UMPQUA HOLDINGS CORP
Form 10-Q
November 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended: **September 30, 2010**

¨ **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: **000-25597**

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

OREGON	**93-1261319**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

One SW Columbia Street, Suite 1200

Portland, Oregon 97258

(Address of Principal Executive Offices)(Zip Code)

(503) 727-4100

(Registrant s Telephone Number, Including Area Code)

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.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ Yes ¨ No

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

¨ Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ 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 x No

Indicate the number of shares outstanding for each of the issuer s classes of common stock, as of the latest practical date:

Common stock, no par value: 114,532,543 shares outstanding as of October 31, 2010

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UMPQUA HOLDINGS CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 124,633	$ 113,353
Interest bearing deposits	933,911	491,462
Temporary investments	5,496	598
Total cash and cash equivalents	1,064,040	605,413
Investment securities		
Trading, at fair value	2,155	2,273
Available for sale, at fair value	2,599,263	1,795,616
Held to maturity, at amortized cost	5,108	6,061
Loans held for sale	57,407	33,715
Non-covered loans and leases	5,698,267	5,999,267
Allowance for loan and lease losses	(108,098)	(107,657)
Net non-covered loans and leases	5,590,169	5,891,610
Covered loans and leases	840,469	-
Restricted equity securities	34,665	15,211
Premises and equipment, net	133,728	103,266
Goodwill and other intangible assets, net	680,893	639,634
Mortgage servicing rights, at fair value	13,454	12,625
Non-covered other real estate owned	32,024	24,566
Covered other real estate owned	30,348	-
FDIC indemnification asset	217,696	-
Other assets	231,552	251,382
Total assets	$ 11,532,971	$ 9,381,372
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 1,578,717	$ 1,398,332
Interest bearing	7,722,623	6,042,102
Total deposits	9,301,340	7,440,434
Securities sold under agreements to repurchase	55,333	45,180
Term debt	268,256	76,274
Junior subordinated debentures, at fair value	80,146	85,666
Junior subordinated debentures, at amortized cost	102,946	103,188
Other liabilities	73,236	64,113

Total liabilities	9,881,257	7,814,855
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
SHAREHOLDERS EQUITY		
Preferred stock, no par value, 2,000,000 shares authorized; Series A (liquidation preference $1,000 per share) issued and outstanding: none in 2010 and 214,181 in 2009	-	204,335
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 114,531,514 in 2010 and 86,785,588 in 2009	1,540,029	1,253,288
Retained earnings	75,502	83,939
Accumulated other comprehensive income	36,183	24,955
Total shareholders equity	1,651,714	1,566,517
Total liabilities and shareholders equity	$ 11,532,971	$ 9,381,372

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
INTEREST INCOME				
Interest and fees on loans	$ 112,652	$ 89,474	$ 300,600	$ 266,587
Interest and dividends on investment securities				
Taxable	17,421	15,365	49,065	43,625
Exempt from federal income tax	2,221	2,020	6,655	5,755
Dividends	6	22	9	22
Interest on temporary investments and interest bearing deposits	646	207	1,590	258
Total interest income	132,946	107,088	357,919	316,247
INTEREST EXPENSE				
Interest on deposits	19,913	22,132	57,165	68,552
Interest on securities sold under agreement to repurchase and federal funds purchased	136	163	382	527
Interest on term debt	2,533	917	6,832	3,935
Interest on junior subordinated debentures	2,047	2,114	5,871	7,069
Total interest expense	24,629	25,326	70,250	80,083
Net interest income	108,317	81,762	287,669	236,164
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	24,228	52,108	96,101	140,531
PROVISION FOR COVERED LOAN AND LEASE LOSSES	667	-	667	-
Net interest income after provision for loan and lease losses	83,422	29,654	190,901	95,633
NON-INTEREST INCOME				
Service charges on deposit accounts	8,756	8,542	26,706	24,565
Brokerage commissions and fees	2,609	1,993	8,387	5,117
Mortgage banking revenue, net	7,138	4,288	13,825	14,617
Gain (loss) on investment securities, net				
Gain on sale of investment securities, net	2,331	162	2,331	8,682
Total other-than-temporary impairment losses	(37)	-	(42)	(12,492)
Portion of other-than-temporary impairment losses (transferred from) recognized in other comprehensive income	(7)	(4)	(290)	2,733

Total gain (loss) on investment securities, net	2,287	158	1,999	(1,077)
(Loss) gain on junior subordinated debentures carried at fair value	(554)	982	5,534	10,173
Bargain purchase gain on acquisition	-	-	8,456	-
Change in FDIC indemnification asset	(11,948)	-	(11,075)	-
Other income	3,845	1,962	8,930	7,097
Total non-interest income	12,133	17,925	62,762	60,492
NON-INTEREST EXPENSE				
Salaries and employee benefits	42,964	31,583	118,808	94,697
Net occupancy and equipment	11,448	9,937	33,596	29,266
Communications	2,480	1,806	7,300	5,398
Marketing	2,468	1,157	5,191	3,596
Services	5,507	5,210	16,253	15,942
Supplies	1,177	920	2,906	2,559
FDIC assessments	3,910	3,321	10,909	12,645
Net (gain) loss on other real estate owned	(317)	8,641	1,042	14,110
Intangible amortization	1,356	1,319	4,032	4,043
Goodwill impairment	-	-	-	111,952
Merger related expenses	1,643	-	5,718	273
Other expenses	12,534	4,455	24,119	12,422
Total non-interest expense	85,170	68,349	229,874	306,903
Income (loss) before provision for (benefit from) income taxes	10,385	(20,770)	23,789	(150,778)
Provision for (benefit from) income taxes	2,194	(13,626)	2,410	(24,094)
Net income (loss)	$ 8,191	$ (7,144)	$ 21,379	$ (126,684)

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	$ 8,191	$ (7,144)	21,379	(126,684)
Preferred stock dividends	-	3,225	12,192	9,632
Dividends and undistributed earnings allocated to participating securities	18	7	49	22
Net earnings (loss) available to common shareholders	$ 8,173	$ (10,376)	$ 9,138	$ (136,338)
Earnings (loss) per common share:				
Basic	$ 0.07	$ (0.14)	$ 0.09	$ (2.10)
Diluted	$ 0.07	$ (0.14)	$ 0.09	$ (2.10)
Weighted average number of common shares outstanding:				
Basic	114,528	74,085	105,695	64,878
Diluted	114,760	74,085	105,924	64,878

