WESTAMERICA BANCORPORATION
Form 10-K
March 10, 2006

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

(Mark one)

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

For the fiscal year ended December 31, 2005

or

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

For the transition period from ____________________ to ____________________.

Commission File Number: 001-9383
WESTAMERICA BANCORPORATION
(Exact name of the registrant as specified in its charter)

CALIFORNIA	**94-2156203**
(State of incorporation)	(I.R.S. Employer Identification Number)

1108 FIFTH AVENUE, SAN RAFAEL, CALIFORNIA 94901
(Address of principal executive offices and zip code)
Registrant s telephone number, including area code: (707) 863-6000

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:
Title of Class: Common Stock, no par value

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2005 as reported on the NASDAQ National Market System, was approximately $1,666,027,391.50. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares outstanding of each of the registrant s classes of common stock, as of the close of business on March 2, 2006

31,578,136 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement relating to registrant s Annual Meeting of Stockholders, to be held on April 27, 2006, are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III to the extent described therein.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements about Westamerica Bancorporation for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. 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) a slowdown in the national and California economies; (2) economic uncertainty created by terrorist threats and attacks on the United States and the actions taken in response; (3) the prospect of additional terrorist attacks in the United States and the uncertain effect of these events on the national and regional economies; (4) changes in the interest rate environment; (5) changes in the regulatory environment; (6) increasing competitive pressure in the banking industry ; (7) operational risks including data processing system failures or fraud; (8) the effect of acquisitions and integration of acquired businesses; (9) volatility of rate sensitive deposits and loans; (10) asset/liability matching risks and liquidity risks; and (11) changes in the securities markets. The Company undertakes no obligation to update any forward-looking statements in this report. See also Certain Additional Business Risks in Item 1, Risk Factors in Item 1A and other risk factors discussed elsewhere in this Report.

PART I

ITEM 1. BUSINESS

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

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

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

In August, 2000, the Company acquired First Counties Bank. The acquisition was valued at approximately $19.7 million and was accounted for using the purchase accounting method. The assets and liabilities of First Counties Bank were fully merged into WAB in September 2000. First Counties Bank had $91 million in assets and offices in Lake, Napa, and Colusa counties.

In June of 2002 the Company acquired Kerman State Bank. The acquisition was valued at

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approximately $14.6 million and was accounted for using the purchase accounting method. The assets and liabilities of Kerman State Bank were fully merged into WAB immediately upon consummation of the merger. Kerman State Bank had $95 million in assets and three offices in Fresno county.

On March 1, 2005, the Company acquired Santa Rosa based Redwood Empire Bancorp, the parent company of National Bank of the Redwoods (NBR). The acquisition was valued at approximately $153 million and was accounted for using the purchase accounting method. The assets and liabilities of NBR were fully merged into WAB as of close of business day on March 11, 2005. As of March 1, 2005, Redwood Empire had approximately $440 million in loans and $370 million in deposits.

At December 31, 2005, the Company had consolidated assets of approximately $5.1 billion, deposits of approximately $3.8 billion and shareholders equity of approximately $426.7 million. The Company and its subsidiaries employed approximately 950 full-time equivalent staff as of December 31, 2005.

The Company makes available free of charge its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as well as beneficial ownership reports on Forms 3, 4 and 5 as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (SEC) through its website (http://www.westamerica.com). Such documents are also available through the SEC s website (http://www.sec.gov). Requests for the Form 10-K annual report, as well as the Company s employee Code of Conduct and Ethics, can also be submitted to:

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

Supervision and Regulation

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

Regulation and Supervision of Bank Holding Companies

The Company is a bank holding company subject to the Bank Holding Company Act of 1956, as amended (the BHCA). The Company reports to, is registered with, and may be examined by, the Board of Governors of the Federal Reserve System (FRB). The FRB also has the authority to examine the Company s subsidiaries. The costs of any examination by the FRB are payable by the Company. The Company is a bank holding company within the meaning of Section 3700 of the California Financial Code. As such, the Company and the Bank are subject to examination by, and may be required to file reports with, the California Commissioner of Financial Institutions (the Commissioner).

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

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

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

Transactions between the Company and the Bank are restricted under Regulation W, which became effective on April 1, 2003. The regulation codifies prior interpretations of the FRB and its staff under Sections 23A and 23B of the Federal Reserve Act. In general, subject to certain specified exemptions, a bank or its subsidiaries are limited in their ability to engage in covered transactions with affiliates: (a) to an amount equal to 10% of the bank s capital and surplus, in the case of covered transactions with any one affiliate; and (b) to an amount equal to 20% of the bank s capital and surplus, in the case of covered transactions with all affiliates. The Company is considered to be an affiliate of the Bank.

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

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

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

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

Under the GLBA, Federal Reserve member banks, subject to various requirements, as well as national banks, are permitted to engage through financial subsidiaries in certain financial activities permissible for affiliates of FHCs. However, to be able to engage in such activities the Bank must also be well capitalized and well managed and have received at least a satisfactory rating in its most recent Community Reinvestment Act examination. The Company cannot be certain of the effect of the foregoing recently enacted legislation on its business, although there is likely to be consolidation among financial services institutions and increased competition for the Company.

Regulation and Supervision of Banks

The Bank is a California state-chartered bank, is insured by the Federal Deposit Insurance Corporation (the FDIC) and is a member bank of the Federal Reserve System. As such, the Bank is subject to regulation, supervision and regular examination by the California Department of Financial Institutions (DFI) and the FRB. As a member bank of the Federal Reserve System, the Bank s primary federal regulator is the FRB. The regulations of these agencies affect most aspects of the Bank s business and prescribe permissible types of loans and investments, the amount of required reserves, requirements for branch offices, the permissible scope of its activities and various other requirements.

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

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

Capital Standards

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

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

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

As of December 31, 2005, the Company s and the Bank s respective ratios exceeded applicable regulatory requirements. See Note 8 to the consolidated financial statements for capital ratios of the Company and the Bank, compared to the standards for well capitalized depository institutions and for minimum capital requirements.

Prompt Corrective Action and Other Enforcement Mechanisms

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

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. In addition to measures taken under the prompt corrective action

provisions, commercial banking organizations may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency.

Safety and Soundness Standards

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

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

Restrictions on Dividends and Other Distributions

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

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

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

Premiums for Deposit Insurance and Assessments for Examinations

The Bank s deposits are insured by the Bank Insurance Fund (BIF) administered by the FDIC. FDICIA established several mechanisms to increase funds to protect deposits insured by the BIF administered by the FDIC. The FDIC is authorized to borrow up to $30 billion from the United States Treasury; up to 90% of the fair market value of assets of institutions acquired by the FDIC as receiver from the Federal Financing Bank; and from depository institutions which are members of the BIF. Any borrowings not repaid by asset sales are to be repaid through insurance premiums assessed to member institutions. Such premiums must be sufficient to repay any borrowed funds within 15 years and provide insurance fund reserves of $1.25 for each $100 of insured deposits. FDICIA also provides authority for special assessments against insured deposits.

Congress adopted the Federal Deposit Insurance Reform Act of 2005 as part of the Deficit Reduction Act of 2005 and President Bush signed it on February 8, 2006 and a companion bill, the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, on February 15, 2006. This legislation provides for:

- merging the BIF and SAIF deposit insurance funds;
- annually adjusting the minimum insurance fund reserve ratio between $1.15 and $1.50 per $100 of insured deposits;
- increasing deposit coverage for retirement accounts to $250,000, - indexing the insurance level for inflation, with any increases approved by the FDIC and National Credit Union Administration on a five-year cycle beginning in 2010 after review of the state of the deposit insurance fund and related factors;
- credits of up to $4.7 billion to offset premiums for banks that capitalized the FDIC by 1996; and
- an historical basis concept for distributing credits and dividends to reflect past contributions to the insurance funds.

The FDIC is required to adopt implementing regulations to take effect within 270 days of enactment or by November 2006. No assurance can be given at this time as to what the future level of insurance premiums will be.

Community Reinvestment Act and Fair Lending Developments

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

Financial Privacy Legislation

The GLBA, in addition to the previously described changes in permissible nonbanking activities permitted to banks, BHCs and FHCs, also required the federal banking agencies, among other federal regulatory agencies, to adopt regulations governing the privacy of consumer financial information. The FRB adopted such regulations with an effective date of November 13, 2000, and a date of full compliance with the regulations on July 1, 2001. The Bank is subject to the FRB s regulations.

Customer Information Security

The federal bank regulatory agencies have established standards for safeguarding nonpublic personal information about customers that implement provisions of the GLBA (the Guidelines). Among other things, the Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

U.S.A. PATRIOT Act

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

The provisions of Title III of the USA Patriot Act which affect banking organizations, including the Bank, are generally set forth as amendments to the Bank Secrecy Act. These provisions relate principally to U.S. banking organizations relationships with foreign banks and with persons who are resident outside the United States. The USA Patriot Act does not immediately impose any new filing or reporting obligations for banking organizations, but does require certain additional due diligence and recordkeeping practices. Some requirements take effect without the issuance of regulations. Other provisions were implemented through regulations promulgated by the U.S. Department of the Treasury, in consultation with the FRB and other federal financial institutions regulators.

Sarbanes-Oxley Act of 2002

On July 30, 2002, the U.S. Congress enacted the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley). The stated goals of Sarbanes-Oxley are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. Sarbanes-Oxley generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports under the Securities Exchange Act of 1934 (the Exchange Act).

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

Sarbanes-Oxley addresses, among other matters: (i) independent audit committees for reporting companies whose securities are listed on national exchanges or automated quotation systems (the Exchanges) and expanded duties and responsibilities for audit committees; (ii) certification of financial statements by the chief executive officer and the chief financial officer; (iii) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (iv) a prohibition on insider trading during pension plan black out periods; (v) disclosure of off-balance sheet transactions; (vi) a prohibition on personal loans to directors and officers under most circumstances with exceptions for certain normal course transactions by regulated financial institutions; (vii) expedited electronic filing requirements related to trading by insiders in an issuer s securities on Form 4;

(viii) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (ix) accelerated filing of periodic reports; (x) the formation of the Public Company Accounting Oversight Board (PCAOB) to oversee public accounting firms and the audit of public companies that are subject to the securities laws; (xi) auditor independence; (xii) internal control evaluation and reporting; and (xiii) various increased criminal penalties for violations of securities laws.

