2,802	(13)
Asset-backed securities			8,779	(1,221)	8,779	(1,221)
FHLMC and FNMA stock	5	(1)			5	(1)
Corporate securities	2,871	(5)			2,871	(5)
Other securities			1,962	(38)	1,962	(38)
Total	$ 50,672	$ (599)	$ 25,119	$ (1,757)	$ 75,791	$ (2,356)

An analysis of gross unrealized losses of the held to maturity investment securities portfolio as of March 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)					
Mortgage backed securities	$ 831	$	$	$	$ 831	$
Obligations of States and political subdivisions	28,844	(426)	26,251	(1,263)	55,095	(1,689)
Collateralized mortgage obligations	1,480	(20)	24,956	(5,361)	26,436	(5,381)
Total	$ 31,155	$ (446)	$ 51,207	$ (6,624)	$ 82,362	$ (7,070)

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 $20 million, thereby qualifying the bonds for tax-exempt status for federal income tax purposes. Therefore, 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 not more likely than not that it will be required to sell the investments prior to recovery of the amortized cost basis. Therefore, the Company does not consider these investments to be other-than-temporarily impaired as of March 31, 2010.

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

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)
Mortgage-backed securities	17,885	(124)			17,885	(124)
Obligations of States and political subdivisions	25,050	(795)	3,866	(182)	28,916	(977)
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	
		Unrealized Losses		Unrealized Losses		Unrealized Losses

	Fair Value		Fair Value		Fair Value	
			(In thousands)			
Obligations of States and political subdivisions	$ 46,111	$ (995)	$ 16,964	$ (1,195)	$ 63,075	$ (2,190)
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)

Note 4: Loans and Allowance for Credit Losses

A summary of the major categories of non-covered and covered loans outstanding is shown in the following tables:

	At March 31, 2010	At December 31, 2009
	(In thousands)	
Non-covered loans:		
Commercial	$ 497,142	$ 498,594
Commercial real estate	793,085	801,008
Construction	29,873	32,156
Residential real estate	347,745	371,197
Consumer installment & other	478,735	498,133
Gross Loans	2,146,580	2,201,088
Allowance for loan losses	(40,316)	(41,043)
Net Loans	$ 2,106,264	$ 2,160,045

The carrying amount of the covered loans at March 31, 2010, consisted of impaired and non impaired purchased loans in the following table (refined).

	Impaired Purchased Loans	Non Impaired Purchased Loans	Total Covered Loans
		(In thousands)	
Covered loans:			
Commercial	$ 4,976	$ 215,865	$ 220,841
Commercial real estate	19,329	418,211	437,540
Construction	14,120	21,465	35,585
Residential real estate	138	18,530	18,668
Consumer installment & other	263	96,606	96,869
Total loans	$ 38,826	$ 770,677	$ 809,503

The carrying amount of the covered loans at December 31, 2009, consisted of impaired and non impaired purchased loans in the following table (refined).

	Impaired Purchased Loans	Non Impaired Purchased Loans	Total Covered Loans
		(In thousands)	
Covered loans:			
Commercial	$ 8,538	$ 244,811	$ 253,349
Commercial real estate	19,870	425,570	445,440
Construction	14,378	26,082	40,460
Residential real estate	138	18,383	18,521

Consumer installment & other	272	97,259	97,531
Total loans	$ 43,196	$ 812,105	$ 855,301

The Company pledges loans to secure borrowings from the Federal Home Loan Bank (FHLB). At March 31, 2010, loans pledged to secure borrowing totaled $106.4 million. The FHLB does not have the right to sell or repledge such loans.

Table of Contents

Changes in the carrying amount of impaired purchased loans were as follows for the quarter ended March 31, 2010 and the period February 6, 2009 (acquisition date) through December 31, 2009 (dollars in thousands):

	At March 31, 2010	At December 31, 2009 (refined)
	(In thousands)	
Carrying amount at the beginning of the period	$ 43,196	$ 80,544
Reductions during the period	(4,370)	(37,348)
Carrying amount at the end of the period	$ 38,826	$ 43,196

Impaired purchased loans had an unpaid principal balance (less prior charge-offs) of $61 million, $70 million and $164 million at March 31, 2010, December 31, 2009 and February 6, 2009, respectively.

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

The following summarizes the allowance for credit losses of the Company for the periods indicated:

	Three months ended	
	March 31, **2010**	March 31, **2009**
	(In thousands)	
Balance, beginning of period	$ 43,736	$ 47,563
Provision for loan losses	2,800	1,800
Loans charged off	(4,456)	(2,928)
Recoveries of previously charged off loans	929	461
Net loan losses	(3,527)	(2,467)
Balance, end of period	$ 43,009	$ 46,896
Components:		
Allowance for loan losses	$ 40,316	$ 43,803
Reserve for unfunded credit commitments	2,693	3,093
Allowance for credit losses	$ 43,009	$ 46,896
Allowance for loan losses / non-covered loans outstanding	1.88%	1.86%

Non-covered nonaccrual loans at March 31, 2010 and December 31, 2009 were $20.3 million and $19.9 million, respectively.

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

Note 5: Goodwill and Other Identifiable Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the three months ended March 31, 2010.

- 14 -

Table of Contents

Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are also periodically reassessed to determine if any amortization period adjustments are indicated. During the three months ended March 31, 2010, no such adjustments were recorded. The gross carrying amount of identifiable intangible assets and accumulated amortization was:

	At March 31, 2010		At December 31, 2009	
	(In thousands)			
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	$ 51,538	$ (20,541)	$ 51,538	$ (19,160)
Merchant Draft Processing Intangible	10,300	(7,227)	10,300	(7,011)
Total Identifiable Intangible Assets	$ 61,838	$ (27,768)	$ 61,838	$ (26,171)

As of March 31, 2010, the current year and estimated future amortization expense for identifiable intangible assets was:

	Core Deposit Intangibles	Merchant Draft Processing Intangible	Total
		(In thousands)	
Three months ended			
March 31, 2010 (actual)	$ 1,382	$ 216	$ 1,598
Estimate for year ended December 31, 2010	5,361	774	6,135
2011	4,817	624	5,441
2012	4,372	500	4,872
2013	3,842	400	4,242
2014	3,516	324	3,840
2015	3,193	262	3,455

Note 6: Post Retirement Benefits

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. The Company also reimburses a portion of Medicare Part B premiums for all qualifying retirees over age 65 and their qualified 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.

The following table sets forth the net periodic post-retirement benefit costs:

	For the three months ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Service cost (benefit)	$ (90)	$ (79)
Interest cost	48	55
Amortization of unrecognized transition obligation	15	15

Net periodic cost (benefit)	$	(27)	$	(9)

The Company does not fund plan assets for any post-retirement benefit plans.

Note 7: 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 $482.2 million and $482.0 million at March 31, 2010 and December 31, 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 $27.4 million and $27.4 million at March 31, 2010 and December 31, 2009, respectively. The Company also had commitments for commercial and similar letters of credit of $76 thousand and $176 thousand at March 31, 2010 and December 31, 2009, respectively.

Due to the nature of its business, the Company is subject to various threatened or filed legal cases. Based on the advice of legal counsel, the Company does not expect such cases will have a material, adverse effect on its financial position or results of operations. Legal costs related to covered assets are 80 percent indemnified under loss-sharing agreements with the FDIC if certain conditions are met.

Note 8: Fair Value Measurements

In accordance with FASB ASC 820, Fair Value Measurements and Disclosure, the Company groups its assets and liabilities measured at fair value in three levels, 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 also 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 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 other business assets where the expected cash flow has been used in determining the fair value.