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(in thousands, except shares)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT JANUARY 1, 2009	$ 202,178	60,146,400	$ 1,005,820	$ 264,938	$ 14,072	$ 1,487,008
Net loss				(153,366)		(153,366)
Other comprehensive income, net of tax					10,883	10,883
Comprehensive loss						$ (142,483)
Issuance of common stock		26,538,461	245,697			245,697
Stock-based compensation			2,188			2,188
Stock repurchased and retired		(19,516)	(174)			(174)
Issuances of common stock under stock plans and related net tax deficiencies		120,243	(243)			(243)
Amortization of discount on preferred stock	2,157			(2,157)		-
Dividends declared on preferred stock				(10,739)		(10,739)
Cash dividends on common stock ($0.20 per share)				(14,737)		(14,737)
Balance at December 31, 2009	$ 204,335	86,785,588	$ 1,253,288	$ 83,939	$ 24,955	$ 1,566,517
BALANCE AT JANUARY 1, 2010	$ 204,335	86,785,588	$ 1,253,288	$ 83,939	$ 24,955	$ 1,566,517
Net income				21,379		21,379
Other comprehensive income, net of tax					11,228	11,228
Comprehensive income						$ 32,607
Issuance of common stock		8,625,000	89,786			89,786
Stock-based compensation			2,627			2,627
Stock repurchased and retired		(22,310)	(282)			(282)
Issuances of common stock under stock plans and related net tax benefits		168,236	821			821
Amortization of discount on preferred stock	9,846			(9,846)		-
Redemption of preferred stock issued to U.S. Treasury	(214,181)					(214,181)
Issuance of preferred stock	198,289					198,289
Conversion of preferred stock to common stock	(198,289)	18,975,000	198,289			-
Dividends declared on preferred stock				(3,686)		(3,686)
Repurchase of warrants issued to U.S. Treasury			(4,500)			(4,500)

Cash dividends on common stock ($0.15 per share)				(16,284)		(16,284)
Balance at September 30, 2010	$ -	114,531,514	$ 1,540,029	$ 75,502	$ 36,183	$ 1,651,714

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	$ 8,191	$ (7,144)	$ 21,379	$ (126,684)
Available for sale securities:				
Unrealized (losses) gains arising during the period	(7,976)	29,579	20,117	35,365
Reclassification adjustment for net gains realized in earnings (net of tax expense of $932 and $65 for the three months and net of tax expense of $932 and $3,337 for the nine months ended September 30, 2010 and 2009, respectively)	(1,399)	(97)	(1,399)	(5,066)
Income tax benefit (expense) related to unrealized (losses) gains	3,190	(11,831)	(8,047)	(14,146)
Net change in unrealized (losses) or gains	(6,185)	17,651	10,671	16,153
Held to maturity securities:				
Reclassification adjustment for impairments realized in net income (net of tax benefit of $1,716 for the nine months ended September 30, 2009)	-	-	-	2,574
Amortization of unrealized losses on investment securities transferred to held to maturity (net of tax benefit of $70 for the nine months ended September 30, 2009)	-	-	-	103
Net change in unrealized losses on investment securities transferred to held to maturity	-	-	-	2,677
Unrealized gains (losses) related to factors other than credit (net of tax expense of $70 and $1 for the three months and net of tax expense of $139 and net of tax benefit of $1,094 for the nine months ended September 30, 2010 and 2009, respectively)	105	1	208	(1,641)
Reclassification adjustment for impairments realized in net income (net of tax benefit of $18 and $2 for the three months and $133 and $2 for the nine months ended September 30, 2010 and 2009, respectively)	26	2	199	2

Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $26 and $78 for the three months and $100 and $78 for the nine months ended September 30, 2010 and 2009, respectively)	39	118	150	118
Net change in unrealized losses related to factors other than credit	170	121	557	(1,521)
Other comprehensive (loss) income, net of tax	(6,015)	17,772	11,228	17,309
Comprehensive income (loss)	$ 2,176	$ 10,628	$ 32,607	$ (109,375)

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine months ended September 30,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 21,379	$ (126,684)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of investment premiums, net	12,230	5,721
Gain on sale of investment securities, net	(2,331)	(8,682)
Other-than-temporary impairment on investment securities available for sale	-	239
Other-than-temporary impairment on investment securities held to maturity	332	9,520
Loss on sale of non-covered other real estate owned	1,379	6,939
Gain on sale of covered other real estate owned	(3,425)	-
Valuation adjustment on non-covered other real estate owned	2,163	7,171
Valuation adjustment on covered other real estate owned	925	-
Provision for non-covered loan and lease losses	96,101	140,531
Provision for covered loan and lease losses	667	-
Bargain purchase gain on acquisition	(8,456)	-
Change in FDIC indemnification asset	11,075	-
Depreciation, amortization and accretion	9,121	7,915
Goodwill impairment	-	111,952
Increase in mortgage servicing rights	(3,624)	(5,958)
Change in mortgage servicing rights carried at fair value	2,857	2,611
Change in junior subordinated debentures carried at fair value	(5,520)	(10,528)
Stock-based compensation	2,627	1,695
Net decrease in trading account assets	118	75
Gain on sale of loans	(9,282)	(4,943)
Origination of loans held for sale	(454,662)	(520,302)
Proceeds from sales of loans held for sale	439,663	523,760
Excess tax benefits from the exercise of stock options	(56)	-
Change in other assets and liabilities:		
Net decrease (increase) in other assets	21,531	(30,673)
Net increase (decrease) in other liabilities	4,030	(5,889)
Net cash provided by operating activities	138,842	104,470
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(1,004,194)	(980,168)
Proceeds from investment securities available for sale	262,067	404,166
Proceeds from investment securities held to maturity	1,080	2,045
Redemption of restricted equity securities	282	1,280
Net non-covered loan and lease paydowns (originations)	144,292	(109,348)
Net covered loan and lease paydowns	70,697	-
Proceeds from sales of loans	35,464	7,848

Proceeds from disposals of furniture and equipment	1,100	181
Purchases of premises and equipment	(40,978)	(7,824)
Net proceeds from FDIC indemnification asset	24,103	-
Proceeds from sales of non-covered other real estate owned	18,867	20,759
Proceeds from sales of covered other real estate owned	9,544	-
Proceeds from sale of acquired insurance portfolio	5,150	-
Cash acquired in merger, net of cash consideration paid	179,046	178,905
Net cash used by investing activities	(293,480)	(482,156)

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)

	Nine months ended September 30,	
	2010	**2009**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit liabilities	713,503	443,003
Net increase in securities sold under agreements to repurchase	10,153	2,443
Repayment of term debt	(161,968)	(130,140)
Redemption of preferred stock	(214,181)	-
Proceeds from issuance of preferred stock	198,289	-
Net proceeds from issuance of common stock	89,786	245,697
Redemption of warrants	(4,500)	-
Dividends paid on preferred stock	(3,686)	(8,062)
Dividends paid on common stock	(14,882)	(9,051)
Excess tax benefits from stock based compensation	56	-
Proceeds from stock options exercised	977	275
Retirement of common stock	(282)	(170)
Net cash provided by financing activities	613,265	543,995
Net increase in cash and cash equivalents	458,627	166,309
Cash and cash equivalents, beginning of period	605,413	204,676
Cash and cash equivalents, end of period	$ 1,064,040	$ 370,985
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 71,887	$ 82,840
Income taxes	$ 175	$ 44
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$ 10,671	$ 16,153
Change in unrealized losses on investment securities transferred to held to maturity, net of taxes	$ -	$ 2,677
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$ 557	$ (1,521)
Cash dividend declared on common and preferred stock and payable after period-end	$ 5,743	$ 4,346
Transfer of non-covered loans to non-covered other real estate owned	$ 29,867	$ 34,408
Transfer of covered loans to covered other real estate owned	$ 10,453	$ -
Conversion of preferred stock to common stock	$ 198,289	$ -
Acquisitions:		
Assets acquired	$ 1,514,067	$ 4,978
Liabilities assumed	$ 1,505,611	$ 183,883

