WESTAMERICA BANCORPORATION
Form 10-Q
October 22, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from __________ to __________

Commission file number: 001-9383

WESTAMERICA BANCORPORATION
(Exact Name of Registrant as Specified in its Charter)

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

1108 Fifth Avenue, San Rafael, California 94901
(Address of Principal Executive Offices) (Zip Code)

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

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

Yes [x] No [ ]

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

Large Accelerated Filer [x] Accelerated Filer [ ]
Non-Accelerated Filer [ ] Smaller reporting company [ ]
(Do not check if a smaller reporting company)

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

Yes [ ] No [x]

Title of Class	Shares Outstanding as of October 17, 2008
Common Stock, No Par Value	28,887,216

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Exhibit 32.1 - Certification of Chief Executive Officer
Required by 18 U.S.C. Section 1350

Exhibit 32.2 - Certification of Chief Financial Officer
Required by 18 U.S.C. Section 1350

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements about Westamerica Bancorporation for which it claims the protection of the safe harbor provisions contained in the Private Securities Litigation Reform Act of 1995. 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) fluctuations in asset prices including, but not limited to, stocks, bonds, real estate, and commodities; (3) economic uncertainty created by terrorist threats and attacks on the United States, the actions taken in response, and the uncertain effect of these events on the national and regional economies; (4) changes in the interest rate environment; (5) changes in the regulatory environment; (6) significantly 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 investments; (10) asset/liability management risks and liquidity risks; (11) changes in liquidity levels in capital markets; and (12) changes in the securities markets. The reader is directed to the Company's annual report on Form 10-K for the year ended December 31, 2007, for further discussion of factors which could affect the Company's business and cause actual results to differ materially from those expressed in any forward-looking statement made in this report. The Company undertakes no obligation to update any forward-looking statements in this report.

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

WESTAMERICA BANCORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)
(unaudited)

	At September 2008	At September 2007	At December 31, 2007
Assets:			
Cash and cash equivalents	$142,338	$219,631	$209,764
Money market assets	340	329	333
Investment securities available for sale	304,871	570,086	532,821
Investment securities held to maturity,			

with market values of:			
$947,580 at September 30, 2008	962,621		
$1,076,035 at September 30, 2007		1,081,009	
$1,049,422 at December 31, 2007			1,045,288
Loans, gross	2,408,704	2,511,374	2,502,976
Allowance for loan losses	(50,097)	(52,938)	(52,506)
Loans, net of allowance for loan losses	2,358,607	2,458,436	2,450,470
Other real estate owned	814	613	613
Premises and equipment, net	26,789	28,666	28,380
Identifiable intangibles	15,996	19,322	18,429
Goodwill	121,702	121,719	121,719
Interest receivable and other assets	155,404	157,205	151,142
Total Assets	$4,089,482	$4,657,016	$4,558,959
Liabilities:			
Deposits:			
Noninterest bearing	$1,173,852	$1,251,572	$1,245,500
Interest bearing:			
Transaction	518,944	549,263	544,411
Savings	751,512	806,797	760,006
Time	685,480	732,582	714,873
Total deposits	3,129,788	3,340,214	3,264,790
Short-term borrowed funds	487,973	815,101	798,599
Debt financing and notes payable	26,665	36,809	36,773
Liability for interest, taxes and other expenses	45,928	61,241	64,194
Total Liabilities	3,690,354	4,253,365	4,164,356
Shareholders' Equity:			
Authorized - 150,000 shares of common stock			
Issued and outstanding:			
28,895 at September 30, 2008	352,128		
29,378 at September 30, 2007		334,637	
29,018 at December 31, 2007			334,211
Deferred compensation	2,409	2,990	2,990
Accumulated other comprehensive income (loss)	551	(412)	(4,520)
Retained earnings	44,040	66,436	61,922
Total Shareholders' Equity	399,128	403,651	394,603
Total Liabilities and Shareholders' Equity	$4,089,482	$4,657,016	$4,558,959

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months September
	2008	2007	2008
Interest Income:			
Loans	$36,710	$41,134	$112,716
Money market assets and funds sold	1	2	3
Investment securities available for sale			
Taxable	1,858	3,902	7,281
Tax-exempt	2,183	2,811	7,503
Investment securities held to maturity			
Taxable	4,671	5,712	14,682
Tax-exempt	5,552	5,736	16,839
Total interest income	50,975	59,297	159,024
Interest Expense:			
Transaction deposits	346	526	1,145
Savings deposits	1,048	1,649	3,482
Time deposits	3,566	7,791	12,984
Short-term borrowed funds	1,954	8,601	9,360
Notes payable	524	578	1,680
Total interest expense	7,438	19,145	28,651
Net Interest Income	43,537	40,152	130,373
Provision for loan losses	600	75	1,800
Net Interest Income After Provision For Loan Losses	42,937	40,077	128,573
Noninterest Income:			
Service charges on deposit accounts	7,555	7,569	22,379
Merchant credit card	2,611	2,808	7,903
Debit card	970	969	2,852
ATM fees and interchange	756	723	2,238
Trust fees	293	337	973
Financial services commissions	186	383	689
Mortgage banking	39	29	106
Other	1,297	1,826	4,583
Securities losses and impairment	(41,206)	0	(59,384)
Life insurance proceeds	0	0	0
Gain on sale of Visa common stock	0	0	5,698
Total Noninterest Income	(27,499)	14,644	(11,963)
Noninterest Expense:			
Salaries and related benefits	12,621	12,587	38,670
Occupancy	3,465	3,327	10,297
Data processing	2,098	1,800	6,323
Equipment	903	1,083	2,825
Amortization of intangibles	788	893	2,433
Courier service	835	854	2,488
Professional fees	485	451	1,704
Other	4,008	3,858	12,194
Visa litigation expense	0	0	(2,338)
Total Noninterest Expense	25,203	24,853	74,596

(Loss) Income Before Income Taxes	(9,765)	29,868	42,014
Income Tax (Benefit) Provision	(9,809)	7,846	2,989
Net Income	$44	$22,022	$39,025
Average Shares Outstanding	28,908	29,532	28,895
Diluted Average Shares Outstanding	29,273	29,915	29,292
Per Share Data:			
Basic Earnings	$0.00	$0.75	$1.35
Diluted Earnings	0.00	0.74	1.33
Dividends Paid	0.35	0.34	1.04

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Shares	Common Stock	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	R E
Balance, December 31, 2006	30,547	$341,529	$2,734	$1,850	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					
Net unrealized loss on securities available for sale				(2,290)	
Post-retirement benefit transition obligation amortization				28	
Total comprehensive income					
Exercise of stock options	212	7,251			
Stock option tax benefits		116			
Restricted stock activity	12	302	256		
Stock based compensation		1,389			
Stock awarded to employees	3	139			
Purchase and retirement of stock	(1,396)	(16,089)			
Dividends					
Balance, September 30, 2007	29,378	$334,637	$2,990	($412)	
Balance, December 31, 2007	29,018	$334,211	$2,990	($4,520)	
Comprehensive income					
Net income for the period					
Other comprehensive income, net of tax:					

Net unrealized gain on securities available for sale				5,044
Post-retirement benefit transition obligation amortization				27
Total comprehensive income				
Exercise of stock options	566	22,815		
Stock option tax benefits		1,130		
Restricted stock activity	11	1,261	(581)	
Stock based compensation		893		
Stock awarded to employees	3	157		
Purchase and retirement of stock	(703)	(8,339)		
Dividends				
Balance, September 30, 2008	28,895	$352,128	$2,409	$551

See accompanying notes to unaudited condensed consolidated financial statements.

WESTAMERICA BANCORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
unaudited)

	For the nine ended Septem
	2008
Operating Activities:	
Net income	$39,025
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	7,130
Provision for credit losses	1,800
Amortization of loan fees, net of cost	(72)
Decrease (increase) in interest income receivable	2,036
Increase in other assets	(20,405)
Stock option compensation expense	893
Excess tax benefits from stock-based compensation	(1,130)
(Decrease) increase in income taxes payable	(4,089)
(Decrease) increase in interest expense payable	(2,469)
(Decrease) increase in other liabilities	(13,373)
Impairment and loss on sale of securities available for sale	59,384
Gain on sale of Visa common stock	(5,698)
Net loss on writedown of equipment	9
Originations of loans for resale	(1,269)
Proceeds from sale of loans originated for resale	1,283
Net writedown of property acquired in satisfaction of debt	195
Net Cash Provided by Operating Activities	63,250
Investing Activities:	

Net repayments of loans	89,415
Purchases of investment securities available for sale	(6,430)
Proceeds from maturity/calls and paydown of securities available for sale	183,616
Proceeds from sale of securities available for sale	480
Proceeds from maturity/calls and paydown of securities held to maturity	82,666
Purchases of FRB/FHLB* securities	(120)
Proceeds from sale of FRB/FHLB* stock	11,364
Proceeds from sale of Visa common stock	5,698
Purchases of property, plant and equipment	(638)
Proceeds from property acquired in satisfaction of debt	311
Net Cash Provided by Investing Activities	366,362
Financing Activities:	
Net decrease in deposits	(135,002)
Net (decrease) increase in short-term borrowings	(310,626)
Repayments of notes payable	(10,109)
Exercise of stock options	22,815
Excess tax benefits from stock-based compensation	1,130
Purchase and retirement of stock	(35,118)
Dividends paid	(30,128)
Net Cash Used in Financing Activities	(497,038)
Net (Decrease) Increase In Cash and Cash Equivalents	(67,426)
Cash and Cash Equivalents at Beginning of Period	209,764
Cash and Cash Equivalents at End of Period	$142,338
Supplemental Disclosure of Noncash Activities:	
Loans transferred to other real estate owned	$706
Unrealized gain (loss) on securities available for sale, net	5,044
Supplemental Disclosure of Cash Flow Activity:	
Interest paid for the period	$31,120
Income tax payments for the period	24,056

See accompanying notes to unaudited condensed consolidated financial statements.
* Federal Reserve Bank/Federal Home Loan Bank ("FRB/FHLB")

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations reflect interim adjustments, all of which are of a normal recurring nature and which, in the opinion of Management, are necessary for a fair presentation of the results for the interim periods presented. The interim results for the nine months ended September 30, 2008 and 2007 are not necessarily indicative of the results expected for the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes as well as other information included in the Company's Annual Report on Form 10-K for the year

ended December 31, 2007.