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

Pending Legislation

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

Competition

In the past, WAB s principal competitors for deposits and loans have been other banks (particularly major banks), savings and loan associations and credit unions. To a lesser extent, competition was also provided by thrift and loans, mortgage brokerage companies and insurance companies. Other institutions, such as brokerage houses, mutual fund companies, credit card companies, and certain retail establishments have offered investment vehicles which also compete with banks for deposit business. Federal legislation in recent years has encouraged competition between different types of financial institutions and fostered new entrants into the financial services market, and it is anticipated that this trend will continue.

The enactment of the Interstate Banking and Branching Act in 1994 and the California Interstate Banking and Branching Act of 1995 have increased competition within California. Regulatory reform, as well as other changes in federal and California law will also affect competition. While the impact of these changes, and of other proposed changes, cannot be predicted with certainty, it is clear that the business of banking in California will remain highly competitive.

Legislative changes, as well as technological and economic factors, can be expected to have an ongoing impact on competitive conditions within the financial services industry. As an active participant in the financial markets, the Company believes that it continually adapts to these changing competitive conditions.

ITEM 1A. RISK FACTORS

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

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

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

Market and Interest Rate Risk

Changes in interest rates could reduce income and cash flow.

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

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

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

The Company closely monitors the markets in which it conducts its lending operations and adjusts its strategy to control exposure to loans with higher credit risk. Asset reviews are performed using grading standards and criteria similar to those employed by bank regulatory agencies. The Company can provide no assurance that the credit quality of the loan portfolio will not deteriorate in the future and that such deterioration will not adversely affect the Company.

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

Substantially all of the Bank s business is located in California. A portion of the loan portfolio of the Company is dependent on real estate. At December 31, 2005, real estate served as the principal source of collateral with respect to approximately 56% of the Bank s loan portfolio. The Bank s financial condition and operating results will be subject to changes in economic conditions in California. In the early to mid-1990s, California experienced a significant and prolonged downturn in its economy, which adversely affected financial institutions. Economic conditions in California

are subject to various uncertainties at this time, including the decline in the technology sector, the California state government s budgetary difficulties and continuing fiscal difficulties. The Company can provide no assurance that conditions in the California economy will not deteriorate in the future and that such deterioration will not adversely effect the Bank.

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

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

Regulatory Risks

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

As a holding company, a substantial portion of the Company s cash flow typically comes from

dividends paid by its bank and nonbank subsidiaries. Various statutory provisions restrict the amount of dividends the Company s subsidiaries can pay to the Company without regulatory approval. In addition, if any of the Company s subsidiaries were to liquidate, that subsidiary s creditors will be entitled to receive distributions from the assets of that subsidiary to satisfy their claims against it before the Company, as a holder of an equity interest in the subsidiary, will be entitled to receive any of the assets of the subsidiary.

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

The Company is subject to significant federal and state regulation and supervision, which is primarily for the benefit and protection of the Bank s customers and not for the benefit of investors. In the past, the Bank s business has been materially affected by these regulations. This trend is likely to continue in the future. Laws, regulations or policies, including accounting standards and interpretations currently affecting the Company and the Company s subsidiaries, may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, the Company s business may be adversely affected by any future changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement, including legislative and regulatory reactions to the terrorist attack on September 11, 2001 and future acts of terrorism, and major U.S. corporate bankruptcies and reports of accounting irregularities at U.S. public companies.

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

Systems, Accounting and Internal Control Risks

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

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

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

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company s customer relationship management and systems. There can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected by the Company. The occurrence of any such failures, interruptions or security breaches could damage the Company s reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to litigation and possible financial liability, any of which could have a material adverse effect on the Company s financial condition and results of operations.

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

Management regularly reviews and updates the Company s internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. The Company maintains controls and procedures to mitigate against risks such as processing system failures and errors, and customer or employee fraud, and maintains insurance coverage for certain of these risks. Any system of controls and procedures, however well

designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by the Company s internal controls or are not insured against or are in excess of the Company s insurance limits. Any failure or circumvention of the Company s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company s business, results of operations and financial condition.

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

The Articles of Incorporation of the Company authorize the issuance of 150 million shares of common stock (and two additional classes of 1 million shares each, denominated Class B Common Stock and Preferred Stock , respectively) of which approximately 31.9 million were outstanding at December 31, 2005. Pursuant to its stock option plans, at December 31, 2005, the Company had exercisable options outstanding of 2.3 million. As of December 31, 2005, 1.8 million shares of Company common stock remained available for grants under the Company s stock option plans (and stock purchase plan). Sales of substantial amounts of Company common stock in the public market could adversely affect the market price of its common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Branch Offices and Facilities

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WAB is engaged in the banking business through 87 offices in 21 counties in Northern and Central California including thirteen offices in Fresno County, eleven each in Marin and Sonoma Counties, seven in Napa County, five each in Stanislaus, Lake, Kern, Contra Costa and Solano Counties, three each in Alameda and Sacramento Counties, two each in Mendocino, Nevada, Placer and Tulare Counties, and one each in Merced, San Francisco, Tuolumne, Kings, Madera, and Yolo Counties. WAB believes all of its offices are constructed and equipped to meet prescribed security requirements.

The Company owns 28 branch office locations and one administrative facility and leases 69 facilities. Most of the leases contain multiple renewal options and provisions for rental increases, principally for changes in the cost of living index, property taxes and maintenance.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the shareholders during the fourth quarter of 2005.

PART II

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

The Company s common stock is traded on the NASDAQ National Market System (NASDAQ) (to be renamed NASDAQ Global Market in 2006) under the symbol WABC . The following table shows the high and the low bid prices for the common stock, for each quarter, as reported by NASDAQ:

2005:	High	Low
First quarter	$ 58.44	$ 50.82
Second quarter	54.11	48.48
Third quarter	56.25	49.90
Fourth quarter	55.48	47.33
2004:		
First quarter	$ 51.63	$ 47.85
Second quarter	52.99	47.58
Third quarter	55.80	49.04
Fourth quarter	61.05	54.43

As of February 6, 2006, there were approximately 8,600 shareholders of record of the Company s common stock.

The Company has paid cash dividends on its common stock in every quarter since its formation in 1972, and it is currently the intention of the Board of Directors of the Company to continue payment of cash dividends on a quarterly basis. There is no assurance, however, that any dividends will be paid since they are dependent upon earnings, financial condition and capital requirements of the Company and its subsidiaries as well as policies of the Federal Reserve Board pursuant to the BHCA. See Item 1, Business Supervision and Regulation. As of December 31, 2005, $190.4 million was available for payment of dividends by the Company to its shareholders, under applicable laws and regulations.

See Note 17 to the consolidated financial statements included in this report for additional information regarding the amount of cash dividends declared and paid on common stock for the three most recent fiscal years.

As discussed in Note 7 to the consolidated financial statements, in December 1986, the Company declared a dividend distribution of one common share purchase right (the Right) for each outstanding share of common stock. The terms

of the Rights were most recently amended and restated in 2004. The new amended plan is very similar in purpose and effect to the plan as it existed prior to this amendment, aimed at helping the Board of Directors to maximize shareholder value in the event of a change of control of the Company and otherwise resist actions that the Board considers likely to injure the Company or its shareholders.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes the status of the Company s equity compensation plans as of December 31, 2005 (in thousands, except exercise price):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	3,269	$ 39	1,786*
Equity compensation plans not approved by security holders	0	N/A	0
Total	3,269	$ 39	1,786

* The Amended and Restated Stock Option Plan, Article III, provides that the number of shares reserved for Awards under the plan may increase on the first day of each fiscal year by an amount equal to the least of 1) 2% of the shares outstanding as of the last day of the prior fiscal year, 2) 675,000 shares, or 3) such lesser amount as determined by the Board.

ISSUER PURCHASES OF EQUITY SECURITIES

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended December 31, 2005 (in thousands, except per share data).

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs

			or Programs*	
October 1 through October 31	209	$51.61	209	1,772
November 1 through November 30	199	53.91	199	1,573
December 1 through December 31	92	53.73	92	1,481
Total	500	$52.91	500	1,481

* Includes 7 thousand, 3 thousand and 8 thousand shares purchased in October, November and December, respectively, by the Company in private transactions with the independent administrator of the Company s Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

Shares were repurchased during the fourth quarter of 2005 pursuant to a program approved by the Board of Directors on August 25, 2005 authorizing the purchase of up to 2 million shares of the Company s common stock from time to time prior to September 1, 2006.

ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2005 has been derived from the Company s Consolidated Financial Statements. This information should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein.