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as we , our or the Company) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Umpqua Bank (Bank), and Umpqua Investments, Inc. (Umpqua Investments). Prior to July 2009, Umpqua Investments was known as Strand, Atkinson, Williams & York, Inc. All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2009 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2009 Annual Report filed on Form 10-K.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2010 for potential recognition or disclosure. In management s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Note 2 Business Combinations

On January 22, 2010, the Washington Department of Financial Institutions closed EvergreenBank (Evergreen), Seattle, Washington and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. That same date, Umpqua Bank assumed the banking operations of Evergreen from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (OREO) and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $90.0 million on covered assets for Evergreen and absorb 95% of losses and share in 95% of loss recoveries exceeding $90.0 million, except for the Bank will incur losses up to $30.2 million before the loss-sharing will commence. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition date. With this agreement, Umpqua Bank now operates five additional store locations in the greater Seattle, Washington market. This acquisition is consistent with our community banking expansion strategy and provides further opportunity to fill in our market presence in the greater Seattle, Washington market.

On February 26, 2010, the Washington Department of Financial Institutions closed Rainier Pacific Bank (Rainier), Tacoma, Washington and appointed the FDIC as receiver. That same date, Umpqua Bank assumed the banking operations of Rainier from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $95.0 million of losses on covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding $95.0 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates. With this agreement, Umpqua Bank now operates 14 additional store locations in Pierce County and surrounding areas. This acquisition expands our presence in the south Puget Sound region of Washington State.

The operations of Evergreen and Rainier are included in our operating results from January 23, 2010 and February 27, 2010, respectively, and added combined revenue of $9.3 million and $34.1 million, non-interest expense of $6.6 million and $17.9 million, and earnings of $1.3 million and $10.1 million, net of tax, for the three and nine months ended September 30, 2010. For the nine months ended September 30, 2010, these operating results include a bargain purchase gain of $8.5 million, which is not indicative of future operating results. Evergreen s and Rainiers s results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $748,000 and $4.1 million for the three and nine months ended September 30, 2010 have been incurred in connection with these acquisitions and recognized in a separate line item on the *Condensed Consolidated Statements of Operations*.

On June 18, 2010, the Nevada State Financial Institutions Division closed Nevada Security Bank (Nevada Security), Reno, Nevada and appointed the FDIC as receiver. That same date, Umpqua Bank assumed the banking operations of Nevada Security from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO, and accrued interest on loans for up to 90 days.

The FDIC will absorb 80% of losses and share in 80% of loss recoveries on all covered assets. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years,

respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates. With this agreement, Umpqua Bank now operates five additional store locations, including three in Reno, Nevada, one in Incline Village, Nevada, and one in Roseville, California. This acquisition expands our presence into the State of Nevada.

The operations of Nevada Security are included in our operating results from June 19, 2010, and added revenue of $3.9 million and $4.4 million, non-interest expense of $3.0 million and $3.6 million, and earnings of $578,000 and $544,000, net of tax, for the three and nine months ended September 30, 2010. Nevada Security s results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $741,000 and $1.1 million for the three and nine months ended September 30, 2010 have been incurred in connection with the acquisition of Nevada Security and recognized as a separate line item on the *Condensed Consolidated Statements of Operations*.

We refer to the acquired loan portfolios and other real estate owned as covered loans and covered other real estate owned , respectively, and these are presented as separate line items in our consolidated balance sheet. Collectively these balances are referred to as covered assets .

The assets acquired and liabilities assumed from the Evergreen, Rainier, and Nevada Security acquisitions have been accounted for under the acquisition method of accounting (formerly the purchase method). The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification (the FASB ASC). The fair values of assets and liabilities acquired, including the calculation of the undiscounted contractual cash flows and beginning accretable yield relating to the acquired loan portfolios, and the indemnification asset are still pending finalization and are subject to change for up to one year after the closing date of each acquisition, as additional information relating to closing data becomes available. The amounts are also subject to adjustments based upon final settlement with the FDIC. In addition, the tax treatment of FDIC-assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the agreements provide for the FDIC to indemnify the Bank against claims with respect to liabilities of Evergreen, Rainier, and Nevada Security not assumed by the Bank and certain other types of claims identified in the agreement. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of $8.5 million in the Evergreen acquisition, $34.7 million of goodwill in the Rainier acquisition and $8.8 million of goodwill in the Nevada Security acquisition.

A summary of the net assets (liabilities) received from the FDIC and the estimated fair value adjustments are presented below:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Cost basis net assets (liabilities)	$ 58,811	$ (50,295)	$ 53,629
Cash payment received from (paid to) the FDIC	-	59,351	(29,950)
Fair value adjustments:			
Loans	(118,414)	(105,224)	(113,977)
Other real estate owned	(2,422)	(6,581)	(17,939)
Other intangible assets	440	6,253	322
FDIC indemnification asset	73,774	78,055	101,045
Deposits	(1,023)	(1,828)	(1,950)
Term debt	(2,496)	(13,035)	-
Other	(214)	(1,445)	48
Bargain purchase gain (goodwill)	$ 8,456	$ (34,749)	$ (8,772)

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer s bid, the FDIC may be required to make a cash payment to the acquirer or the acquirer may be required to make payment to the FDIC. In the Evergreen acquisition, cost basis net assets of $58.8 million were transferred to the Company. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed.

In the Rainier acquisition, cost basis net liabilities of $50.3 million and a cash payment received from the FDIC of $59.4 million were transferred to the Company. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the

assets acquired.

In the Nevada Security acquisition, cost basis net assets of $53.6 million were transferred to the Company and a cash payment of $30.0 million was made to the FDIC. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired.

The Bank did not immediately acquire all the real estate, banking facilities, furniture or equipment of Evergreen, Rainier, or Nevada Security as part of the purchase and assumption agreements. However, the Bank was granted the option to purchase or lease the real estate and furniture and equipment from the FDIC. The term of this option expires 90 days from the acquisition dates. Acquisition costs of the real estate and furniture and equipment are based on current mutually agreed upon appraisals. Prior to the expiration of option term, Umpqua exercised the right to purchase approximately $300,000 of furniture and equipment for Evergreen, $26.3 million of real estate and furniture and equipment for Rainier, and $161,000 of furniture and equipment for Nevada Security. The Bank has the option to purchase additional furniture and equipment and one store location as part of the Nevada Security acquisition, and expects resolution in the fourth quarter of 2010.