Table of Contents

Assets Recorded at Fair Value on a Recurring Basis

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

	At March 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	$ 2,994	$ 2,994	$	$
Securities of U.S. Government sponsored entities	41,153	41,153		
Municipal bonds:				
Federally Tax-exempt California	66,437		66,437	
Federally Tax-exempt 27 other states	96,271		96,271	
Taxable California	4,704		4,704	
Residential mortgage-backed securities (MBS):				
Guaranteed by GNMA	52,212		52,212	
Issued by FNMA and FHLMC	85,046		85,046	
Residential collateralized mortgage obligations:				
Issued or guaranteed by FNMA, FHLMC, or GNMA	24,448		24,448	
All other	11,005		11,005	
Commercial mortgage-backed securities	5,402		5,402	
Asset-backed securities government guaranteed student loans	8,779		8,779	
FHLMC and FNMA stock	1,629	1,629		
Corporate securities	9,843	9,843		
Other securities	5,064	3,102	1,962	
Total securities available for sale	$ 414,987	$ 58,721	$ 356,266	$

	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	$

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

Table of Contents

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 during the quarter ended March 31, 2010 and year ended December 31, 2009 that were still held in the balance sheet at the end of such periods, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets at quarter end.

	At March 31, 2010				
	Fair Value	Level 1	Level 2	Level 3	Total losses
	(In thousands)				
Non-covered other real estate owned (1)	$ 180	$	$ 180	$	$ (466)
Total assets measured at fair value on a nonrecurring basis	$ 180	$	$ 180	$	$ (466)

	At December 31, 2009				
	Fair Value	Level 1	Level 2	Level 3	Total losses
	(In thousands)				
Non-covered other real estate owned (1)	$ 413	$	$ 413	$	$ (233)
Non-covered 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.

Disclosures about Fair Value of Financial Instruments

The fair values presented represent the Company s best estimate of fair value using the methodologies discussed below. The fair values of financial instruments which have a relatively short period of time between their origination and their expected realization were valued using historical cost. 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. Such financial instruments and their fair values were:

	At March 31, 2010	At December 31, 2009
	(In thousands)	
Cash and cash equivalents	$ 253,229	$ 361,135
Money market assets	342	442
Interest and taxes receivable	63,971	57,667
Noninterest bearing and interest-bearing transaction and savings deposits	2,987,758	3,068,820
Short-term borrowed funds excluding term repurchase agreements	112,473	128,134
Interest payable	1,735	1,801

The fair values of investment securities and liabilities for unvested restricted performance share grants were estimated using quoted prices as described above for Level 1 and Level 2 valuation:

	At March 31, 2010		At December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)		(In thousands)	
Investment securities available for sale	$ 414,987	$ 414,987	$ 384,208	$ 384,208
Investment securities held to maturity	690,585	701,768	726,935	736,270
Liability for restricted performance share grants	2,014	2,014	1,942	1,942

Table of Contents

The fair values of FHLB advances, term repurchase agreements, and notes payable were estimated by using interpolated yields for financial instruments with similar characteristics. Such financial instruments and their estimated fair values were:

	At March 31, 2010		At December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)		(In thousands)	
Federal Home Loan Bank advances	$ 10,306	$ 10,441	$ 85,470	$ 85,601
Term repurchase agreements	99,283	99,464	99,044	100,329
Senior notes payable	15,000	14,665	15,000	14,069
Subordinated notes	11,464	11,637	11,497	9,451

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 $40.3 million at March 31, 2010 and $41.0 million at December 31, 2009 and the fair value discount due to credit default risk associated with purchased loans of $83.3 million at March 31, 2010 and $93.3 million 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.

The book values and the estimated fair values of loans were:

	At March 31, 2010		At December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)		(In thousands)	
Loans	$ 2,915,767	$ 2,925,297	$ 3,015,346	$ 3,024,866

The fair values of FDIC receivables and 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. The book values and the estimated fair values were:

	At March 31, 2010		At December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
	(In thousands)		(In thousands)	
FDIC receivables	$ 65,924	$ 64,368	$ 85,787	$ 83,806
Time deposits	907,271	907,822	991,388	992,560

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 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 period the Series A Preferred Stock was outstanding, and reported as a reduction to net income applicable to common equity over that period.

Note 10: Earnings Per Common Share

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

	For the three months ended	
	March 31, **2010**	March 31, **2009**
	(In thousands, except per share data)	
Weighted average number of common shares outstanding basic	29,228	28,876
Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise	368	229
Weighted average number of common shares outstanding diluted	29,596	29,105
Net income applicable to common equity	$ 23,576	$ 52,247
Basic earnings per common share	$ 0.81	$ 1.81
Diluted earnings per common share	0.80	1.80

For the three months ended March 31, 2010, options to purchase 294 thousand shares of common stock were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect. For the three months ended March 31, 2009, options and warrants to purchase 1.5 million and 247 thousand shares of common stock, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

- 20 -

WESTAMERICA BANCORPORATION
FINANCIAL SUMMARY

	Three months ended		
	March 31, **2010**	March 31, **2009**	December 31, **2009**
	(In thousands, except per share data)		
Net Interest Income (FTE)*	$ 57,029	$ 59,359	$ 58,949
Provision for Loan Losses	2,800	1,800	3,300
Noninterest Income:			
Gain on acquisition		48,844	
Deposit service charges and other	15,470	15,124	15,696
Total Noninterest Income	15,470	63,968	15,696
Total Noninterest Expense	32,031	34,123	32,836
Income Before Income Taxes (FTE)*	37,668	87,404	38,509
Income Tax Provision (FTE)*	14,092	34,579	14,348
Net Income	23,576	52,825	24,161
Preferred stock dividends and discount accretion		578	812
Net Income Applicable to Common Equity	$ 23,576	$ 52,247	$ 23,349
Average Common Shares Outstanding	29,228	28,876	29,205
Diluted Average Common Shares Outstanding	29,596	29,105	29,471
Common Shares Outstanding at Period End	29,206	28,874	29,208
As Reported:			
Basic Earnings Per Common Share	$ 0.81	$ 1.81	$ 0.80
Diluted Earnings Per Common Share	0.80	1.80	0.79
Return On Assets	1.99%	4.24%	1.85%
Return On Common Equity	18.84%	48.01%	18.79%
Net Interest Margin (FTE)*	5.60%	5.35%	5.50%
Net Loan Losses to Average Gross Non-Covered Loans	0.66%	0.42%	0.88%
Efficiency Ratio**	44.2%	27.7%	44.0%
Average Balances:			
Total Assets	$ 4,812,924	$ 4,998,964	$ 5,007,341
Earning Assets	4,111,345	4,475,371	4,268,101
Non-covered Loans	2,165,467	2,374,089	2,235,482
Covered Loans	831,161	761,855	889,101
Total Deposits	3,955,299	3,862,435	4,074,105
Shareholders Equity	507,406	485,054	514,497
Balances at Period End:			
Total Assets	$ 4,745,495	$ 5,428,865	$ 4,975,501
Earning Assets	4,061,997	4,800,909	4,167,974

Non-covered Loans	2,146,580	2,356,237	2,201,088
Covered Loans	809,503	1,089,071	855,301
Total Deposits	3,895,029	4,256,281	4,060,208
Shareholders Equity	519,131	536,668	505,448
Financial Ratios at Period End:			
Allowance for Loan Losses to Non-Covered Loans	1.88%	1.86%	1.86%
Book Value Per Common Share	$ 17.77	$ 15.73	$ 17.31
Equity to Assets	10.94%	9.89%	10.16%
Total Capital to Risk Adjusted Assets	15.21%	14.46%	14.50%
Dividends Paid Per Common Share	$ 0.36	$ 0.36	$ 0.35
Common Dividend Payout Ratio	45%	20%	44%

The above financial summary has been derived from the Company s unaudited consolidated financial statements. This information should be read in conjunction with those statements, notes and the other information included elsewhere herein. Percentages under the heading As Reported are annualized with the exception of the efficiency ratio.

* 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).

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Westamerica Bancorporation and subsidiaries (the Company) reported first quarter 2010 net income applicable to common equity of $23.6 million or $0.80 diluted earnings per common share. These results compare to net income applicable to common equity of $52.2 million or $1.80 diluted earnings per common share and $23.3 million or $0.79 diluted earnings per common share, respectively, for the first and fourth quarters of 2009. The first quarter of 2009 included a $48.8 million gain resulting from the acquisition of County Bank (County) which increased net income by $28.3 million and earnings per diluted common share by $0.98.