Note 2: Significant Accounting Policies.

Certain accounting policies underlying the preparation of these financial statements require Management to make estimates and judgments. These estimates and judgments may affect reported amounts of assets and liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. The most significant of these involve the Allowance for Credit Losses, which is discussed in Note 1 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

On January 1, 2008, the Company adopted the following new accounting pronouncements:
- FASB Statement No. 157 ("FAS 157") - Fair Value Measurements
- FASB Statement No. 159 ("FAS 159") - The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115

The adoption of FAS 157 and FAS 159 did not have any affect on the Company's financial statements at the date of adoption. For additional information, see Note 3.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also retains the guidance in Statement 141 for identifying and recognizing intangible assets separately from goodwill. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces Statement 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. Statement 141 required the acquirer to include the costs incurred to effect the acquisition (acquisition-related costs) in the cost of the acquisition that was allocated to the assets acquired and the liabilities assumed. This Statement requires those costs to be recognized separately from the acquisition. In addition, in accordance with Statement 141, restructuring costs that the acquirer expected but was not obligated to incur were recognized as if they were a liability assumed at the acquisition date. This Statement requires the acquirer to recognize those costs separately from the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of this Statement on the Company's financial statements will be contingent on the terms and conditions of future business combinations.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 ("FAS 161"). FAS 161 changes disclosure requirements for derivative instruments and hedging activities. The Statement requires enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related

hedged items affect financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. The Company had no derivative instruments designated as hedges as of September 30, 2008. The Company will adopt FAS 161 on January 1, 2009.

Note 3: Fair Values of Assets and Liabilities.

On January 1, 2008, the Company adopted the provisions of FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities -- Including an Amendment of FASB Statement No. 115. In accordance with FAS 159, the Company, at its option, can value assets and liabilities at fair value on an instrument-by-instrument basis with changes in fair value recorded in earnings. The Company elected not to value any additional assets or liabilities at fair value in accordance with FAS 159.

On January 1, 2008, the Company also adopted the provisions of FAS 157, Fair Value Measurements, with the exception of the requirements that pertain to nonfinancial assets and nonfinancial liabilities covered by FASB Staff Position (FSP) No. FAS 157-2. FAS 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements. FSP FAS 157-2 delays the effective date of the FAS 157 requirements for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Other real estate owned is an example of a nonfinancial asset that the Company will be required to measure at fair value on a non-recurring basis in accordance with generally accepted accounting principles.

On October 10, 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The FSP clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP is effective immediately, and includes prior period for which financial statements have not been issued, and therefore the Company is subject to the provision of the FSP effective September 30, 2008. The implementation of FSP FAS 157-3 did not affect the Company's fair value measurement as of September 30, 2008.

Fair Value Hierarchy

In accordance with FAS 157 the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all

significant assumptions are observable in the market. Level 2 securities include mortgage-backed securities, municipal bonds and collateralized mortgage obligations.

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

The table below presents the balances of available for sale securities measured at fair value on a recurring basis. (in thousands)

At September 30, 2008			
Total	Level 1	Level 2	Level 3
$304,871	$22,131	$282,740	$0

The Company does not record loans at fair value with the exception of impaired loans which are measured for impairment in accordance with SFAS 114, Accounting by Creditors for Impairment of a Loan, ("SFAS 114"). Under SFAS 114, loans measured for impairment based on the fair value of collateral or observable market prices are within the scope of SFAS 157. Loans measured at fair value on a non-recurring basis were measured for impairment by valuing the underlying collateral based on third-party appraisals which are level 2 fair value measurements. At September 30, 2008, impaired loans totaled $7.8 million.

Note 4: Investments

The amortized cost and estimated market value of the available for sale investment securities portfolio as of September 30, 2008 follows:

	Amortized Cost	Estimated Market Value
Securities of U.S. Treasury and federal agencies	$14,039	$14,081
Mortgage-backed securities	108,375	106,010
Obligations of states and political subdivisions	164,065	166,638
Asset-backed securities	9,999	8,200
FHLMC and FNMA stock	2,848	2,848
Other securities	4,024	7,094
Total	$303,350	$304,871

The amortized cost and estimated market value of the held to maturity investment securities portfolio as of September 30, 2008 follows:

	Amortized Cost	Estimated Market Value
Securities of U.S. federal agencies	$110,000	$110,574
Mortgage-backed securities	304,170	296,109
Obligations of states and political subdivisions	548,451	540,897
Total	$962,621	$947,580

Note 5: Loans

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

	At September 30,		At December 31,
	2008	2007	2007
Real Estate - commercial	$820,317	$871,502	$856,581
Real Estate - construction	67,329	90,993	97,464
Real Estate - residential	463,575	484,555	484,549
Total Real Estate loans	1,351,221	1,447,050	1,438,594
Commercial	522,057	527,536	532,650
Installment and personal	535,426	536,788	531,732
Gross loans	2,408,704	2,511,374	2,502,976
Allowance for loan losses	(50,097)	(52,938)	(52,506)
Net loans	$2,358,607	$2,458,436	$2,450,470

There were no loans held for sale at September 30, 2008, September 30, 2007 and December 31, 2007.

Note 6: Goodwill and Other Intangible Assets

The Company has recorded goodwill and other identifiable intangibles associated with purchase business combinations. Goodwill is not amortized, but is periodically evaluated for impairment. The Company did not recognize impairment during the nine months ended September 30, 2008 and September 30, 2007. Identifiable intangibles are amortized to their estimated residual values over their expected useful lives. Such lives and residual values are

also periodically reassessed to determine if any amortization period adjustments are indicated. During the third quarter of 2008 and third quarter of 2007, no such adjustments were recorded.

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

December 31, 2006	$121,719
	--
September 30, 2007	$121,719
December 31, 2007	$121,719
Recognition of stock option tax benefits for the exercise of options converted upon merger	($17)
September 30, 2008	$121,702

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

	September 30,			
	2008		2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core Deposit Intangibles	$24,383	($12,926)	$24,383	($10,872)
Merchant Draft Processing Intangible	10,300	(5,761)	10,300	(4,489)
Total Intangible Assets	$34,683	($18,687)	$34,683	($15,361)

As of September 30, 2008, the current year and estimated future amortization expense for intangible assets was ($ in thousands):

Merchant

	Core Deposit Intangibles	Draft Processing Intangible	Total
Nine months ended September 30, 2008 (actual)	$1,521	$912	$2,433
Estimate for year ended December 31,			
2008	2,021	1,200	3,221
2009	1,859	962	2,821
2010	1,635	774	2,409
2011	1,386	624	2,010
2012	1,230	500	1,730
2013	964	400	1,364

Note 7: Post Retirement Benefits

The Company offers a continuation of group insurance coverage to qualifying employees electing early retirement, for the period from the date of retirement until age 65. For eligible employees the Company pays a portion of these early retirees' insurance premiums. The Company reimburses a portion of Medicare Part B premiums for all qualifying retirees over age 65 and their qualified spouses. Eligibility for post-retirement medical benefits is based on age and years of service, and restricted to employees hired prior to February 1, 2006. The Company uses an actuarial-based accrual method of accounting for post-retirement benefits.

The following table sets forth the net periodic post-retirement benefit costs (in thousands):

	For the nine months ended September 30,	
	2008	2007
Service cost	($300)	$12
Interest cost	198	198
Amortization of unrecognized transition obligation	45	45
Net periodic cost	($57)	$255

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

Note 8: Contingent Liabilities

In accordance with Visa's by-laws, the Company and other Visa U.S.A. member banks are obligated to share in Visa's litigation obligations which existed at the time of Visa's restructuring transactions. Accordingly, in the fourth quarter 2007, the Company recorded estimated litigation liabilities and related litigation expense related to Visa Inc. in the amount of $2,338 thousand. During the first quarter 2008, in accordance with the determination of Visa Inc.'s Litigation Committee, Visa Inc. funded its litigation escrow

account with $3 billion of net proceeds from the Visa Inc. initial public offering. This escrow account will be used to make payments related to certain covered Visa litigation. At the time of escrow funding, the Company reduced its litigation liability with a corresponding reversal of litigation expense of $2,338 thousand representing the Company's portion of the escrow account limited by the amount previously recognized as an expense.

On October 14, 2008, Visa announced a settlement in principle with respect to one of the litigation obligations that the Company is responsible to share with other member banks. At this time, the exact terms of the settlement are unknown.

We issue standby letters of credit, which include performance and financial guarantees, for customers in connection with contracts between the customers and third parties. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. Standby letters of credit are primarily issued to support customers' short-term financing requirements and must meet the Company's normal credit policies and collateral requirements. Standby letters of credit outstanding totaled $29.6 million and $33.0 million at September 30, 2008 and December 31, 2007, respectively. We also had commitments for commercial and similar letters of credit of $1.7 million and $613 thousand at September 30, 2008 and December 31, 2007, respectively.

Note 9: Earnings Per Common Share

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

	For the three months ended September 30,		For the nine mont ended Septem
(In thousands, except per share data)	2008	2007	2008
Weighted average number of common shares outstanding - basic	28,908	29,532	28,895
Add exercise of options reduced by the number of shares that could have been purchased with the proceeds of such exercise	365	383	397
Weighted average number of common shares outstanding - diluted	29,273	29,915	29,292
Net income	$44	$22,022	$39,025
Basic earnings per share	$0.00	$0.75	$1.35

Diluted earnings per share	$0.00	$0.74	$1.33

For the three months ended September 30, 2008 and 2007, options to purchase 582 thousand and 1.3 million shares of common stock, respectively, were not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect. Similarly, for the nine months ended September 30, 2008 and 2007, options to purchase 618 thousand and 1.0 million shares of common stock, respectively, were not included in the computation of diluted net income per share because the option exercise price exceeded the fair value of the stock such that their inclusion would have had an anti-dilutive effect.