The statement of assets acquired and liabilities assumed at their estimated fair values of Evergreen, Rainier, and Nevada Security are presented below:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Assets Acquired:			
Cash and equivalents	$ 18,919	$ 94,067	$ 66,060
Investment securities	3,850	26,478	22,626
Covered loans	251,528	456,253	214,505
Premises and equipment	-	17	50
Restricted equity securities	3,073	13,712	2,951
Goodwill	-	34,749	8,772
Other intangible assets	440	6,253	322
Mortgage servicing rights	-	62	-
Covered other real estate owned	2,421	6,580	17,938
FDIC indemnification asset	73,774	78,055	101,045
Other assets	1,293	4,948	3,326
Total assets acquired	$ 355,298	$ 721,174	$ 437,595
Liabilities Assumed:			
Deposits	$ 285,775	$ 425,771	$ 437,299
Term debt	60,813	293,191	-
Other liabilities	254	2,212	296
Total liabilities assumed	346,842	721,174	437,595
Net assets acquired/bargain purchase gain	$ 8,456	$ -	$ -

Rainier s assets and liabilities were significant at a level to require disclosure of one year of historical financial statements and related pro forma financial disclosure. However, given the pervasive nature of the loss-sharing agreement entered into with the FDIC, the historical information of Rainier is much less relevant for purposes of assessing the future operations of the combined entity. In addition, prior to closure Rainier had not completed an audit of their financial statements, and we determined that audited financial statements are not and will not be reasonably available for the year ended December 31, 2009. Given these considerations, the Company requested, and received, relief from the Securities and Exchange Commission from submitting certain financial information of Rainier. The assets and liabilities of Evergreen and Nevada Security were not at a level that requires disclosure of historical or pro forma financial information.

On January 16, 2009, the Washington Department of Financial Institutions closed the Bank of Clark County, Vancouver, Washington, and appointed the FDIC as its receiver. The FDIC entered into a purchase and assumption agreement with Umpqua Bank to assume the insured non-brokered deposit balances, which totaled $183.9 million, at no premium. The Company recorded the deposit related liabilities at book value. In connection with the assumption, Umpqua Bank acquired certain assets totaling $23.0 million, primarily cash and marketable securities, with

the difference of $160.9 million representing funds received directly from the FDIC. Through this agreement, Umpqua Bank now operates two additional store locations in Vancouver, Washington. In addition, the FDIC reimbursed Umpqua Bank for all overhead costs related to the acquired Bank of Clark County operations for 90 days following closing, while Umpqua Bank paid the FDIC a servicing fee on assumed deposit accounts for that same period.

The results of the Bank of Clark County s operations have been included in the consolidated financial statements beginning January 17, 2009 and added net earnings of approximately $644,000 and $2.0 million for the three and nine months ended September 30, 2010, net of tax, and approximately $507,000 and $1.0 million for the three and nine months ended September 30, 2009, net of tax, which primarily represents interest income earned from the proceeds of the assumption which were invested in investment securities available for sale and service income on deposits. This was partially offset by interest expense on deposits, salaries and employee benefits expense, and the accrued servicing fee paid to the FDIC. Umpqua did not incur the FDIC servicing fee expense during the

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second or third quarter of 2009, but began incurring overhead expenses such as salaries and employee benefits expense and rent expense. The Company does not expect to incur any significant additional acquisition-related expenses in connection with the assumption of certain deposits and assets of the Bank of Clark County.

Note 3 Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2010 and December 31, 2009:

September 30, 2010 (in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 117,631	$ 1,762	$ (1)	$ 119,392
Obligations of states and political subdivisions	217,995	12,284	(28)	230,251
Residential mortgage-backed securities and collateralized mortgage obligations	2,200,313	54,140	(7,048)	2,247,405
Other debt securities	145	14	-	159
Investments in mutual funds and other equity securities	1,959	97	-	2,056
	$ 2,538,043	$ 68,297	$ (7,077)	$ 2,599,263
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 2,595	$ 13	$ -	$ 2,608
Residential mortgage-backed securities and collateralized mortgage obligations	2,513	322	(260)	2,575
	$ 5,108	$ 335	$ (260)	$ 5,183

December 31, 2009 (in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 11,588	$ 208	$ (2)	$ 11,794
Obligations of states and political subdivisions	205,549	6,480	(204)	211,825
Residential mortgage-backed securities and collateralized mortgage obligations	1,533,149	40,272	(3,572)	1,569,849
Other debt securities	145	14	-	159
Investments in mutual funds and other equity securities	1,959	30	-	1,989
	$ 1,752,390	$ 47,004	$ (3,778)	$ 1,795,616
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 3,216	$ 11	$ -	$ 3,227
Residential mortgage-backed securities and collateralized mortgage obligations	2,845	251	(187)	2,909

	$	6,061	$	262	$	(187)	$	6,136

Investment securities that were in an unrealized loss position as of September 30, 2010 and December 31, 2009 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

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September 30, 2010
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ -	$ -	$ 116	$ 1	$ 116	$ 1
Obligations of states and political subdivisions	2,125	25	1,024	3	3,149	28
Residential mortgage-backed securities and collateralized mortgage obligations	701,326	7,040	1,547	8	702,873	7,048
Total temporarily impaired securities	$ 703,451	$ 7,065	$ 2,687	$ 12	$ 706,138	$ 7,077
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 801	$ 260	$ 801	$ 260
Total temporarily impaired securities	$ -	$ -	$ 801	$ 260	$ 801	$ 260

December 31, 2009
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ -	$ -	$ 133	$ 2	$ 133	$ 2
Obligations of states and political subdivisions	13,209	123	1,937	81	15,146	204
Residential mortgage-backed securities and collateralized mortgage obligations	293,035	3,529	958	43	293,993	3,572
Total temporarily impaired securities	$ 306,244	$ 3,652	$ 3,028	$ 126	$ 309,272	$ 3,778
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 620	$ 187	$ 620	$ 187
Total temporarily impaired securities	$ -	$ -	$ 620	$ 187	$ 620	$ 187

The unrealized losses on investments in U.S. Treasury and agencies securities were caused by interest rate increases subsequent to the purchase of these securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of

their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of September 30, 2010. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

Of the residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at September 30, 2010, 99.9% are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire

impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated accordingly to the procedures described above.

The following tables present the OTTI losses for the three and nine months ended September 30, 2010 and 2009, respectively:

(in thousands)

	Three months ended September 30, 2010		Three months ended September 30, 2009	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total other-than-temporary impairment losses	$ 37	$ -	$ -	$ -
Portion of other-than-temporary impairment losses transferred from (recognized in) other comprehensive income [1]	7	-	4	-
Net impairment losses recognized in earnings [2]	$ 44	$ -	$ 4	$ -

	Nine months ended September 30, 2010		Nine months ended September 30, 2009	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total other-than-temporary impairment losses	$ 42	$ -	$ 12,253	$ 239
Portion of other-than-temporary impairment losses transferred from (recognized in) other comprehensive income [1]	290	-	(2,733)	-
Net impairment losses recognized in earnings [2]	$ 332	$ -	$ 9,520	$ 239

(1) Represents other-than-temporary impairment losses related to all other factors.
(2) Represents other-than-temporary impairment losses related to credit losses.