Net Income

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

	Three months ended		
	March 31, **2010**	March 31, **2009**	December 31, **2009**
	(In thousands, except per share data)		
Net interest income (FTE)	$ 57,029	$ 59,359	$ 58,949
Provision for loan losses	(2,800)	(1,800)	(3,300)
Noninterest income	15,470	63,968	15,696
Noninterest expense	(32,031)	(34,123)	(32,836)
Income before taxes (FTE)	37,668	87,404	38,509
Income tax provision (FTE)	(14,092)	(34,579)	(14,348)
Net income	$ 23,576	$ 52,825	$ 24,161
Net income applicable to common equity	$ 23,576	$ 52,247	$ 23,349
Average diluted common shares	29,596	29,105	29,471
Diluted earnings per common share	$ 0.80	$ 1.80	$ 0.79
Average total assets	$ 4,812,924	$ 4,998,964	$ 5,007,341
Net income applicable to common equity to average total assets (annualized)	1.99%	4.24%	1.85%
Net income applicable to common equity to average common stockholders equity (annualized)	18.84%	48.01%	18.79%

Net income applicable to common equity for the first quarter of 2010 was $28.7 million less than the same quarter of 2009, largely attributable to a gain on acquisition of $48.8 million in the first quarter of 2009, lower net interest income and higher loan loss provision, partially offset by lower noninterest expense and a decrease in income tax provision (FTE). A $2.3 million or 3.9% decrease in net interest income (FTE) was mostly attributed to lower average balances of earning assets, partially offset by higher yields on loans, lower average balances of borrowings and lower rates paid on interest-bearing deposits. The provision for loan losses increased $1.0 million, reflecting Management s evaluation of losses inherent in the loan portfolio not covered by loss-sharing agreements with the FDIC. Noninterest income decreased $48.5 million mainly due to the gain on acquisition in the first quarter of 2009. Noninterest expense decreased $2.1 million mostly due to lower personnel and occupancy expenses resulting from the systems integrations and branch consolidations following the County acquisition, partially offset by higher FDIC insurance assessments. The provision for income taxes (FTE) decreased $20.5 million primarily because the first quarter of 2009 included the acquisition gain. Net income applicable to common equity in the first quarter of 2009 reflected $578 thousand in preferred stock dividends and discount accretion.

Comparing the first quarter of 2010 to the fourth quarter of 2009, net income applicable to common equity increased $227 thousand, due to decreases in the provision for loan losses, noninterest expense and income tax provision (FTE) and the elimination of preferred stock dividends and discount accretion, partially offset by decreases in net interest income and noninterest income. The lower net interest income (FTE) was primarily caused by a lower volume of average earning assets and lower yields on investments, 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 decreased $500 thousand, reflecting Management s evaluation of losses inherent in the loan portfolio not covered by loss-sharing agreements with the FDIC. Noninterest income decreased $226 thousand largely due to lower service charges on deposits. The income tax provision (FTE) decreased $256 thousand primarily due to lower profitability. Net income applicable to common equity in the fourth quarter of 2009 reflected $812 thousand in preferred stock dividends and discount accretion. The preferred stock was redeemed during the fourth quarter of 2009.

Net Interest Income

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

	Three months ended		
	March 31, **2010**	March 31, **2009**	December 31, **2009**
		(In thousands)	
Interest and fee income	$ 56,003	$ 59,185	$ 58,496
Interest expense	(3,534)	(4,833)	(4,301)
FTE adjustment	4,560	5,007	4,754
Net interest income (FTE)	$ 57,029	$ 59,359	$ 58,949
Average earning assets	$ 4,111,345	$ 4,475,371	$ 4,268,101
Net interest margin (FTE) (annualized)	5.60%	5.35%	5.50%

Net interest income (FTE) decreased during the first quarter of 2010 by $2.3 million or 3.9% from the same period in 2009 to $57.0 million, mainly due to lower average balances of earning assets (down $364 million), partially offset by higher yields on loans (up 0.2%), lower average balances of short-term borrowings (down $308 million) and lower rates paid on interest-bearing deposits (down 0.2%).

Comparing the first three months of 2010 with the fourth quarter of 2009, net interest income (FTE) decreased $1.9 million or 3.3%, primarily due to a lower volume of average earning assets (down $157 million) and lower yields on investments (down 0.08%), partially offset by higher yields on loans (up 0.11%), lower average balances of interest-bearing liabilities (down $139 million) and lower rates paid on interest-bearing deposits (down 0.06%).

At March 31, 2010, FDIC covered loans represented 27 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. The Bank includes estimated FDIC reimbursable loan interest income in income in the period such loan interest would be recognized if the borrower were in compliance with the contractual terms of the loan.

Interest and Fee Income

Interest and fee income (FTE) for the first quarter of 2010 decreased $3.6 million or 5.7% from the same period in 2009. The decrease was caused by lower average balances of earning assets (down $364 million) and lower yields on investments (down 0.02%), partially offset by higher yields on loans (up 0.2%). The total average balances of loans declined $139 million or 4.4% mainly due to decreases in the average balances of residential real estate loans (down $82 million), taxable commercial loans (down $57 million), indirect auto loans (down $42 million), tax-exempt commercial loans (down $19 million) and construction loans (down $13 million), partially offset by a $47 million increase in the average balance of commercial real estate loans. The average investment portfolio decreased $225 million largely due to declines in average balances of mortgage backed securities and collateralized mortgage obligations (down $101 million), U.S. government sponsored entity obligations (down $82 million) and municipal securities (down $50 million), partially offset by a $7 million increase in the average balances of corporate securities.

The average yield on the Company s earning assets increased from 5.79% in the first quarter of 2009 to 5.95% in the corresponding period of 2010. The composite yield on loans rose 0.2% to 6.17% due to increases in yields on construction loans (up 1.69%) and taxable commercial loans (up 0.43%), partially offset by decreases in yields on tax-exempt commercial loans (down 0.44%) and residential real estate loans (down 0.21%). The investment portfolio yield decreased 0.02% to 5.36%, mainly due to declines in yields on U.S. government sponsored entity obligations (down 2.8%), U.S. Treasury securities (down 2.36%), corporate and other securities (down 1.43%), mortgage backed securities and collateralized mortgage obligations (down 0.39%) and municipal securities (down 0.1%).

Comparing the first quarter of 2010 with the fourth quarter of 2009, interest and fee income (FTE) was down $2.7 million or 4.2%. The decrease resulted from a lower volume of average earning assets and lower yields on investment securities, partially offset by higher yields on loans. Average earning assets decreased $157 million or 3.7% in the first quarter of 2010 compared with the fourth quarter of 2009 due to a $128 million decrease in average loans and a $29 million decrease in average investments. The decrease in the average balance of the loan portfolio was attributable to decreases in average balances of residential real estate loans (down $29 million), taxable commercial loans (down $28 million), commercial real estate loans (down $27 million), indirect auto loans (down $20 million), construction loans (down $17 million) and tax-exempt commercial loans (down $7 million). The average investment portfolio decreased $29 million largely due to declines in average balances of mortgage backed securities and collateralized mortgage obligations (down $31 million) and municipal securities (down $12 million), partially offset by increases in the average balances of U.S. government sponsored entity obligations (up $8 million) and corporate securities (up $7 million). The average yield on earning assets for the first three months of 2010 was 5.95% compared with 5.90% in the fourth quarter of 2009. The loan portfolio yield for the first three months of 2010 compared with the previous quarter was higher by 0.11%, due to increases in yields on construction loans (up 1.21%) and taxable commercial loans (up 0.48%), partially offset by decreases in yields on tax-exempt commercial loans (down 0.39%) and residential real estate loans (down 0.16%). The investment portfolio yield decreased by 0.08%, reflecting lower yields on U.S. Treasury securities (down 2.24%), U.S. government sponsored entity obligations (down 1.13%), partially offset by a 0.21% increase in the yield on corporate and other securities.