WESTAMERICA BANCORPORATION
Financial Summary
(Dollars in thousands, except per share data)

	Three months ended September 30,		Nine months September
	2008	2007	2008
Net Interest Income (FTE)**	$48,693	$45,563	$146,407
Provision for Loan Losses	(600)	(75)	(1,800)
Noninterest Income:			
Gain on sale of Visa common stock	0	0	5,698
Securities losses and impairment	(41,206)	0	(59,384)
Life insurance proceeds	0	0	0
Deposit service charges and other	13,707	14,644	41,723
Total Noninterest Income	(27,499)	14,644	(11,963)
Noninterest Expense:			
Visa litigation	0	0	2,338
Other	(25,203)	(24,853)	(76,934)
Total Noninterest Expense	(25,203)	(24,853)	(74,596)
(Loss) Income Before Income Taxes (FTE)**	(4,609)	35,279	58,048
Income Tax Benefit (Provision) (FTE)**	4,653	(13,257)	(19,023)
Net Income	$44	$22,022	$39,025
Average Shares Outstanding	28,908	29,532	28,895
Diluted Average Shares Outstanding	29,273	29,915	29,292
Shares Outstanding at Period End	28,895	29,378	28,895
As Reported:			
Basic Earnings Per Share	$0.00	$0.75	$1.35
Diluted Earnings Per Share	$0.00	$0.74	$1.33
Return On Assets	0.00%	1.89%	1.22%
Return On Equity	0.04%	21.73%	12.83%
Net Interest Margin (FTE)**	5.19%	4.34%	5.04%

Net Loan Losses to Average Loans	0.24%	0.10%	0.23%	
Efficiency Ratio*	118.9%	41.3%	55.5%	
Average Balances:				
Total Assets	$4,137,232	$4,628,728	$4,275,657	$
Earning Assets	3,745,058	4,198,859	3,878,972	
Total Loans, Gross	2,414,317	2,514,685	2,443,574	
Total Deposits	3,154,340	3,358,163	3,183,393	
Shareholders' Equity	412,133	402,016	406,244	
Balances at Period End:				
Total Assets	$4,089,482	$4,657,016		
Earning Assets	3,676,536	4,162,798		
Total Loans, Gross	2,408,704	2,511,374		
Total Deposits	3,129,788	3,340,214		
Shareholders' Equity	399,128	403,651		
Financial Ratios at Period End:				
Allowance for Loan Losses to Loans	2.08%	2.11%		
Book Value Per Share	$13.81	$13.74		
Equity to Assets	9.76%	8.67%		
Total Capital to Risk Adjusted Assets	11.25%	10.69%		
Dividends Paid Per Share	$0.35	$0.34	$1.04	
Dividend Payout Ratio	n/m	46%	78%	

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

* The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income on a tax-equivalent basis and noninterest income).

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

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

Westamerica Bancorporation and subsidiaries (the "Company") reported third quarter 2008 net income of $44 thousand or $-0.00- diluted earnings per share. These results compare to net income of $22.0 million or $0.74 diluted earnings per share for the same period of 2007. In the third quarter of 2008, the Company recognized a $24 million after-tax or $0.81 diluted earnings per share charge for securities losses and "other than temporary impairment" of Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") preferred stock held in its available for sale investment portfolio. Additionally, the Company reduced its tax provision by approximately $1 million primarily due to filing its 2007 federal tax return and adjusting 2007 tax estimates to actual amounts included in the filed tax return. The tax provision reduction represented $0.03 diluted earnings per

share. The adjustment primarily resulted from higher than anticipated tax credits earned on limited partnership investments providing low-income housing and housing for the elderly in Northern and Central California communities.

On a year-to-date basis, the Company reported net income for the nine months ended September 30, 2008 of $39.0 million or $1.33 diluted earnings per share, compared with $67.9 million or $2.24 diluted earnings per share for the same period of 2007. The first nine months of 2008 included a $34 million after-tax charge for securities losses and "other than temporary impairment" in the value of FHLMC and FNMA preferred stock or $1.17 diluted earnings per share. At September 30, 2008, the recorded value of FHLMC and FNMA stock was $2.8 million.

Additionally, results for this period included a $5.7 million gain on the sale of VISA common stock from Visa's initial public offering ("IPO"), and $2.3 million in reduced expenses as known litigation contingencies were satisfied as a part of the VISA IPO, which combined to increase diluted earnings per share by $0.16. Results for this period also included the approximate $1.0 million reduction in its tax provision primarily due to filing its 2007 federal tax return, which increased diluted earning per share by $0.03. The first nine months of 2007 included $822 thousand in tax-exempt company owned life insurance proceeds, representing $0.03 diluted earnings per share.

Following is a summary of the components of net income for the periods indicated (dollars in thousands except per share data):

	Three months ended September 30,		Nine months e September 3
	2008	2007	2008
Net interest income (FTE)	$48,693	$45,563	$146,407
Provision for loan losses	(600)	(75)	(1,800)
Noninterest income	(27,499)	14,644	(11,963)
Noninterest expense	(25,203)	(24,853)	(74,596)
Income tax benefit (provision) (FTE)	4,653	(13,257)	(19,023)
Net income	$44	$22,022	$39,025
Average diluted shares	29,273	29,915	29,292
Diluted earnings per share	$0.00	$0.74	$1.33
Average total assets	$4,137,232	$4,628,728	$4,275,657 $
Net income (annualized) to average total assets	0.00%	1.89%	1.22%

Net income for the third quarter of 2008 was $44 thousand compared with $22.0 million for the same quarter of 2007, reflecting a $24 million after-tax FHLMC and FNMA preferred stock securities loss and impairment charge in the third quarter of 2008. Net interest income (FTE) increased $3.1 million or 6.9%, the net result of lower funding costs, partially offset by lower average earning assets and declining yields on loans. The provision for loan losses increased $525 thousand, reflecting Management's assessment of increased credit risk and the necessary level of the allowance for loan losses. Noninterest income declined $42.1 million in the third quarter of 2008 compared with the

corresponding period of 2007 primarily due to the above securities loss and impairment charge. Noninterest expense increased $350 thousand or 1.4%. The provision for income taxes (FTE) was $17.9 million lower in the third quarter of 2008 than a year ago mostly due to the $17 million tax benefit of the securities loss and impairment charge and the $1 million tax adjustment for the filed 2007 federal income tax return.

Comparing the first nine months of 2008 to the prior year, net income decreased $28.9 million, due to losses on the sale and impairment charge of FHLMC and FNMA preferred stock and higher loan loss provision, partially offset by higher net interest income (FTE), a gain on sale of VISA common stock and lower tax provision (FTE). The higher net interest income (FTE) was mainly caused by lower funding costs, partially offset by a lower volume of average interest-earning assets and lower yields on loans. The provision for loan losses increased $1.6 million to reflect Management's assessment of increased credit risk and the necessary level of the allowance for loan losses. Noninterest income in the first nine months of 2008 decreased $56.6 million compared with the same period of 2007 mainly due to the above losses on sale and impairment charge on FHLMC and FNMA preferred stock, $822 thousand gain from life insurance proceeds in 2007 and a $759 thousand decrease in fees on the issuance of cashiers' checks, partially offset by the above gain on sale of VISA common stock. Noninterest expense increased $374 thousand or 0.5%, primarily the net result of higher data processing and personnel costs, partly offset by the reversal of a $2.3 million accrual for known Visa related litigation. The income tax provision (FTE) decreased $21.7 million largely due to the tax benefit from the impairment charge and the $1 million tax adjustment for the filed 2007 federal income tax return, partially offset by an increase related to the gain on sale of Visa common stock.

Net Interest Income

The Company's primary source of revenue is net interest income, or the difference between interest income earned on loans and investments and interest expense paid on interest-bearing deposits and borrowings. Following is a summary of the components of net interest income for the periods indicated (dollars in thousands):

	Three months ended September 30,		Nine months September
	2008	2007	2008
Interest and fee income	$50,975	$59,297	$159,024
Interest expense	(7,438)	(19,145)	(28,651)
FTE adjustment	5,156	5,411	16,034
Net interest income (FTE)	$48,693	$45,563	$146,407
Average earning assets	$3,745,058	$4,198,859	$3,878,972
Net interest margin (FTE)	5.19%	4.34%	5.04%

The Company's net interest margin has expanded during the three and nine months ended September 30, 2008 compared to the respective periods in 2007. The Federal Reserve's Open Market Committee (FOMC) reduced the target federal funds rate from 5.25 percent in August 2007 to 2.00 percent in April 2008 in seven increments. As a result, short-term interest rates declined and the Company managed to reduce the interest rates paid on deposits and other interest-bearing liabilities during 2008 compared to respective periods in 2007. During this period, the Company's loan and investment yields were less sensitive to changes in interest rates resulting in a lesser reduction in such yields compared to the rates paid on deposits and other funding sources. Offsetting some of the benefit of the expanding margin was the reduction in the level of average interest-earning assets in 2008 relative to 2007.

Net interest income in the third quarter 2008 includes $359 thousand in dividends on FNMA preferred stock which management does not anticipate receiving in the foreseeable future. Seventy percent of such dividends are excludable from taxable income for federal income tax purposes.

Net interest income (FTE) rose during the third quarter of 2008 by $3.1 million or 6.9% from the same period in 2007 to $48.7 million, mainly due to lower rates on average interest- bearing liabilities (down 141 basis points ("bp")) and lower average balances of those liabilities (down $419 million), partly offset by lower average earning assets (down $454 million) and lower yields on loans (down 44 bp).

Comparing the first nine months of 2008 with the same period of 2007, net interest income (FTE) increased $7.9 million or 5.7%, primarily due to lower rates paid on interest-bearing liabilities (down 108 bp) and a lower average volume of those liabilities (down $315 million), partially offset by lower average earning assets (down $365 million) and lower yields on loans (down 32 bp).

Interest and Fee Income

Interest and fee income (FTE) for the third quarter of 2008 decreased $8.6 million or 13.3% from the same period in 2007. The decline was caused by lower average balances of earning assets (down $454 million) and lower yields on loans (down 44 bp).

Interest and fee income (FTE) in the third quarter 2008 includes $359 thousand in dividends on FNMA preferred stock which management does not anticipate receiving in the foreseeable future. Seventy percent of these dividends are excludable from taxable income for federal income tax purposes.

In Management's opinion, current economic conditions are not conducive for generating profitable loan growth. Recent downward pressure on real estate values create a cautious view toward real estate lending, and economic pressure on consumers has reduced demand for automobile and other consumer loans. Additionally, yields available on the highest quality investment securities do not offer an adequate profit margin over the cost of funding. As a result, the Company has not taken an aggressive posture relative to current loan and investment portfolio growth.