The OTTI recognized on investment securities held to maturity relate to non-agency collateralized mortgage obligations for all periods presented. Each of these securities holds various levels of credit subordination. The underlying mortgage loans of these securities were originated from 2003 through 2007. At origination, the weighted average loan-to-value of the underlying mortgages was 69%; the underlying borrowers had weighted average FICO scores of 731, and 59% were limited documentation loans. These securities are valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimate cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management s estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows are then discounted at the interest rate used to recognize interest income on each security. We review the actual collateral

performance of these securities on a quarterly basis and update the inputs as appropriate to determine the projected cash flows. The following table presents a summary of the significant inputs utilized to measure management s estimate of the credit loss component on these non-agency collateralized mortgage obligations as of September 30, 2010:

	Range		**Weighted**
	Minimum	**Maximum**	**Average**
Constant prepayment rate	4.0%	25.0%	14.9%
Collateral default rate	8.0%	45.0%	16.8%
Loss severity	20.0%	50.0%	34.5%

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The following table presents a roll forward of the credit loss component of held to maturity debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in OCI for the three and nine months ended September 30, 2010 and 2009, respectively:

(in thousands)

	Three months ended September 30, 2010	Three months ended September 30, 2009
Balance, beginning of period	$ 12,652	$ 11,546
Additions:		
Initial OTTI credit losses	-	-
Subsequent OTTI credit losses	44	4
Reductions:		
Securities sold, matured or paid-off	-	-
Balance, end of period	$ 12,696	$ 11,550

(in thousands)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Balance, beginning of period	$ 12,364	$ -
Cumulative OTTI credit losses upon adoption of new OTTI guidance	-	5,952
Additions:		
Initial OTTI credit losses	-	7,211
Subsequent OTTI credit losses	332	172
Reductions:		
Securities sold, matured or paid-off	-	(1,785)
Balance, end of period	$ 12,696	$ 11,550

The following table presents the maturities of investment securities at September 30, 2010:

September 30, 2010

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$ 9,031	$ 9,005	$ 125	$ 125
Over three months through twelve months	163,689	166,304	1,711	1,753
After one year through five years	1,724,245	1,774,158	2,434	2,419

After five years through ten years	612,176	620,119	591	637
After ten years	26,943	27,621	247	249
Other investment securities	1,959	2,056	-	-
	$ 2,538,043	$ 2,599,263	$ 5,108	$ 5,183

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties.

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The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the three and nine months ended September 30, 2010 and 2009:

(in thousands)

	Three months ended September 30, 2010		Three months ended September 30, 2009	
	Gains	**Losses**	**Gains**	**Losses**
Obligations of states and political subdivisions	$	$	$	$ 1
Residential mortgage-backed securities and collateralized mortgage obligations	2,331		700	537
	$ 2,331	$	$ 700	$ 538

	Nine months ended September 30, 2010		Nine months ended September 30, 2009	
	Gains	**Losses**	**Gains**	**Losses**
U.S. Treasury and agencies	$	$ 1	$	$
Obligations of states and political subdivisions	2	1		1
Residential mortgage-backed securities and collateralized mortgage obligations	2,331		9,195	591
	$ 2,333	$ 2	$ 9,195	$ 592

The following table presents, as of September 30, 2010, investment securities which were pledged to secure borrowings and public deposits as permitted or required by law:

(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$ 299,387	$ 314,283
To state and local governments to secure public deposits	831,757	859,357
To U.S. Treasury and Federal Reserve to secure customer tax payments	5,420	5,838
Other securities pledged, principally to secure deposits	278,797	289,748
Total pledged securities	$ 1,415,361	$ 1,469,226

Note 4 Non-covered Loans, Leases and Allowance for Loan and Lease Losses

Non-covered loans refer to loans not covered by the FDIC loss-sharing agreements. Covered loans are discussed in Note 5.

The following table presents the major types of non-covered loans recorded in the balance sheets as of September 30, 2010 and December 31, 2009. The classification of non-covered loan balances presented is reported in accordance with the regulatory reporting requirements.

(in thousands)

	September 30, 2010	December 31, 2009
Real estate - construction and land development	$ 453,248	$ 618,476
Real estate - commercial and agricultural	3,425,384	3,482,687
Real estate - single and multi-family residential	753,483	726,658
Commercial, industrial and agricultural	991,440	1,090,275
Leases	32,428	34,528
Installment and other	53,216	58,044
	5,709,199	6,010,668
Deferred loan fees, net	(10,932)	(11,401)
Total loans and leases	$ 5,698,267	$ 5,999,267

The following table summarizes activity relate to the allowance for loan and lease losses (ALLL) on non-covered loans for the three and nine months ended September 30, 2010 and 2009:

Allowance for Loan and Lease Losses

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Balance, beginning of period	$ 113,914	$ 98,370	$ 107,657	$ 95,865
Provision for loan and lease losses	24,228	52,108	96,101	140,531
Charge-offs	(31,418)	(48,443)	(102,731)	(135,365)
Recoveries	1,374	1,101	7,071	2,105
Balance, end of period	$ 108,098	$ 103,136	$ 108,098	$ 103,136

At September 30, 2010, the recorded investment in non-covered loans classified as impaired totaled $215.3 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses on non-covered loans) of $1.8 million. Due to declining real estate values in our markets, it is increasingly likely that an impairment reserve on collateral dependent real estate non-covered loans represents a confirmed loss. As a result, the Company recognizes the charge-off of impairment reserves on non-covered impaired loans in the period it arises for collateral dependent loans. Therefore, the non-covered non-accrual loans as of September 30, 2010 have already been written-down to their estimated net realizable value, based on disposition value, and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on non-covered impaired loans represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan s carrying value. At December 31, 2009, the total recorded investment in non-covered impaired loans totaled $328.0 million, with a corresponding valuation allowance of $2.7 million. The average recorded investment in non-covered impaired loans was approximately $269.0 million during the nine months ended September 30, 2010 and $234.5 million for the year ended December 31, 2009.

At September 30, 2010 and December 31, 2009, non-covered impaired loans of $75.6 million and $134.9 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The non-covered restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered performing and on accrual status, the loan s collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company has no obligations to lend additional funds on the non-covered restructured loans as of September 30, 2010. Non-covered non-accrual loans totaled $139.7 million at September 30, 2010, and $193.1 million at December 31, 2009.

Note 5 Covered Assets and FDIC Indemnification Asset

Covered Loans Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as covered loans and reported separately in our statements of financial condition. Covered loans are reported exclusive of the expected cash flow reimbursements expected from the FDIC.

Acquired loans are valued as of acquisition date in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 805, *Business Combinations*. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Because of the significant fair value discounts associated with the acquired portfolios, the concentration of real estate related loans (to finance or secured by real estate collateral) and the decline in real estate values in the regions serviced, and after considering the underwriting standards of the acquired originating bank, the Company elected to account for all acquired loans under ASC 310-30. Under FASB ASC 805 and ASC 310-30, loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date.