WESTAMERICA BANCORPORATION FINANCIAL SUMMARY

(In thousands, except per share data)

	2005	*2004*	*2003*	*2002*	*2001*
Year ended December 31					
Interest income	$ 242,797	$ 216,337	$ 223,493	$ 237,633	$ 257,056
Interest expense	43,649	21,106	27,197	39,182	68,887
Net interest income	199,148	195,231	196,296	198,451	188,169
Provision for credit losses	900	2,700	3,300	3,600	3,600
Noninterest income:					
Securities (losses) gains, net	(4,903)	(5,011)	2,443	(4,278)	0
Loss on extinguishment of debt	0	(2,204)	(2,166)	0	0
Deposit service charges and other	59,443	45,798	42,639	40,829	42,655
Total noninterest income	54,540	38,583	42,916	36,551	42,655
Noninterest expense	104,856	98,751	101,703	103,323	102,651
Income before income taxes	147,932	132,363	134,209	128,079	124,573
Provision for income taxes	40,491	37,145	39,146	40,941	40,294
Net income	$ 107,441	$ 95,218	$ 95,063	$ 87,138	$ 84,279
Earnings per share:					
Basic	$ 3.33	$ 2.99	$ 2.89	$ 2.59	$ 2.39
Diluted	3.27	2.93	2.85	2.55	2.36
Per share:					
Dividends paid	$ 1.22	$ 1.10	$ 1.00	$ 0.90	$ 0.82
Book value at December 31	13.38	11.33	10.54	10.22	9.19
Average common shares outstanding	32,291	31,821	32,849	33,686	35,213
Average diluted common shares outstanding	32,897	32,461	33,369	34,225	35,748
Shares outstanding at December 31	31,882	31,640	32,287	33,411	34,220
At December 31					
Loans, net	$ 2,616,372	$ 2,246,078	$ 2,269,420	$ 2,440,411	$ 2,432,371
Investments	1,999,604	2,192,542	1,949,288	1,386,833	1,158,139
Intangible assets	148,077	21,890	22,433	23,176	19,013
Total assets	5,149,209	4,737,268	4,576,385	4,224,867	3,927,967
Total deposits	3,846,101	3,583,619	3,463,991	3,294,065	3,234,635
Short-term borrowed funds	775,173	735,423	590,646	349,736	271,911

Federal Home Loan Bank advances	0	0	105,000	170,000	40,000
Debt financing and notes payable	40,281	21,429	24,643	24,607	27,821
Shareholders equity	426,714	358,609	340,371	341,499	314,359
Financial Ratios:					
For the year:					
Return on assets	2.12%	2.10%	2.19%	2.17%	2.18%
Return on equity	26.04%	28.83%	29.38%	28.70%	27.17%
Net interest margin *	4.82%	5.14%	5.39%	5.76%	5.71%
Net loan losses to average loans	0.03%	0.11%	0.15%	0.14%	0.15%
Efficiency ratio *	37.66%	38.49%	39.07%	40.96%	41.67%
At December 31:					
Equity to assets	8.29%	7.57%	7.44%	8.08%	8.00%
Total capital to risk-adjusted assets	10.40%	12.46%	11.39%	10.97%	10.63%
Allowance for loan losses to loans	2.09%	2.35%	2.32%	2.17%	2.10%

* Fully taxable equivalent

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

The following discussion addresses information pertaining to the financial condition and results of operations of Westamerica Bancorporation and Subsidiaries (the Company) that may not be otherwise apparent from a review of the consolidated financial statements and related footnotes. It should be read in conjunction with those statements and notes found on pages 34 through 57, as well as with the other information presented throughout the Report.

Critical Accounting Policies

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. Application of these principles requires management to make certain estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment writedown or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management.

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the Allowance for Loan Losses to be the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The Allowance for Loan Losses represents management s estimate of the amount of loss in the loan portfolio that can be reasonably estimated as of the balance sheet date. Determining the amount of the Allowance for Loan Losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, uncertainties and conditions, all of which may be susceptible to significant change. A discussion of the factors driving changes in the amount of the Allowance for Loan losses is included in the Credit Quality discussion below.

Effective March 1, 2005, the Company acquired Redwood Empire Bancorp (REBC), parent company of National Bank of the Redwoods. The REBC acquisition was accounted for using the purchase method of accounting for business combinations which requires valuing assets and liabilities which do not have quoted market prices. In determining fair values for assets and liabilities without quoted market prices for the REBC acquisition, management engaged an independent consultant to determine such fair values. Critical assumptions used in the valuation included prevailing market interest rates on similar financial products, future cash flows, maturity structures and durations of similar financial products, the cost of processing deposit products, the interest rate structure for similar funding sources over the estimated duration of acquired deposits, the duration of customer relationships, and other critical assumptions.

OVERVIEW OF FINANCIAL RESULTS

Operating results following the REBC acquisition include additional net interest income from REBC s earning assets and interest-bearing liabilities and higher merchant credit card income due to the REBC s card processing unit. Additionally, 2005 results included a $3.7 million gain on sale of real estate, $945 thousand in tax-exempt life

insurance proceeds, and $4.9 million in securities losses.

ACQUISITION

The acquisition of REBC was completed on March 1, 2005, followed by a divestiture of a former REBC branch in Lake County in the second quarter. After adjusting for the divestiture the transaction was valued at approximately $150 million, including approximately $57 million paid in cash, issuance of approximately 1.6 million shares of the Company s common stock, and conversion of Redwood Empire stock options into Company stock options based on an average stock price of $51.84. REBC, on March 1, 2005, had approximately $440 million loans, $370 million deposits, $20 million trust preferred subordinated debt, and $30 million shareholders equity. Goodwill of $103 million and identifiable intangibles of $27 million were recorded in accordance with the purchase method of accounting for business combinations. During the second quarter of 2005, the Company sold a former REBC branch with approximately $34 million in deposits, as required by the Federal Reserve in connection with its approval of the REBC acquisition. A premium of $2.0 million on the sale of the branch was recorded as a reduction of goodwill associated with the purchase of REBC.

Net Income

The Company reported net income for 2005 of $107.4 million or $3.27 diluted earnings per share, an increase of $12.2 million over net income for 2004 of $95.2 million, or $2.93 diluted earnings per share. Results for 2005 include a $3.7 million gain on sale of real estate, $945 thousand in tax-exempt life insurance proceeds, and $4.9 million in securities losses which, on a combined basis, increased net income $247 thousand. Results for 2004 included a $7.2 million asset impairment writedown in the value of FNMA and FHLMC preferred stock, a $2.2 million loss on extinguishment of debt, and $2.2 million realized losses on the sale of securities.

Components of Net Income

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Year ended December 31, ($ in thousands except per share amounts)	2005	2004	2003
Net interest and fee income *	$ 223,866	$ 217,993	$ 217,407
Provision for loan losses	(900)	(2,700)	(3,300)
Noninterest income	54,540	38,583	42,916
Noninterest expense	(104,856)	(98,751)	(101,703)
Taxes *	(65,209)	(59,907)	(60,257)
Net income	$ 107,441	$ 95,218	$ 95,063
Net income per average fully-diluted share	$ 3.27	$ 2.93	$ 2.85
Net income as a percentage of average shareholders equity	26.04%	28.83%	29.38%
Net income as a percentage of average total assets	2.12%	2.10%	2.19%

* Fully taxable equivalent (FTE)

Net income for 2005 increased $12.2 million, or 12.8%, over net income for 2004. Net interest income (FTE) increased $5.9 million, mainly due to earning asset growth, partially offset by a reduced net in interest margin resulting from rates paid on interest-bearing liabilities rising faster than yields on earning assets. The loan loss provision declined $1.8 million, year over year, in accordance with Management s assessment of credit risk for the loan portfolio. Noninterest income increased $16.0 million primarily due to a $5.6 million increase in merchant credit card income, a $3.7 million gain on sale of real estate and $945 thousand in life insurance proceeds, partially reduced by $4.9 million in realized securities losses. Furthermore, 2004 results included a $7.2 million securities impairment writedown, a $2.2 million loss on extinguishment of debt, and $2.2 million in realized investment securities gains. Noninterest expense increased mostly due to an increase in salaries and related benefits, occupancy and equipment expense and amortization of intangibles relating to the REBC acquisition. Income tax provision (FTE) increased due to higher pretax income, partially offset by the tax-exempt nature of life insurance proceeds.

Net income in 2004 was $155 thousand or 0.2% higher than in 2003, after including a $4.2 million after-tax securities impairment writedown in 2004. Net interest income (FTE) increased $586 thousand, the net result of higher average earning assets and a reduced net interest margin. The reduced net interest margin resulted from lower funding costs offset by declining earning asset yields and lower fee income. The loan loss provision declined $600 thousand, year over year, in accordance with Management s assessment of credit risk for the loan portfolio. Noninterest income fell $4.3 million primarily due to the impairment charge, partially offset by growth in deposit fee income. Noninterest expense declined $2.9 million because of lower personnel and other operational costs. The lower tax provision (FTE) (down $350 thousand) was due to a $3.0 million tax benefit from the impairment charge and higher low-income housing investment tax credits, offset in part by increased pretax income.

The Company s return on average total assets was 2.12% in 2005, compared to 2.10% and 2.19% in 2004 and 2003, respectively. Return on average equity in 2005 was 26.04%, compared to 28.83% and 29.38% in 2004 and 2003, respectively.

Net Interest Income

The Company s primary source of revenue is net interest income, or the difference between interest income on earning assets and interest expense on interest-bearing liabilities. Net interest income (FTE) in 2005 increased $5.9 million or 2.7% from 2004, to $223.9 million. Comparing 2004 to 2003, net interest income (FTE) increased $586 thousand or 0.3%.

Components of Net Interest Income

Year ended December 31, (in thousands)	2005	2004	2003
Interest and fee income	$ 242,797	$ 216,337	$ 223,493
Interest expense	(43,649)	(21,106)	(27,197)
FTE adjustment	24,718	22,762	21,111
Net interest income (FTE)	$ 223,866	$ 217,993	$ 217,407
Net interest margin (FTE)	4.82%	5.14%	5.39%

Interest and fee income (FTE) increased in 2005 by $28.4 million or 11.9% from 2004, the net result of growth of average earning assets, primarily due to the REBC acquisition, and higher yields on earning assets, partially offset by the effect of one less accrual day. Average earning assets grew $406.4 million, with loans and investments increasing $317.9 million and $88.5 million, respectively. Most growth in average loans was concentrated in commercial, construction, commercial real estate and residential real estate credits, which increased $41 million, $31 million, $137 million and $118 million, respectively. The increase in average investment balances was due to growth in municipal securities (up $131 million) and mortgage backed securities and collateralized mortgage obligations (up $114 million), partially offset by declines in U.S. government sponsored entity obligations (down $124 million) and corporate and other securities (down $31 million). The yield on earning assets, excluding loan fee income, rose from 5.61% in 2004 to 5.73% in 2005. The composite yield on loans, excluding loan fee income, increased 12 basis points (bp) to 6.19% in 2005. Yield increases on commercial loans (up 76 bp) and personal credit lines (up 141 bp) were partially reduced by declining yields on commercial real estate loans (down 20 bp) and indirect consumer loans (down 38 bp). The yield on the investment portfolio increased 8 bp mainly due to a 16 bp increase in mortgage backed securities and collateralized mortgage obligations, partially offset by a 33 bp decline in municipal securities.