The decrease in the average earning assets in the third quarter of 2008 compared with the same period in 2007 was substantially attributable to a $353 million decline in the average investment portfolio: U.S. government sponsored entity obligations (down $178 million), mortgage backed securities and collateralized mortgage obligations (down $104 million), municipal securities (down $45 million) and corporate and other securities (down $30 million). The average balance of corporate and other securities declined largely due to sales and impairment of FHLMC and FNMA preferred stock. Average total loans

were lower by $100 million in the third quarter of 2008 compared with the same period in 2007 primarily due to decreases in the average balances of commercial real estate loans (down $41 million), residential real estate loans (down $26 million) and tax-exempt commercial loans (down $17 million) and construction loans (down $16 million).

The average yield on the Company's earning assets decreased from 6.14% in the third quarter of 2007 to 5.98% in the same period in 2008. The composite yield on loans fell 44 bp to 6.24% due to decreases in yields on taxable commercial loans (down 195 bp), real estate construction loans (down 372 bp), consumer loans (down 24 bp) and commercial real estate loans (down 14 bp), partially offset by higher yields on tax-exempt commercial loans (up 13 bp) and residential real estate loans (up 10 bp). Real estate construction loans and commercial lines of credit have variable interest rates based on the prime lending rate. The prime lending rate averaged 8.25 percent in the third quarter 2007 compared to 5.50 percent in the third quarter 2008, reducing the yields earned on real estate construction loans and commercial lines of credit. The investment portfolio yield increased 17 bp to 5.49%, mainly due to higher yields on U.S. Government sponsored entity obligations (up 22 bp), municipal securities (up 10 bp) and mortgage backed securities and collateralized mortgage obligations (up 6 bp), partially offset by corporate and other securities (down 211 bp). Other securities yields declined mostly due to eliminated dividends on FHLMC preferred stock. As investment portfolio volumes have declined over the past year, municipal security volumes have declined at a slower rate than the remainder of the investment portfolio. As a result, municipal securities represented 54 percent of total average investment security volumes during the third quarter 2008, compared to 45 percent during the third quarter 2007. This migration in the composition of the investment portfolio has improved the overall yield of the investment portfolio since municipal security yields exceed the yield of the overall investment portfolio.

Comparing the first nine months of 2008 with the corresponding period a year ago, interest and fee income (FTE) was down $19.6 million or 10.0%. The decrease largely resulted from lower average balances of earning assets and lower yields on loans. Average earning assets decreased $365 million or 8.6% for the nine months of 2008 compared with the same period of 2007, due to a $291 million decline in the investment portfolio and a $74 million decrease in the loan portfolio. Lower average investment balances were largely attributable to U.S. government sponsored entity obligations (down $131 million), mortgage backed securities and collateralized mortgage obligations (down $108 million) and municipal securities (down $39 million). The loan portfolio decline was primarily due to decreases in the average balances of commercial real estate loans (down $44 million), residential real estate loans (down $26 million), tax-exempt commercial loans (down $16 million), partly offset by an $11 million increase in the average balance of consumer loans.

The average yield on earning assets for the first nine months of 2008 was 6.02% compared with 6.12% in the corresponding period of 2007. The loan portfolio yield for the first nine months of 2008 compared with the same period of 2007 was lower by 32 bp, due to decreases in yields on taxable commercial loans (down 138 bp), construction loans (down 313 bp), consumer loans (down 21 bp) and commercial real estate loans (down 9 bp), partially offset by commercial tax-exempt loans (up 10 bp) and residential real estate loans (up 9 bp). The investment portfolio yield rose by 14 bp. The increase resulted mostly from higher yields on mortgage backed securities and collateralized mortgage obligations (up 7 bp) and municipal securities (up 4 bp), partially offset by corporate and other securities (down 85 bp).

Interest Expense

Interest expense in the third quarter of 2008 decreased $11.7 million compared with the same period in 2007. The decrease was attributable to lower rates paid on the interest- bearing liabilities and lower average balances of those liabilities.

The average rate paid on interest-bearing liabilities decreased from 2.60% in the third quarter of 2007 to 1.19% in the same quarter of 2008. Rates paid on most interest-bearing liabilities moved with general market conditions. Rates on deposits decreased 88 bp to 1.00% primarily due to decreases in rates paid on CDs over $100 thousand (down 267 bp), preferred money market savings (down 146 bp) and retail CDs (down 89 bp). Rates on short-term borrowings also decreased 277 bp mostly due to lower rates on federal funds purchased (down 320 bp) and line of credit and repurchase facilities (down 304 bp).

Interest-bearing liabilities declined $419 million or 14.4% for the third quarter of 2008 over the same period of 2007. Most categories of deposits declined including money market savings (down $43 million), money market checking accounts (down $27 million), regular savings (down $20 million) and CDs over $100 thousand (down $35 million). The decline was partially offset by a $17 million increase in preferred money market savings. Short-term borrowings declined $295 million primarily due to a $279 million decrease in federal funds purchased.

Comparing the nine months ended September 30, 2008 to the corresponding period of 2007, interest expense decreased $27.4 million, due to lower rates paid on interest-bearing liabilities and a decline in such liabilities.

Rates paid on liabilities averaged 1.46% during the first nine months of 2008 compared to 2.54% in the same period of 2007. The average rate on short-term borrowings fell 228 bp to 2.11%, mainly due to declines on rates paid on federal funds purchased (down 267 bp) and line of credit and repurchase facilities (down 176 bp). Rates on deposits were also lower (down 63 bp). CDs over $100 thousand declined 225 bp and retail CDs decreased by 44 bp. Preferred money market savings decreased 102 bp.

Interest-bearing liabilities in the first nine months of 2008 declined $315 million or 10.7% over the corresponding period of 2007 mainly due to decreases in the average balances of federal funds purchased (down $174 million), money market savings (down $72 million), money market checking accounts (down $33 million), regular savings (down $25 million), retail CDs (down $18 million) and line of credit and repurchase facilities (down $18 million).

In all periods, the Company has focused its sales efforts on building the balances of more profitable, noninterest bearing and lower-cost transaction accounts in order to minimize the cost of funds.

Net Interest Margin (FTE)

The following summarizes the components of the Company's net interest margin for the periods indicated (annualized):

Three months ended	Nine months

	September 30,		September
	2008	2007	2008
Yield on earning assets (FTE)	5.98%	6.14%	6.02%
Rate paid on interest-bearing liabilities	1.19%	2.60%	1.46%
Net interest spread (FTE)	4.79%	3.54%	4.56%
Impact of all other net noninterest bearing funds	0.40%	0.80%	0.48%
Net interest margin (FTE)	5.19%	4.34%	5.04%

During the third quarter of 2008, the net interest margin (FTE) increased 85 bp compared with the same period in 2007. Rates paid on interest-bearing liabilities declined faster than yields on earning assets (FTE), resulting in a 125 bp increase in net interest spread. The increase in the net interest spread was partially reduced by the lower net interest margin contribution of noninterest bearing funding sources. The margin contribution of noninterest bearing funds decreased 40 bp because of the lower market rates of interest at which they could be invested.

Similarly, the net interest margin (FTE) in the first nine months of 2008 rose by 67 bp when compared with the corresponding period of 2007. Earning asset yields decreased 10 bp while the cost of interest-bearing liabilities declined by 108 bp, resulting in a 98 bp increase in the net interest spread. The 31 bp decrease in noninterest bearing funding sources lowered the increase in the net interest margin.

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Summary of Average Balances, Yields/Rates and Interest Differential

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

For the three months e September 30, 2008	
Average Balance	Interest Income/ Expense

Assets:		
Money market assets and funds sold	$840	$1
Investment securities:		
Available for sale		
Taxable	164,644	1,858
Tax-exempt (1)	194,576	3,212
Held to maturity		
Taxable	423,088	4,671
Tax-exempt (1)	547,593	8,536
Loans:		
Commercial:		
Taxable	322,455	5,547
Tax-exempt (1)	205,505	3,347
Commercial real estate	830,001	14,516
Real estate construction	69,216	1,070
Real estate residential	462,004	5,604
Consumer	525,136	7,769
Total loans (1)	2,414,317	37,853
Total earning assets (1)	3,745,058	56,131
Other assets	392,174	
Total assets	$4,137,232	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	$1,172,953	$--
Savings and interest-bearing transaction	1,303,821	1,394
Time less than $100,000	193,170	1,201
Time $100,000 or more	484,396	2,365
Total interest-bearing deposits	1,981,387	4,960
Short-term borrowed funds	470,109	1,954
Debt financing and notes payable	35,163	524
Total interest-bearing liabilities	2,486,659	7,438
Other liabilities	65,487	
Shareholders' equity	412,133	
Total liabilities and shareholders' equity	$4,137,232	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		$48,693

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

	For the three months e September 30, 2007	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$706	$2
Investment securities:		
Available for sale		
Taxable	359,233	3,902
Tax-exempt (1)	231,516	4,108
Held to maturity		
Taxable	525,766	5,712
Tax-exempt (1)	566,953	8,674
Loans:		
Commercial:		
Taxable	317,997	7,042
Tax-exempt (1)	222,555	3,564
Commercial real estate	871,225	15,602
Real estate construction	84,938	2,113
Real estate residential	487,573	5,792
Consumer	530,397	8,197
Total loans (1)	2,514,685	42,310
Total earning assets (1)	4,198,859	64,708
Other assets	429,869	
Total assets	$4,628,728	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	$1,254,530	$--
Savings and interest-bearing transaction	1,376,769	2,175
Time less than $100,000	207,376	1,755
Time $100,000 or more	519,488	6,036
Total interest-bearing deposits	2,103,633	9,966
Short-term borrowed funds	764,992	8,601
Debt financing and notes payable	36,832	578
Total interest-bearing liabilities	2,905,457	19,145
Other liabilities	66,725	
Shareholders' equity	402,016	
Total liabilities and shareholders' equity	$4,628,728	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		$45,563