The covered loans acquired are and will continue to be subject to the Company s internal and external credit review and monitoring. If credit deterioration is experienced subsequent to the initial acquisition fair value amount, such deterioration will be measured, and a provision for credit losses will be charged to earnings. These provisions will be mostly offset by an increase to the FDIC indemnification asset, and will be recognized in non-interest income.

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The following table reflects the estimated fair value of the acquired loans at the acquisition dates:

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Gross loans acquired	$ 369,942	$ 561,477	$ 328,482
Fair value discount	(118,414)	(105,224)	(113,977)
Covered loans, net	$ 251,528	$ 456,253	$ 214,505

The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at September 30, 2010 was $278.7 million, $496.7 million and $309.5 million, for Evergreen, Rainier, and Nevada Security, respectively, as compared to $305.1 million, $517.2 million and $325.6 million, for Evergreen, Rainier, and Nevada Security, respectively, at June 30, 2010.

The following table presents the major types of covered loans as of September 30, 2010. The classification of covered loan balances presented is reported in accordance with the regulatory reporting requirements.

(in thousands)

	September 30, 2010		
	Evergreen	Rainier	Nevada Security
Real estate - construction and land development	$ 27,118	$ 10,798	$ 21,526
Real estate - commercial and agricultural	108,288	210,811	132,321
Real estate - single and multi-family residential	54,979	166,149	23,100
Commercial, industrial and agricultural	20,924	24,541	28,628
Installment and other	2,001	8,765	520
	$ 213,310	$ 421,064	$ 206,095

At June 30, 2010, the covered loan balances were $220.9 million, $437.0 million, and $207.2 million for Evergreen, Rainier, and Nevada Security, respectively.

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference.

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the accretable yield . The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

The following table presents a reconciliation of the undiscounted contractual cash flows, nonaccretable difference, accretable yield, and fair value of covered loans for each respective acquired loan portfolio at the acquisition dates:.

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Undiscounted contractual cash flows	$ 412,638	$ 785,018	$ 368,975
Undiscounted cash flows not expected to be collected (nonaccretable difference)	(105,908)	(106,082)	(114,756)
Undiscounted cash flows expected to be collected	306,730	678,936	254,219
Accretable yield at acquisition	(55,202)	(222,683)	(39,714)
Estimated fair value of loans acquired at acquisition	$ 251,528	$ 456,253	$ 214,505

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The following table presents the changes in the accretable yield for the three and nine months ended September 30, 2010 for each respective acquired loan portfolio:

	Three months ended		
	Evergreen September 30, 2010	Rainier September 30, 2010	Nevada Security September 30, 2010
Balance, beginning of period	$ 52,980	$ 207,404	$ 39,161
Additions resulting from acquisitions			
Accretion to interest income	(14,677)	(9,138)	(5,062)
Disposals			
Reclassifications (to)/from nonaccretable difference	12,284	(384)	1,491
Balance, end of period	$ 50,587	$ 197,882	$ 35,590

	Nine months ended		
	Evergreen September 30, 2010	Rainier September 30, 2010	Nevada Security September 30, 2010
Balance, beginning of period	$	$	$
Additions resulting from acquisitions	55,202	222,684	39,714
Accretion to interest income	(21,432)	(20,739)	(5,615)
Disposals	(257)		
Reclassifications (to)/from nonaccretable difference	17,074	(4,063)	1,491
Balance, end of period	$ 50,587	$ 197,882	$ 35,590

Covered Other Real Estate Owned All OREO acquired in FDIC-assisted acquisitions that are subject to a FDIC loss-share agreement are referred to as covered OREO and reported separately in our statements of financial position. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the collateral s net realizable value, less selling costs.

Covered OREO was initially recorded at its estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs. Any subsequent valuation adjustments due to declines in fair value will be charged to non-interest expense, and will be mostly offset by non-interest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation adjustments will be credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

The following table summarizes the activity related to the covered OREO for the three and nine months ended September 30, 2010:

(in thousands)

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Balance, beginning of period	$ 28,290	$
Acquisition		26,939
Additions to covered OREO	7,784	10,453

Dispositions of covered OREO		(4,806)		(6,119)
Valuation adjustments in the period		(920)		(925)
Balance, end of period	$	30,348	$	30,348

FDIC Indemnification Asset The Company has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC 805, *Business Combinations*. The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into non-interest income over the life of the FDIC indemnification asset.

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to non-interest income. The resulting carrying value of the indemnification represents the amounts recoverable from the FDIC for future expected losses, and the amounts due from the FDIC for claims related to covered losses the Company have incurred less amounts due back to the FDIC relating to share recoveries.

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The following table summarizes the activity related to the FDIC indemnification asset for the three and nine months ended September 30, 2010:

(in thousands)

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Balance, beginning of period	$ 246,982	$
Acquisitions		252,874
Change in FDIC indemnification asset	(11,948)	(11,075)
Payments from FDIC	(15,716)	(22,481)
Due to FDIC	(1,622)	(1,622)
Balance, end of period	$ 217,696	$ 217,696

Note 6 Mortgage Servicing Rights

The following table presents the changes in the Company s mortgage servicing rights (MSR) for the three and nine months ended September 30, 2010 and 2009:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	$ 12,895	$ 10,631	$ 12,625	$ 8,205
Additions for new mortgage servicing rights capitalized	1,616	1,723	3,624	5,958
Acquired mortgage servicing rights			62	
Changes in fair value:				
Due to changes in model inputs or assumptions(1)	(890)	(2,580)	(761)	(3,155)
Other(2)	(167)	1,778	(2,096)	544
Balance, end of period	$ 13,454	$ 11,552	$ 13,454	$ 11,552

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.
(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of September 30, 2010 and December 31, 2009 was as follows:

(dollars in thousands)

	September 30, 2010	December 31, 2009
Balance of loans serviced for others	$ 1,471,759	$ 1,277,832
MSR as a percentage of serviced loans	0.91%	0.99%

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the *Condensed Consolidated Statements of Operations*, was $1.0 million and $2.8 million for the three and nine months ended September 30, 2010, as compared to $796,000 and $2.2 million for the three and nine months ended September 30, 2009.

Key assumptions used in measuring the fair value of MSR as of September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	**December 31, 2009**
Constant prepayment rate	16.70%	18.35%
Discount rate	8.65%	8.70%
Weighted average life (years)	4.9	4.5

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Note 7 Other Real Estate Owned

The following table presents the changes in non-covered other real estate owned (OREO) for the three and nine months ended September 30, 2010 and 2009:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Balance, beginning of period	$ 25,653	$ 36,030	$ 24,566	$ 27,898
Additions to OREO	11,972	9,049	29,867	34,408
Dispositions of OREO	(5,159)	(13,779)	(20,246)	(28,430)
Valuation adjustments in the period	(442)	(4,595)	(2,163)	(7,171)
Balance, end of period	$ 32,024	$ 26,705	$ 32,024	$ 26,705

Note 8 Junior Subordinated Debentures

As of September 30, 2010, the Company had 14 wholly-owned trusts (Trusts), including a Master Trust formed in 2007 to issue two separate series of trust preferred securities, that were formed to issue trust preferred securities and related common securities of the Trusts and are not consolidated. Nine Trusts, representing aggregate total obligations of approximately $96.0 million (fair value of approximately $107.3 million as of the merger dates), were assumed in connection with previous mergers.