Interest expense increased in 2005 to $43.6 million, due to rising rates paid on interest-bearing liabilities and higher volume of those liabilities, partially offset by the effect of one less accrual day. The average rate paid on interest-bearing liabilities rose 63 bp to 1.36% in 2005. Rates paid on most liabilities moved with general market conditions. The average rate on short-term borrowings rose 159 bp. Rates on deposits increased as well, including those on certificates of deposit (CDs) with balances over $100 thousand, which rose 131 bp, on retail CDs, which went up by 54 bp, and on money market checking accounts, which rose 12 bp. Average interest-bearing liability balances grew $331.9 million or 11.5% for 2005 over 2004. Average short-term borrowings increased $161 million. Average long-term debt increased $15.3 million, due to the assumption of REBC s debt, reduced by an annual principal repayment. Most categories of deposits grew including non-interest bearing demand deposits (up $103.1 million), money market checking (up $55.6 million), passbook savings (up $30.2 million), and CDs over $100 thousand (up $94.5 million).

Interest and fee income (FTE) declined $5.5 million or 2.3% from 2003 to 2004, the net result of declining yields on earning assets and lower loan fee income, partially offset by the effect of higher volume of earning assets and one additional accrual day. The total yield on earning assets, excluding loan fee income, declined from 5.99% in 2003 to 5.61% in 2004, following the general trend in interest rates within capital markets. The most significant yield declines

in the loan portfolio were indirect consumer loans (down 92 bp), commercial real estate loans (down 37 bp) and residential real estate loans (down 64 bp). Loan fee income, primarily prepayment fees, declined from $3.1 million in 2003 to $1.6 million in 2004, lowering the total earning asset yield an additional 4 bp from 2003. The investment portfolio yield declined 9 bp to 5.07% with declines occurring in U.S. government sponsored entity obligations (down from 3.83% to 3.41%, or 42 bp) and municipal securities (down from 7.14% to 6.80%, or 34 bp). The decline in investment yields was partly mitigated by increases in yields on collateralized mortgage obligations (up 79 bp) and other securities (up 101 bp). The lower yields caused interest income (excluding fees) to decline by $9.2 million, which was offset by the $5.2 million increase in interest income from growth in average earning assets (up $202.9 million to $4,236.9 million in 2004). The average investment portfolio increased by $298.7 million, primarily the net result of increases in average collateralized mortgage obligations (up $247.4 million), average municipal securities (up $80.1 million) and average U.S. government sponsored entity obligations (up $39.1 million), partially offset by a $60.5 million decline in average corporate and other securities. The average loan portfolio balance was reduced by $95.8 million with the largest decrease occurring in average commercial real estate loans (down $119.5 million).

Interest expense fell $6.1 million or 22.4% from 2003 to 2004 due to declining rates paid on average interest-bearing liabilities and a change in mix of those liabilities. The average rate paid on interest-bearing liabilities dropped 24 bp to 0.73%. Notable decreases were on money market saving accounts (down 30 bp), CDs with balances over $100 thousand (down 8 bp), retail CDs (down 19 bp) and customer sweep accounts (down 25 bp). Yields on overnight funds purchased increased 26 bp after a series of increases in the target rate for federal funds in the second half of 2004. Interest-bearing liabilities shifted from higher-rate to lower-rate categories. Federal Home Loan Bank (FHLB) advances were paid off entirely during 2004, reducing the average balance by $118.1 million. Average balances of retail CDs and CDs with balances over $100 thousand fell by $35.8 million and $20.1 million, respectively. Average overnight funds purchased and money market accounts rose by $138.5 million and $60.0 million, respectively. A $107.5 million increase in average noninterest-bearing balances resulted in the reduction of interest expense by $1.3 million.

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

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

(dollars in thousands)	Year Ended December 31, 2005 Average Balance	Interest Income/ Expense	Rates Earned/ Paid
Assets			
Money market assets and funds sold	$ 775	$ 3	0.39%
Trading account securities			
Investment securities:			
Available for sale			
Taxable	464,530	19,699	4.24%
Tax-exempt	264,119	19,385	7.34%
Held to maturity			
Taxable	751,840	30,557	4.06%
Tax-exempt	585,679	36,820	6.29%
Loans:			
Commercial			
Taxable	1,283,779	92,201	7.18%
Tax-exempt	249,052	16,396	6.58%
Real estate construction	67,696	5,074	7.50%
Real estate residential	477,667	21,411	4.48%
Consumer	498,169	25,969	5.21%
Earning assets	4,643,306	267,515	5.76%
Other assets	423,045		
Total assets	$ 5,066,351		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,384,483		
Savings and interest-bearing transaction	1,738,560	5,204	0.30%
Time less than $100,000	280,770	5,687	2.03%
Time $100,000 or more	444,862	11,473	2.58%
Total interest-bearing deposits	2,464,192	22,364	0.91%
Short-term borrowed funds	716,984	18,941	2.64%
Federal Home Loan Bank advances	0	0	
Debt financing and notes payable	36,975	2,344	6.34%
Total interest-bearing liabilities	3,218,151	43,649	1.36%
Other liabilities	51,158		

Shareholders equity	412,559		
Total liabilities and shareholders equity	$ 5,066,351		
Net interest spread (1)			4.40%
Net interest income and interest margin (2)		$ 223,866	4.82%

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

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

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

	Year Ended December 31, 2004		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Rates Earned/ Paid
Assets			
Money market assets and funds sold	$ 784	$ 1	0.13%
Trading account securities			
Investment securities:			
Available for sale			
Taxable	803,722	33,230	4.13%
Tax-exempt	293,067	21,619	7.38%
Held to maturity			
Taxable	451,635	17,209	3.81%
Tax-exempt	429,213	28,281	6.59%
Loans:			
Commercial			
Taxable	1,115,148	77,278	6.93%
Tax-exempt	239,495	16,045	6.70%
Real estate construction	36,148	2,517	6.96%
Real estate residential	360,208	16,049	4.46%
Consumer	507,483	26,870	5.29%
Earning assets	4,236,903	239,099	5.64%
Other assets	299,549		
Total assets	$ 4,536,452		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,281,349		
Savings and interest-bearing transaction	1,662,347	4,543	0.27%
Time less than $100,000	271,212	4,038	1.49%
Time $100,000 or more	350,400	4,466	1.27%
Total interest-bearing deposits	2,283,959	13,047	0.57%
Short-term borrowed funds	556,415	5,878	1.06%
Federal Home Loan Bank advances	24,153	897	3.65%
Debt financing and notes payable	21,706	1,284	5.91%
Total interest-bearing liabilities	2,886,233	21,106	0.73%

Other liabilities	38,540		
Shareholders equity	330,330		
Total liabilities and shareholders equity	$ 4,536,452		
Net interest spread (1)			4.91%
Net interest income and interest margin (2)		$ 217,993	5.14%

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

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

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

	Year Ended December 31, 2003		
(dollars in thousands)	Average Balance	Interest Income/ Expense	Rates Earned/ Paid
Assets			
Money market assets and funds sold	$ 875	$ 8	0.91%
Trading account securities			
Investment securities:			
Available for sale			
Taxable	842,729	35,385	4.20%
Tax-exempt	310,200	23,415	7.55%
Held to maturity			
Taxable	197,957	5,038	2.54%
Tax-exempt	327,933	22,814	6.96%
Loans:			
Commercial			
Taxable	1,253,514	91,191	7.27%
Tax-exempt	209,911	15,095	7.19%
Real estate construction	42,362	3,049	7.20%
Real estate residential	342,118	17,409	5.09%
Consumer	506,365	31,200	6.16%
Earning assets	4,033,964	244,604	6.06%
Other assets	298,743		
Total assets	$ 4,332,707		
Liabilities and shareholders equity			
Deposits:			
Noninterest bearing demand	$ 1,173,853		
Savings and interest-bearing transaction	1,578,721	6,818	0.43%
Time less than $100,000	307,054	5,147	1.68%
Time $100,000 or more	370,549	5,020	1.35%
Total interest-bearing deposits	2,256,324	16,985	0.75%
Short-term borrowed funds	378,362	3,415	0.90%
Federal Home Loan Bank advances	142,271	5,318	3.74%
Debt financing and notes payable	21,222	1,479	6.97%

Total interest-bearing liabilities			
Other liabilities	2,798,179	27,197	0.97%
Shareholders equity	37,120		
	323,555		
Total liabilities and shareholders equity	$ 4,332,707		
Net interest spread (1)			
Net interest income and interest margin (2)			5.09%
		$ 217,407	5.39%

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

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

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

Summary of Changes in Interest Income and Expense

Years Ended December 31,	2005 Compared with 2004		
(dollars in thousands)	Volume	Rate	Total
Increase (decrease) in interest and fee income:			
Money market assets and funds sold	$ 0	$ 2	$ 2
Trading account securities			
Investment securities:			
Available for sale			
Taxable	(14,366)	835	(13,531)
Tax-exempt (1)	(2,128)	(106)	(2,234)
Held to maturity			
Taxable	12,125	1,223	13,348
Tax-exempt (1)	9,878	(1,339)	8,539
Loans:			
Commercial:			
Taxable	11,763	3,160	14,923
Tax-exempt (1)	619	(268)	351
Real estate construction	2,350	207	2,557
Real estate residential	5,263	99	5,362
Consumer	(519)	(382)	(901)
Total loans (1)	19,476	2,816	22,292
Total increase in interest and fee income (1)	24,985	3,431	28,416
Increase (decrease) in interest expense:			
Deposits:			
Savings/interest-bearing	206	455	661
Time less than $100,000	133	1,516	1,649
Time $100,000 or more	1,441	5,566	7,007
Total interest-bearing	1,780	7,537	9,317
Short-term borrowed funds	2,074	10,989	13,063
Federal Home Loan Bank advances	(897)	0	(897)
Notes and mortgages payable	961	99	1,060
Total increase in interest expense	3,918	18,625	22,543

Increase (decrease) in net interest income (1)	$ 21,067	($15,194)	$ 5,873

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

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Summary of Changes in Interest Income and Expense

