PCBC 10-Q/A 9/30/2008

Section 1: 10-Q/A (FORM 10-Q/A, AMENDMENT NO. 1)

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

(Mark One)

☒ **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 NO: 0-11113

PACIFIC CAPITAL BANCORP

(Exact Name of Registrant as Specified in its Charter)

California **(State or other jurisdiction of incorporation or organization)**	**95-3673456** **(I.R.S. Employer Identification No.)**
1021 Anacapa Street **Santa Barbara, California** **(Address of principal executive offices)**	**93101** **(Zip Code)**

(805) 564-6405
(Registrant's telephone number, including area code)

Not Applicable
Former name, former address and former fiscal year, if changed since last report.

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 ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	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 ☒

Number of shares of common stock of the registrant outstanding as of October 30, 2008: 46,615,371

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EXPLANATORY NOTE

Pacific Capital Bancorp (the "Company") is filing this amendment ("Form 10-Q/A") to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 ("Form 10-Q"), filed with the U.S. Securities and Exchange Commission ("SEC") on November 10, 2008, solely to reflect corrections in the following information contained in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 3, "Quantitative and Qualitative Disclosures About Market Risk":

- The amount of total capital and risk weighted assets and the resulting capital ratios of the Company and its wholly-owned subsidiary, Pacific Capital Bank, N.A. ("PCBNA"). As a result of the corrections made to the total capital and risk weighted assets of the Company and the Bank, the Company's Total Capital Ratio and Tier 1 Capital Ratio improved from 11.9% to 12.2% and from 9.1% to 9.4%, respectively, and PCBNA's Total Capital Ratio and Tier 1 Capital Ratio improved from 11.9% to 12.3% and from 9.1% to 9.4%, respectively.

- The amount of capital the Company has received preliminary approval to receive from the U.S. Treasury's Troubled Asset Relief Capital Purchase Program ("CPP"), which is based on risk weighted assets as of September 30, 2008, has decreased from approximately $189.1 million to approximately $184 million.

This Form 10-Q/A should be read in conjunction with the original Form 10-Q, continues to speak as of the date of the Form 10-Q, and does not modify or update disclosures in the original Form 10-Q except as noted above. Accordingly, this Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q or modify or update any related disclosures. In particular, any forward-looking statements included in this Form 10-Q/A represent management's view as of the filing date of the Form 10-Q.

PART I – FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is designed to provide insight into Management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources, and interest rate sensitivity. It should be read in conjunction with the 2007 10-K and unaudited interim consolidated financial statements and notes hereto and the other financial information appearing elsewhere in this report.

BUSINESS

PCB is a bank holding company. All references to the Company or PCB apply to PCB and its subsidiaries on a consolidated basis. The Company's organizational structure and description of services are discussed in Item 1, "Business" and in Note 1, "Summary of Significant Accounting Policies" of the 2007 10-K and should be read in conjunction with the Form 10-Q. Terms and acronyms used throughout this document are defined in the glossary on pages 62 through 63. Throughout the MD&A of the Form 10-Q, there is discussion of the Company's financial information with and without the RAL and RT programs. When the discussion refers to the "Core Bank", this means all of the financial activity of the consolidated financial statements excluding the RAL and RT programs.

On January 4, 2008, PCBNA acquired the assets of REWA, a San Luis Obispo, California-based registered investment advisor which provides financial investment advisory services to individuals, families and fiduciaries. On the date of purchase, REWA managed assets of $464.1 million and PCBNA initially paid $7.0 million for the assets of the firm. In exchange, PCBNA acquired substantially all of the assets and liabilities of REWA (with an additional contingent payment due five years after the purchase date) and formed a new wholly-owned subsidiary of PCBNA by the same name. The Company is reporting all of the activity from the purchase of REWA in the Wealth Management segment. In connection with the acquisition of REWA, the Company has recorded $4.2 million of goodwill and $2.8 million of intangible assets. The goodwill associated with the purchase of REWA will be reviewed annually for impairment and the intangible assets will be amortized over their expected life and reviewed quarterly for impairment. The clients of REWA will continue to be served by the same principal and support staff.

On October 24, 2008, the Company sold two retail banking branches from the Community Banking segment which are located in Santa Paula, California. The Company sold $54.4 million of deposits and received a premium of $3.5 million. This sale was settled with $30.4 million of loans and, $20.1 million of cash. The final determination of the gain on sale of these locations will be disclosed in the Company's 2008 10-K filing.

Segments

The Company's businesses as viewed by Management are organized by product line and result in four operating segments. The operating segments are: Community Banking, Commercial Banking, RAL and RT Programs and Wealth Management. The administrative functions and the Holding Company operations of the Company are not considered part of operating activities of the Company and for financial reporting purposes the activity is reported in the "All Other" segment. A description of the segments, financial results and allocation methodology is discussed in the Company's Consolidated Financial Statements within the 2007 10-K, Note 24, "Segments" and the current financial results for each segment are presented in the Form 10-Q, Note 14, "Segments" in the Consolidated Financial Statements. The significant changes within the financial statements that relate to each segment are incorporated in the MD&A below.

RECENT DEVELOPMENTS

There have been significant disruptions in the U.S. and international financial system during the period covered by this report. As a result, available credit has been reduced or ceased to exist. The availability of credit, confidence in the entire financial sector, and volatility in financial markets has been adversely affected. The U.S. government, the governments of other countries, and multinational institutions have provided vast amounts of liquidity and capital into the banking system. Additional discussion regarding the volatility in the financial markets and the risks associated with the current economic environment is discussed in more detail throughout the MD&A and in more detail on page 26 within Item 3, Quantitative and Qualitative Disclosures About Market Risk of this Form 10-Q/A.

On October 3, 2008, the Troubled Asset Relief Program ("TARP") was signed into law. TARP gave the U.S. Treasury authority to deploy up to $700 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. On October 22, 2008, the Company submitted an application to the TARP Capital Purchase Program for 3% of the

Bank’s risk weighted assets and, on November 5, 2008, the Company obtained preliminary approval to participate in the U.S. Treasury’s TARP. This approval is pending based on additional documentation required to complete the approval process which is due to be completed within 30 days after the approval date. Under the terms of such approval, the Company may issue to the U.S. Treasury up to approximately $184 million, or 3.0% of the Bank’s risk weighted assets at September 30, 2008, of senior preferred shares. The senior preferred shares would pay a cumulative dividend of 5.0% in the first five years and 9.0% thereafter. The Company will also issue to the U.S. Treasury warrants to purchase common stock with an aggregate market price equal to 15.0% of the senior preferred shares which are issued to the U.S. Treasury. Additional discussion surrounding the anticipated approval of additional capital from the TARP is discussed in the Capital Resources section starting on page 23 of this Form 10-Q/A.

SIGNIFICANT ACCOUNTING POLICIES

The Company’s significant accounting policies are disclosed in the 2007 10-K, Note 1, "Summary of Significant Accounting Policies" on pages 76 – 88 and in the "Critical Accounting Polices" section of the MD&A on pages 54 – 57 of the 2007 10-K. Management believes that a number of the significant accounting policies are essential to the understanding of the Company’s financial condition and results of operation because they involve estimates, judgment, or are otherwise less subject to precise measurement and because the quality of the estimates materially impact those results. A number of significant accounting policies are used in the preparation of the Company’s consolidated financial statements. These include: allowance for loan losses, accounting for income taxes, goodwill and other intangible assets and revenue recognition for the RAL and RT Programs. These significant accounting policies are discussed in detail in the Company’s 2007 10-K, including a description of how the estimates are determined and an indication of the consequences of an over or under estimate. Although Management believes these estimates and assumptions to be reasonably accurate, actual results may differ.

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OVERVIEW AND HIGHLIGHTS

Net loss for the third quarter of 2008 was $47.5 million or ($1.03) per diluted share, compared with net income of $3.9 million, or $0.08 per diluted share, reported for the third quarter of 2007. Net income for the nine month period ended September 30, 2008 was $19.1 million or $0.41 per diluted share, compared with net income of $88.7 million or $1.88 per diluted share.

The significant factors impacting net income for the three and nine month periods ending September 30, 2008 compared to the same periods in 2007 were:

- increased provision for loan losses of $39.6 million for the third quarter of 2008 which reflects a provision for loan losses for the Core Bank of $67.7 million for the quarter and $126.8 million for the nine month period,
- a goodwill impairment charge of $22.1 million for the third quarter of 2008,
- a decrease in tax provision of $17.9 million for third quarter, $38.0 million year to date,
- a decrease in net interest income of $15.8 million for the year to date period, primarily as the result of loan sales and transfers during 2007,
- an increase in volume from the RT program, which increased RT fees by $22.8 million for the comparable year to date periods.

The impact to the Company from these items will be discussed in more detail throughout the analysis sections of this report as they pertain to the Company's overall comparative performance for the periods ended September 30, 2008 compared to the periods ended September 30, 2007.

RESULTS OF OPERATIONS

INTEREST INCOME

The following table presents a summary of interest income for the three month periods ended September 30, 2008 and 2007:

	Three-Months Ended September 30,			
			Change	
	2008	2007	$	%
		(in thousands)		
Interest income:				
Loans	$ 88,109	$101,404	$(13,295)	(13.1%)
Investment securities, trading	2,484	—	2,484	N/A
Investment securities, available-for-sale	12,021	11,736	285	2.4%
Other	119	1,519	(1,400)	(92.2%)
Total	$102,733	$114,659	$(11,926)	(10.4%)

Interest income for the third quarter of 2008 decreased by $11.9 million, or 10.4% compared to the third quarter of 2007 primarily due to a decline in interest income from loans of $13.3 million, or 13.1%. The decrease in loan interest income was partially offset by increased interest income from investments of $2.8 million for the comparable quarters. Interest income on loans declined primarily due to loan sales in 2007 and interest rate declines resulting from the Federal Reserve lowering short-term interest rates. Interest income from commercial, consumer, residential real estate, commercial real estate and RAL loans declined by $5.5 million, $2.6 million, $2.6 million, $2.5 million and $115,000 respectively for the comparable periods. The majority of the decrease is attributable to declines in interest rates. The decline in interest income from the residential real estate portfolio was also impacted by loan sales.