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

(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

	For the nine months e September 30, 2008	
	Average Balance	Interest income/ expense
Assets:		
Money market assets and funds sold	$948	$3
Investment securities:		
Available for sale		
Taxable	227,227	7,281
Tax-exempt (1)	209,365	11,067
Held to maturity		
Taxable	444,314	14,682
Tax-exempt (1)	553,544	25,806
Loans:		
Commercial:		
Taxable	316,018	17,194
Tax-exempt (1)	211,221	10,319
Commercial real estate	841,391	44,442
Real estate construction	80,473	4,143
Real estate residential	469,952	17,021
Consumer	524,519	23,100
Total loans (1)	2,443,574	116,219
Total earning assets (1)	3,878,972	175,058
Other assets	396,685	
Total assets	$4,275,657	
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing demand	$1,186,443	$--
Savings and interest-bearing transaction	1,309,921	4,627
Time less than $100,000	194,305	4,144
Time $100,000 or more	492,724	8,840
Total interest-bearing deposits	1,996,950	17,611
Short-term borrowed funds	582,564	9,360
Debt financing and notes payable	36,210	1,680
Total interest-bearing liabilities	2,615,724	28,651
Other liabilities	67,246	
Shareholders' equity	406,244	
Total liabilities and shareholders' equity	$4,275,657	

Net interest spread (1)(2)		
Net interest income and interest margin (1) (3)		$146,407

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

	For the nine months e September 30, 2007	
	Average Balance	Interest Income/ Expense
Assets:		
Money market assets and funds sold	$622	$5
Investment securities:		
Available for sale		
Taxable	367,693	11,891
Tax-exempt (1)	234,316	12,811
Held to maturity		
Taxable	553,471	17,966
Tax-exempt (1)	570,569	26,290
Loans:		
Commercial:		
Taxable	318,827	20,639
Tax-exempt (1)	227,611	10,938
Commercial real estate	885,172	47,341
Real estate construction	76,340	5,718
Real estate residential	495,766	17,629
Consumer	513,223	23,380
Total loans (1)	2,516,939	125,645
Total earning assets (1)	4,243,610	194,608
Other assets	426,409	
Total assets	$4,670,019	
Liabilities and shareholders' equity		
Deposits:		
Noninterest bearing demand	$1,264,147	$--
Savings and interest-bearing transaction	1,410,389	6,086
Time less than $100,000	212,666	5,241
Time $100,000 or more	500,389	17,396

Total interest-bearing deposits	2,123,444	28,723
Short-term borrowed funds	770,378	25,614
Debt financing and notes payable	36,868	1,735
Total interest-bearing liabilities	2,930,690	56,072
Other liabilities	66,685	
Shareholders' equity	408,497	
Total liabilities and shareholders' equity	$4,670,019	
Net interest spread (1) (2)		
Net interest income and interest margin (1) (3)		$138,536

(1) Interest and rates calculated on a fully taxable equivalent basis using the current statutory federal tax rate.
(2) Net interest spread represents the average yield earned on earning assets minus the average rate paid on interest-bearing liabilities.
(3) Net interest margin is computed by calculating the difference between interest income and expense (annualized), divided by the average balance of earning assets.

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

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

	Three months ended September compared with three mo ended September 30, 20	
	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	$0	($1)
Investment securities:		
Available for sale		
Taxable	(2,192)	148
Tax-exempt (1)	(624)	(272)
Held to maturity		
Taxable	(1,133)	92
Tax-exempt (1)	(301)	163
Loans:		
Commercial:		
Taxable	96	(1,591)

Tax-exempt (1)	(284)	67
Commercial real estate	(756)	(330)
Real estate construction	(344)	(699)
Real estate residential	(310)	122
Consumer	(85)	(343)
Total loans (1)	(1,683)	(2,774)
Total decrease in interest and fee income (1)	(5,933)	(2,644)
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(111)	(670)
Time less than $100,000	(115)	(439)
Time $100,000 or more	(385)	(3,286)
Total interest-bearing deposits	(611)	(4,395)
Short-term borrowed funds	(2,529)	(4,118)
Debt financing and notes payable	(26)	(28)
Total decrease in interest expense	(3,166)	(8,541)
(Decrease) increase in Net Interest Income (1)	($2,767)	$5,897

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

	Nine months ended September compared with nine mont ended September 30, 20	
	Volume	Rate
Interest and fee income:		
Money market assets and funds sold	$2	($4)
Investment securities:		
Available for sale		
Taxable	(4,501)	(109)
Tax-exempt (1)	(1,320)	(424)
Held to maturity		
Taxable	(3,596)	312
Tax-exempt (1)	(766)	282
Loans:		
Commercial:		
Taxable	(120)	(3,325)
Tax-exempt (1)	(784)	165
Commercial real estate	(2,251)	(648)
Real estate construction	308	(1,883)
Real estate residential	(914)	306
Consumer	564	(844)

Total loans (1)	(3,197)	(6,229)
Total decrease in interest and fee income (1)	(13,378)	(6,172)
Interest expense:		
Deposits:		
Savings and interest-bearing transaction	(397)	(1,062)
Time less than $100,000	(417)	(680)
Time $100,000 or more	(230)	(8,326)
Total interest-bearing deposits	(1,044)	(10,068)
Short-term borrowed funds	(5,177)	(11,077)
Debt financing and notes payable	(27)	(28)
Total decrease in interest expense	(6,248)	(21,173)
(Decrease) increase in Net Interest Income (1)	($7,130)	$15,001

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

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Provision for Credit Losses

The Company manages credit costs by consistently enforcing conservative underwriting and administration procedures and aggressively pursuing collection efforts with troubled debtors. The Company provided $600 thousand for loan losses in the third quarter of 2008, compared with $75 thousand in the same period of 2007. For the first nine months of 2008 and 2007, $1.8 million and $225 thousand were provided in each respective period. In the third quarter of 2008, the reserve for unfunded credit commitments was reduced by $200 thousand due to a decline in unfunded credit commitments. The provision reflects management's assessment of credit risk in the loan portfolio for each of the periods presented. For further information regarding net credit losses and the allowance for credit losses, see the "Classified Assets" section of this report.

Noninterest Income

The following table summarizes the components of noninterest income for the periods indicated (dollars in thousands).

	Three months ended September 30,		Nine months e September 3
	2008	2007	2008
Service charges on deposit accounts	$7,555	$7,569	$22,379
Merchant credit card fees	2,611	2,808	7,903

Debit card fees	970	969	2,852
ATM fees and interchange	756	723	2,238
Other service fees	495	506	1,517
Financial services commissions	186	383	689
Trust fees	293	337	973
Official check issuance income	19	279	145
Mortgage banking income	39	29	106
Securities losses and impairment	(41,206)	0	(59,384)
Gain on sale of Visa common stock	0	0	5,698
Life insurance gains	0	0	0
Other noninterest income	783	1,041	2,921
Total	($27,499)	$14,644	($11,963)

Noninterest income for the third quarter of 2008 decreased by $42.1 million from the same period in 2007 mainly due to $41.2 million in losses on sale and writedown of FHLMC and FNMA preferred stock. During the second quarter of 2008, the Company began issuing its own cashier's checks rather than use a vendor which paid the Company fees based on the availability of funds while the cashier's checks remained outstanding ("float"). By issuing its own cashier's checks, the Company uses the related float as a source of funding and reduces its interest expense. Such vendor fees were $260 thousand lower in the third quarter of 2008 compared with the same period of 2007. Merchant credit card fees declined $197 thousand or 7.0%. Financial services commissions decreased by $197 thousand. Other noninterest income decreased $258 thousand or 24.8% mostly due to gains on sales of other assets in the third quarter of 2007.

In the first nine months of 2008, noninterest income decreased $56.6 million compared with the same period of the previous year. Noninterest income for the 2008 period included the $59.4 million in losses on sale and impairment charge of FHLMC and FNMA preferred stock and $5.7 million in securities gains from the redemption of VISA Class B common stock as part of Visa's initial public offering. Noninterest income for the nine months of 2007 included an $822 thousand gain on company-owned life insurance. Official check issuance income declined $759 thousand because the Company began issuing its own cashier's checks rather than use an outside vendor as mentioned in the preceding paragraph. Service charges on deposits declined $434 thousand or 1.9%, due to declines in fees charged on business and retail checking and savings accounts (down $396 thousand), overdraft fees and returned item charges (down $189 thousand), partially offset by a $151 thousand increase in deficit fees charged on analyzed accounts. Deficit fees are service charges collected from business customers that typically pay for such services with compensating balances. Financial services commissions fell $368 thousand or 34.8%. Merchant credit card fees declined $121 thousand or 1.5%. Other noninterest income decreased $575 thousand or 16.4% primarily due to a $276 thousand decline in interest recoveries on charged-off loans. ATM fees and interchange income increased $124 thousand or 5.9%.

Noninterest Expense

The following table summarizes the components of noninterest expense for the periods indicated (dollars in thousands).

	Three months ended September 30,		Nine months September
	2008	2007	2008
Salaries and related benefits	$12,621	$12,587	$38,670
Occupancy	3,465	3,327	10,297
Data processing services	2,098	1,800	6,323
Equipment	903	1,083	2,825
Amortization of intangibles	788	893	2,433
Courier service	835	854	2,488
Professional fees	485	451	1,704
Postage	369	404	1,142
Telephone	342	342	1,023
Stationery and supplies	272	323	836
Customer checks	247	228	724
Operational losses	113	228	494
Correspondent Service Charges	178	223	498
Loan expense	246	217	653
Advertising/public relations	191	150	660
FDIC insurance assessments	131	98	359
Visa litigation expense	0	0	(2,338)
Other noninterest expense	1,919	1,645	5,805
Total	$25,203	$24,853	$74,596
Average full time equivalent staff	899	876	892
Noninterest expense to revenues (FTE)	118.92%	41.28%	55.48%

Noninterest expense rose by $350 thousand or 1.4% in the third quarter of 2008 compared with the same period in 2007. Data processing service costs were $298 thousand or 16.6% higher due to conversion of the Company's item processing function to an outside vendor in September of 2007. Occupancy expense increased $138 thousand or 4.1%. Other noninterest expense rose by $274 thousand or 16.7% largely due to a $200 thousand writedown of foreclosed real estate and a $330 thousand increase in amortization of low-income housing investments as tax benefits are realized, partly offset with a $200 thousand reduction in the reserve for unfunded credit commitments. FDIC insurance assessments increased $33 thousand or 33.7%. The above increases were partially reduced by decreases in equipment expense (down $180 thousand or 16.6%) as a result of lower depreciation and maintenance costs, operational losses (down $115 thousand or 50.4%) and amortization of intangible assets (down $105 thousand or 11.8%).