Years Ended December 31,	2004 Compared with 2003		
(dollars in thousands)	Volume	Rate	Total
Increase (decrease) in interest and fee income:			
Money market assets and funds sold	($ 1)	($ 6)	($ 7)
Trading account securities			
Investment securities:			
Available for sale			
Taxable	(1,597)	(558)	(2,155)
Tax-exempt (1)	(1,255)	(541)	(1,796)
Held to maturity			
Taxable	8,787	3,384	12,171
Tax-exempt (1)	6,739	(1,272)	5,467
Loans:			
Commercial:			
Taxable	(10,102)	(3,811)	(13,913)
Tax-exempt (1)	2,043	(1,093)	950
Real estate construction	(434)	(98)	(532)
Real estate residential	916	(2,276)	(1,360)
Consumer	140	(4,470)	(4,330)
Total loans (1)	(7,437)	(11,748)	(19,185)
Total increase (decrease) in interest and fee income (1)	5,236	(10,741)	(5,505)
Increase (decrease) in interest expense:			
Deposits:			
Savings/interest-bearing	355	(2,630)	(2,275)
Time less than $100,000	(561)	(548)	(1,109)
Time $100,000 or more	(259)	(295)	(554)
Total interest-bearing	(465)	(3,473)	(3,938)
Short-term borrowed funds	1,813	650	2,463
Federal Home Loan Bank advances	(4,372)	(49)	(4,421)
Notes and mortgages payable	36	(231)	(195)
Total decrease in interest expense	(2,988)	(3,103)	(6,091)
Increase (decrease) in net interest income (1)	$ 8,224	($ 7,638)	$ 586

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

Provision for Credit Losses

The provision for credit losses was $900 thousand for 2005, compared with $2.7 million for 2004 and $3.3 million for 2003. The reductions in the provision reflect Management s view of credit risk in the loan portfolio and the results of the Company s continuing efforts to improve loan quality by enforcing relatively conservative underwriting and administration procedures and aggressively pursuing collection efforts. For further information regarding net credit losses and the allowance for credit losses, see the Credit Quality section of this report.

Investment Portfolio

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

The objective of the held to maturity portfolio is to maintain a prudent yield, provide liquidity from maturities and paydowns, and provide collateral to pledge for federal, state and local government deposits and other borrowing facilities. The held to maturity investment portfolio had a duration of 4.2 years at December 31, 2005 and, on the same date, those investments included $1,218.5 million in fixed-rate and $118.7 million in adjustable-rate securities.

Investment securities available for sale are generally used to supplement the Company s liquidity, provide a prudent yield, and provide collateral for public deposits. Unrealized net gains and losses on these securities are recorded as an adjustment to equity, net of taxes, but are not reflected in the current earnings of the Company. If a security is sold, any gain or loss is recorded as a credit or charge to earnings and the equity adjustment is reversed. At December 31, 2005, the Company held $662.4 million in securities classified as investments available for sale with a duration of 3.2 years. At December 31, 2005, an unrealized gain of $1.9 million, net of taxes of $1.4 million, related to these securities, was included in shareholders equity.

The Company had no trading securities at December 31, 2005, 2004 and 2003.

For more information on investment securities, see Notes 1 and 2 to the consolidated financial statements.

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

Available for Sale Portfolio

At December 31, (dollars in thousands)	2005	2004	2003
U.S. Treasury	$ 0	$ 0	$ 0
U.S. Government sponsored entities	331,174	557,057	961,727
States and political subdivisions	222,504	247,731	278,393
Mortgage-backed securities	11,256	3,257	12,990
Corporate securities	25,130	48,658	73,425
Other	72,324	75,007	87,376
Total	$ 662,388	$ 931,710	$ 1,413,911

The following table sets forth the relative maturities and yields of the Company s available for sale securities (stated at amortized cost) at December 31, 2005. Weighted average yields have been computed by dividing annual interest income, adjusted for amortization of premium and accretion of discount, by the amortized cost value of the related security. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate.

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Available for Sale Maturity Distribution

At December 31, 2005 (Dollars in thousands)	Within one year	After one but within five years	After five but within ten years	After ten years	Mortgage-backed	Other	Total
U.S. Government sponsored entities	$	$ 133,877	$	$	$	$	$ 133,877
Interest rate	%	3.43%	%	%	%	%	3.43%
States and political subdivisions	5,000	42,562	140,528	26,207			214,297
Interest rate (FTE)	7.61%	7.56%	7.25%	6.88%			7.27%
Asset-backed securities		1,308		9,998			11,306
Interest rate		2.46%		4.67%			4.42%
Corporate securities	25,151						25,151
Interest rate	6.54%						6.54%
Subtotal	30,151	177,747	140,528	36,205			384,631
Interest rate	6.72%	4.41%	7.25%	6.27%			5.80%
Mortgage backed securities					207,382		207,382
Interest rate					4.19%		4.19%
Other without set maturities						67,128	67,128
Interest rate						7.88%	7.88%
Total	$ 30,151	$ 177,747	$ 140,528	$ 36,205	$ 207,382	$ 67,128	$ 659,141
Interest rate	6.72%	4.41%	7.25%	6.27%	4.19%	7.88%	5.51%

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

Held to Maturity Portfolio

At December 31, (Dollars in thousands)	2005	2004	2003
U.S. Government sponsored entities	$ 740,891	$ 736,137	$ 98,287
States and political subdivisions	596,325	524,695	417,984
Asset backed securities	0	0	6,322
Other	0	0	12,784
Total	$ 1,337,216	$ 1,260,832	$ 535,377
Fair value	$ 1,323,782	$ 1,265,986	$ 542,729

The following table sets forth the relative maturities and yields of the Company s held to maturity securities at December 31, 2005. Weighted average yields have been computed by dividing annual interest income, adjusted for amortization of premium and accretion of discount, by the amortized value of the related security. Yields on state and political subdivision securities have been calculated on a fully taxable equivalent basis using the current federal statutory rate.

Held to Maturity Maturity Distribution

At December 31, 2005 (Dollars in thousands)	Within one year	After one but within five years	After five but within ten years	After ten years	Mortgage-backed	Other	Total
U.S. Government sponsored entities	$ 10,000	$ 200,006	$	$	$	$	$ 210,006
Interest rate	3.25%	3.74%	%	%	%	%	3.71%
States and political subdivisions	12,517	33,201	117,970	432,637			596,325
Interest rate (FTE)	6.29%	6.70%	6.03%	6.04%			6.08%
Subtotal	22,517	233,207	117,970	432,637			806,331
Interest rate	4.94%	4.16%	6.03%	6.04%			5.46%
Mortgage backed					530,885		530,885
Interest rate					4.46%		4.46%
Total	$ 22,517	$ 233,207	$ 117,970	$ 432,637	$ 530,885	$	$ 1,337,216
Interest rate	4.94%	4.16%	6.03%	6.04%	4.46%	%	5.07%

Loan Portfolio

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

Loan Portfolio Distribution

At December 31, (dollars in thousands)	2005	2004	2003	2002	2001
Commercial and commercial real estate	$ 1,594,925	$ 1,388,639	$ 1,429,645	$ 1,588,803	$ 1,576,723
Real estate construction	72,095	29,724	38,019	45,547	69,658
Real estate residential	508,174	375,532	347,794	330,460	347,114
Consumer	497,027	506,338	507,911	530,054	491,793
Unearned income	0	(3)	(39)	(226)	(831)
Total loans	$ 2,672,221	$ 2,300,230	$ 2,323,330	$ 2,494,638	$ 2,484,457

The following table shows the maturity distribution and interest rate sensitivity of commercial, commercial real estate, and construction loans at December 31, 2005. Balances exclude loans to individuals and residential mortgages totaling $1,005.2 million. These types of loans are typically paid in monthly installments over a number of years.

Loan Maturity Distribution

At December 31, 2005 (dollars in thousands)	Within One Year	One to Five Years	After Five Years	Total
Commercial and commercial real estate *	$ 392,194	$ 524,756	$ 677,975	$ 1,594,925
Real estate construction	72,095	0	0	72,095
Total	$ 464,289	$ 524,756	$ 677,975	$ 1,667,020
Loans with fixed interest rates	$ 90,601	$ 328,840	$ 185,398	$ 604,839
Loans with floating or adjustable interest rates	373,688	195,916	492,577	1,062,181
Total	$ 464,289	$ 524,756	$ 677,975	$ 1,667,020

* Includes demand loans

Commitments and Letters of Credit

It is not the policy of the Company to issue formal commitments on lines of credit except to a limited number of well-established and financially responsible local commercial enterprises. Such commitments can be either secured or unsecured and are typically in the form of revolving lines of credit for seasonal working capital needs. Occasionally, such commitments are in the form of letters of credit to facilitate the customers particular business transactions. Commitment fees generally are not charged except where letters of credit are involved. Commitments and lines of credit typically mature within one year. For further information, see Note 12 to the consolidated financial statements.

Credit Quality

The Company closely monitors the markets in which it conducts its lending operations and continues its strategy to control exposure to loans with higher credit risk and to increase diversification of the loan portfolio. Credit reviews are performed using grading standards and criteria similar to those employed by bank regulatory agencies. Loans receiving lesser grades fall under the classified loans category, which includes all nonperforming and potential problem loans, and receive an elevated level of Management attention to ensure collection.

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Classified Loans and Other Real Estate Owned

The following summarizes the Company s classified loans for the periods indicated:

Classified Loans and OREO

At December 31, (dollars in thousands)	2005	2004
Classified loans	$ 29,997	$ 19,225
Other real estate owned	0	0
Total	$ 29,997	$ 19,225

Classified loans at December 31, 2005 increased $10.8 million or 56.0% to $30.0 million from December 31, 2004, mainly due to the classified loans totaling $16.1 million acquired from REBC, partially reduced by subsequent improvements in credit quality and loan payoffs. Other real estate owned was zero, unchanged from the prior year.

Nonperforming Loans

Nonperforming loans include nonaccrual loans and loans 90 or more days past due and still accruing. Loans are placed on nonaccrual status upon becoming delinquent 90 days or more, unless the loan is well secured and in the process of collection. Interest previously accrued on loans placed on nonaccrual status is charged against interest income. In addition, some loans secured by real estate with temporarily impaired values and commercial loans to borrowers experiencing financial difficulties are placed on nonaccrual status even though the borrowers continue to repay the loans as scheduled. Such loans are classified by Management as performing nonaccrual and are included in total nonaccrual loans. When the ability to fully collect nonaccrual loan principal is in doubt, payments received are applied against the principal balance of the loans until such time as full collection of the remaining recorded balance is expected. Any additional interest payments received after that time are recorded as interest income on a cash basis. Nonaccrual loans are reinstated to accrual status when improvements in credit quality eliminate the doubt as to the full collectibility of both interest and principal.