Interest Expense

Interest expense in the first quarter of 2010 decreased $1.3 million compared with the same period in 2009. The decrease was attributable to lower rates paid on the interest-bearing deposits and lower average balances of borrowing, partially offset by higher rates paid on borrowings. The average rate paid on interest-bearing liabilities decreased from 0.62% in the first quarter of 2009 to 0.50% in the same quarter of 2010. Rates on interest-bearing deposits decreased 0.21% to 0.39% primarily due to decreases in rates paid on time deposits less than $100 thousand (down 0.97%), time deposits $100 thousand or more (down 0.08%) and preferred money market savings (down 0.16%). Rates on short-term borrowings increased 0.57% mostly due to a 0.34% increase in the rates on line of credit and repurchase facilities. The rate on Federal Home Loan Bank (FHLB) advances rose 0.22% to 1.37%. Average short-term borrowings declined $308 million in the first quarter of 2010 over the same period of 2009 primarily due to a $315 million decline in the average balance of federal funds purchased, partially offset by a $41 million increase in the average balance of line of credit and repurchase facilities. Interest-bearing deposits remained steady at first quarter 2009 levels, the net result of a $109 million decrease in the average balance of time deposits $100 thousand or more, offset by increases in average balances of money market savings (up $58 million), regular savings (up $24 million) and time deposits less than $100 thousand (down $24 million).

Comparing the first quarter of 2010 with the fourth quarter of 2009, interest expense declined $767 thousand, due to lower average balances of interest-bearing liabilities and lower rates on interest-bearing deposits, offset by higher rates paid on borrowings. Average interest-bearing liabilities during the first quarter of 2010 fell by $139 million over the last quarter of 2009 mainly due to decreases in average balances of FHLB advances (down $61 million), time deposits less than $100 thousand (down $44 million), money market savings (down $14 million) and time deposits $100 thousand or more (down $9 million). Rates paid on liabilities averaged 0.50% during the first three months of 2010 compared with 0.57% for the last three months of 2009. The average rate paid on interest-bearing deposits declined 0.06% to 0.39% in the first quarter 2010 mainly due to lower rates on time deposits $100 thousand or more (down 0.13%) and time deposits less than $100 thousand (down 0.13%).

Net Interest Margin (FTE)

The following summarizes the components of the Company s net interest margin for the periods indicated:

	Three months ended		
	March 31, **2010**	March 31, **2009**	December 31, **2009**

Yield on earning assets (FTE)	5.95%	5.79%	5.90%
Rate paid on interest-bearing liabilities	0.50%	0.62%	0.57%
Net interest spread (FTE)	5.45%	5.17%	5.33%
Impact of all other net noninterest bearing funds	0.15%	0.18%	0.17%
Net interest margin (FTE)	5.60%	5.35%	5.50%

During the first quarter of 2010, the net interest margin (FTE) increased 0.25% compared with the same period in 2009. Higher yields on earning assets (FTE) and lower rates paid on interest-bearing liabilities resulted in a 0.28% increase in net interest spread. The increase in the net interest spread was partially reduced by the lower net interest margin contribution of noninterest-bearing funding sources. The net interest margin (FTE) in the first three months of 2010 rose by 0.10% compared with the fourth quarter of 2009. Earning asset yields increased 0.05% while the cost of interest-bearing liabilities declined by 0.07%, resulting in a 0.12% increase in the net interest spread. The 0.02% decrease in margin contribution from noninterest bearing funding sources resulted in the net interest margin of 5.60%.

Table of Contents

Summary of Average Balances, Yields/Rates and Interest Differential

The following tables present, for the periods indicated, information regarding the Company s consolidated average assets, liabilities and shareholders equity, the amount of interest income from average earning assets and the resulting yields, and the amount of interest expense paid on interest-bearing liabilities. 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 securities and certain loans have been adjusted upward to reflect the effect of income which is exempt from federal income taxation at the current statutory tax rate (FTE).

	For the three months ended March 31, 2010		
	Average Balance	Interest Income/ Expense	Yields Earned/ Rates Paid
	(In thousands)		
Assets:			
Money market assets and funds sold	$ 640	$ 1	0.63%
Investment securities:			
Available for sale			
Taxable	247,466	2,151	3.48%
Tax-exempt (1)	156,484	2,604	6.66%
Held to maturity			
Taxable	206,445	2,277	4.41%
Tax-exempt (1)	503,682	7,906	6.28%
Loans:			
Commercial:			
Taxable	555,940	8,616	6.29%
Tax-exempt (1)	172,850	2,664	6.25%
Commercial real estate	1,238,344	20,294	6.65%
Real estate construction	67,459	925	5.56%
Real estate residential	376,254	4,345	4.62%
Consumer	585,781	8,780	6.08%
Total loans (1)	2,996,628	45,624	6.17%
Total earning assets (1)	4,111,345	$ 60,563	5.95%
Other assets	701,579		
Total assets	$ 4,812,924		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,379,797	$	%
Savings and interest-bearing transaction	1,629,009	956	0.24%
Time less than $100,000	390,551	617	0.64%
Time $100,000 or more	555,942	915	0.67%

Total interest-bearing deposits	2,575,502	2,488	0.39%
Short-term borrowed funds	244,158	621	1.03%
Debt financing and notes payable	26,484	425	6.42%
Total interest-bearing liabilities	2,846,144	$ 3,534	0.50%
Other liabilities	79,577		
Shareholders equity	507,406		
Total liabilities and shareholders equity	$ 4,812,924		
Net interest spread (1) (2)			5.45%
Net interest income and interest margin (1) (3)		$ 57,029	5.60%

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

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

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning

assets.

	For the three months ended March 31, 2009		
	Average Balance	Interest Income/ Expense	Yields Earned/ Rates Paid
		(In thousands)	
Assets:			
Money market assets and funds sold	$ 878	$ 1	0.46%
Investment securities:			
Available for sale			
Taxable	229,304	1,867	3.26%
Tax-exempt (1)	170,520	2,808	6.59%
Held to maturity			
Taxable	400,229	4,790	4.79%
Tax-exempt (1)	538,496	8,539	6.34%
Loans:			
Commercial:			
Taxable	612,454	8,848	5.86%
Tax-exempt (1)	191,948	3,165	6.69%
Commercial real estate	1,191,260	19,072	6.49%
Real estate construction	80,830	772	3.87%
Real estate residential	458,180	5,527	4.83%
Consumer	601,272	8,803	5.94%
Total loans (1)	3,135,944	46,187	5.97%
Total earning assets (1)	4,475,371	$ 64,192	5.79%
Other assets	523,593		
Total assets	$ 4,998,964		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,286,013	$	%
Savings and interest-bearing transaction	1,545,154	1,105	0.29%
Time less than $100,000	366,794	1,452	1.61%
Time $100,000 or more	664,474	1,227	0.75%
Total interest-bearing deposits	2,576,422	3,784	0.60%
Short-term borrowed funds	552,645	626	0.46%
Debt financing and notes payable	26,618	423	6.35%
Total interest-bearing liabilities	3,155,685	$ 4,833	0.62%
Other liabilities	72,212		
Shareholders equity	485,054		

Total liabilities and shareholders equity	$ 4,998,964		
Net interest spread (1) (2)			5.17%
Net interest income and interest margin (1) (3)		$ 59,359	5.35%

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

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

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

	For the three months ended December 31, 2009		
	Average Balance	Interest Income/ Expense	Yields Earned/ Rates Paid
	(In thousands)		
Assets:			
Money market assets and funds sold	$ 543	$ 1	0.73%
Investment securities:			
Available for sale			
Taxable	236,985	2,225	3.76%
Tax-exempt (1)	155,244	2,626	6.77%
Held to maturity			
Taxable	234,604	2,587	4.41%
Tax-exempt (1)	516,142	8,117	6.29%
Loans:			
Commercial:			
Taxable	584,279	8,560	5.81%
Tax-exempt (1)	179,814	3,011	6.64%
Commercial real estate	1,265,086	21,119	6.62%
Real estate construction	84,611	927	4.35%
Real estate residential	405,094	4,838	4.78%
Consumer	605,699	9,239	6.05%
Total loans (1)	3,124,583	47,694	6.06%
Total earning assets (1)	4,268,101	$ 63,250	5.90%
Other assets	739,240		
Total assets	$ 5,007,341		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,425,867	$	%
Savings and interest-bearing transaction	1,649,492	1,041	0.25%
Time less than $100,000	434,207	845	0.77%
Time $100,000 or more	564,539	1,138	0.80%
Total interest-bearing deposits	2,648,238	3,024	0.45%
Short-term borrowed funds	310,739	855	1.09%
Debt financing and notes payable	26,517	422	6.36%
Total interest-bearing liabilities	2,985,494	$ 4,301	0.57%
Other liabilities	81,483		
Shareholders equity	514,497		

Total liabilities and shareholders equity	$ 5,007,341		
Net interest spread (1) (2)			5.33%
Net interest income and interest margin (1) (3)		$ 58,949	5.50%

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

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

(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

Summary of Changes in Interest Income and Expense due to Changes in Average Asset & Liability Balances and Yields Earned & Rates Paid

The following tables set forth a summary of the changes in interest income and interest expense due to changes in average asset 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.