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The following table presents a summary of interest income for the nine month periods ended September 30, 2008 and 2007:

	Nine-Months Ended September 30,			
			Change	
	2008	*2007*	*$*	*%*
		(in thousands)		
Interest income:				
Loans	$371,358	$432,869	$(61,511)	(14.2%)
Investment securities, trading	4,121	—	4,121	N/A
Investment securities, available-for-sale	39,366	36,276	3,090	8.5%
Other	2,281	2,629	(348)	(13.2%)
Total	$417,126	$471,774	$(54,648)	(11.6%)

Interest income for the nine month period ending September 30, 2008 decreased by $54.6 million, or 11.6% compared to the nine month period ending September 30, 2007 primarily due to a decline in interest income from loans of $61.5 million partially offset by increased interest income from investment securities of $7.2 million. The decline in loan interest income was mostly due to decreased interest income from commercial, leasing, consumer and RALs of $49.8 million, or 20.2%. Interest income from loans declined for the comparable quarters primarily due to loan sales in 2007, interest rate declines primarily the result of the Federal Reserve rate cuts and a decline in RAL interest income. Commercial loan interest income decreased $24.0 million mostly due to the leasing loan portfolio sale in June 2007 which contributed $12.6 million of this decrease and a reduction of interest rates for adjustable rate loans attributable to the Federal Reserve decreasing short-term interest rates. Interest income from consumer loans declined $15.9 million primarily due to the $4.2 million decrease in interest income from indirect auto loans sold in May 2007 and a $3.9 million decline in interest income from the discontinued Holiday loan product in 2007. RAL interest income declined by $9.9 million for the nine months ended September 30, 2008 compared to 2007 mostly due to a combination of changes in channel volumes and average fees collected on RALs. The remaining decline in loan interest income was the result of declines in commercial real estate and residential real estate loan interest due to a combination of interest rate changes and two residential real estate loan transactions which converted $353.4 million of loans to securities in the fourth quarter of 2007 and first quarter of 2008.

The increase in other interest income from investments is primarily due to increased interest from MBS in the trading portfolio, U.S. agencies securities and state and municipal securities of $4.1 million, $2.9 million and $1.2 million, respectively for the comparable periods.

Interest Expense

The following table represents the three month comparable periods of interest expense:

	Three-Months Ended September 30,			
			Change	
	2008	*2007*	*$*	*%*
		(in thousands)		
Interest expense:				
Deposits	$18,565	$32,399	$(13,834)	(42.7%)
Securities sold under agreements to repurchase	3,020	2,727	293	10.7%
Federal funds purchased	424	723	(299)	(41.4%)
Long-term debt and other borrowings	19,902	18,842	1,060	5.6%
Total	$41,911	$54,691	$(12,780)	(23.4%)

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Interest expense for the third quarter of 2008 decreased by $12.8 million or 23.4%, to $41.9 million compared to $54.7 million for the third quarter of 2007. This decrease in interest expense is primarily due to decreased interest rates paid on deposits. Interest rates paid on deposits decreased by 145 basis points when comparing the quarters ending September 30, 2008 to 2007. Interest rates on deposits and short-term borrowings significantly decreased for the comparable periods due to the Federal Open Market Committee of the Federal Reserve System ("FOMC")'s federal funds interest rate decreasing from 5.25% during a majority of 2007 to 2.00% on April 30, 2008. The FOMC has subsequently dropped the federal funds interest rate by 100 basis points since September 30, 2008.

The following table represents the nine month comparable periods of interest expense:

	Nine-Months Ended September 30,			
			Change	
	2008	***2007***	***$***	***%***
		(in thousands)		
Interest expense:				
Deposits	$ 65,377	$ 99,236	$(33,859)	(34.1%)
Securities sold under agreements to repurchase	8,446	7,828	618	7.9%
Federal funds purchased	1,413	6,737	(5,324)	(79.0%)
Long-term debt and other borrowings	55,516	55,760	(244)	(0.4%)
Total	$130,752	$169,561	$(38,809)	(22.9%)

Interest expense for the nine month period ending September 30, 2008 decreased $38.8 million, or 22.9% to $130.8 million for the comparable period mostly resulting from the FOMC decreasing the federal funds rate by 275 basis points over the last 12 months. Interest rates paid on deposits decreased by 115 basis points and was the driver of the decrease of $33.9 million, or 34.1% in deposit interest expense. As CDs with higher interest rates matured, they were replaced with new CDs at lower interest rates. Rates paid on other transaction accounts also declined in conjunction with the FOMC rate reductions. The FOMC rate changes also directly impacted federal funds purchased which decreased interest expense by $5.3 million, or 79% for the comparable periods.

NET INTEREST MARGIN

The net interest margin is reported on a FTE basis. A tax equivalent adjustment is added to reflect that interest earned on certain municipal securities and loans which are exempt from Federal income tax.

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The following tables present FTE net interest margin for the comparable three month periods:

	Three-Months Ended September 30, 2008 Balance	2008 Income	2008 Rate	2007 Balance	2007 Income	2007 Rate
	(dollars in thousands)					
Assets:						
Commercial paper	$ 6,408	$ 37	2.30%	$ —	$ —	n/a
Federal funds sold	19,287	82	1.69%	115,006	1,519	5.24%
Securities: (1) (2)						
Taxable	917,702	11,077	4.80%	754,002	8,940	4.70%
Non-taxable	265,132	4,807	7.25%	206,790	3,498	6.77%
Total securities	1,182,834	15,884	5.35%	960,792	12,438	5.15%
Loans: (1) (3)						
Commercial	1,207,890	18,914	6.23%	1,088,061	24,320	8.87%
Real estate-multi family & commercial	2,752,603	41,886	6.09%	2,438,997	44,062	7.23%
Real estate-residential 1-4 family	1,203,771	17,889	5.94%	1,379,669	20,469	5.93%
Consumer	613,796	9,831	6.37%	613,026	12,528	8.11%
Other	2,251	30	5.30%	2,911	62	8.45%
Total loans, net	5,780,311	88,550	6.12%	5,522,664	101,441	7.33%
Total interest-earning assets	6,988,840	104,553	5.95%	6,598,462	115,398	6.94%
Market Value Adjustment	18,580			11,728		
Noninterest-earning assets	593,612			639,824		
Total assets	$7,601,032			$7,250,014		
Liabilities and shareholders' equity:						
Interest-bearing deposits:						
Savings and interest-bearing transaction accounts	$1,891,370	4,660	0.98%	$2,202,366	15,095	2.72%
Time certificates of deposit	1,849,236	13,905	2.99%	1,560,697	17,304	4.40%
Total interest-bearing deposits	3,740,606	18,565	1.97%	3,763,063	32,399	3.42%
Borrowed funds:						
Repos and Federal funds purchased	436,123	3,444	3.14%	279,404	3,450	4.90%
Other borrowings	1,656,597	19,902	4.78%	1,409,366	18,842	5.30%
Total borrowed funds	2,092,720	23,346	4.44%	1,688,770	22,292	5.24%
Total interest-bearing liabilities	5,833,326	41,911	2.86%	5,451,833	54,691	3.98%
Noninterest-bearing demand deposits	987,336			1,020,983		
Other liabilities	80,479			106,588		
Shareholders' equity	699,891			670,610		
Total liabilities and shareholders' equity	$7,601,032			$7,250,014		
Tax equivalent net interest income/margin		62,642	3.57%		60,707	3.65%
Less: non-taxable interest from securities and loans		1,820	0.10%		739	0.04%
Net interest income		$ 60,822	3.47%		$ 59,968	3.61%

(1) Income and yield calculations are presented on a fully taxable equivalent basis.

(2) Average securities balances are based on amortized historical cost, excluding SFAS 115 adjustments to fair value, which are included in other assets.

(3) Nonaccrual loans are included in loan balances. Interest income includes related fee income.

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Volume and Rate Variance Analysis of Net Interest Income – Tax Equivalent Basis:

	Three-Months Ended September 30, 2008 versus September 30, 2007		
	Changes due to		
	Rate	Volume	Total Change
		(in thousands)	
Commercial paper	$ —	$ 37	$ 37
Federal funds sold	(645)	(792)	(1,437)
Investment securities	454	2,992	3,446
Loans, net	(18,021)	5,130	(12,891)
Total interest-earning assets	$ (18,212)	$ 7,367	$ (10,845)
Savings and interest-bearing demand transaction accounts	(8,548)	(1,887)	(10,435)
Time certificates of deposit	(6,203)	2,804	(3,399)
	(14,751)	917	(13,834)
Repos and Federal funds purchased	(1,509)	1,503	(6)
Other borrowings	(1,983)	3,043	1,060
	(3,492)	4,546	1,054
Total interest-bearing liabilities	(18,243)	5,463	(12,780)
Tax equivalent net interest income	$ 31	$ 1,904	$ 1,935

Note: Income and yield calculations are presented on a fully taxable equivalent basis.
The change not solely due to volume or rate has been prorated into rate and volume components.

Net Interest Margin

The FTE net interest margin for the three months ended September 30, 2008 decreased to 3.57% compared to 3.65% for the same period of 2007. This net interest margin decrease is the result of declining interest rates received on average earning assets which decreased by 99 basis points, partially offset by declining interest rates paid on average earning liabilities which decreased by 112 basis points for the comparable three month periods. Interest income on loans decreased by $12.9 million, or 121 basis points for the three month comparable periods ended September 30, 2008 and 2007. Of the $12.9 million decrease, $18.0 million is attributable to decreases in interest rates received on loans. Commercial and real estate loans secured by multi-family and commercial properties were the primary drivers of the decreased rates received on loans. Interest expense on deposits decreased by $13.8 million or 145 basis points for the comparable three month periods ended September 30, 2008 compared to 2007. Of the $13.8 million decrease, $14.8 million is attributable to decreased interest rates paid on deposits partially offset by a $917,000 increase due to deposit growth. These decreases were primarily caused by the FOMC reducing short-term interest rates.