Following is information about the Trusts as of September 30, 2010:

Junior Subordinated Debentures

(dollars in thousands)

Trust Name	Issue Date	Issued Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date	Redemption Date
AT FAIR VALUE:							
Umpqua Statutory Trust II	October 2002	$ 20,619	$ 13,772	Floating (4)	11.62%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	20,895	Floating (5)	11.62%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	6,430	Floating (6)	11.64%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	6,416	Floating (6)	11.64%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	20,149	Floating (7)	11.69%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	12,484	Floating (8)	11.65%	December 2037	December 2012
		134,024	80,146				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,398	10.875%	8.15%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	5,945	10.200%	8.19%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,445	Floating (9)	3.03%	December 2031	December 2006
Humboldt Bancorp Statutory Trust III	September 2003	27,836	30,768	Floating (10)	2.51%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,274	Floating (5)	3.11%	November 2032	November 2007
Western Sierra Statutory Trust I	July 2001	6,186	6,186	Floating (11)	4.05%	July 2031	July 2006
Western Sierra Statutory Trust II	December 2001	10,310	10,310	Floating (9)	3.89%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,310	Floating (12)	3.43%	September 2033	September 2008

Western Sierra Statutory Trust IV	September 2003	10,310	10,310	Floating (12)	3.43%	September 2033	September 2008
		96,037	102,946				
	Total	$ 230,061	$ 183,092				

(1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of September 2010.
(4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
(5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
(6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
(7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
(8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
(9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
(10) Rate based on LIBOR plus 2.95%, adjusted quarterly.
(11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
(12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The $230.1 million of trust preferred securities issued to the Trusts as of September 30, 2010 and December 31, 2009, with carrying values of $183.1 million and $188.9 million, respectively, are reflected as junior subordinated debentures in the *Condensed Consolidated Balance Sheets*. The common stock issued by the Trusts is recorded in other assets in the *Condensed Consolidated Balance Sheets*, and totaled $6.9 million at September 30, 2010 and December 31, 2009.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of September 30, 2010, under guidance issued by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Effective April 11, 2005, the Federal Reserve Board adopted a rule that permits the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. The Federal Reserve Board rule, with a five-year transition period set to end on March 31, 2009, would have limited the aggregate amount of trust preferred securities and certain other restricted core capital elements to 25% of Tier 1 capital, net of goodwill and any associated deferred tax liability. The rule allowed the amount of trust preferred securities and certain other elements in excess of the limit to be included in Tier 2 capital, subject to restrictions. In response to the stressed conditions in the financial markets and in order to promote stability in the financial markets and the banking industry, on March 17, 2009, the Federal Reserved adopted a new rule that delayed the effective date of the new limits on the inclusion of trust preferred securities and other restricted core capital elements in Tier 1 capital until March 31, 2011. At September 30, 2010, the Company s restricted core capital elements were 19% of total core capital, net of goodwill and any associated deferred tax liability. There can be no assurance that the Federal Reserve Board will not further limit the amount of trust preferred securities permitted to be included in Tier 1 capital for regulatory capital purposes.

On January 1, 2007 the Company selected the fair value measurement option for certain pre-existing junior subordinated debentures of $97.9 million (the Umpqua Statutory Trusts). The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition. In 2007, the Company issued two series of trust preferred securities and elected to measure each instrument at fair value. Accounting for the junior subordinated debentures originally issued by the Company at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost have been presented as separate line items on the balance sheet. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants under current market conditions as of the measurement date.

Due to inactivity in the junior subordinated debenture market and the inability to obtain observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments. Prior to the second quarter of 2009, we estimated the fair value of junior subordinated debentures using an internal discounted cash flow model. The future cash flows of these instruments were extended to the next available redemption date or maturity date as appropriate based upon the estimated credit risk adjusted spreads of recent issuances or quotes from brokers for comparable bank holding companies, as available, compared to the contractual spread of each junior subordinated debenture measured at fair value. For additional assurance, we obtain a valuation from a third-party pricing service to validate the results of our model.

In the second quarter of 2009, due to continued inactivity in the junior subordinated debenture and related markets and clarified guidance relating to the determination of fair value when the volume and level of activity for an asset or liability have significantly decreased or where transactions are not orderly, management evaluated and determined to rely on a third-party pricing service to estimate the fair value of these liabilities. The pricing service utilized an income approach valuation technique, specifically an option-adjusted spread (OAS) valuation model. This OAS model values the cash flows over multiple interest rate scenarios and discounts these cash flows using a credit risk adjustment spread over the three month LIBOR swap curve. The OAS model utilized is more sophisticated and computationally intensive than the model previously used; however, the models react similarly to changes in the underlying inputs, and the results are considered comparable. With the assistance of a third-party pricing service, we determined that a credit risk adjusted spread of 725 basis points (an effective yield of approximately 11.6%) was representative of the nonperformance risk premium a market participant would require under current market conditions as of March 31, 2010. Generally, an increase in the credit risk adjusted spread and/or a decrease in the swap curve will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the swap curve will result in negative fair value adjustments.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and will effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they are no longer to able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in

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the market place in recent history or as anticipated into the future. As a result, for the third quarter of 2010, management evaluated current market conditions and determined that the 11.6% effective yield utilized to discount the junior subordinated debentures, and the related prices, to determine fair value as of March 31, 2010 continued to represent appropriate estimates of the fair value of these liabilities as of September 30, 2010. Since the Company had less than $15 billion in assets at December 31, 2009, under the Dodd-Frank Act, the Company will be able to continue to include its existing trust preferred securities in Tier 1 capital.

In the third quarter of 2010, the Company began utilizing a discounted cash flow model to measure these instruments at fair value each reporting period, which will have the long-term effect of amortizing the cumulative fair value discount of $53.9 million as of September 30, 2010, over each junior subordinated debenture s expected term, to eventually return the carrying value of these instruments to their notional values at their expected redemption dates. This will result in recognizing losses on junior subordinated debentures carried at fair value on quarterly basis within non-interest income. The Company will continue to monitor activity in the trust preferred markets to validate the 11.6% effective yield utilized. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) above the periodic change in fair value under the effective yield method.

For the three and nine months ended September 30, 2010, we recorded a loss of $554,000 and a gain of $5.5 million, respectively, as compared to gains of $982,000 and $10.2 million, for the three and nine months ended September 30, 2009, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. The change in fair value of the junior subordinated debentures carried at fair value in the current year primarily results from the widening of the credit risk adjusted spread over the contractual rate of each junior subordinated debenture measured at fair value. Management believes that the credit risk adjusted spread being utilized is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. In management s estimation, a change in fair value of the junior subordinated debentures during the period represents changes in the market s nonperformance risk expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. Any gains recognized are recorded in gain on junior subordinated debentures carried at fair value within non-interest income. The contractual interest expense on junior subordinated debentures continues to be recorded on an accrual basis and is reported in interest expense. The junior subordinated debentures recorded at fair value of $80.1 million had contractual unpaid principal amounts of $134.0 million outstanding as of September 30, 2010. The junior subordinated debentures recorded at fair value of $85.7 million had contractual unpaid principal amounts of $134.0 million outstanding as of December 31, 2009.