	Three months ended March 31, 2010 compared with Three months ended March 31, 2009		
	Volume	**Rate**	**Total**
	(In thousands)		
Interest and fee income:			
Money market assets and funds sold	$	$	$
Investment securities:			
Available for sale			
Taxable	153	131	284
Tax-exempt (1)	(233)	29	(204)
Held to maturity			
Taxable	(2,163)	(350)	(2,513)
Tax-exempt (1)	(547)	(86)	(633)
Loans:			
Commercial:			
Taxable	(850)	618	(232)
Tax-exempt (1)	(302)	(199)	(501)
Commercial real estate	765	457	1,222
Real estate construction	(143)	296	153
Real estate residential	(954)	(228)	(1,182)
Consumer	(230)	207	(23)
Total loans (1)	(1,714)	1,151	(563)
Total (decrease) increase in interest and fee income (1)	(4,504)	875	(3,629)
Interest expense:			
Deposits:			
Savings and interest-bearing transaction	57	(206)	(149)
Time less than $100,000	89	(924)	(835)
Time $100,000 or more	(187)	(125)	(312)
Total interest-bearing deposits	(41)	(1,255)	(1,296)
Short-term borrowed funds	(482)	477	(5)
Debt financing and notes payable	(2)	4	2
Total decrease in interest expense	(525)	(774)	(1,299)

(Decrease) increase in Net Interest Income (1)	$ (3,979)	$ 1,649	$ (2,330)

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

Table of Contents

	Three months ended March 31, 2010 compared with Three months ended December 31, 2009		
	Volume	**Rate**	**Total**
	(In thousands)		
Interest and fee income:			
Money market assets and funds sold	$	$	$
Investment securities:			
Available for sale			
Taxable	69	(143)	(74)
Tax-exempt (1)		(22)	(22)
Held to maturity			
Taxable	(311)	1	(310)
Tax-exempt (1)	(203)	(8)	(211)
Loans:			
Commercial:			
Taxable	(615)	671	56
Tax-exempt (1)	(174)	(173)	(347)
Commercial real estate	(897)	72	(825)
Real estate construction	(230)	228	(2)
Real estate residential	(363)	(130)	(493)
Consumer	(499)	40	(459)
Total loans (1)	(2,778)	708	(2,070)
Total (decrease) increase in interest and fee income (1)	(3,223)	536	(2,687)
Interest expense:			
Deposits:			
Savings and interest-bearing transaction	(34)	(51)	(85)
Time less than $100,000	(94)	(134)	(228)
Time $100,000 or more	(38)	(185)	(223)
Total interest-bearing deposits	(166)	(370)	(536)
Short-term borrowed funds	(240)	6	(234)
Debt financing and notes payable	(10)	13	3
Total decrease in interest expense	(416)	(351)	(767)
(Decrease) increase in Net Interest Income (1)	$ (2,807)	$ 887	$ (1,920)

(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 troubled debtors. County loans purchased from the FDIC are covered by loss-sharing agreements the Company entered 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 fair value recognition, the Company did not record a provision for loan losses during the first quarter 2010 related to such loans covered by the FDIC loss-sharing agreements. In Management s judgment, the acquisition date loan fair value discounts remaining at March 31, 2010 represent appropriate loss estimates for default risk inherent in the purchased loans. The Company provided $2.8 million, $1.8 million and $3.3 million for loan losses on non-covered loans in the first quarter of 2010, the first quarter and the fourth quarter of 2009, respectively. 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

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

	Three months ended		
	March 31, **2010**	March 31, **2009**	December 31, **2009**
		(In thousands)	
Service charges on deposit accounts	$ 8,742	$ 8,422	$ 9,376
Merchant credit card fees	2,221	2,432	2,250
Debit card fees	1,174	856	1,219
ATM fees and interchange	891	813	901
Other service fees	636	531	570
Trust fees	381	364	373
Check sale income	230	223	225
Safe deposit rental	162	167	165
Financial services commissions	149	154	163
Gain on acquisition		48,844	
Other noninterest income	884	1,162	454
Total	$ 15,470	$ 63,968	$ 15,696

Noninterest income for the first quarter of 2010 fell by $48.5 million from the same period in 2009 mostly attributable to the $48.8 million gain on acquisition in the first quarter 2009. Higher service charges on deposit accounts were generally attributable to the growth in deposit accounts through the County acquisition on February 6, 2009. Service charges on deposits increased $320 thousand or 3.8% primarily due to a $912 thousand increase in overdraft fees and a $101 thousand increase in checking account charges, partially offset by a $702 thousand decrease in return item charges. Debit card fees rose by $318 thousand or 37.1% mainly due to an increased customer base through the County acquisition. A $105 thousand or 19.8% in other service fees was largely due to increases in foreign currency commissions and internet banking charges. Merchant credit card fees declined $211 thousand or 8.7% due to lower transaction volume. Other noninterest income fell $278 thousand or 23.9% mostly due to miscellaneous fees from County in the first quarter of 2009.

In the first quarter of 2010, noninterest income decreased $226 thousand or 1.4% compared with the fourth quarter of 2009 primarily due to a $634 thousand or 6.8% decline in service charges on deposit accounts, the net result of lower overdraft fees (down $483 thousand), returned item charges and charges on checking accounts, partially offset by higher savings account service charges.

Noninterest Expense

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

	Three months ended		
	March 31, **2010**	March 31, **2009**	December 31, **2009**
	(In thousands)		
Salaries and related benefits	$ 15,892	$ 16,371	$ 15,170
Occupancy	3,777	5,410	3,917
Outsourced data processing services	2,240	2,104	2,260
Equipment	1,051	1,222	1,240
Amortization of identifiable intangibles	1,598	1,685	1,646
FDIC insurance assessments	1,320	157	1,440
Courier service	907	898	927
Professional fees	663	888	1,003
Postage	475	462	540
Loan expense	418	994	342
Telephone	389	387	490
Stationery and supplies	350	367	364
Operational losses	220	195	295
Advertising/public relations	211	227	185
In-house meetings	175	257	314
Customer checks	172	176	223
Correspondent service charges	102	256	180
Other noninterest expense	2,071	2,067	2,300
Total	$ 32,031	$ 34,123	$ 32,836
Average full time equivalent staff	1,032	1,144	1,056
Noninterest expense to revenues (FTE)	44.18%	27.67%	43.99%

Noninterest expense decreased $2.1 million or 6.1% in the three months ended March 31, 2010 compared with the same period in 2009 mainly due to personnel and occupancy cost savings from the County acquisition, partially offset by a $1.2 million increase in FDIC insurance assessments. Salaries and related benefits decreased $479 thousand or 2.9% primarily due to a reduction in regular salaries, partially offset by annual merit increases. Lower salaries, wages and incentives were partially offset by higher group health insurance costs, profit sharing and other benefits. Occupancy expense decreased $1.6 million or 30.2% mainly due to branch and administrative office consolidations in May and August of 2009. Equipment expense declined $171 thousand or 14.0% primarily due to branch and administrative office consolidations. Loan expense decreased $576 thousand generally because the first quarter of 2009 included servicing fees on factoring receivables acquired from County. Such factoring receivables were fully liquidated in April 2009. Professional fees were lower by $225 thousand or 25.3% mainly because the first quarter of 2009 included legal fees for loans acquired from County, issuance of preferred stock and other professional fees. A $154 thousand decrease in correspondent service charges was mostly attributable to higher interest received on reserve balances held with the Federal Reserve Bank. Offsetting the decreases were higher FDIC insurance assessments and a $136 thousand increase in outsourced data processing services.