In the first nine months of 2008, noninterest expense increased $374 thousand or 0.5% compared with the corresponding period of 2007. The first nine months of 2008 included a reversal of the $2.3 million accrual for known Visa related litigation, which was reversed with the funding of a litigation escrow as a part of the Visa IPO. Data processing service costs were higher by $1.5 million or 29.9% due to conversion of the Company's item processing function to an outside vendor. Salaries and related benefits increased $894 thousand or 2.4% mainly due to annual merit increases granted to continuing staff and increases in incentives and employee benefits. Professional fees increased $349 thousand or 25.8% primarily due to higher legal fees, partially offset by lower audit fees. Occupancy costs increased $337 thousand or 3.4%. Other noninterest expense rose by $830 thousand or 16.7% due to writedown of

foreclosed property and higher insurance costs and amortization of low-income housing investments as tax benefits are realized, partly offset by a reduction in the reserve for unfunded loan commitments. FDIC insurance assessments increased $54 thousand or 17.7%. Other categories of expense decreased from the first nine months of 2007, offsetting the increases outlined above. Equipment expense declined $542 thousand or 16.1% mostly due to reduced depreciation costs and lower maintenance expenses. Amortization of intangible assets decreased $327 thousand or 11.8%. Correspondent service charges were lower by $170 thousand or 25.4%.

Provision for Income Tax

During the third quarter of 2008, the Company recorded income tax benefits (FTE) of $4.7 million compared with income tax provision (FTE) of $13.3 million for the third quarter of 2007.

During the third quarter 2008, the Company filed its 2007 federal income tax return. Amounts included in that filed return were reconciled to estimates of such amounts used to recognize the 2007 federal income tax provision. As a result, a reduction in the tax provision in the amount of $877 thousand was recognized in the third quarter 2008 to adjust the 2007 tax estimates to amounts included in the filed tax return. The adjustment primarily resulted from higher than anticipated tax credits earned on limited partnership investments providing low-income housing and housing for the elderly in our Northern and Central California communities. During the third quarter 2008, the Company further reduced its tax provision by $107 thousand to reflect a reduction in its unrecognized tax benefits due to a lapse in the statute of limitations.

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The income tax provision (FTE) was $19.0 million for the first nine months of 2008 compared with $40.8 million for the same period of 2007. The effective tax rate (FTE) of 32.8% for the first nine months of 2008 compared with 37.5% for the same period of 2007. The tax provision for the first nine months of 2008 included a $25 million tax benefit from the FHLMC and FNMA preferred stock losses and impairment charge, and higher tax credits from low-income housing investments, partially offset by an increase due to the higher tax rate for the income related to the Visa IPO. The tax provision in the same period of 2007 reflected the tax-free nature of $822 thousand in life insurance proceeds, higher dividend received deductions and lower non-deductible life insurance premiums.

The losses on FHLMC and FNMA preferred stock were capital in nature as of September 30, 2008, requiring offsetting capital gains for the losses to generate tax benefits. Management believes the Company has sufficient capital gains in the current year, the three-year capital loss carry- back period, and from owned equity securities, limited partnership investments, and real estate to fully offset the capital losses recognized through September 30, 2008. Therefore, the full tax benefit was recorded with respect to the impairment losses of the preferred stock. The Troubled Asset Relief Program, signed into law on October 3, 2008, provided ordinary tax treatment to losses on FHLMC and FNMA preferred stock held on September 6, 2008 or sold on or after January 1, 2008. As a result, the Company's losses on FNMA and FHLMC preferred stock will receive ordinary tax treatment. Further, FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods, (FIN 18) provides guidance for allocating income taxes among interim periods. Under the provisions of FIN 18, transactions or events which are unusual in nature or infrequent, but not both, are treated as discrete events in the period of recognition. The Company has treated the securities loss and impairment of FHLMC and FNMA preferred

stock as infrequent due to the U.S. government's conservatorship of the two institutions. As a result, the Company's combined effective tax rate applied to the securities loss and impairment of FHLMC and FNMA preferred stock was approximately 42 percent.

Classified Assets

The Company closely monitors the markets in which it conducts its lending operations and continues its strategy to control exposure to loans with high credit risk and to increase diversification of earning assets. Loan reviews are performed using grading standards and criteria similar to those employed by bank regulatory agencies. Loans receiving lesser grades fall under the "classified" category, which includes all nonperforming and potential problem loans, and receive an elevated level of attention to ensure collection. Other real estate owned is recorded at the lower of cost or market value less estimated disposition costs.

The following is a summary of classified loans and other real estate owned on the dates indicated (dollars in thousands):

	At September 30,		At December 31,
	2008	2007	2007
Classified loans	$38,070	$21,403	$24,419
Other real estate owned	814	613	613
Classified loans and other real estate owned	$38,884	$22,016	$25,032
Allowance for loan losses / classified loans	132%	247%	215%

Classified loans include loans graded "substandard", "doubtful" and "loss" using regulatory guidelines. At September 30, 2008, $35.9 million of loans or 94.3% of total classified loans are graded "substandard". Such substandard loans accounted for 1.5% of total gross loans at September 30, 2008. Classified loans at September 30, 2008, increased $16.7 million from a year ago. The increase is primarily attributable to one classified construction loan relationship with $9.4 million outstanding at September 30, 2008. The loan collateral at September 30, 2008, located north of Sacramento, California, is comprised of land purchased for development and construction of approximately 110 residential properties and 13 completed residential properties. The borrower has marketed and received purchase offers on 10 of the completed properties. The borrower has also received a purchase offer on 50 of the developed lots. The Company is not offering financing for these pending transactions. The Company recognized a charge-off of $783 thousand during the second quarter 2008 as the anticipated sales price of the residential units is less than the related loan balance. The construction loan relationship was placed on non-accrual status during the second quarter 2008 and is included in non-accrual loans at September 30, 2008. Management is aggressively pursuing collection of the entire loan relationship. The Company has started foreclosure proceedings on the loan collateral.

Other real estate owned was $814 thousand, $613 thousand and $613 thousand at September 30, 2008, December 31, 2007 and September 30, 2007, respectively.

The increase in OREO resulted from foreclosure of collateral underlying one residential real estate loan, partially offset by a $200 thousand writedown on existing real estate owned.

Nonperforming Loans and Other Real Estate Owned

Nonperforming loans include nonaccrual loans and loans 90 days past due as to principal or interest and still accruing. Loans are placed on nonaccrual status when they become 90 days or more delinquent, 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, 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 as "performing nonaccrual" and are included in total nonperforming assets. When the ability to fully collect nonaccrual loan principal is in doubt, cash payments received are applied against the principal balance of the loan until such time as full collection of the remaining recorded balance is expected. Any subsequent interest received is recorded as interest income on a cash basis.

The following is a summary of nonperforming loans and other real estate owned on the dates indicated (dollars in thousands):

	At September 30,		At December 31,
	2008	2007	2007
Performing nonaccrual loans	$73	$1,695	$1,688
Nonperforming nonaccrual loans	12,132	3,132	3,164
Total nonaccrual loans	12,205	4,827	4,852
Loans 90 days past due and still accruing	363	251	297
Total nonperforming loans	12,568	5,078	5,149
Other real estate owned	814	613	613
Total	$13,382	$5,691	$5,762
As a percentage of total loans	0.56%	0.23%	0.23%

Nonaccrual loans increased $7.4 million during the nine months ended September 30, 2008. Twenty three loans comprised the $12.2 million nonaccrual loans as of September 30, 2008. Five of those loans were on nonaccrual status throughout the first nine months of 2008, while eighteen of the loans were placed on nonaccrual status during the nine months ended September 30, 2008. The increase in nonperforming nonaccrual loans is primarily due to placing the construction loan relationship described in the "Classified Assets" section on nonaccrual status. The reduction in performing nonaccrual loans is primarily

due to returning two commercial real estate loans to accrual status based upon the payment history, payment status, and improved financial condition of the borrowers. The Company actively pursues full collection of nonaccrual loans.

The Company's residential real estate loan underwriting standards for first mortgages limit the loan amount to no more than 80 percent of the appraised value of the property serving as collateral for the loan at the time of origination, and require verification of income of the borrower(s). The Company had no "sub-prime" loans as of September 30, 2008, December 31, 2007 and September 30, 2007. Of the loans 90 days past due and still accruing at September 30, 2008, none were residential real estate loans and $342 thousand were automobile loans. Delinquent residential real estate and automobile loans on accrual status were as follows ($ in thousands):

	At September 30,		Dec
	2008	2007	
Residential real estate loans:			
30-89 days delinquent:			
Dollar amount	$1,311	$89	
Percentage of total residential real estate loans	0.28%	0.02%	
90 or more days delinquent:			
Dollar amount	$-0-	$-0-	
Percentage of total residential real estate loans	0.00%	0.00%	
Automobile loans:			
30-89 days delinquent:			
Dollar amount	$3,572	$2,692	
Percentage of total automobile loans	0.75%	0.57%	
90 or more days delinquent:			
Dollar amount	$342	$207	
Percentage of total automobile loans	0.07%	0.04%	

The Company had no restructured loans as of September 30, 2008, September 30, 2007 and December 31, 2007.

The amount of gross interest income that would have been recorded for nonaccrual loans for the three and nine month periods ended September 30, 2008, if all such loans had performed in accordance with their original terms, was $184 thousand and $466 thousand, respectively, compared to $107 thousand and $326 thousand, respectively, for the third quarter and the first nine months of 2007.

The amount of interest income that was recognized on nonaccrual loans from all cash payments, including those related to interest owed from prior years, made during the three and nine months ended September 30, 2008, totaled $48 thousand and $312 thousand, respectively, compared with $130 thousand and $399 thousand, respectively, for the comparable periods in 2007. These cash payments represent annualized yields of 1.56% and 4.26%, respectively, for the

third quarter and the first nine months of 2008 compared to 10.36% and 11.02%, respectively, for the third quarter and the first nine months of 2007.