The following table summarizes the nonperforming assets of the Company for the periods indicated:

Nonperforming Loans and OREO

At December 31, (dollars in thousands)	2005	2004	2003	2002	2001
Performing nonaccrual loans	$ 4,256	$ 4,072	$ 1,658	$ 3,464	$ 3,055
Nonperforming nonaccrual loans	2,068	2,970	5,759	5,717	5,058
Nonaccrual loans	6,324	7,042	7,417	9,181	8,113
Loans 90 or more days past due and still accruing	162	10	199	738	550
Other real estate owned	0	0	90	381	523
Total Nonperforming loans and OREO	$ 6,486	$ 7,052	$ 7,706	$ 10,300	$ 9,186
As a percentage of total loans	0.24%	0.31%	0.33%	0.41%	0.37%

Performing nonaccrual loans at December 31, 2005 were $184 thousand higher than the previous year, as a result of the $4.0 million performing nonaccrual loans acquired from REBC and new loans being placed on nonaccrual status, less charge-offs, loans being returned to accrual status and loans being placed on nonperforming nonaccrual status.

Except one relationship totaling $666 thousand, performing nonaccrual loans at December 31, 2004 were either paid off, charged off or brought current in 2005. Nonperforming nonaccrual loans at December 31, 2005 declined $902 thousand compared with a year ago, attributable to loans being returned to accrual status, transfers to repossessed collateral or being charged off or paid off, partially offset by loans being added to nonperforming nonaccrual status. With the exception of three relationships totaling $1.4 million, all loans on nonperforming nonaccrual status at December 31, 2004 were either paid off, charged off or brought current in 2005. There was no other real estate owned (OREO) at December 31, 2005 since one property foreclosed during 2005 was disposed of at a small gain.

Performing nonaccrual loans at December 31, 2004 were $2.4 million higher than the previous year-end, due to new loans placed on performing nonaccrual status, partially offset by payoffs, chargeoffs, loans being returned to accrual status and loans being placed on nonperforming nonaccrual status. Nonperforming nonaccrual loans at December 31, 2004 decreased $2.8 million from a year ago, attributable to loans being returned to accrual status, transfers to repossessed collateral, or being charged off or paid off, partially offset by loans being added to nonperforming nonaccrual status. There was no OREO at December 31, 2004.

The Company had no restructured loans as of December 31, 2005, 2004 and 2003.

The amount of gross interest income that would have been recorded if all nonaccrual loans had been current in accordance with their original terms while outstanding during the period was $556 thousand in 2005, $462 thousand in 2004 and $527 thousand in 2003. The amount of interest income that was recognized on nonaccrual loans from cash payments made in 2005, 2004 and 2003 was $353 thousand, $439 thousand and $592 thousand, respectively. Cash payments received, which were applied against the book balance of performing and nonperforming nonaccrual loans outstanding at December 31, 2005, totaled approximately $452 thousand, compared with $135 thousand and $330 thousand at December 31, 2004 and 2003, respectively.

Management believes the overall credit quality of the loan portfolio continues to be strong; however, total nonperforming assets could fluctuate in the future. The performance of any individual loan can be impacted by external factors such as the interest rate environment or factors particular to the borrower. The Company expects to maintain nonperforming loans and OREO at their current levels; however, no assurance can be given that increases in nonaccrual loans will not occur in future periods.

Allowance for Credit Losses

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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, recommendations of regulatory authorities, prevailing economic conditions and other factors. A portion of the allowance is specifically allocated to impaired and other identified 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 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 reserve 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. Last, allocations are made to general loan categories based on commercial office vacancy rates, mortgage loan foreclosure trends, agriculture commodity prices, and levels of government funding. The remainder of the reserve is considered to be unallocated and is established at a level considered necessary based on relevant economic conditions and available data, including unemployment statistics, unidentified economic and business conditions, the quality of lending management and staff, credit quality trends, concentrations of credit, and changing underwriting standards due to external competitive factors. Management considers the $59.5 million allowance for credit losses to be adequate as a reserve against losses as of December 31, 2005.

During 2003, Management refined its allowance methodology for commercial real estate loans, agricultural loans and certain municipal loans. This refinement had the effect of increasing the allowance allocation for commercial loans with a corresponding decrease in the unallocated allowance as of December 31, 2003.

The following table summarizes the loan loss experience of the Company for the periods indicated:

Allowance For Credit Losses, Chargeoffs & Recoveries

Year ended December 31, (dollars in thousands)	2005	2004	2003	2002	2001
Total loans outstanding	$ 2,672,221	$ 2,300,230	$ 2,323,330	$ 2,494,638	$ 2,484,457
Average loans outstanding during the period	2,576,363	2,258,482	2,354,270	2,465,876	2,465,616
Analysis of the Allowance					
Balance, beginning of period	$ 54,152	$ 53,910	$ 54,227	$ 52,086	$ 52,279
Additions to the allowance charged to operating expense	900	2,700	3,300	3,600	3,600
Allowance acquired through merger	5,213	0	0	2,050	0
Loans charged off:					
Commercial and commercial real estate	(673)	(2,154)	(2,455)	(1,885)	(2,475)
Real estate construction	0	0	0	0	(10)
Real estate residential	0	0	(26)	0	0
Consumer	(2,065)	(3,439)	(4,352)	(4,340)	(4,968)
Total chargeoffs	(2,738)	(5,593)	(6,833)	(6,225)	(7,453)

Recoveries of loans previously charged off:					
Commercial and commercial real estate	864	1,623	1,234	950	1,577
Real estate construction	0	0	0	0	0
Real estate residential	0	0	0	0	243
Consumer	1,146	1,512	1,982	1,766	1,840
Total recoveries	2,010	3,135	3,216	2,716	3,660
Net loan losses	(728)	(2,458)	(3,617)	(3,509)	(3,793)
Balance, end of period	$ 59,537	$ 54,152	$ 53,910	$ 54,227	$ 52,086
Components:					
Allowance for loan losses	$ 55,849	$ 54,152	$ 53,910	$ 54,227	$ 52,086
Reserve for unfunded credit commitments (1)	3,688				
Allowance for credit losses	$ 59,537	$ 54,152	$ 53,910	$ 54,227	$ 52,086
Net loan losses to average loans	0.03%	0.11%	0.15%	0.14%	0.15%
Allowance for loan losses as a percentage of loans outstanding	2.09%	2.35%	2.32%	2.17%	2.10%
Allowance for credit losses as a percentage of loans outstanding	2.23%	2.35%	2.32%	2.17%	2.10%

(1) Effective December 31, 2005, the Company transferred the portion of the allowance for credit losses related to lending commitments and letters of credit to other liabilities.

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Allocation of the Allowance for Credit Losses

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

Allocation of the Allowance for Credit Losses

At December 31,	2005		2004		2003		2002		2001	
(dollars in thousands)	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans
Commercial	$ 30,438	60%	$ 29,857	60%	$ 31,875	61%	$ 23,692	64%	$ 21,206	63%
Real estate construction	3,346	3%	1,441	1%	1,827	2%	2,370	2%	4,860	3%
Real estate residential	1,230	19%	917	16%	870	15%	893	13%	417	14%
Consumer	5,291	18%	5,140	22%	6,423	22%	7,862	21%	4,986	20%
Unallocated portion	19,232		16,797		12,915		19,410		20,617	
Total	$ 59,537	100%	$ 54,152	100%	$ 53,910	100%	$ 54,227	100%	$ 52,086	100%

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Impaired Loans

The Company considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. The measurement of impairment may be based on (i) the present value of the expected cash flows of the impaired loan discounted at the loan s original effective interest rate, (ii) the observable market price of the impaired loan or (iii) the fair value of the collateral of a collateral-dependent loan. The Company does not apply this definition to smaller-balance loans that are collectively evaluated for impairment. In measuring impairment, the Company reviews all commercial and construction loans classified Substandard and Doubtful that meet materiality thresholds of $250 thousand and $100 thousand, respectively. All loans classified as Loss are considered impaired.

Commercial and construction loans that are not classified, and large groups of smaller-balance homogeneous loans such as installment, personal revolving credit, residential real estate and student loans, are evaluated collectively for impairment under the Company s standard loan loss reserve methodology. The Company generally identifies loans to be reported as impaired when such loans are placed on nonaccrual status or are considered troubled debt restructurings due to the granting of a below-market rate of interest or a partial forgiveness of indebtedness on an existing loan.

The following summarizes the Company s impaired loans for the dates indicated:

Impaired Loans

At December 31, (dollars in thousands)	2005	2004
Total impaired loans	$117	$0
Specific reserves	$117	$0

The average balance of the Company s impaired loans for the year ended December 31, 2005 was $29 thousand compared with $731 thousand and $1.8 million in 2004 and 2003, respectively. Portions of the Company s allowance for loan losses were allocated to each of these impaired loans. In general, the Company does not recognize any interest income on troubled debt restructuring or loans that are classified as nonaccrual. However, interest income may be recorded as cash is received, provided that the Company s recorded investment in such loans is deemed collectible.

Asset and Liability Management

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 is the most 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 indirect impact on loan demand, credit losses, and other sources of earnings such as account analysis fees on commercial deposit accounts, official check fees and correspondent bank service charges.

In adjusting the Company s asset/liability position, Management attempts to manage interest rate risk while enhancing 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.