In the first quarter of 2010, noninterest expense fell $805 thousand or 2.5% compared with the fourth quarter of 2009 primarily due to lower occupancy and equipment expenses and professional fees, partially offset by higher salaries

and related benefits. Salaries and related benefits increased $722 thousand or 4.8% mostly due to merit increases, higher payroll taxes, group health insurance costs, profit sharing and other benefits. Occupancy expense decreased $140 thousand or 3.6% mainly due to lower rent, net of sublease income and decreases in depreciation costs. Equipment expense declined $189 thousand or 15.2% mostly due to lower maintenance and repair costs and decreases in expenses associated with software. Professional fees decreased $340 thousand or 33.9% largely due to lower legal fees. Other categories which decreased were in-house meeting expense (down $139 thousand or 44.3%), FDIC insurance assessments (down $120 thousand or 8.3%) and telephone expense (down $101 thousand or 20.6%).

Provision for Income Tax

During the first quarter of 2010, the Company recorded income tax expense (FTE) of $14.1 million, compared with $34.6 million and $14.3 million for the first and fourth quarters of 2009, respectively. The current quarter provision represents an effective tax rate (FTE) of 37.4%, compared with 39.6% and 37.3% for the first and fourth quarters of 2009, respectively. The higher effective tax rate for the first quarter 2009 reflects higher pretax income without a corresponding increase in tax preference items.

Loan Portfolio Credit Risk

The risk that loan customers do not repay loans granted 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 centralizing business development and loan approval. 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 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 bifurcates the Bank s total loan portfolio between those loans qualifying under the FDIC loss-sharing agreements (referred to as covered loans) and loans not qualifying under the FDIC loss-sharing agreements (referred to as non-covered loans). At March 31, 2010, covered loans totaled $810 million, or 27 percent of total loans, and non-covered loans totaled $2.1 billion, or 73 percent of total loans.

Covered Loans and Repossessed Loan Collateral (Covered Assets)

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 covered assets (First Tier), and absorbs 95 percent of losses and shares in 95 percent of loss recoveries if losses on 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 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 covered assets than on non-covered assets.

The Bank recorded acquired 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.

In Management s judgment, the credit risk discount recognized for the acquired assets remains adequate as an estimate of credit risk inherent in covered assets as of March 31, 2010. In the event credit risk deteriorates beyond that estimated by Management, losses in excess of the credit risk discount would be recognized in income or as an expense, net of related FDIC loss indemnification.

Table of Contents

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 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

Of the estimated $161 million in recognized credit risk at February 6, 2009, the Company has realized losses of $78 million during the period February 6, 2009 through March 31, 2010. 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 $21 million as of March 31, 2010, which would be realized only if all covered assets at March 31, 2010 generated no future cash flows.
The following is a summary of covered classified loans and repossessed loan collateral:

	At March 31, 2010	At December 31, 2009
	(In thousands)	
Covered Classified Assets		
Classified loans	$ 184,565	$ 181,516
Repossessed loan collateral	22,305	23,297
Total	$ 206,870	$ 204,813

The following is a summary of covered nonperforming assets:

	At March 31, 2010	At December 31, 2009
	(In thousands)	
Covered nonperforming assets		
Nonperforming, nonaccrual loans	$ 52,431	$ 66,965
Performing, nonaccrual loans	25,731	18,183
Total nonaccrual loans	78,162	85,148
Loans 90 days past due and still accruing	317	210
Total nonperforming loans	78,479	85,358
Covered repossessed loan collateral	22,305	23,297
Total	$ 100,784	$ 108,655

As a percentage of total covered loans and OREO	12.12%	12.37%

The amount of gross interest income that would have been recorded if all covered nonaccrual loans had been current in accordance with their original terms while outstanding was $1.1 million in the first quarter of 2010, compared with $228 thousand and $1.4 million for the first and fourth quarters of 2009, respectively. The amount of interest income that was recognized on covered nonaccrual loans from cash payments made in the first quarter of 2010 was $1.1 million, compared with $-0- thousand and $1.3 million for the first and fourth quarters of 2009, respectively. The yield on these cash payments was 6.40% for the first quarter of 2010, compared with -0-% and 6.25% for the first and fourth quarters of 2009, respectively. There were no cash payments received, which were applied against the book balance of covered nonaccrual loans outstanding at March 31, 2010, March 31, 2009 and December 31, 2009 in the first quarter 2010, the first quarter 2009 and the fourth quarter 2009, respectively.

Non-covered Classified Loans and Repossessed Loan Collateral (Non-covered Assets)
The following is a summary of non-covered classified loans and repossessed loan collateral:

	At March 31, 2010	At December 31, 2009
	(In thousands)	
Non-covered Classified Assets		
Classified loans	$ 58,245	$ 57,241
Repossessed loan collateral	14,266	12,642
Total	$ 72,511	$ 69,883
Allowance for loan losses / non-covered classified loans	69%	72%

The following is a summary of non-covered nonperforming assets on the dates indicated:

	At March 31, **2010**	At December 31, **2009**
	(In thousands)	
Non-covered nonperforming assets		
Nonperforming, nonaccrual loans	$ 20,230	$ 19,837
Performing, nonaccrual loans	57	25
Total nonaccrual loans	20,287	19,862
Loans 90 days past due and still accruing	746	800
Total nonperforming loans	21,033	20,662
Repossessed loan collateral	14,266	12,642
Total	$ 35,299	$ 33,304
As a percentage of total non-covered loans and repossessed loan collateral	1.63%	1.50%

The amount of gross interest income that would have been recorded if all non-covered nonaccrual loans had been current in accordance with their original terms while outstanding was $518 thousand in the first quarter of 2010, compared with $175 thousand and $404 thousand for the first and fourth quarters of 2009, respectively. The amount of interest income that was recognized on non-covered nonaccrual loans from cash payments made in the first quarter of 2010 was $460 thousand, compared with $39 thousand and $144 thousand for the first and fourth quarters of 2009, respectively. The yield on these cash payments was 5.35% for the first quarter of 2010, compared with 1.29% and 2.00% for the first and fourth quarters of 2009, respectively. There were no cash payments received, which were applied against the book balance of non-covered nonaccrual loans outstanding at March 31, 2010, March 31, 2009 and December 31, 2009 in the first quarter 2010, the first quarter 2009 and the fourth quarter 2009, respectively.
Fifty nine loans comprised the $20.3 million in nonaccrual loans as of March 31, 2010. During the first quarter of 2010 one construction relationship ($2.4 million) and three other loans ($1.3 million) were transferred to OREO while one commercial relationship ($2.2 million) and one commercial real estate relationship ($1.3 million) were placed on non nonaccrual status.
The Company had no restructured loans as of March 31, 2010 and December 31, 2009.