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The following tables present FTE net interest margin for the comparable nine month periods:

	Nine-Months Ended September 30, 2008 Balance	2008 Income	2008 Rate	2007 Balance	2007 Income	2007 Rate
	(dollars in thousands)					
Assets:						
Commercial paper	$ 25,947	$ 560	2.88%	$ —	$ —	n/a
Federal funds sold and other earning assets	85,179	1,721	2.70%	66,421	2,629	5.29%
Securities:						
Taxable	927,040	33,935	4.89%	806,695	27,901	4.62%
Non-taxable	244,567	13,418	7.32%	207,427	11,708	7.53%
Total securities	1,171,607	47,353	5.40%	1,014,122	39,609	5.22%
Loans:						
Commercial	1,198,260	58,181	6.49%	1,232,286	82,096	8.91%
Real estate-multi family & commercial	2,646,493	123,306	6.21%	2,340,394	128,515	7.32%
Real estate-residential 1-4 family	1,140,836	51,124	5.98%	1,304,797	57,327	5.86%
Consumer	738,478	139,156	25.17%	1,142,874	164,961	19.30%
Other	3,338	149	5.96%	2,890	172	7.96%
Total loans (1)	5,727,405	371,916	8.67%	6,023,241	433,071	9.60%
Total earning assets	7,010,138	421,550	8.03%	7,103,784	475,309	8.95%
SFAS 115 Market Value Adjustment	25,957			18,821		
Non-earning assets	589,773			444,565		
Total assets	$7,625,868			$7,567,170		
Liabilities and shareholders' equity:						
Interest-bearing deposits:						
Savings and interest-bearing transaction accounts	$2,005,641	19,085	1.27%	$2,132,474	41,032	2.57%
Time certificates of deposit	1,818,462	46,292	3.40%	1,732,963	58,204	4.49%
Total interest-bearing deposits	3,824,103	65,377	2.28%	3,865,437	99,236	3.43%
Borrowed funds:						
Repos and Federal funds purchased	406,597	9,859	3.24%	382,088	14,565	5.10%
Other borrowings	1,504,382	55,516	4.93%	1,401,141	55,760	5.32%
Total borrowed funds	1,910,979	65,375	4.57%	1,783,229	70,325	5.27%
Total interest-bearing liabilities	5,735,082	130,752	3.05%	5,648,666	169,561	4.01%
Non-interest-bearing demand deposits	1,126,123			1,160,572		
Other liabilities	55,219			100,680		
Shareholders' equity	709,444			657,252		
Total liabilities and shareholders' equity	$7,625,868			$7,567,170		
Tax equivalent net interest income/margin		290,798	5.54%		305,748	5.75%
Less: tax equivalent income included in interest income from non-taxable securities and loans		4,424	0.08%		3,535	0.06%
Net interest income		$286,374	5.46%		$302,213	5.69%
Loan information Core Bank:						
Consumer loans, Core Bank	$ 603,266	$ 30,394	6.73%	$ 704,863	$ 46,393	8.80%
Loans, Core Bank	$5,592,193	$263,154	6.29%	$5,585,230	$314,503	7.53%

(1) Income and yield calculations are presented on a fully taxable equivalent basis.

(2) Average securities balances are based on amortized historical cost, excluding SFAS 115 adjustments to fair value, which are included in other assets.

(3) Nonaccrual loans are included in loan balances. Interest income includes related fee income.

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Volume and Rate Variance Analysis of Net Interest Income – Tax Equivalent Basis:

	Nine-Months Ended September 30, 2008 versus September 30, 2007		
	Changes due to		
	Rate	*Volume*	*Total Change*
		(in thousands)	
Commercial paper	$ —	$ 560	$ 560
Federal funds sold	(1,518)	610	(908)
Investment securities	1,365	6,379	7,744
Loans, net	672	(61,827)	(61,155)
Total interest-earning assets	$ 519	$ (54,278)	$ (53,759)
Savings and interest-bearing demand transaction accounts	(19,638)	(2,309)	(21,947)
Time certificates of deposit	(14,677)	2,765	(11,912)
	(34,315)	456	(33,859)
Repos and Federal funds purchased	(5,594)	888	(4,706)
Other borrowings	(4,223)	3,979	(244)
	(9,817)	4,867	(4,950)
Total interest-bearing liabilities	(44,132)	5,323	(38,809)
Tax equivalent net interest income	$ 44,651	$ (59,601)	$ (14,950)
Loans excluding RALs	$ (51,743)	$ 394	$ (51,349)
Consumer loans excluding RALs	$ (9,920)	$ (6,079)	$ (15,999)

Note: Income and yield calculations are presented on a fully taxable equivalent basis.
The change not solely due to volume or rate has been prorated into rate and volume components.

Net Interest Margin

The FTE net interest margin for the nine months ended September 30, 2008 decreased to 5.54% compared to 5.75% for the same period of 2007. This decrease is a result of declining interest rates received on earning assets in combination with a decline in total interest earning assets partially offset by decreased interest rates paid on deposits and borrowings. FTE interest income decreased by $53.8 million. This decrease is mostly attributable to the decrease in average earning assets. Average loans decreased by $295.8 million and caused $61.8 million of the decrease which was offset by an increase in the average balance of investment securities of $157.5 million and increased interest income by $6.4 million. Interest expense decreased by $38.8 million during the comparable nine month periods ended September 30, 2008 and 2007. The primary driver decreasing interest expense is the decline in interest rates which was caused by the FOMC decreasing short term interest rates over the last twelve months by 275 basis points. Interest rates paid on deposits decreased by 115 basis points while interest rates on borrowings decreased by 70 basis points, these decreases accounted for $44.1 million of the $38.8 million decrease which were offset by an increase in average interest bearing liabilities of $86.4 million.

The first and second quarters' net interest margin of each year are significantly impacted by the RAL activity that peaks during the first quarter of each year. RALs generally have a very short duration (2-3 weeks), which cause the interest rates received on consumer loans to be significantly higher than what is anticipated for the entire year. The table below summarizes the net interest margin excluding RALs.

	Nine-Months Ended September 30,	
	2008	***2007***
	(dollars in thousands)	
Consolidated average earning assets	$7,010,138	$7,103,784
Less: RAL average earning assets	135,212	438,011
Core bank average earning assets	6,874,926	6,665,773
Consolidated tax equivalent net interest income	290,798	305,748
Less: RAL net interest income	103,419	106,764
Core bank tax equivalent, non-GAAP net interest income	$ 187,379	$ 198,984
Core bank net interest margin	3.64%	3.99%

The net interest margin for the Core Bank decreased to 3.64% for the nine months ended September 30, 2008 compared to 3.99% for the same period of 2007. Due to the seasonality of the RAL product, Management has disclosed the Core Bank net interest margin, which excludes RALs. The Core Bank's FTE net interest income was $187.4 million, a decrease of $11.6 million when comparing to the same in 2007. The main driver of this decrease is a decline in core loan interest rates from 7.53% at September 30, 2007 to 6.29% at September 30, 2008 offset by a decrease in loan volume, which is attributable to the sale and transfer of the leasing, indirect auto and residential real estate loan portfolios in 2007. Commercial and real estate secured multi-family and commercial loan portfolios caused a majority of the decrease. At the same time, interest rates paid on deposits, and borrowings also decreased, partially offsetting the decreased interest income from loans.

PROVISION FOR LOAN LOSSES

Quarterly, the Company determines the amount of allowance for loan losses adequate to provide for losses inherent in the Company's loan portfolios. The provision for loan losses is determined by the net change in the allowance for loan losses. For a detailed discussion of the Company's allowance for loan losses, refer to the "Significant Accounting Policies" discussion in Note 1, "Summary of Significant Accounting Policies" in the 2007 10-K and in the MD&A allowance for loan loss discussion of this Form 10-Q/A on page 20.

A summary of the provision for loan losses for the comparable three month periods ended are as follows:

	Three-Months Ended September 30,			
			Change	
	2008	***2007***	***$***	***%***
		(in thousands)		
Provision for loan losses:				
Core Bank	$67,659	$ 2,018	$ 65,641	N/A
RAL	(3,697)	22,383	(26,080)	N/A
Total	$63,962	$24,401	$ 39,561	162.1%

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Provision for loan losses were $64.0 million for the three month period ended September 30, 2008 compared to $24.4 million for the three month period ended September 30, 2007, an increase of $39.6 million. The increased provision for loan losses was driven by the slowing economy causing the Core Bank's loan portfolio to experience higher than anticipated historical loan losses partially offset by increased recoveries for RALs due to enhanced credit screening procedures put in place for the 2008 RAL season. Provision for loan losses for the Core Bank increased by $65.6 million for the third quarter 2008 compared to 2007. The Core Bank's breakdown of provision for loan losses consisted of $23.7 million of construction and land, $16.9 million commercial real estate, $6.5 million commercial and industrial, $5.8 million residential real estate, $5.7 million home equity, and $9.1 million all other portfolios. The provision expense for the comparable period 2007 was $2.0 million primarily related to other consumer products. The RAL credit to provision of $3.7 million for the three months ended September 30, 2008 was due to increased collections.