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, assuming an increase of 200 bp in

the federal funds rate and an increase of 156 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 4.7% of the Company s most likely net income plan for 2006. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation.
The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company s Board of Directors.
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.
During 2005 as the Company reviewed its interest rate risk position to include the acquisition of REBC, in Management s judgment, the Company s interest rate risk exposure would be reduced through the sale of investment securities available for sale, with the proceeds from sale applied to reduce short-term borrowed funds. As a result, the Company sold $170.0 million of investment securities available for sale with a duration of 3.2 years and book yield of 3.29% at a realized loss of $4.9 million.
Liquidity
The Company s principal source of asset liquidity is investment securities available for sale and principal payments from consumer loans. At December 31, 2005, investment securities available for sale totaled $662 million. At December 31, 2005, residential real estate loans and indirect auto loans totaled $923 million, which were experiencing stable monthly principal payments of approximately $20 million. In addition, at December 31, 2005, the Company had customary lines for overnight borrowings from other financial institutions in excess of $500 million and a $35 million line of credit, under which $14.3 million was outstanding at December 31, 2005. As a member of the Federal Reserve System, the Company also has the ability to borrow from the Federal Reserve. The

Company s short-term debt rating from Fitch Ratings is F1 with a stable outlook. Management expects the Company can access short-term debt financing if desired. The Company s long-term debt rating from Fitch Ratings is A with a stable outlook. Management expects the Company can access additional long-term debt financing if desired.

The Company generates significant liquidity from its operating activities. The Company s profitability during 2005, 2004 and 2003 resulted in operating cash flows of $119.6 million, $113.5 million and $115.4 million, respectively. In 2005, operating activities provided a substantial portion of cash for $39.3 million in shareholder dividends and $95.4 million used to purchase and retire company stock. The operating cash flows in 2004 was more than sufficient to pay $35.1 million in shareholder dividends and retire $55.4 million of the Company s common stock. In 2003, operating activities provided a substantial portion of cash for $32.9 million in shareholder dividends and $70.8 million of share repurchase activity.

During 2005, the Company financed its acquisition of REBC by issuing approximately 1.6 million shares of common stock and approximately $57 million to REBC shareholders. The cash consideration was accumulated in the second half of 2004 and early 2005 as the Company reduced its share repurchase activity. The acquisition of REBC increased the loan portfolio by approximately $440 million, deposits by approximately $370 million, and subordinated debt by approximately $20 million. Other investing activities included sale and maturity of investment securities, net of purchases, of approximately $215.1 million. The Company sold approximately $170 million of available for sale investment securities to manage the interest rate risk posture of its assets and liabilities subsequent to the REBC acquisition. The Company also experienced net loan repayments of $66.9 million. The proceeds from liquidating investment securities were applied to reduce short-term borrowings by $47.6 million. The Company also experienced a $107.5 million decrease in deposit balances as interest-sensitive CDs and money market products declined while short-term interest rates rose throughout 2005.

In 2004, purchases, net of sales and maturities, of investment securities were $270.7 million, which was generally financed by a $119.6 million increase in deposits and a $144.8 million increase in short-term borrowings. In 2003, purchases, net of maturities, of investment securities were $560.4 million. The investment securities portfolio increase was generally financed by net repayments of loans of $164.5 million, a $169.9 million increase in deposits, and a $240.9 million increase in short-term borrowings.

The Company anticipates maintaining its cash levels through the end of 2006 mainly due to increased profitability and retained earnings. It is anticipated that loan demand will increase moderately, although such demand will be dictated by economic conditions. The growth of deposit balances is expected to exceed the anticipated growth in loan demand through the end of 2006, resulting in a reduction of higher cost fundings, an increase in the investment securities portfolio, or a combination of both. However, due to concerns regarding consumer spending, possible terrorist attacks, and uncertainty in the general economic environment, loan demand and levels of customer deposits are not certain. Shareholder dividends and share repurchases are expected to continue in 2006.

The Parent Company s primary source of liquidity is dividends from Westamerica Bank (the Bank). Dividends from the Bank are subject to certain regulatory limitations. During 2005, 2004 and 2003, the Bank declared dividends to the Company of $122, $95 and $88 million, respectively. See Note 15 to the consolidated financial statements.

The following table sets forth the known contractual obligations of the Company at December 31, 2005:

Contractual Obligations

At December 31, 2005 (dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
Long-Term Debt Obligations	$ 3,214	$ 0	$ 0	$ 37,067	$ 40,281
Operating Lease Obligations	5,906	9,238	6,325	9,506	30,975
Purchase Obligations	5,562	5,562	0	0	11,124
Total	$ 14,682	$ 14,800	$ 6,325	$ 46,573	$ 82,380

Long-Term Debt Obligations and Operating Lease Obligations are discussed in the consolidated financial statements at Notes 6 and 11, respectively. The Purchase Obligation consists of the Company s minimum liability under a contract with a third-party automated services provider.

Capital Resources

The current and projected capital position of the Company and the impact of capital plans and long-term strategies are reviewed regularly by Management. The Company s capital position represents the level of capital available to support continued operations and expansion.

The Company repurchases its Common Stock in the open market with the intention of supporting shareholder returns and mitigating the dilutive impact of issuing new shares for employee stock award and option plans. Pursuant to these programs, the Company repurchased 1.8 million shares in 2005, 1.1 million shares in 2004 and 1.6 million shares in 2003.

The Company s primary capital resource is shareholders equity, which increased $68.1 million or 19.0% in 2005 from the previous year, the net result of $107.4 million in profits earned during the year, $89.5 million in stock issued in connection with the REBC acquisition and $12.4 million in issuance of stock in connection with exercises of employee stock options, substantially reduced by $39.3 million in dividends paid, $95.4 million in stock repurchases, and a $7.8 million net of tax decline in unrealized gains on securities available-for-sale.

The ratio of total risk-based capital to risk-adjusted assets increased in late 2004 as reduced share repurchase activity provided cash for the REBC acquisition. Following the acquisition, total capital ratios declined from 12.46% at the end of 2004 to 10.40% at the end of 2005. Tier 1 and Total Capital were reduced after the REBC acquisition on March 1, 2005, due to the net effect of a $126 million increase in goodwill and other intangibles, partially offset by an $86 million increase in common equity and the assumption of $20 million subordinated debt which qualifies as regulatory capital. Similarly, Tier I risk-based capital to risk-adjusted assets also declined to 9.08% at December 31, 2005 from 11.09% at December 31, 2004.

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Capital to Risk-Adjusted Assets

The following table summarizes the Company s capital ratios for the dates indicated:

At December 31,	2005	2004	Minimum Regulatory Requirement
Tier I Capital	9.08%	11.09%	4.00%
Total Capital	10.40%	12.46%	8.00%
Leverage ratio	6.01%	7.06%	4.00%

Capital ratios are reviewed on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet the Company s future needs. All ratios are in excess of the regulatory definition of well capitalized, which the Company intends to meet.

Financial Ratios

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

At December 31,	2005	2004	2003
Return on average total assets	2.12%	2.10%	2.19%
Return on average shareholders equity	26.04%	28.83%	29.38%
Average shareholders equity as a percentage of:			
Average total assets	8.14%	7.28%	7.47%
Average total loans	16.01%	14.63%	13.74%
Average total deposits	10.72%	9.27%	9.43%
Dividend payout ratio (diluted EPS)	37%	38%	35%

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Deposit categories

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

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

Deposit Distribution and Average Rates Paid

Years Ended December 31, (Dollars in thousands)	2005 Average Balance	2005 Percentage of Total Deposits	2005 Rate *	2004 Average Balance	2004 Percentage of Total Deposits	2004 Rate *	2003 Average Balance	2003 Percentage of Total Deposits	2003 Rate *
Noninterest bearing demand	$1,384,483	36.0%	%	$1,281,349	35.9%	%	$1,173,853	34.2%	%
Interest bearing:									
Transaction	632,896	16.4%	0.23%	577,296	16.2%	0.11%	563,022	16.4%	0.13%
Savings	1,105,664	28.7%	0.34%	1,085,051	30.4%	0.36%	1,015,699	29.6%	0.60%
Time less than $100 thousand	280,770	7.3%	2.03%	271,212	7.6%	1.49%	307,054	9.0%	1.68%
Time $100 thousand or more	444,862	11.6%	2.58%	350,400	9.8%	1.27%	370,549	10.8%	1.35%
Total	$3,848,675	100.0%	0.91%	$3,565,308	100.0%	0.57%	$3,430,177	100.0%	0.75%

* Rate is computed based on interest-bearing deposits

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During 2005, total average deposits increased by $283.4 million or 7.9% from 2004 primarily due to the REBC acquisition. Average deposit categories increased $103 million for noninterest bearing deposits, plus a $76 million increase in interest bearing demand and savings deposits. Also, time deposits in excess of $100 thousand increased by $94 million.

During 2004, total average deposits increased by $135.1 million or 3.9% from 2003 due to an inflow of $107.5 million of noninterest bearing deposits, a $14.3 million increase in interest bearing demand deposits and a $69.4 million increase in savings deposits, partially offset by declines in consumer CDs (down $35.8 million) and public and jumbo CDs (down $20.1 million).