Table of Contents

Delinquent non-covered commercial loans, non-covered construction loans and non-covered commercial real estate loans on accrual status were as follows:

	At March 31, 2010	At December 31, 2009
	(In thousands)	
Non-covered commercial loans:		
30-89 days delinquent:		
Dollar amount	$ 9,993	$ 10,677
Percentage of total non-covered commercial loans	2.01%	2.14%
90 or more days delinquent:		
Dollar amount	$ 248	$
Percentage of total non-covered commercial loans	0.05%	%
Non-covered construction loans:		
30-89 days delinquent:		
Dollar amount	$ 149	$ 149
Percentage of total non-covered construction loans	0.50%	0.46%
90 or more days delinquent:		
Dollar amount	$	$
Percentage of total non-covered construction loans	%	%
Non-covered commercial real estate loans:		
30-89 days delinquent:		
Dollar amount	$ 19,440	$ 12,158
Percentage of total non-covered commercial real estate loans	2.45%	1.52%
90 or more days delinquent:		
Dollar amount	$	$
Percentage of total non-covered 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 non-covered loans as of March 31, 2010 and December 31, 2009. At March 31, 2010, $4.9 million non-covered residential real estate loans were on nonaccrual status. Delinquent non-covered residential real estate loans, non-covered automobile loans and non-covered other consumer loans on accrual status were as follows:

	At March 31, 2010	At December 31, 2009
	(In thousands)	
Non-covered residential real estate loans:		
30-89 days delinquent:		
Dollar amount	$ 935	$ 3,064
Percentage of total non-covered residential real estate loans	0.27%	0.83%
90 or more days delinquent:		
Dollar amount	$	$
Percentage of total non-covered residential real estate loans	%	%
Non-covered automobile loans:		
30-89 days delinquent:		
Dollar amount	$ 5,765	$ 6,506

Percentage of total automobile loans		1.38%		1.49%
90 or more days delinquent:				
Dollar amount	$	454	$	723
Percentage of total automobile loans		0.11%		0.17%
Non-covered other consumer loans:				
30-89 days delinquent:				
Dollar amount	$	564	$	762
Percentage of total non-covered other consumer loans		0.90%		1.25%
90 or more days delinquent:				
Dollar amount	$	44	$	77
Percentage of total non-covered other consumer loans		0.07%		0.13%

Management believes the overall credit quality of the non-covered loan portfolio is reasonably stable; however, non-covered nonperforming assets could fluctuate from period to period. The performance of any individual loan can be affected by external factors such as the interest rate environment, economic conditions, collateral values or factors particular to the borrower. No assurance can be given that additional increases in non-covered nonaccrual 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 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 covered loans includes fair value discounts assigned at the time of purchase under the provisions of FASB ASC 805, Business Combinations, and FASB ASC 310-30, Loans or Debt Securities with Deteriorated Credit Quality. The allowance for credit losses represents Management s estimate of credit losses in excess of these principal reductions.

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

The following table summarizes the credit loss provision, net credit losses and allowance for credit losses for the periods indicated:

	Three months ended		
	March 31, **2010**	March 31, **2009**	December 31, **2009**
		(In thousands)	
Total non-covered loans outstanding at period end	$ 2,146,580	$ 2,356,237	$ 2,201,088
Average non-covered loans outstanding during the period	2,165,467	2,374,089	2,235,482
Analysis of the allowance balance, beginning of period	43,736	47,563	45,376
Provision for loan losses	2,800	1,800	3,300
Loans charged off:			
Commercial and commercial real estate	(873)	(496)	(2,779)
Real estate construction	(799)		(1,022)
Real estate residential	(293)		(263)
Consumer	(2,491)	(2,432)	(2,469)
Total non-covered loans chargeoffs	(4,456)	(2,928)	(6,533)
Recoveries of previously charged off non-covered loans:			
Commercial and commercial real estate	229	90	233
Real estate construction			650
Real estate residential			
Consumer	700	371	710
Total recoveries	929	461	1,593
Net loan losses	(3,527)	(2,467)	(4,940)
Balance, end of period	$ 43,009	$ 46,896	$ 43,736
Components:			
Allowance for loan losses	$ 40,316	$ 43,803	$ 41,043
Reserve for unfunded credit commitments	2,693	3,093	2,693

Allowance for credit losses	$ 43,009	$ 46,896	$ 43,736
Net loan losses to average non-covered loans	0.66%	0.42%	0.88%
Allowance for loan losses /non-covered loans outstanding	1.88%	1.86%	1.86%

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 covered loan carrying amounts, 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 the historical loss rates and delinquency trends, grouped by the number of days the payments on these loans are delinquent. Given currently weak economic conditions, Management is applying further analysis to consumer loans. Current levels of automobile loan losses are compared to initial allowance allocations and, based on Management judgment, additional allocations are applied, if needed, to estimated 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 estimated 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 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 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 the range of loss estimates to determine the appropriate level of the unallocated portion of the allowance. Management considers the $43.0 million allowance for credit losses to be adequate as a reserve against non-covered credit losses as of March 31, 2010.

The following table presents the allocation of the allowance for credit losses:

	At March 31, **2010**		At December 31, **2009**	
	(In thousands)			
	Allocation of the Allowance Balance	Non-covered Loans as Percent of Total Non-covered Loans	Allocation of the Allowance Balance	Non-covered Loans as Percent of Total Non-covered Loans
Commercial	$ 19,591	61%	$ 19,108	59%
Real estate construction	2,366	1%	2,968	1%
Real estate residential	1,279	16%	1,529	17%
Consumer	7,504	22%	8,424	23%
Unallocated portion	12,269		11,707	
Total	$ 43,009	100%	$ 43,736	100%

The allocation to loan portfolio segments changed from December 31, 2009 to March 31, 2010. The increase in allocation for commercial loans was substantially attributable to an increase in criticized commercial loans outstanding and Management s evaluation of loss rates against commercial loan performance metrics. The decrease in allocation to real estate construction loans reflects a decline in criticized construction loans outstanding. The decrease in the allocation to real estate residential loans is due to a lower outstanding balance of delinquent real estate residential loans and Management s judgment regarding the appropriate allocation based on recent foreclosure losses and levels of nonaccrual mortgages. The lower allocation for consumer loans was primarily due to a lower outstanding balance of delinquent consumer loans and Management s judgment regarding the appropriate allocation based on current levels of auto loan charge-offs. The unallocated portion of the allowance for credit losses increased $562 thousand from December 31, 2009 to March 31, 2010. The unallocated allowance is established to provide for probable losses that have been incurred, but not reflected in the allocated allowance. At March 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 ($2.4 million and $2.3 million, respectively), external competitive issues ($0.9 million and $0.8 million, respectively), internal credit administration considerations ($2.0 million and $2.0 million, respectively), and delinquency and problem loan trends ($3.7 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, extent of migration of previously non-classified 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 $12.3 million at March 31, 2010, compared to $11.7 million at December 31, 2009.

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 loan demand, demand for various deposit products, credit losses, and other sources of earnings such as account analysis fees on commercial deposit accounts and correspondent bank service charges.

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

The Company s asset and liability position ranged from neutral to slightly asset sensitive at March 31, 2010, depending on the interest rate assumptions applied to the simulation model employed by Management to measure interest rate risk. A neutral position results in similar amounts of change in interest income and interest expense resulting from application of assumed interest rate changes. A slightly asset sensitive position results in a slightly larger increase in interest income than in interest expense resulting from application of assumed interest rate changes. Management s simulation modeling is currently biased toward 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 March 31, 2011. Using the current composition of the Company s balance sheet and assuming an increase of 100 basis points (bp) in the federal funds rate and an increase of 32 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 March 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. Management is currently deploying tactics to maintain the current exposure to interest rate risk. The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company s Board of Directors.

Market Risk Equity Markets

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

Fluctuations in the Company s common stock price can impact the Company s financial results in several ways. First, the Company has regularly repurchased and retired its common stock; the market price paid to retire the Company s common stock can affect the level of the Company s shareholders equity, cash flows and shares outstanding 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.

Market Risk Other

Market values of loan collateral can directly impact the level of loan charge-offs 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 generates significant liquidity from its operating activities. The Company s profitability during the first quarter of 2010 and 2009 contributed substantial operating cash flows of $35.3 million and $65.2 million, respectively. Operating cash flows in the first quarter 2009 increased $30 million from the settlement of County Bank securities sales which were unsettled trades on the acquisition date. In the first quarter of 2010, the Company paid $10.5 million in shareholder dividends and used $4.8 million to repurchase and retire common stock. In the first quarter of 2009, the Company paid $10.4 million in shareholder dividends and used $667 thousand to repurchase and retire common stock.