A summary of the provision for loan losses for the comparable nine month periods ended are as follows:

	Nine-Months Ended September 30,			
			Change	
	2008	***2007***	***$***	***%***
		(in thousands)		
Provision for loan losses:				
Core Bank	$126,806	$ 14,534	$112,272	772.5%
RAL	22,717	93,960	(71,243)	(75.8%)
Total	$149,523	$108,494	$ 41,029	37.8%

For the year-to-date periods ended September 30, 2008 and 2007, provision for loan losses were $149.5 million and $108.5 million, an increase of $41.0 million or 37.8%. This increase was caused by a significant increase in provision for loan losses for the Core Bank of $112.3 million, which was partially offset by a significant decrease in the RAL provision for loan losses of $71.2 million for the comparable periods. The Core Bank's loan portfolio had $48.8 million of net charge-offs in 2008 and required additional provision for loan losses as a result of the downturn in the economy. At the same time, the RALs have experienced less charge-offs than in previous years due to the enhanced credit controls put into place by the Company for the 2008 RAL season, which has reduced the provision for loan losses for RALs. Provision for loan losses for RALs for the nine month periods ending September 30, 2008 and 2007 were $22.7 million and $94.0 million, a decrease of $71.2 million or 75.8%. The enhanced credit risk controls for RALs resulted in a decline of net charge-offs of $71.2 million for the nine month period ended September 30, 2008, compared to 2007.

NON-INTEREST INCOME

Non-interest income primarily consists of fee income received from servicing deposit relationships, trust and investment advisory fees, RT fees earned from processing tax refunds, fees and commissions earned on certain transactions, unrealized gains and losses on the trading portfolio, impairment of AFS MBS and realized gains and losses on sold and called securities and gains and losses on the sale or disposal of assets.

The table below summarizes the changes in non-interest income for the comparable quarters:

	Three-Months Ended September 30,			
			Change	
	2008	***2007***	***$***	***%***
		(in thousands)		
Non-interest income:				
Service charges and fees	$ 8,028	$ 8,551	$(523)	(6.1%)
Trust and investment advisory fees	6,352	6,009	343	5.7%
Refund transfer fees	385	370	15	4.1%
Loss on securities, net	(487)	5	(492)	N/A
Other	2,462	2,335	127	5.4%
Total	$16,740	$17,270	$(530)	(3.1%)

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Total non-interest income was $16.7 million for the three months ended September 30, 2008 compared to $17.3 million for the same period in 2007, a decrease of 3.1%. This decrease is mostly attributed to a 6.1% decrease in service charges and fees and a net loss on securities transactions of $487,000 partially offset by 5.7% increase in cash management fees. The net loss on securities was mostly due to additional impairment of MBS AFS of $797,000, investment in U.S. Treasury futures losses of $139,000 and net loss on securities sold of $64,000 partially offset by gains on the trading securities of $513,000. The MBS AFS impairment is from valuation adjustments due to changes in interest rates and Management's decision to sell MBS securities which are in a loss position. The impairment charge was not due to the credit quality of the underlying loans of the MBS AFS portfolio.

The table below summarizes the changes in non-interest income for the comparable year to date periods:

	Nine-Months Ended September 30,			
			Change	
	2008	***2007***	***$***	***%***
		(in thousands)		
Non-interest income:				
Refund transfer fees	$ 68,576	$ 45,756	$ 22,820	49.9%
Gain on sale of RALs, net	44,580	41,822	2,758	6.6%
Service charges and fees	27,220	31,659	(4,439)	(14.0%)
Trust and investment advisory fees	19,637	18,183	1,454	8.0%
Gain on sale of leasing portfolio	—	24,344	(24,344)	N/A
(Loss)/Gain on securities, net	(422)	1,944	(2,366)	(121.7%)
Other	4,666	6,663	(1,997)	(30.0%)
Total	$164,257	$170,371	$ (6,114)	(3.6%)

Total non-interest income was $164.3 million for the nine months ended September 30, 2008 compared to $170.4 million for the same period in 2007, a decrease of $6.1 million or 3.6%. Excluding the prior year gain on sale of the leasing portfolio in June 2007 of $24.3 million, the non-interest income for the nine month comparable periods increased by $18.2 million for 2008 compared to 2007. This increase was primarily due to increased RT fees of $22.8 million or 49.9% from $45.8 million for the nine month period ended September 30, 2007 to $68.6 million for the same period of 2008. The increase in RT fees occurred due to increased volume of RTs. The number of RT transactions increased by 1.5 million, or 30.8% when comparing the nine month period ended September 30, 2008 to September 30, 2007.

The decrease in non-interest income was also impacted by a decrease in service charges and fees of $4.4 million when comparing the nine month period ended September 30, 2008 to September 30, 2007. This decrease was primarily caused by lower collection fees on RALs which occurred due to contract changes and a decrease in the number of participants involved in the cross-collection program of $3.1 million and the discontinuation of a third party commission received on official check outsourcing of $901,000. RAL collection fees are earned from the collection of previous years' charged-off RALs for participants of the cross-collection program. The outsourcing of the official checks was discontinued in July of 2008.

The net gain on sale of RALs was $44.6 million for the 2008 RAL securitization, an increase of $2.8 million or 6.6% compared to the 2007 RAL securitization. The increase in the gain is directly related to the increased volume of RALs sold into the securitization facility. For additional explanation and disclosure regarding the securitization of RALs refer to Note 8 and Note 7, "RAL and RT Programs" of the Consolidated Financial Statements of the Form 10-Q and the 2007 10-K, respectively.

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NON-INTEREST EXPENSE

The following table summarizes the changes in non-interest expenses for the comparable quarters:

	Three-Months Ended September 30,			
			Change	
	2008	2007	$	%
	(in thousands)			
Non-interest expense:				
Salaries and employee benefits	$28,593	$26,987	$ 1,606	6.0%
Goodwill impairment	22,068	—	22,068	N/A
Occupancy expenses, net	6,178	5,552	626	11.3%
Furniture, fixtures and equipment, net	2,291	2,224	67	3.0%
Other	23,041	17,412	5,629	32.3%
Total	$82,171	$52,175	$29,996	57.5%

The Company's non-interest expenses increased by $30.0 million, or 57.5% for the third quarter of 2008 compared to the third quarter of 2007. The majority of this increase is due to the charge for the impairment of the goodwill of $22.1 million and increased other non-interest expenses of $5.6 million for the comparable periods.

Goodwill is tested for impairment during the third quarter of each year or if management determines there is a triggering event which may indicate a need to review goodwill for impairment. In order to determine the fair value of each reporting unit in the third quarter of 2008, the Company reviewed the capitalized earnings of each reporting unit, the outlook of the current economic environment and took into consideration the transaction multiples of publicly traded financial institutions adjusted for a change in control. When the fair value of a reporting unit is less than its carrying value, the Company is required to utilize a Step 2 valuation approach in accordance with SFAS 142. All of the Company's reporting units passed Step 1 of the annual SFAS 142 impairment analysis in the third quarter of 2008, except the Commercial Banking segment. The Step 2 goodwill impairment analysis of the Commercial Banking segment required the Step 1 fair value of the reporting unit to be allocated to all of the fair values of the underlying tangible and intangible assets and liabilities for purposes of calculating the fair value of goodwill. This allocation resulted in a $22.1 million goodwill impairment recorded in the third quarter of 2008. The goodwill impairment testing was performed by an independent third party. The goodwill impairment calculation is an estimate subject to ongoing review as certain circumstances may cause additional impairment to be assessed in the future. As such, the Company used primarily level 3 inputs in its fair value of Goodwill.

Other non-interest expenses increased by $5.6 million or 32.3% for the three month period ended September 30, 2008 compared to 2007. The increase was primarily due to increases in the reserve for off-balance sheet commitments of $2.9 million and a net accrual for a probable settlement of litigation of $2.6 million.

The increase in reserve of $2.7 million for off balance sheet commitments is to cover inherent losses from binding loan commitments to the extent that they are expected to be funded, including other off-balance sheet obligations such as letters of credit, fair value swaps with commercial loan customers and commitments for lines of credit and all types of loans. Included in this reserve are the same qualitative factors as employed in the on-balance sheet allowance for loan loss methodology which is the driving factor of this increase due to the current economic conditions.

The lawsuit settlement, net of $2.6 million, relates to the lawsuit disclosed in Note 12, "Commitments and Contingencies", of the Form 10-Q, as the *Canieva Hood and Congress of California Seniors v. Santa Barbara Bank & Trust, Pacific Capital Bank, N.A., and Jackson-Hewitt, Inc.*. The amount recorded is an accrual based on a tentative settlement agreement that is subject to the execution of a definitive settlement agreement and court approval.

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The following table summarizes the changes in non-interest expenses for the comparable nine month periods:

	Nine-Months Ended September 30, 2008	2007	Change $	%
		(in thousands)		
Non-interest expense:				
Salaries and employee benefits	$ 94,598	$ 93,867	$ 731	0.8%
Refund program marketing and technology fees	46,257	44,500	1,757	3.9%
Goodwill impairment	22,068	—	22,068	N/A
Occupancy expenses, net	19,192	16,440	2,752	16.7%
Furniture, fixtures and equipment, net	6,871	7,301	(430)	(5.9%)
Other	79,722	62,024	17,698	28.5%
Total	$268,708	$224,132	$44,576	19.9%

The Company's non-interest expenses for the nine month period ended September 30, 2008 period compared to 2007 increased by $44.6 million, or 19.9%. The majority of this increase is due to the charge for the impairment of the goodwill of $22.1 million as discussed above on page 16 and increases in other non-interest expenses, occupancy expense and refund program marketing and technology fees of $17.7 million, $2.8 million, and $1.8 million, respectively for the nine months ended September 30, 2008 compared to 2007.

The increase in other expenses is primarily due to increases in RAL and RT developer performance fees of $7.2 million, reserve for off-balance sheet commitments of $6.5 million, litigation accrual of $2.6 million, software expenses of $2.2 million partially offset by a decline in consulting expense for the comparable periods of $1.6 million. The increase in RAL and RT performance fees is the result of contractual volume incentive fee increases due to the increased volume for the 2008 RAL season. The Company recorded additional expense to increase the off-balance sheet reserve compared to 2007 as disclosed in Note 5, "Loans" of the Form 10-Q. The litigation accrual is discussed above on page 16. The increase in software expense is mostly attributed to depreciation expense associated with capitalized software which had not been depreciating since January 2007 which was discovered and corrected during the second quarter of 2008. Management concluded that the amount of the error and the correction was not material to the Company's financial statements for any period presented in 2007 or 2008.