Total cash payments received during the third quarter and first nine months of 2008 which were applied against the book balance of nonaccrual loans outstanding at September 30, 2008, totaled $-0- thousand and $-0- thousand, respectively. Total cash payments received during the third quarter and first nine months of 2007 which were applied against the book balance of nonaccrual loans outstanding at September 30, 2007, totaled $-0- thousand and $5 thousand, respectively.

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

Allowance for Credit Losses

The following table summarizes the provision for credit losses, net credit losses and allowance for credit losses for the periods indicated (dollars in thousands):

	Three months ended September 30,		Nine months e September
	2008	2007	2008
Balance, beginning of period	$54,257	$57,166	$55,799
Provision for loan losses	600	75	1,800
Provision for unfunded credit commitments	(200)	0	(200)
Loans charged off	(1,786)	(1,031)	(5,532)
Recoveries of previously charged off loans	319	421	1,323
Net credit losses	(1,467)	(610)	(4,209)
Balance, end of period	$53,190	$56,631	$53,190
Components:			
Allowance for loan losses	$50,097	$52,938	$50,097
Reserve for unfunded credit commitments	3,093	3,693	3,093
Allowance for credit losses	$53,190	$56,631	$53,190
Allowance for loan losses / loans outstanding	2.08%	2.11%	

Net credit losses rose in the three months ended September 30, 2008 compared to the three months ended September 30, 2007 due to lower recoveries and higher chargeoffs on automobile loans. Net credit losses rose in the nine

months ended September 30, 2008 compared to the nine months ended September 30, 2007 due to lower recoveries on commercial loans and higher chargeoffs on construction and automobile loans, partially offset by higher recoveries on consumer loans and lower chargeoffs on commercial and consumer loans. Annualized net loan losses to average loans rose to 0.24 percent in the three months ended September 30, 2008, compared to 0.10 percent in the three months ended September 30, 2007. Management does not anticipate an increase in net charge-off experience in the last three months of 2008 as compared to the first nine months of 2008. However, no assurance can be given that higher levels of net charge-offs will not occur. Management continues to follow conservative credit underwriting policies and practices, and aggressively pursues collection of classified loans and recovery of recognized loan losses.

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 loans whose full collectibility is uncertain. Such allocations are determined by Management based on loan-by-loan analyses. A second allocation is based in part on quantitative analyses of historical credit loss experience, in which criticized and classified credit balances identified through an independent internal credit review process are analyzed using a linear regression model to determine standard loss rates. The results of this analysis are applied to current criticized and classified loan balances to allocate the 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 non-criticized and classified commercial loans and residential real estate loans based on historical loss rates, and other statistical data. The remainder of the allowance is considered to be unallocated. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but not reflected in the allocated allowance. It addresses additional qualitative factors consistent with Management's analysis of the level of risks inherent in the loan portfolio, which are related to the risks of the Company's general lending activity. Included in the unallocated allowance is the risk of losses that are attributable to national or local economic or industry trends which have occurred but have not yet been recognized in past loan charge-off history (external factors). The external factors evaluated by the Company include: economic and business conditions, external competitive issues, and other factors. Also included in the unallocated allowance is the risk of losses attributable to general attributes of the Company's loan portfolio and credit administration (internal factors). The internal factors evaluated by the Company include: loan review system, adequacy of lending Management and staff, loan policies and procedures, problem loan trends, concentrations of credit, and other factors. By their nature, these risks are not readily allocable to any specific loan category in a statistically meaningful manner and are difficult to quantify with a specific number. Management assigns a range of estimated risk to the qualitative risk factors described above based on Management's judgment as to the level of risk, and assigns a quantitative risk factor from the range of loss estimates to determine the appropriate level of the unallocated portion of the allowance. Management considers the $53.2 million allowance for credit losses to be adequate as a reserve against losses as of September 30, 2008.

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

Allocation of the Allowance for Credit Losses

(dollars in thousands)	At September 30, 2008		At December 31, 2007	
	Allocation of the Allowance Balance	Loans as Percent of Total Loans	Allocation of the Allowance Balance	Loans as Percent of Total Loans
Commercial	$26,226	56%	$27,233	56%
Real estate construction	6,083	3%	5,403	4%
Real estate residential	469	19%	388	19%
Consumer	5,196	22%	4,626	21%
Unallocated portion	15,216	--	18,149	--
Total	$53,190	100%	$55,799	100%

The allocation to loan portfolio segments changed from December 31, 2007 to September 30, 2008. The decrease in allocation to commercial loans reflects a decrease in criticized commercial loans. The increases in allocation to real estate construction and consumer loans reflect increases in criticized real estate construction loans and delinquency trends in consumer loans.

The unallocated portion of the allowance for credit losses declined $2.9 million from December 31, 2007 to September 30, 2008. The unallocated allowance is established to provide for probable losses that have been incurred, but not reflected in the allocated allowance. At December 31, 2007 and September 30, 2008, Management's evaluations of the unallocated portion of the allowance for credit losses attributed significant risk levels to developing economic and business conditions ($4.0 million and $3.9 million, respectively), external competitive issues ($2.0 million and $1.4 million, respectively), internal credit administration considerations ($4.2 million and $2.4 million, respectively), and delinquency and problem loan trends ($4.2 million and $4.1 million, respectively). The change in the amounts allocated to the above qualitative risk factors was based upon Management's judgment, review of trends in its loan portfolio, levels of the allowance allocated to portfolio segments, and current economic conditions in its marketplace including loan underwriting and pricing practices of competitors. Based on Management's analysis and judgment, the amount of the unallocated portion of the allowance for credit losses was $18.1 million at December 31, 2007, compared to $15.2 million at September 30, 2008.

Asset/Liability and Market Risk Management

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

Interest Rate Risk

Interest rate risk is 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 impact on loan demand, credit losses, and other sources of earnings such as account analysis fees on commercial deposit accounts and correspondent bank service charges.

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

The Company's asset and liability position remains slightly "liability sensitive," with a greater amount of interest-bearing liabilities subject to immediate and near-term interest rate changes relative to earning assets. As a result, the FOMC's recent reductions in the federal funds target rate (charged for short-term inter-bank borrowings) and the related decline in U.S. Treasury bill rates has improved the Company's net interest margin in the first nine months of 2008. The FOMC reduced the federal funds target rate again in October, 2008, and the futures markets indicate an expectation the FOMC might reduce the federal funds target rate further in the near-term. The Company's net interest margin would increase with additional reductions in short-term interest rates. Management continues to monitor the interest rate environment as well as economic conditions and other factors it deems relevant in managing the Company's exposure to interest rate risk.

Management assesses interest rate risk by comparing the Company's most likely earnings plan with various earnings models using many interest rate scenarios that differ in the direction of interest rate changes, the degree of change over time, the speed of change and the projected shape of the yield curve. For example, using the current composition of the Company's balance sheet and assuming a decrease of 100 bp in the federal funds rate and no change in the 10 year Constant Maturity Treasury Bond yield during the same period, earnings are estimated to improve 0.9% over the Company's most likely net income plan for the twelve months ending September 30, 2009. Conversely, using the current composition of the Company's balance sheet and assuming an increase of 100 bp in the federal funds rate and an increase of 40 bp in the 10 year Constant Maturity Treasury Bond yield during the same period, estimated earnings at risk would be approximately 2.7% of the Company's most likely net income plan for the twelve months ending September 30, 2009. Simulation estimates depend on, and will change with, the size and mix of the actual and projected balance sheet at the time of each simulation. Management is currently deploying tactics to reduce the "liability sensitivity" of the Company's balance sheet to a more "neutral" condition where changes in interest rates result in less significant changes in earnings. The Company does not currently engage in trading activities or use derivative instruments to control interest rate risk, even though such activities may be permitted with the approval of the Company's Board of Directors.

Market Risk - Equity Markets

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

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

Market Risk - Other

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

Liquidity and Funding

The Company's routine operating sources of liquidity are operating earnings, investment securities, consumer and other loans, deposits, and other borrowed funds. During the first nine months of 2008, investment securities provided $266.3 million in liquidity from paydowns and maturities, and loans provided $89.4 million in liquidity from scheduled payments and maturities, net of loan fundings. The Company projects $38 million in additional liquidity from investment security paydowns and maturities in the three months ending December 31, 2008.

At September 30, 2008, indirect automobile loans totaled $478.9 million, which were experiencing stable monthly principal payments of approximately $17.5 million during the third quarter 2008. During the nine months ended September 30, 2008, a portion of the liquidity provided by investment securities and loans provided funds to meet a net reduction in deposits totaling $135.0 million. The remaining liquidity was used to reduce higher-costing borrowed funds, primarily subordinated debt which decreased $10 million and federal funds purchased which declined $248.0 million. During the first nine months of 2007, investment securities provided $157.5 million in liquidity from paydowns and maturities, and loans provided $18.7 million in liquidity from scheduled payments and maturities, net of loan fundings. During the nine months ended September 30, 2007, a portion of the liquidity provided by investment securities, loans and a $83.1 million increase in short term borrowings provided funds to meet a net reduction in deposits totaling $176.5 million.

The Company held $1.3 billion in total investment securities at September 30,

2008. Under certain deposit, borrowing and other arrangements, the Company must hold investment securities as collateral. At September 30, 2008, such collateral requirements totaled approximately $879 million. At September 30, 2008, $304.9 million of the Company's investment securities were classified as "available-for-sale", and as such, could provide additional liquidity if sold, subject to the Company's ability to meet continuing collateral requirements.

At September 30, 2008, $410.2 million in collateralized mortgage obligations ("CMOs") and mortgage backed securities ("MBSs") were held in the Company's investment portfolios. None of the CMOs or MBSs are backed by sub-prime mortgages. All of the CMOs and MBSs are rated AAA based on their subordination structures without reliance on monoline insurance. Other than nominal amounts of FHLMC and FNMA MBSs purchased for Community Reinvestment Act investment purposes, the Company has not purchased a CMO or MBS since November 2005. The CMOs and MBSs have been experiencing stable principal paydowns of approximately $7 million per month during the last three months. In addition, at September 30, 2008, the Company had customary lines for overnight borrowings from other financial institutions in excess of $700 million and a $35 million line of credit, under which $373.0 million and $-0- million were outstanding, respectively. Additionally, the Company has access to borrowing from the Federal Reserve. The Company's short-term debt rating from Fitch Ratings is F1. The Company's long-term debt rating from Fitch Ratings is A with a stable outlook. Management expects the Company could access additional long-term debt financing if desired. In Management's judgment, the Company's liquidity position is strong and asset liquidations or additional long-term debt are considered unnecessary to meet the ongoing liquidity needs of the Company.