The Company s routine operating sources of liquidity include investment securities, consumer and other loans, deposits, and other borrowed funds. During the first quarter of 2010, investment securities provided $61.7 million in liquidity from paydowns and maturities to purchase securities of $53.5 million, and loans provided $89.8 million in liquidity from scheduled payments and maturities, net of loan fundings. During the first quarter of 2009, investment securities provided $58.5 million in liquidity from paydowns and maturities, and loans provided $98.1 million in liquidity from scheduled payments and maturities, net of loan fundings. The Company also raised $83.7 million in February 2009 from the issuance of preferred stock to the United States Treasury which was redeemed in full in September and November of 2009.

The Company projects $69.5 million in additional liquidity from investment security paydowns and maturities in the three months ending June 30, 2010. At March 31, 2010, automobile loans totaled $418.1 million, which were experiencing stable monthly principal payments of approximately $16.6 million during the first quarter of 2010.

During the first quarter of 2010, a portion of the liquidity provided by operating activities, loans and proceeds from FDIC loss-sharing agreements provided a portion of funds to meet a net reduction in deposits totaling $164.3 million and a reduction in short-term borrowed funds, primarily FHLB advances, which declined $75.2 million.

During the first quarter of 2009, a portion of the liquidity provided by operating activities, investment securities and loans provided funds to meet a net reduction in deposits totaling $71.3 million and a reduction in short-term borrowed funds, primarily federal funds purchased, which declined $256.6 million.

The Company held $1.1 billion in total investment securities at March 31, 2010. Under certain deposit, borrowing and other arrangements, the Company must hold investment securities as collateral. At March 31, 2010, such collateral requirements totaled approximately $1.0 billion. At March 31, 2010, $415.0 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 March 31, 2010, $362.8 million in residential 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. Substantially all of the Non Agency residential CMOs are rated AAA based on their subordination structures without reliance on monoline insurance. Other than nominal amounts of FHLMC and FNMA MBSs purchased for Community Reinvestment Act investment purposes, the Company has not purchased a residential CMO or residential MBS since November 2005. The residential CMOs and MBSs provided $36.0 million in liquidity from paydowns during the three months ended March 31, 2010. In addition, at March 31, 2010, the Company had customary lines for overnight borrowings from other financial institutions in excess of $700 million, under which $-0- million 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.

- 39 -

The Company anticipates maintaining its cash levels in 2010 mainly through profitability and retained earnings. It is anticipated that loan demand from credit-worthy borrowers will be weak during 2010, although such demand 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 interest rates. The growth of deposit balances is subject to heightened competition, 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, which 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 short-term borrowings or purchase investment securities. However, due to concerns such as uncertainty in the general economic environment, competition and political 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 (the Parent Company) is a separate entity and apart from Westamerica Bank (the 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 dividends paid. The Company believes that such restriction will not have an impact on the Parent Company s ability to meet its ongoing cash obligations.

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 common stock equity (return on common equity or ROE) was 18.8% in the first quarter of 2010, 25.8% in 2009 and 14.8% in 2008. 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 $3.7 million in the first quarter of 2010, $9.6 million in 2009 and $22.8 million in 2008.

The Company paid dividends totaling $10.5 million in the first quarter of 2010, $41.1 million in 2009 and $40.2 million in 2008, which represent dividends per share of $0.36, $1.41 and $1.39, respectively. The Company s earnings have historically exceeded dividends paid to shareholders. The amount of earnings in excess of dividends gives the Company resources to finance growth and maintain appropriate levels of shareholders equity. In the absence of profitable growth opportunities, the Company has repurchased and retired its common stock as another means to return capital to shareholders. The Company repurchased and retired 88 thousand shares of common stock valued at $4.8 million in the first quarter of 2010, 42 thousand shares valued at $2.0 million in 2009 and 719 thousand shares valued at $35.9 million in 2008. Share repurchases were restricted to amounts conducted in coordination with employee benefit programs under the terms of the February 13, 2009 issuance of preferred stock to the Treasury; such restrictions were removed with full redemption of the preferred stock in November 2009.

The Company s primary capital resource is shareholders equity, which increased $13.7 million or 2.7% at March 31, 2010 since December 31, 2009, primarily due to $23.6 million in profits earned during the quarter and $3.7 million in issuance of stock in connection with exercises of employee stock options, offset by $10.5 million in dividends paid and $4.8 million in stock repurchases.

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

	At March 31, **2010**	At March 31, **2009**	At December 31, **2009**	Minimum Regulatory Requirement	Well-capitalized by Regulatory Definition
Tier I Capital	13.91%	13.19%	13.20%	4.00%	6.00%

Total Capital	15.21%	14.46%	14.50%	8.00%	10.00%
Leverage ratio	8.21%	8.14%	7.60%	4.00%	5.00%

The risk-based capital ratios increased at March 31, 2010, compared with March 31, 2009, due to a decrease in risk-weighted assets and increased retained earnings, partially offset by redemption of the preferred stock. The risk-based capital ratios increased at March 31, 2010, compared with December 31, 2009, due to a decrease in risk-weighted assets and increased retained earnings. FDIC-covered assets are included in the 20% risk-weight category due to the loss-sharing agreements; the residential loss-sharing agreement expires February 6, 2019 and the non-residential loss-sharing agreement expires (as to losses) February 6, 2014.
The following summarizes the ratios of capital to risk-adjusted assets for the Bank on the date indicated:

	At March 31, **2010**	At March 31, **2009**	At December 31, **2009**	Minimum Regulatory Requirement	Well-capitalized by Regulatory Definition
Tier I Capital	13.65%	12.44%	13.39%	4.00%	6.00%
Total Capital	15.14%	13.90%	14.88%	8.00%	10.00%
Leverage ratio	8.01%	7.64%	7.67%	4.00%	5.00%

The risk-based capital ratios increased at March 31, 2010, compared with March 31, 2009, due to a decrease in risk-weighted assets. The risk-based capital ratios increased at March 31, 2010, compared with December 31, 2009, due to a decrease in risk-weighted assets.
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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be undertaken with the approval of the Company s Board of Directors. Interest rate risk as discussed above is the most significant market risk affecting the Company. Other types of market risk, such as foreign currency exchange risk, equity price risk and commodity price risk, are not significant in the normal course of the Company s business activities.

Item 4. Controls and Procedures

The Company s principal executive officer and principal financial officer have evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of March 31, 2010. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission s rules and forms and are effective in ensuring that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to Management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. The evaluation did not identify any change in the Company s internal control over financial reporting that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of the banking business, the Bank is at times party to various legal actions; generally such actions are of a routine nature and arise in the normal course of business of the Subsidiary Bank. The Bank is not a party to any pending or threatened legal action that, if determined adversely to the Bank, is likely in Management s opinion to

have a material adverse effect on the Bank s financial condition or results of operations.

Item 1A. Risk Factors

There are no material changes to the risk factors disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Previously reported on Form 8-K.

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of 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 March 31, 2010.

Period	(a) Total Number of Shares Purchased		(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
			(In thousands, except per share data)		
January 1 through January 31	2	$	57.10	2	1,985
February 1 through February 28	49	$	52.62	49	1,936
March 1 through March 31	37	$	57.42	37	1,899
Total	88	$	54.75	88	1,899

* Includes 2 thousand, 1 thousand and 1 thousand shares purchased in January, February and March, respectively, by the Company in private transactions with the independent administrator of the Company s Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares

purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

Shares were repurchased during the first quarter of 2010 pursuant to a program approved by the Board of Directors on August 27, 2009, authorizing the purchase of up to 2 million shares of the Company s common stock from time to time prior to September 1, 2010.

Item 3. Defaults upon Senior Securities

None

Item 4. Reserved

Table of Contents

Item 5. Other Information

None

Item 6. Exhibits

(a) The exhibit list required by this item is incorporated by reference to the Exhibit Index filed with this report.

Exhibit 31.1: Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 31.2: Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)

Exhibit 32.1: Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2: Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

WESTAMERICA BANCORPORATION
(Registrant)
/s/ JOHN ROBERT THORSON
John Robert Thorson
Senior Vice President and Chief Financial Officer
(Chief Financial and Accounting Officer)

Date: April 30, 2010

EXHIBIT INDEX

Exhibit 31.1: **Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)**

Exhibit 31.2: **Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a)**

Exhibit 32.1: **Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Exhibit 32.2: **Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**