Provision for Income Taxes

The Company recorded a $21.1 million tax benefit for the third quarter of 2008 compared to a tax benefit of $3.2 million for the third quarter of 2007. For the nine months ended September 30, 2008, the Company incurred tax expense of $13.3 million compared to $51.3 million for the comparable period in 2007. The decrease in tax expense (or increase in tax benefit) for the comparable periods is the result of lower pretax income.

Excluding the impact of a nondeductible goodwill impairment charge of $22.1 million as disclosed in Note 13, "Fair Value of Financial Instruments" on page 29 of the Form 10-Q, the Company's effective tax rate for the nine months ended September 30, 2008 was 24.44%, compared to 2007's full year rate of 35.77%. Including the impact of the goodwill impairment charge, the Company's effective tax rate for the nine months ended September 30, 2008 was 41.08%.

The effective tax rate for the three month period ended September 30, 2008 was 30.73%. The 41.08% effective tax rate for the first nine months of 2008 was calculated based on the actual results for the first nine months of 2008 and not on a projected annual effective tax rate. The annual effective tax rate cannot be predicted due to the potential variability in future financial results. The unusual tax rate for 2008 is primarily due to a $22.1 million goodwill impairment charge that is non-deductible for income tax purposes.

BALANCE SHEET ANALYSIS

Total assets increased $314.3 million and total liabilities increased by $340.3 million since December 31, 2007. The major components causing these increases are described in the following sections.

CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents increased by $36.9 million or 26.2% to $178.0 million at September 30, 2008, compared to December 31, 2007. This increase is due to the Company retaining more cash on hand and, investing in overnight federal funds to maintain additional liquidity due to the current credit crisis and low interest rates in other short term investments types.

SECURITIES

Trading Portfolio

The Company's trading portfolio increased by $55.7 million or 37.9% since December 31, 2007. This increase occurred from the restructuring of the investment portfolio for the current interest rate environment by reducing the duration of the MBS portfolios held in trading and AFS investment portfolios. Since December 31, 2007, the Company has purchased $213.4 million of MBS for the trading portfolio of which $145.8 million of MBS were purchased in the third quarter with a weighted average maturity of 14.3 years. These purchases were offset with sales of $146.7 million and principal pay downs of $12.6 million of MBS.

Available for Sale ("AFS") Portfolio

The AFS investment securities portfolio declined $186.8 million, or 15.9% to $990.1 million at September 30, 2008, compared to December 31, 2007. A summary of the activity in the AFS portfolio since December 31, 2007 is as follows:

	Activity January 1, 2008 through September 30, 2008					
	Purchases	Sales	Calls and Maturities	Principal Pay Downs	Change in Market Value	(Amortization) or Accretion of Premium or Discount
	(in thousands)					
U.S. Treasury obligations	$ 11,431	$ —	$ (25,000)	$ —	$ 112	$ 133
U.S. Agency obligations	249,337	—	(291,023)	—	(3,392)	749
Collateralized mortgage obligations	—	—	—	(2,524)	(1,167)	16
Mortgage-backed securities	—	(123,716)	—	(41,518)	2,285	(1)
Asset-backed securities	—	—	—	(231)	(399)	—
State and municipal securities	70,731	—	(7,550)	—	(27,348)	6,416
Total	$ 331,499	$(123,716)	$ (323,573)	$ (44,273)	$ (29,909)	$ 7,313

In addition, there was $4.2 million of other than temporary impairment associated with the AFS MBS securities which also reduced the carrying value of the AFS portfolio.

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LOAN PORTFOLIO

Loans Held for Investment

The following table summarizes loans held for investment:

	September 30, 2008	December 31, 2007	Change $	Change %
		(in thousands)		
Real estate:				
Residential—1 to 4 family	$ 1,100,608	$ 1,075,663	$ 24,945	2.3%
Multi-family residential	265,261	278,935	(13,674)	-4.9%
Commercial	1,929,225	1,558,761	370,464	23.8%
Construction	605,563	651,307	(45,744)	-7.0%
Commercial loans	1,194,805	1,196,808	(2,003)	-0.2%
Home equity loans	426,921	394,331	32,590	8.3%
Consumer loans	196,164	200,094	(3,930)	-2.0%
RALs	1,600	—	1,600	N/A
Other loans	2,067	3,257	(1,190)	-36.5%
Total loans	$ 5,722,214	$ 5,359,156	$363,058	6.8%

Total loans increased by $363.1 million or 6.8% from December 31, 2007 to September 30, 2008. A majority of the growth in the loan portfolio was in commercial real estate portfolio with $370.5 million of growth. The Company is able to increase the growth in the loan portfolio due to the Bank's strong capital position. At the same time, the Company is being selective in the amount and type of loans originated and increased the loan underwriting standards. The Company has sold select residential real estate loans and retained servicing rights in order to maintain our customer relationships.

The Company offers loans to individuals and small to medium size businesses. The Community Banking segment consists of loans and lines of credit for home mortgages, small businesses and personal use. The Commercial Banking segment consists of commercial lines of credit, letters of credit, small business lending and asset-based lending products. The Wealth Management segment serves customers who meet certain net-worth, income and liquidity criteria. A more detailed description of each segment and the loan products offered is disclosed in the 2007 10-K.

Loans Held for Sale

At September 30, 2008, the Company held $145.4 million of loans held for sale. All of the loans classified as loans held for sale at September 30, 2008 were sold or transferred during October 2008. The loans classified as held for sale were $88.2 million of residential loans, $22.6 million of SBA loans and $10.5 million of residential loans which were transferred to securities. Also included in loans held for sale were $24.0 million of loans sold in conjunction with the sale of the Santa Paula and Harvard branches transaction. As disclosed in Note 16, "Subsequent Events", of the Form 10-Q, the Company increased the amount of loans sold in conjunction with the Santa Paula and Harvard branch sale after the preparation of September 30, 2008 financial statements.

At December 31, 2007, the Company had $68.3 million of adjustable rate residential loans classified as held for sale. On January 4, 2008, $68.2 million of these loans were converted to MBS and placed in the Company's trading portfolio. The remainder of the loans held for sale, were also sold in January 2008.

ALLOWANCE FOR LOAN LOSSES ("ALLL")

Total ALLL increased by $77.3 million to $122.1 million at September 30, 2008 from $44.8 million at December 31, 2007. The increase to ALLL is primarily due to an increase in qualitative factors associated with the inherent loan losses in the loan portfolio associated with the deterioration of the economy, an increase in nonaccrual loans of $64.8 million and an increase in net charge-offs of $71.5 million since December 31, 2007. The net charge-offs of $71.5 million is comprised of $48.8 million of Core Bank net charge-offs and $22.7 million of net charge-offs of RALs for the year to date period ending September 30, 2008 compared to net charge-offs of $19.2 million for the Core Bank and $94.0 million of net charge-offs of RALs for the year to date period ended September 30, 2007. The increase in ALLL improves the ratio of ALLL to total loans to 2.13% and 73.4% of nonperforming loans to ALLL which is significantly higher than in prior quarters. Management believes that this increase in ALLL will better position the Company to manage anticipated loan losses through the forecasted prolonged economic downturn impacting all of the Company's loan portfolios.

NONPERFORMING LOANS

The table below summarizes the Company's nonperforming assets and loan quality ratios.

	September 30, 2008	*June 30, 2008*	*December 31, 2007*	*September 30, 2007*
		(dollars in thousands)		
Nonaccrual loans	$ 136,940	$ 136,300	$ 72,186	$ 21,956
Loans past due 90 days or more on accrual status	445	749	1,131	864
Troubled debt restructured loans	29,022	21,050	—	—
Total nonperforming loans	166,407	158,099	73,317	22,820
Foreclosed collateral	5,181	3,695	3,357	2,910
Total nonperforming assets	$ 171,588	$ 161,794	$ 76,674	$ 25,730
Allowance for loan losses, Core Bank	$ 122,097	$ 73,288	$ 44,843	$ 40,375
Allowance for loan losses, RALs	—	—	—	—
Total allowance for loan losses, Consolidated	$ 122,097	$ 73,288	$ 44,843	$ 40,375
COMPANY RATIOS—Consolidated:				
Coverage ratio of allowance for loan losses to total loans	2.13%	1.29%	0.84%	0.73%
Coverage ratio of allowance for loan losses to nonperforming loans	73%	46%	61%	177%
Ratio of nonperforming loans to total loans	2.91%	2.78%	1.37%	0.41%
Ratio of nonperforming assets to total assets	2.23%	2.16%	1.04%	0.35%
Ratio of allowance for loan losses to potential problem loans and nonperforming loans	26.33%	18.01%	31.07%	49.57%
COMPANY RATIOS—Core Bank:				
Coverage ratio of allowance for loan losses to total loans	2.13%	1.29%	0.84%	0.73%
Coverage ratio of allowance for loan losses to nonperforming loans	73%	46%	61%	177%
Ratio of nonperforming loans to total loans	2.91%	2.78%	1.37%	0.41%
Ratio of nonperforming assets to total assets	2.23%	2.16%	1.04%	0.36%
Ratio of allowance for loan losses to potential problem loans and nonperforming loans	26.33%	18.01%	31.07%	49.57%

Total nonperforming loans increased to $166.4 million at September 30, 2008 from $73.3 million at December 31, 2007, an increase of $93.1 million. Nonperforming loans at September 30, 2008 are mostly comprised of construction loans which account for 66.0% of nonperforming loans and commercial and industrial loans which account for 10.8% of nonperforming loans. The remainder of nonperforming loans are spread over the other loan portfolios.