The Company's operating earnings during the first nine months of 2008 and 2007 contributed to substantial operating cash flows of $63.3 million and $72.1 million, respectively. In the first nine months of 2008, profitability and retained earnings from prior years provided cash for $35.1 million of Company stock repurchases and $30.1 million in shareholder dividends. Similarly, in the same period of 2007, profitability and retained earnings from prior years provided cash for $30.6 million in shareholder dividends and $65.1 million utilized to repurchase common stock.

It is anticipated that loan demand will be weak during the remainder of 2008, although such demand will be dictated by economic and competitive conditions. The Company aggressively solicits non-interest bearing demand deposits and money market checking deposits, which are the least sensitive to interest rates. The growth of deposit balances is subject to heightened competition, the success of the Company's sales efforts, delivery of superior customer service and market conditions. The recent series of reductions in the federal funds rate resulted in declining short-term interest rates, which could impact deposit volumes in the future. Depending on economic conditions, interest rate levels, and a variety of other conditions, deposit growth may be used to fund loans, purchase investment securities or to reduce short-term borrowings. However, due to concerns such as uncertainty in the general economic environment, competition and political uncertainty, loan demand and levels of customer deposits are not certain. Shareholder dividends and share repurchases are expected to continue subject to the Board's discretion and continuing evaluation of capital levels, earnings, asset quality and other factors.

Westamerica Bancorporation ("the Parent Company") is a separate entity and apart from Westamerica Bank ("the Bank") and must provide for its own liquidity. In addition to its operating expenses, the Parent Company is responsible for the payment of dividends declared for its shareholders, and interest and principal on outstanding debt. Substantially all of the Parent Company's revenues are obtained from subsidiary service fees and dividends. Payment of such dividends to the Parent Company by the Bank is limited under California law. The amount that can be paid in any calendar year, without

prior approval from the state regulatory agency, cannot exceed the net profits (as defined) for the preceding three calendar years less dividends paid. The Company believes that such restriction will not have an impact on the Parent Company's ability to meet its ongoing cash obligations.

Capital Resources

The Company has historically generated high levels of earnings, which provides a means of raising capital. The Company's net income as a percentage of average shareholders' equity ("return on equity" or ROE") has been 23.4 percent in 2006, 22.1 percent in 2007 and 12.8 percent (annualized) in the first nine months of 2008. The Company also raises capital as employees exercise stock options, which are awarded as a part of the Company's executive compensation programs and efforts to reinforce shareholders' interests in the Management of the Company. Capital raised through the exercise of stock options totaled $18.2 million in 2006, $14.6 million in 2007 and $35.1 million in the first nine months of 2008.

The Company paid dividends totaling $40.7 million in 2006, $40.6 million in 2007, and $30.1 million in the first nine months of 2008, which represent dividends per share of $1.30, $1.36, and $1.04, respectively. The Company's earnings have historically exceeded dividends paid to shareholders. The amount of earnings in excess of dividends gives the Company resources to finance growth and maintain appropriate levels of shareholders' equity. In the absence of profitable growth opportunities, the Company has repurchased and retired its common stock as another means to return earnings to shareholders. The Company repurchased and retired common stock valued at $89.0 million in 2006, $87.1 million in 2007, and $35.1 million in the first nine months of 2008.

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

	At September 30,		At December 31,	Minimum Regulatory	Well-capitalized by Regulatory
	2008	2007	2007	Requirement	Definition
Tier I Capital	9.97%	9.38%	9.33%	4.00%	6.00%
Total Capital	11.25%	10.69%	10.64%	8.00%	10.00%
Leverage ratio	6.94%	6.31%	6.32%	4.00%	5.00%

The Company's risk-based capital ratios increased at September 30, 2008, compared with September 30 and December 31 of 2007, due to a decline in risk-weighted assets.

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

Well-capitalized

	At September 30, 2008	At September 30, 2007	At December 31, 2007	Minimum Regulatory Requirement	by Regulatory Definition
Tier I Capital	9.24%	9.60%	9.52%	4.00%	6.00%
Total Capital	10.72%	11.06%	10.98%	8.00%	10.00%
Leverage ratio	6.38%	6.42%	6.41%	4.00%	5.00%

The risk-based capital ratios declined at September 30, 2008, compared with September 30 and December 31, 2007, due to a decrease in regulatory capital, offset in part by a decline in risk-weighted assets.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest rate risk and equity price risk, as discussed above, are the most significant market risks affecting the Company. Other types of market risk, such as foreign currency exchange risk and commodity price risk, are not significant in the normal course of the Company's business activities.

Item 4. Controls and Procedures

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, as of September 30, 2008. Based upon their evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective. The evaluation did not identify any change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of the banking business, the Bank is at times party to various legal actions; all such actions are of a routine nature and arise in the normal course of business of the

Subsidiary Bank.

Item 1A. Risk Factors

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

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

FDIC insurance assessment rates are three basis points above the "base" rates, currently ranging from 5 to 7 basis points for Risk Category I institutions, 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions, and 43 basis points for Risk Category IV institutions. The Bank is categorized as a Risk Category I institution and currently pays premiums at a 5 basis point assessment rate.

The FDIC has designated the Deposit Insurance Fund long-term target reserve ratio at 1.25 percent of insured deposits. Due to recent bank failures, the FDIC insurance fund reserve ratio has fallen below 1.15 percent, the statutory minimum. The FDIC has developed a proposed restoration plan that will uniformly increase insurance assessments by 7 basis points (annualized). The plan also proposes changes to the deposit insurance assessment system requiring riskier institutions to pay a larger share. An increase in premium assessments would increase the Company's expenses. The Company was assessed a $400 thousand quarterly premium for the third quarter 2008 at the current 5 basis point assessment rate.

In October of 2006, FDIC's Board adopted a final rule governing the distribution and use of the $4.7 billion one-time assessment credit. The Bank was allowed to apply assessment credits of $360 thousand to offset premiums assessed in the third quarter 2008. Application of such credits toward the $400 thousand assessed premium caused the Bank to pay assessments of $40 thousand in the third quarter 2008. At September 30, 2008, the Bank's remaining assessment credits totaled $2.7 million.

The Emergency Economic Stabilization Act of 2008 included a provision for an increase in the amount of deposits insured by the Federal Deposit Insurance Corporation (FDIC) to $250,000. On October 14, 2008, the FDIC announced a new program -- the Temporary Liquidity Guarantee Program that provides unlimited deposit insurance on funds in noninterest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000. All eligible institutions will be covered under the program for the first 30 days without incurring any costs. After the initial period, participating institutions will be assessed a 10 basis point surcharge on the additional insured deposits.

The behavior of depositors in regard to the level of FDIC insurance could cause our existing customers to reduce the amount of deposits held at the Bank, and could cause new customers to open deposit accounts at the Bank. The

level and composition of the Bank's deposit portfolio directly impacts the Bank's funding cost and net interest margin.

The Federal Reserve Bank has been providing vast amounts of liquidity into the banking system to compensate for weaknesses in short-term borrowing markets and other capital markets. A reduction in the Federal Reserve's activities or capacity could reduce liquidity in the markets, thereby increasing funding costs to the Bank or reducing the availability of funds to the Bank to finance its existing operations.

On October 3, 2008, the Troubled Asset Relief Program ("TARP") was signed into law. TARP gave the United States Treasury Department ("Treasury") authority to deploy up to $750 billion into the financial system with an objective of improving liquidity in capital markets. On October 24, 2008, Treasury announced plans to direct $250 billion of this authority into preferred stock investments in banks. The general terms of this preferred stock program are as follows for a participating bank:

- Pay 5% dividends on the Treasury's preferred stock for the first five years, and then 9% dividends thereafter,
- Can not increase common stock dividends for three years while Treasury is an investor,
- Can not redeem the Treasury preferred stock for three years unless the participating bank raises high-quality private capital,
- Must receive Treasury's consent to buy back their own stock,
- Treasury receives warrants entitling Treasury to buy participating bank's common stock equal to 15% of Treasury's total investment in the participating bank, and
- Participating bank executives must agree to certain compensation restrictions, and restrictions on the amount of executive compensation which is tax deductible.

The term of this Treasury preferred stock program could reduce investment returns to participating banks' shareholders by restricting dividends to common shareholders, diluting existing shareholders' interests, and restricting capital management practices. The Company does not expect to be a candidate for this Treasury preferred stock program given its "well-capitalized" condition, high-quality loan portfolio, appropriate allowance for loan losses, strong operating earnings, and adequate liquidity.

There are no other material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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

(a) None

(b) None

(c) Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases made by or on behalf of Westamerica Bancorporation or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of common stock during the quarter ended September 30, 2008 (in thousands, except per share data).

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31	24	$49.24	24	753
August 1 through August 31	77	49.61	77	2,000
September 1 through September 30	7	59.04	7	1,993
Total	108	$50.10	108	1,993

* Includes 2 thousand, 5 thousand and 7 thousand shares purchased in July, August and September, respectively by the Company in private transactions with independent administrator of the Company's Tax Deferred Savings/Retirement Plan (ESOP). The Company includes the shares purchased in such transactions within the total number of shares authorized for purchase pursuant to the currently existing publicly announced program.

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

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Shares were repurchased during the third quarter of 2008 pursuant to a program approved by the Board of Directors on August 23, 2007 authorizing the purchase of up to 2,000,000 shares of the Company's common stock from time to time prior to September 1, 2008. A replacement plan was approved by the Board of Directors on August 28, 2008 to repurchase up to 2,000,000 shares prior to September 1, 2009.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

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

SIGNATURES

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

WESTAMERICA BANCORPORATION
(Registrant)

October 22, 2008	/s/ John "Robert" Thorson
Date	John "Robert" Thorson Senior Vice President and Chief Financial Officer (Chief Financial and Accounting Officer)

Exhibit Index

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

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

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

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