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

Deposits Over $100,000 Maturity Distribution

(In thousands)	December 31, 2005
Three months or less	$ 397,524
Over three through six months	36,398
Over six through twelve months	29,725
Over twelve months	22,422
Total	$ 486,069

Short-term Borrowings

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

Short-Term Borrowings Distribution

At December 31, (In thousands)	2005	2004	2003
Federal funds purchased	$575,925	$568,275	$438,500
Other borrowed funds:			
Sweep accounts	158,153	163,439	149,479
Securities sold under repurchase agreements	26,825	3,709	2,667
Line of credit	14,270	0	0
Total short term borrowings	$775,173	$735,423	$590,646

Further detail of other borrowed funds is as follows:

Other Borrowed Funds Balances and Rates Paid

Years Ended December 31, (dollars in thousands)	2005	2004	2003
Outstanding amount:			
Average for the year	$166,461	$195,118	$156,137
Maximum during the year	209,547	400,372	199,276

Interest rates:			
Average for the year	0.66%	0.45%	0.58%
Average at period end	1.03%	0.27%	0.43%

Noninterest Income

Components of Noninterest Income

Years Ended December 31, (dollars in thousands)	2005	2004	2003
Service charges on deposit accounts	$29,106	$28,621	$26,381
Merchant credit card fees	9,097	3,509	3,619
ATM fees and interchange	2,711	2,487	2,378
Debit card fees	3,207	2,541	2,125
Trust fees	1,181	1,027	995
Financial services commissions	1,387	1,250	893
Mortgage banking income	292	386	851
Official check fees	1,110	631	505
Gains on sale of foreclosed property	24	231	122
Gain on sales of real property	3,700	0	0
Investment securities gains (losses)	(4,903)	2,169	2,443
Loss on extinguishment of debt	0	(2,204)	(2,166)
Investment securities impairment	0	(7,180)	0
Other noninterest income	7,628	5,115	4,770
Total	$54,540	$38,583	$42,916

Noninterest income for 2005 was $16.0 million or 41.4% higher than 2004 mainly because 2005 included a $5.6 million increase in merchant credit card income primarily due to the REBC acquisition, a $3.7 million gain on sale of real estate and $945 thousand in life insurance proceeds, partially reduced by $4.9 million in realized securities losses. Furthermore, 2004 noninterest income was reduced by $7.2 million in securities impairment writedowns and a $2.2 million loss on extinguishment of debt, which was offset by $2.2 million in realized investment securities gains. Debit card fees increased $666 thousand or 26.2% primarily due to increased usage. Service charges on deposit accounts increased $485 thousand or 1.7% primarily due to an increase in overdraft fees, an increase in the number of accounts and product repricing in February of 2005. A decrease in account analysis income, due to a higher earnings credit rate, partially offset the overdraft fee increase. Official check sales fees increased mostly due to a higher earnings credit rate on outstanding balances. A $224 thousand or 9.0% increase in ATM fees

and interchange income was mostly attributable to product repricing in February of 2005. Trust fees were higher by $154 thousand or 15.0% mainly due to more customers, product repricing and increases in court fees. Financial services commissions also increased $137 thousand or 11.0% mainly due to higher sales of variable annuities, partially offset by lower sales of fixed annuities. Other noninterest income increased $2.5 million due, in part, to $945 thousand in life insurance proceeds.

Noninterest income for 2004 was $4.3 million or 10.1% lower than 2003 mainly due to the $7.2 million impairment writedown of securities and loss on extinguishment of debt to repay FHLB advances, partially mitigated by $2.2 million in realized gains on sale of securities and growth in deposit fee income. Higher deposit service charge income was attributable to higher service fees on transaction accounts and repricing of checking account fees (effective in February 2004), partially reduced by lower income from account analysis deficit fees and a reduction in fees collected on returned deposits. Debit card fees rose $416 thousand due to increased usage. A $357 thousand increase in financial services commission income was largely due to higher sales of fixed and variable annuities and mutual funds. Other noninterest income was higher by $345 thousand mostly due to an increase in wire service fee income (up $270 thousand). Mortgage banking service fee income declined $465 thousand due to reduced mortgage loan activity, lower investor loan fees and net losses on sale of those loans. Merchant credit card income fell $110 thousand mostly due to higher interchange costs.

Noninterest Expense

Components of Noninterest Expense

Years Ended December 31, (dollars in thousands)	2005	2004	2003
Salaries and related benefits	$ 53,460	$52,507	$ 53,974
Occupancy	12,579	11,935	12,152
Data processing	6,156	6,057	6,121
Equipment	5,212	4,794	5,364
Courier Service	3,831	3,605	3,695
Telephone	2,115	2,112	1,898
Professional fees	2,420	1,869	1,886
Postage	1,615	1,407	1,624
Loan expenses	945	1,077	1,322
Stationery and supplies	1,264	1,280	1,301
Merchant credit card processing	1,035	1,104	1,183
Advertising and public relations	965	1,037	1,066
Operational losses	915	964	936
Amortization of deposit intangibles	3,625	543	743
Other	8,719	8,460	8,438
Total	$104,856	$98,751	$101,703
Noninterest expense to revenues (efficiency ratio)(FTE)	37.7%	38.5%	39.1%
Average full-time equivalent staff	959	984	1,026
Total average assets per full-time staff	$ 5,283	$ 4,610	$ 4,223

Noninterest expense increased $6.1 million or 6.2% in 2005 compared with 2004 largely due to an increase in amortization of deposit intangibles from the REBC acquisition. Occupancy increased $644 thousand or 5.4% largely due to a $342 thousand increase in rent, net of sublease income, increases in repair and maintenance and moving expense and higher utility costs. Professional fees increased $551 thousand or 29.5% due to an increase in audit and

accounting costs primarily due to additional charges from the company s independent auditor in connection with new audit requirements promulgated by the Public Company Accounting Oversight Board and higher legal fees for the REBC acquisition. A $418 thousand or 8.7% increase in equipment expense was mainly a $220 thousand increase in depreciation and a $146 thousand increase in equipment repair and maintenance expense. Salaries and related benefits rose by $953 thousand or 1.8% primarily attributable to higher employee benefit costs, annual merit increases to continuing staff, partially offset by the effect of a smaller workforce, and lower expenses for incentives. Courier service costs increased $226 thousand or 6.3%. Postage increased $208 thousand or 14.8%. Other noninterest expense increased $259 thousand or 3.1% largely due to a $305 thousand increase in limited partnership losses from investment in low-income housing properties and higher internet banking expense, partially offset by reduced insurance costs. Loan expenses declined $132 thousand or 12.3% mainly due to a decrease in repossession related expenses.

Noninterest expense decreased by $3.0 million in 2004 compared to 2003, primarily due to a $1.5 million decline in personnel-related costs. The decrease was largely due to a $353 thousand decline in salaries resulting from a fewer number of employees, partly offset by merit increases granted to continuing staff, a reduction in executive bonus costs and a decline in accruals for restricted performance shares. Equipment expense dropped $570 thousand, with lower depreciation and repair and maintenance costs. Occupancy expense fell $217 thousand mainly due to lower utility costs. Loan expense decreased $245 thousand due to lower loan activity. Postage declined $217 thousand from lower usage and a refund received in connection with changing mail handling vendors. Amortization of intangible assets decreased $200 thousand. Telephone expense rose $214 thousand mostly due to costs associated with the new branch network system.

The ratio of average assets per full-time equivalent staff was $5.28 million in 2005 compared with $4.61 million and $4.22 million in 2004 and 2003, respectively.

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Provision for Income Tax

The income tax provision (FTE) increased by $5.3 million or 8.9% in 2005 compared to 2004, primarily as a result of higher earnings and $2.0 million higher FTE adjustment for increased earnings on tax-advantaged investments and loans. The 2005 provision (FTE) of $65.2 million reflects an effective tax rate of 37.8% compared to a provision of $59.9 million in 2004, representing an effective tax rate of 38.6%. The nominal tax rate declined from 28.1% for 2004 to 27.4% for 2005 primarily attributable to income tax credits on low income housing investment and tax-exempt interest.

The income tax provision (FTE) decreased by $350 thousand or 0.6% in 2004 compared to 2003, primarily as a result of the $3.0 million tax benefit resulting from the securities impairment charge, partially offset by $1.7 million higher FTE adjustment for increased earnings on tax-advantaged investments and loans. The 2004 provision (FTE) of $59.9 million reflects an effective tax rate of 38.6% compared to a provision of $60.3 million in 2003, representing an effective tax rate of 38.8%. The nominal tax rate declined from 29.2% for 2003 to 28.1% for 2004 primarily attributable to income tax credits on low income housing investments and tax-exempt interest.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest rate risk as discussed above is the most significant market risk affecting the Company, as described in the preceding sections regarding Asset and Liability Management and Liquidity. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Westamerica Bancorporation and Subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2005. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s system of internal control over financial reporting includes those policies and procedures that (i) pertain to

the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Management and Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005 based upon criteria in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management determined that the Company s internal control over financial reporting was effective as of December 31, 2005 based on the criteria in Internal Control - Integrated Framework issued by COSO.

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

Dated March 6, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Westamerica Bancorporation:

We have audited management s assessment, included in the accompanying (Management s Report on Internal Control Over Financial Reporting), that Westamerica Bancorporation and Subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 6, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

San Francisco, California
March 6, 2006

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CONSOLIDATED BALANCE SHEETS
(In thousands)

Balances as of December 31,	*2005*	*2004*
Assets		
Cash and cash equivalents (Note 15)	$ 209,273	$ 126,153
Money market assets	534	534
Investment securities available for sale (Note 2)	662,388	931,710
Investment securities held to maturity; market values of $1,323,782 in 2005 and $1,265,986 in 2004 (Note 2)	1,337,216	1,260,832
Loans, net of an allowance for loan losses of: $55,849 in 2005 and $54,152 in 2004 (Notes 3,4 and 14)	2,616,372	2,246,078
Other real estate owned	0	0
Premises and equipment, net (Note 5)	33,221	35,223
Identifiable intangibles	26,170	2,894
Goodwill	121,907	18,996
Interest receivable and other assets (Note 9)	142,128	114,848
Total Assets	$5,149,209	$4,737,268
Liabilities		
Deposits:		
Noninterest bearing	$1,419,313	$1,273,825
Interest bearing:		
Transaction	658,667	591,593
Savings	1,022,645	1,091,981
Time (Notes 2 and 6)	745,476	626,220
Total deposits	3,846,101	3,583,619
Short-term borrowed funds (Notes 2 and 6)	775,173	735,423
Debt financing and notes payable (Note 6)	40,281	21,429
Liability for interest, taxes and other expenses (Note 9)	60,940	38,188
Total Liabilities	4,722,495	4,378,659
Shareholders Equity (Notes 7, 8 and 15)		
Common Stock (no par value)		
Authorized - 150,000 shares		
Issued and outstanding - 31,882 in 2005 and 31,640 in 2004	313,959	227,829
Deferred compensation	2,423	2,146
Accumulated other comprehensive income:		
Unrealized gain on securities available for sale, net	1,882	9,638
Retained earnings	108,450	118,996
Total Shareholders Equity	426,714	358,609

Total Liabilities and Shareholders Equity	$5,149,209	$4,737,268

See accompanying notes to consolidated financial statements.

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

For the years ended December 31,	***2005***	***2004***	***2003***
Interest and Fee Income			
Loans	$155,476	$133,226	$152,758
Money market assets and funds sold	3	1	8
Investment securities:			
Available for sale			
Taxable	19,699		