Since December 31, 2007, troubled debt restructured loans increased to $29.0 million. The troubled debt restructurings consist of a $19.0 million residential construction loan relationship, commercial and industrial loans of $8.0 million and residential loans of $2.0 million. Foreclosed collateral increased to $5.2 million at September 30, 2008, an increase of $1.5 million since June 30, 2008. The increase in foreclosed collateral relates to six loans of which three loans were charged off and three loans had an outstanding balance and were foreclosed on during the third quarter of 2008 which are secured by land and residential real estate. The Company subsequently closed escrow on one of the foreclosed properties.

Nonaccrual Loans: Loans on which the accrual of interest is discontinued and any unpaid but accrued interest is reversed at the time the loan is placed on nonaccrual. These loans may be collateralized. Collection efforts are pursued on all nonaccrual loans. Historically, consumer loans are an exception to this treatment. Typically, they are charged-off at predetermined delinquency benchmarks based on product type and collateral value. All consumer loans are charged-off no later than 120 days past due.

Collection efforts continue even after charge-off.

Past Due Loans: Included in the table above as "loans past due 90 days or more on accrual status" are commercial and industrial, real estate, and other secured consumer loans. These loans are well collateralized and in the process of collection.

Foreclosed Collateral: Foreclosed collateral consists primarily of real estate properties obtained through foreclosure or accepted in lieu of foreclosure.

OTHER ASSETS

Other assets at September 30, 2008 were $353.4 million compared to $284.1 million at December 31, 2007, an increase of $69.3 million or 24.4%. This increase is mostly attributable to the following items:

- Due to the net loss of $47.5 million recorded in the third quarter and the reduction of year to date income, the tax liability is now a tax receivable of $22.8 million,
- an increase of $13.1 million associated with the recorded fair value of the interest rate swaps which are perfectly matched and require the off balance sheet exposure be recorded in the Company’s balance sheet,
- an increase of $12.6 million in deferred tax assets associated with the changes in market values of the AFS portfolio and,
- a $10.8 million increase in the Company’s investment of FHLB stock due to increased FHLB borrowings. The Company is required to increase the investment in FHLB Stock.
- An increase of $4.3 million in the Company’s investments in low-income housing partnerships.

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Deposits

The following table summarizes the deposits.

	September 30, 2008	December 31, 2007	Change $	Change %
		(dollars in thousands)		
Non-interest bearing deposits	$ 989,025	$ 1,002,281	$ (13,256)	-1.3%
Interest-bearing deposits:				
NOW accounts	995,181	1,145,655	(150,474)	-13.1%
Money market deposit accounts	561,297	748,417	(187,120)	-25.0%
Other savings deposits	261,085	254,273	6,812	2.7%
Time certificates of $100,000 or more	1,234,196	1,063,271	170,925	16.1%
Other time deposits	900,520	749,915	150,605	20.1%
Total deposits	$ 4,941,304	$ 4,963,812	$ (22,508)	-0.5%

The Company's deposits decreased by $22.5 million from December 31, 2007 to September 30, 2008 as the environment for collecting deposits continues to be challenging for all financial institutions. This decrease is mostly attributed to declining interest rates paid on NOW and money market accounts which have caused many of the Bank's customers to move their deposits into higher yielding time deposits.

The increase in time certificates of deposits ("CD") of $321.5 million since December 31, 2007 is mostly the result of the Bank's CD campaigns that have attracted new customers and are providing cross-selling opportunities for our other deposit, loan and wealth management products. The Bank has been aggressively pricing CDs to retain customers and maintain the customer relationships as well as become less dependent on wholesale borrowing to fund loans. Included in the $321.5 million increase in CDs are $67.0 million of brokered CDs. Brokered CDs are large short-term deposits which assist with providing funding for the RAL Program as well as loans held for investment.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase were $349.9 million at September 30, 2008, an increase of $84.1 million or 31.6% since December 31, 2007. Since December 31, 2007, securities sold under agreements to repurchase have been used as both a short-term and long-term funding source for the growth in loans. Long-term securities sold under agreements to repurchase have increased $150.0 million due to additional and renewed long-term commitments with a weighted average rate of 3.31%. This increase was offset by a decrease in short-term borrowings of securities sold under agreements to repurchase of $65.9 million.

Long-Term Debt and Other Borrowings

Long-term debt and other borrowings increased by $255.4 million or 18.2% when comparing September 30, 2008 to December 30, 2007. This increase is due to the growth in loans outpacing the growth in deposits and, therefore the Bank relies on wholesale borrowings from the FHLB to fund the loan growth which is causing this increase.

CAPITAL RESOURCES

As of September 30, 2008, under current regulatory definitions, the Company and PCBNA met the regulatory standards of "well-capitalized," as defined under the Federal Deposit Insurance Corporation Improvement Act ("FDICIA").

Capital Adequacy Standards

The Company and PCBNA are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements as specified by the regulatory framework for prompt corrective action could cause the regulators to initiate certain mandatory or discretionary actions that, if undertaken, could have a direct material effect on the Company's financial statements.

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The Company's and PCBNA's capital ratios as of September 30, 2008 and December 31, 2007 were as follows:

	Total Capital	Tier 1 Capital	Risk Weighted Assets	Tangible Average Assets	Total Capital Ratio	Tier 1 Capital Ratio	Tier 1 Leverage Ratio
			(dollars in thousands)				
September 30, 2008							
PCB (consolidated)	$750,337	$573,645	$6,131,454	$7,469,827	12.2%	9.4%	7.7%
PCBNA	750,854	574,223	6,126,476	7,461,625	12.3%	9.4%	7.7%
December 31, 2007							
PCB (consolidated)	$720,625	$568,075	$5,847,905	$7,126,286	12.3%	9.7%	8.0%
PCBNA	701,225	548,675	5,841,648	7,109,129	12.0%	9.4%	7.7%
Well-capitalized ratios					10.0%	6.0%	5.0%
Minimum capital ratios					8.0%	4.0%	4.0%

The minimum capital ratios the Company must maintain under the regulatory requirements to meet the standard of "adequately capitalized" and the minimum amounts and ratios required to meet the regulatory standards of "well capitalized" are included in the table above at September 30, 2008 and December 31, 2007.

For the Company, Tier 1 capital generally consists of common stock, surplus, and retained earnings. Tier 2 capital includes a portion of the allowance for loan losses and the subordinated debt discussed in Note 14, "Long-term Debt and Other Borrowings" of the 2007 10-K. The capital benefit of the subordinated debt is reduced 20% per year in the last five years of its term.

Risk-weighted assets are computed by applying a weighting factor from 0% to 100% to the carrying amount of the assets as reported in the balance sheet and to a portion of off-balance sheet items such as loan commitments and letters of credit. The definitions and weighting factors are all contained in the regulations. However, the capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

PCB is the parent company and sole owner of PCBNA. However, there are legal limitations on the amount of dividends, which may be paid by PCBNA to PCB. The amounts that may be paid as dividends by a bank are determined based on the bank's capital accounts and earnings in prior years. As of September 30, 2008, PCBNA would have been permitted to pay up to $340.2 million as dividends to PCB.

Stock Repurchases

In 2007, the Company commenced and completed the share repurchase program of $25.0 million authorized by the Company's Board of Directors. There is currently no share repurchase program authorized by the Board of Directors.

Stock Issuances

In September 2008, the Company authorized additional shares to be issued in conjunction with the "Dividend Reinvestment and Direct Stock Purchase Plan" which authorized 3,500,000 additional shares for raising additional capital. During October 2008, 407,000 shares were issued and $7.2 million of proceeds were received.

Future Sources of Capital

On November 5, 2008, the Company received preliminary approval for the U.S. Treasury's Troubled Asset Relief Capital Purchase Program ("CPP") in the amount of 3% of our risk weighted assets ("RWA") as allowed under the CPP. Based on the Bank's RWA at September 30, 2008, this will provide approximately $184 million of additional capital. The Company has 30 days from the date of approval to supply all of the required documentation to complete the approval process. Under the terms of such approval, the Company may issue to the U.S. Treasury up to approximately $184 million, or 3.0% of the Bank's risk weighted assets at September 30, 2008, of senior preferred shares. The senior preferred shares would pay a cumulative dividend of 5.0% in the first five years and 9.0% thereafter. The Company will also issue to the U.S. Treasury warrants to purchase common stock with an aggregate market price equal to 15.0% of the senior preferred shares which are issued to the U.S. Treasury.

The additional capital received from the CPP will assist the Company with the following items:

- The Company intends to be one of the long term survivors of this current credit cycle and of the economic conditions that the Banking Industry and our U.S. Economy faces today. While the Company has currently met the regulatory standards of "well capitalized", the future of the Banking Industry and the Economy is uncertain and the Company believes that a well fortressed balance sheet via additional capital and even stronger capital ratios at this time is prudent to ensure the safety and soundness of the Company should the marketplace deteriorate further in the future. Management believes that the additional capital and improved capital ratios will help to reassure the public and our customers that the Company is a very strong bank, which will help to reassure public confidence in our Company and in the banking infrastructure within our marketplace.

- During 2008, Management has seen the ALLL as a percentage of total loans has gone from 84 basis points at December 31, 2007, to 213 basis points at September 30, 2008. We have also seen our ALLL as a percentage of nonperforming Loans go from approximately 61% to approximately 73% over this same time period. It is clear that the Company has seen increases in our delinquency rates and charge off rates, though not to the same extent that certain other banks in California or throughout the U.S. have seen. These increases in ALLL and charge-off's obviously effect the Company's capital ratios and the Company's Management team believes that it is very important and prudent to continue to bolster our reserves during this period of economic uncertainty to further demonstrate our desire to be in front of any current/future issues that may arise to ensure the safety and soundness of our Bank; and to reassure public confidence in our Company and in the banking infrastructure within our marketplace.

- Management has seen our marketplace and across the U.S., the Banking Industry has tightened up, and in some cases shut off, its lending activities to well qualified companies and individuals. We believe that this lack of credit availability in the marketplace hurts all companies and individuals as it will drive our economy into a recession. The Company's Management team plans to continue its prudent lending activities, and possibly even expand them within our footprint during this time of economic crisis to well qualified borrowers (both individuals and companies). The additional capital from the CPP will allow us to do this in a well capitalized manner.

Uses of Capital and Expected Ratios

Net income is the major source of capital growth for the Company while dividends distributed to shareholders reduce capital. The Company's dividend payout ratio was 41.1% for 2007 and the Company anticipates that dividend payout amounts for 2008 will be consistent with 2007 in total. The share repurchases made by the Company in the third and fourth quarters of 2007 reduced the impact to retained earnings from 2008 dividend payments.

There are three primary considerations Management must consider in managing capital levels and ratios. The first is that the Company must be able to meet the credit needs of our customers when they need to borrow. The second consideration is that the Company must be prepared to sell some of the loans it originates in order to manage capital targets. The third consideration is that as loan demand increases, raising additional capital may be necessary. Management investigates the issuance of alternate forms of raising capital on an on-going basis.

In addition to the capital generated from the operations of the Company, a secondary source of capital growth has been the exercise of employee and director stock options. For the period of January 1, 2008 to September 30, 2008, the increase to capital from the exercise of options was $268,000.

There are no material commitments for capital expenditures or "off-balance sheet" financing arrangements at September 30, 2008.

Management intends to take the actions necessary to ensure that the Company and the Bank will continue to meet the capital ratios required for well-capitalized institutions.

Impact of RAL/RT Programs on Capital Adequacy

Formal measurement of the capital ratios for the Company and PCBNA are done at each quarter-end. However, the Company does more frequent estimates of its capital classification during late January and early February of each year because of the large volume of RALs originated. RALs are 100% risk weighted and impact the Company's capital ratios during late January and early February of each year. Due to the impact of RALs on the Company's capital ratios, Management monitors the Company's capital ratios daily during these months. Management estimates that, if a formal computation of capital ratios were done on certain days during those weeks PCB and PCBNA may be classified as adequately capitalized, rather than well-capitalized. The Company has discussed this with its regulators and creditors.

In Note 7, "RAL and RT Programs" of the 2007 10-K contains a description of the securitization that the Company utilizes as one of its sources for funding RALs and in Note 8, "RAL and RT Programs" of the Consolidated Financial Statements of the Form 10-Q. The RAL securitization is a true sale of loans to other financial institutions, and except for the capital that must be allocated for the small-retained interest kept by the Company, the sale of RALs reduce the impact of RALs on the capital ratios for the Company.

LIQUIDITY

Liquidity is the ability to effectively raise funds on a timely basis to meet cash needs of our customers and the Company, whether it is to handle fluctuations in deposits, to provide for customers' credit needs, or to take advantage of investment opportunities as they are presented in the market place.

The Company's objective, managed through the Company's Asset and Liability Committee ("ALCO"), is to ensure adequate liquidity at all times by maintaining adequate liquid assets, the ability to raise deposits and liabilities, and having access to additional funds via the capital markets.

The Company manages the adequacy of its liquidity by monitoring and managing its short-term liquidity, intermediate liquidity, and long-term liquidity. ALCO monitors and sets policy and related targets to ensure the Company maintains adequate liquidity. The monitoring of liquidity is done over the various time horizons, to avoid over dependence on volatile sources of funding and to provide a diversified set of funding sources. These targets are increased during certain periods to accommodate any liquidity risks of special programs like RALs.

Short-term liquidity is the ability to raise funds on an overnight basis. Sources of short-term liquidity include, but are not limited to, Federal funds purchased, FHLB short-term advances and securities sold under agreements to repurchase ("repurchase agreements").

Intermediate liquidity is the ability to raise funds during the next few months to meet cash obligations over those next few months. Sources of intermediate liquidity include maturities or sales of securities, term repurchase agreements, and term advances from the FHLB.

Long-term liquidity is the ability to raise funds over the entire planning horizon to meet cash needs anticipated due to strategic balance sheet changes. Long-term liquidity sources include: initiating special programs to increase core deposits in expanded market areas; reducing the size of securities portfolios; taking long-term advances with the FHLB; securitizing or selling loans; and accessing capital markets for the issuance of debt or equity.

Federal funds purchased and overnight repurchase agreements are used to balance short-term mismatches between cash inflows from deposits, loan repayments, and maturing securities and cash outflows to fund loans, purchase securities and deposit withdrawals on a day-to-day basis.

For the Company, the most significant challenge relating to liquidity management is providing sufficient liquidity to fund the large amount of RALs, primarily in late January and early February of each year. In addition to the discussion above, the following considerations are kept in mind in providing the needed liquidity:

- Using a large number of institutions so as to not become overly reliant on a limited number of institutions or a particular type of funding vehicle;
- Using a mixture of committed and uncommitted lines so as to assure a minimum amount of funding in the event of tight liquidity in the markets; and
- Arranging for at least 30% more funding than anticipated on the peak-funding days for RALs.

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The securitization of RALs assists in the management of the Company's capital position during the RAL season by selling some RALs to third parties. In addition, the securitization program represents yet another source of liquidity as the proceeds from the sales are lent out to new RAL customers.

RALs generally present the Company with some special funding and liquidity needs. The Company was successful in planning for the liquidity needs for the 2008 RAL peak funding season of January and February. Additional funds are needed for RAL lending only for the very short period of time that RALs are outstanding. The RAL funding season starts in January and continues into April, but even within that time frame, RAL originations are highly concentrated in the last week of January and first two weeks of February. Each year, the Company must arrange for a significant amount of very short-term borrowing capacity. A portion of the funding need can be met by borrowing overnight from other financial institutions through the use of Federal funds purchased and repurchase agreements. These two sources match the short-term nature of the RALs and therefore are an efficient source of funding. However, they are not sufficient to meet the total need for funds and other sources such as advances from the FHLB and brokered deposits must be utilized. Extensive funding planning is accomplished prior to the RAL season to make effective and efficient use of various funding sources. Management is currently in the process of planning and arranging for the capital and liquidity needs for the 2009 RAL season. In 2008, Management was successful in executing its plan to meet the funding needs for RAL. In fact, in 2008, the Company experienced excess liquidity during the peak RAL season, and Management was able to reinvest funds in short-term investments such as commercial paper, securities purchased under agreements to resale and federal funds sold.

As of September 30, 2008, the Company's liquidity ratio, which is the ratio of liquid assets of cash and cash equivalents, investment securities from the trading and AFS portfolios, federal funds sold and loans held for sale divided by short-term liabilities of demand deposits, repurchase agreements and federal funds purchased was 47.9%, compared to 44.8% at December 31, 2007. The Company's liquidity ratio increased in September 2008 compared to December 2007 as a result of a decrease of federal funds purchased. Total available liquidity as of September 30, 2008 was $1.52 billion.

At September 30, 2008, the Company had available borrowing capacity of $362.9 million at the FHLB and $838.9 million of borrowing capacity with the FRB. This borrowing capacity is utilized to fund loans when loan growth outpaces deposit growth.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described in the MD&A Recent Developments section, global capital markets and economic conditions continue to be adversely affected and the resulting disruption has been particularly acute in the financial sector. Although the Company remains well capitalized and has not suffered any significant liquidity issues as a result of these recent events, the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline as our borrowers and customers realize the impact of an economic slowdown and recession. In addition, the severity and duration of these adverse conditions is unknown and may exacerbate the Company's exposure to credit risk and adversely affect the ability of borrowers to perform under the terms of their lending arrangements with us. Accordingly, continued turbulence in the U.S. and international markets and economy may adversely affect our liquidity, financial condition, results of operations and profitability.

In response to the financial crises affecting the overall banking system and financial markets in the United States, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted. Under that act, the United States Treasury Department ("Treasury") has authority, among other things, to purchase mortgages, mortgage backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 3, 2008, the Troubled Asset Relief Program ("TARP") was signed into law. TARP gave the Treasury authority to deploy up to $700 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. On November 5, 2008, the Company received preliminary approval to participate in CPP with approval of 3% of the Bank's risk weighted assets. At September 30, 2008, the Bank had $6.1 billion of risk weighted assets which, is approximately $184 million of additional capital that the TARP program has preliminarily approved. The general terms of this preferred stock program include:

- dividends on the Treasury's preferred stock at a rate of 5% for the first five years and 9% dividends thereafter;
- common stock dividends cannot be increased for three years while Treasury is an investor unless preferred stock is redeemed or consent from Treasury is received;

- the Treasury preferred stock cannot be redeemed for three years unless the participating bank raises qualifying private capital;
- Treasury must consent to any buy back of other stock (common or other preferred);
- Treasury receives warrants equal to 15% of Treasury's total investment in the participating institution; and
- participating institution's 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. Although both PCB and the Bank and its banking subsidiary meet all applicable regulatory capital requirements, the Company received preliminary approval on November 5, 2008.

Federal and state governments could pass additional 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 principal amount or interest rate 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, including requiring riskier institutions to pay a larger share of the premiums. An increase in premium assessments would increase the Company's expenses. The EESA included a provision for an increase in the amount of deposits insured by FDIC to $250,000 until December 2009. 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 an annualized 10 basis point surcharge on the additional insured deposits. The behavior of depositors in regard to the level of FDIC insurance could cause the Bank's existing customers to reduce the amount of deposits held at the Bank, and or 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. As a result of these measures, it is likely that the premiums the Bank pays for FDIC insurance will increase, which would adversely affect net income. The impact of such measures cannot be assessed at this time.

The actions described above, together with additional actions announced by the Treasury and other regulatory agencies continue to develop. It is not clear at this time what impact the EESA, CPP and other liquidity and funding initiatives of the Treasury and other bank regulatory agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to effect the U.S. banking industry and the broader U.S. and global economies, which will have an affect on all financial institutions, including the Company.

Risk definition and assessment allows the Company to select the appropriate level of risk for the anticipated level of reward and then decide on the steps necessary to manage this risk. The key risk factors affecting the Company's business are addressed in Item 1A, Risk Factors in the Company's 2007 10-K.

Changes in interest rates can potentially have a significant impact on the Company's earnings. The Company has addressed the risks associated with interest rate risk in the section below.

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INTEREST RATE RISK

The Company's recent interest rate risk management activities have been focused on reducing the impact of rising and falling interest rates by taking a more neutral position. The forward looking interest rate curves and markets are now anticipating the Federal Reserve will revert to a policy of tightening interest rates in the first quarter of 2009.

With such a large proportion of the Company's income derived from net interest income, it is important to understand how the Company is subject to interest rate risk.

- In general, for a given change in interest rates, the amount of the change in value up or down is larger for instruments with longer remaining maturities. The shape of the yield curve may affect new loan yields and funding costs differently.

- The remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change. For example, if long-term mortgage interest rates decline sharply, higher fixed-rate mortgages may prepay, or pay down, faster than anticipated, thus reducing future cash flows and interest income.

- Repricing frequencies and maturity profiles for assets and liabilities may occur at different times. For example, in a falling rate environment, if assets reprice faster than liabilities, there will be an initial decline in earnings. Moreover, if assets and liabilities reprice at the same time, they may not be by the same increment. For instance, if the Federal funds rate increased 50 bps, demand deposits may rise by 10 bps, whereas prime based loans will instantly rise 50 bps.

Monthly evaluations, monitoring and management of interest rate risk (including market risk, mismatch risk and basis risk) compare our most likely rate scenario, base case, with various earnings simulations using many interest rate scenarios. These scenarios 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. These results are prepared by the Company's Treasury Department and presented to the ALCO each month for further consideration.

Financial instruments do not respond in a parallel fashion to rising or falling interest rates. This causes asymmetry in the magnitude of changes in net interest income and net economic value resulting from the hypothetical increases and decreases in interest rates. Therefore, it is mandatory to monitor interest rate risk and adjust the Company's funding strategies to mitigate adverse effects of interest rate shifts on the Company's balance sheet. In the future, however, other strategies may be implemented to manage interest rate risk. These strategies may include, but may not be limited to, utilizing interest rate derivatives, buying or selling loans or securities, utilizing structured repurchase agreements and entering into other interest rate risk management instruments and techniques.

Net Interest Income ("NII") and Economic Value of Equity ("EVE") Simulations

The results of the asset liability model indicate how much of the Company's net interest income and net economic value are "at risk" (deviation from the base case) from 2% shocks. This exercise is valuable in identifying risk exposures and in comparing the Company's interest rate risk profile relative to other financial intermediaries.

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 unaware of any material limitations such that results would not reflect the net interest risk exposures of the Company. However, no model is a perfect description of the complexity of a bank's balance sheet, and actual results are certain to differ from any model's predicted results. There are no material positions, instruments or transactions that are not included in the modeling or included instruments that have special features that are not included.

The EVE and NII results as of September 30, 2008 and September 30, 2007 are displayed in the table below.

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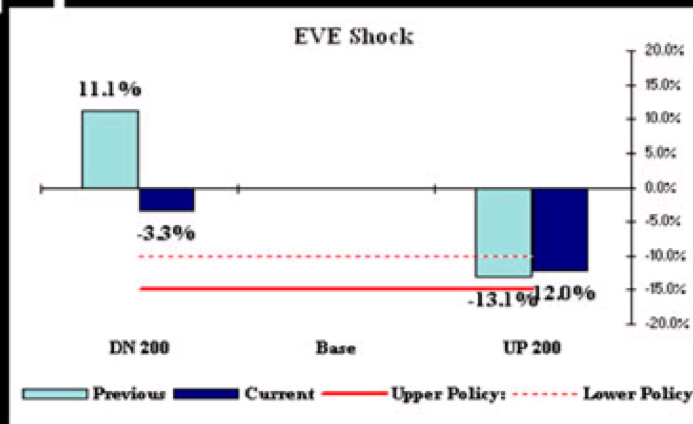
RATE SENSITIVITY SUMMARY

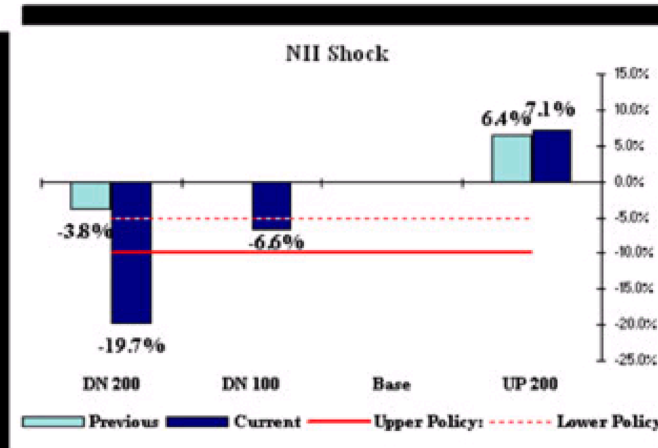
EVE Shock Summary Report

	DN 200	Base	UP 200
	(in millions)		
Total Assets:	$7,860	$7,582	$7,245
Total Liabilities:	6,947	6,639	6,415
Net Asset Value:	**$913**	**$943**	**$830**
Current	**-3.3%**		**-12.0%**
Previous	***11.1%***		***-13.1%***
Upper Policy:	-15.0%		-15.0%
Lower Policy:	-10.0%		-10.0%
w/in Limit:	Yes		Yes



NII Shock Summary Report

	DN 200	DN 100	Base	UP 200
	(in millions)			
Interest Income	$393.7	$428.3	$467.5	$522.1
Interest Expense	130.9	123.0	140.5	171.8
Net Interest Income:	**$262.8**	**$305.3**	**$327.0**	**$350.3**
Current	**-19.7%**	**-6.6%**		**7.1%**
Previous	***-3.8%***	**n/a**		***6.4%***
Upper Policy:	-10.0%			10.0%
Lower Policy:	-5.0%			-5.0%
w/in Limit:	*No*			Yes



The EVE value at risk at September 30, 2008 was within the adopted ALCO policy ranges at negative 3.3% for the down 200 basis points ("DN 200") and at negative 12.0% for the up 200 basis points ("UP 200") scenarios. As noted in the table above, the Company's net interest income ("NII") exposure for the down 200 basis points ("DN 200") has surpassed our IRR policy limit as of September 30, 2008. The deterioration is largely due to limited capacity of the bank's deposits to absorb an additional 200 basis point reduction in the target Fed Funds rate. The DN 200 scenario corresponds to an instantaneous and parallel rate shock of 200 basis points where target Fed Funds is set at 0%, which is highly unlikely. A special 100 basis point ("DN 100") scenario NII simulation indicates margin compression mostly occurs when Fed decreases its target rate below 1%.

The simulation indicates a 7.1% improvement in the Up 200 scenario for NII over the next twelve months, using a scenario in which the Federal funds rate immediately increases 200 basis points to 4%. The improvement is mainly due to the sale of fixed rate mortgages and higher CDs balances.

The Company does not currently have any derivative instruments to assist with managing interest rate risk. The derivative instruments the Company does have are offsetting instruments between the Company and certain commercial customers and the Company and a third party. Changes in these derivative instrument's market values are recorded in the balance sheet with no income statement impact for the Company. The associated interest income and interest expense for the derivative instruments are recorded in the Company's income statement. The Company had $140.8 million notional amount of offsetting derivative instruments at September 30, 2008. The offsetting derivative instruments are not specifically addressed in the Company's interest rate risk model. These derivatives have been reviewed and included in the calculation of the Company's off-balance sheet credit risk model.

The Company is utilizing an interest rate risk mitigation program to partially offset exposure of its mortgage-backed securities portfolio to rising interest rates. The Company holds a short position on US Treasury futures, which will increase in value as rates rise and offset adverse effects of rising rates on the MBS portfolio.

PART II – OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit Number	Description
31.	Certifications pursuant to Section 302 of Sarbanes-Oxley Act of 2002
	31.1 Certification of George S. Leis
	31.2 Certification of Stephen V. Masterson
32.	Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002
	32.1 Certification of George S. Leis and Stephen V. Masterson

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

PACIFIC CAPITAL BANCORP

/s/ George S. Leis George S. Leis President and Chief Executive Officer	November 14, 2008
/s/ Stephen V. Masterson Stephen V. Masterson Executive Vice President and Chief Financial Officer	November 14, 2008

Section 2: EX-31.1 (CERTIFICATION PURSUANT TO SECTION 302)

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, George S. Leis, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 1) of Pacific Capital Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over

financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008

/s/ George S. Leis
George S. Leis
President and Chief Executive Officer
(Principal Executive Officer)

Section 3: EX-31.2 (CERTIFICATION PURSUANT TO SECTION 302)

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stephen V. Masterson, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 1) of Pacific Capital Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d – 15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2008

/s/ Stephen V. Masterson
Stephen V. Masterson
Executive Vice President and Chief Financial Officer

Section 4: EX-32.1 (CERTIFICATION PURSUANT TO SECTION 906)

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the quarterly report on Form 10-Q/A (Amendment No. 1) for the period ended September 30, 2008 (the "Report") by Pacific Capital Bancorp ("Registrant"), the undersigned hereby certifies that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: November 14, 2008

/s/ George S. Leis
George S. Leis
President and Chief Executive Officer

Date: November 14, 2008

/s/ Stephen V. Masterson
Stephen V. Masterson
Executive Vice President and Chief Financial Officer