Note 9 Commitments and Contingencies

Lease Commitments The Company leases 127 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. In addition, in connection with the Nevada Security acquisition, the Company operated in four additional leased facilities at September 30, 2010. The Company has the option to purchase one of these leased facilities.

Rent expense for the three and nine months ended September 30, 2010 was $4.0 million and $11.3 million, respectively, compared to $3.2 million and $9.5 million, respectively, in the comparable periods in 2009. Rent expense was offset by rent income for the three and nine months ended September 30, 2010 of $275,000 and $750,000 respectively, compared to $146,000 and $426,000, respectively, in the comparable periods in 2009.

Financial Instruments with Off-Balance-Sheet Risk The Company s financial statements do not reflect various commitments and contingent liabilities that arise in the normal course of the Bank s business and involve elements of credit, liquidity, and interest rate risk.

The following table presents a summary of the Bank s commitments and contingent liabilities:

(in thousands)

		As of September 30, 2010
Commitments to extend credit	$	1,014,699
Commitments to extend overdrafts	$	213,192
Commitments to originate loans held for sale	$	184,220

Forward sales commitments	$	142,139
Standby letters of credit	$	42,941

The Bank is a party to financial instruments with off-balance-sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve elements of credit and interest-rate risk similar to the amounts recognized in the *Condensed Consolidated Balance Sheets*. The contract or notional amounts of those instruments reflect the extent of the Bank s involvement in particular classes of financial instruments.

The Bank s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any covenant or condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. While most standby letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis. The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral varies but may include cash, accounts receivable, inventory, premises and equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and did not incur any losses in connection with standby letters of credit during the three and nine months ended September 30, 2010 and 2009. At September 30, 2010, approximately $19.7 million of standby letters of credit expire within one year, and $23.2 million expire thereafter. Upon issuance, the Company recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $212,000 as of September 30, 2010.

At September 30, 2010 and December 31, 2009, the reserve for unfunded commitments, which is included in other liabilities on the *Condensed Consolidated Balance Sheets*, was $797,000 and $731,000, respectively. The adequacy of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amount of commitments, loss experience, and economic conditions.

Mortgage loans sold to investors may be sold with servicing rights retained, with only the standard legal representations and warranties regarding recourse to the Bank. Management believes that any liabilities that may result from such recourse provisions are not significant.

Legal Proceedings During 2007, Visa Inc. (Visa) announced that it completed restructuring transactions in preparation for an initial public offering of its Class A stock, and, as part of those transactions, Umpqua Bank s membership interest was exchanged for 764,036 shares of Class B common stock in Visa. In March 2008, Visa completed its initial public offering. Following the initial public offering, the Company received $12.6 million proceeds as a mandatory partial redemption of 295,377 shares, reducing the Company s holdings from 764,036 shares to 468,659 shares of Class B common stock. A conversion ratio of 0.71429 was established for the conversion rate of Class B shares into Class A shares. Using the proceeds from this offering, Visa also established a $3.0 billion escrow account to cover settlements, resolution of pending litigation and related claims (covered litigation).

In October 2008, Visa announced that it had reached a settlement with Discover Card related to an antitrust lawsuit. Umpqua Bank and other Visa member banks were obligated to fund the settlement and share in losses resulting from this litigation that were not already provided for in the escrow account. In December 2008, Visa deposited additional funds into the escrow account to cover the remaining amount of the settlement. The deposit of funds into the escrow account further reduced the conversion ratio applicable to Class B common stock outstanding from 0.71429 per Class A share to 0.6296 per Class A share.

In July 2009, Visa deposited an additional $700 million into the litigation escrow account. While the outcome of the remaining litigation cases remains unknown, this addition to the escrow account provides additional reserves to cover potential losses. As a result of the deposit, the conversion ratio applicable to Class B common stock outstanding decreased further from 0.6296 per Class A share to 0.5824 per Class A share.

In May 2010, Visa deposited an additional $500 million into the litigation escrow account. As a result of the deposit, the conversion ratio applicable to Class B common stock outstanding decreased further from 0.5824 per Class A share to 0.5550 per Class A share.

In October 2010, Visa deposited an additional $800 million into the litigation escrow account. As a result of the deposit, the conversion ratio applicable to Class B common stock outstanding decreased further from 0.5550 per Class A share to 0.5102 per Class A share.

The remaining unredeemed shares of Visa Class B common stock are restricted and may not be transferred until the later of (1) three years from the date of the initial public offering or (2) the period of time necessary to resolve the covered litigation. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

As of September 30, 2010, the value of the Class A shares was $74.26 per share. Utilizing the new conversion ratio effective in October 2010, the value of unredeemed Class A equivalent shares owned by the Company was $17.8 million as of September 30, 2010, and has not been reflected in the accompanying financial statements.

In the ordinary course of business, various claims and lawsuits are brought by and against the Company, the Bank and Umpqua Investments. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the Company s consolidated financial condition or results of operations.

Concentrations of Credit Risk - The Company grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington and California. In management s judgment, a concentration exists in real estate-related loans, which represented approximately 81% of the Company s non-covered loan and lease portfolio at both September 30, 2010, and December 31, 2009. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Company s primary market areas in particular, such as was seen with the deterioration in the residential development market since 2007, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

The Bank recognizes the credit risks inherent in dealing with other depository institutions. Accordingly, to prevent excessive exposure to any single correspondent, the Bank has established general standards for selecting correspondent banks as well as internal limits for allowable exposure to any single correspondent. In addition, the Bank has an investment policy that sets forth limitations that apply to all investments with respect to credit rating and concentrations with an issuer.

Note 10 Derivatives

The Company may use derivatives to hedge the risk of changes in the fair values of interest rate lock commitments, residential mortgage loans held for sale, and mortgage servicing rights. None of the Company s derivatives are designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company primarily utilizes forward interest rate contracts in its derivative risk management strategy.

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates (MBS TBAs) in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2010 and 2009. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2010, the Bank had commitments to originate mortgage loans held for sale totaling $184.2 million and forward sales commitments of $142.1 million.

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The following tables summarize the types of derivatives, separately by assets and liabilities, their locations on the *Condensed Consolidated Balance Sheets*, and the fair values of such derivatives as of September 30, 2010 and December 31, 2009:

(in thousands)

Underlying Risk Exposure	Description	Balance Sheet Location	September 30, 2010	December 31, 2009
Asset Derivatives				
Interest rate contracts	Rate lock commitments	Other assets	$ 1,200	$ 124
Interest rate contracts	Forward sales commitments	Other assets	113	845
Total asset derivatives			$ 1,313	$ 969
Liability Derivatives				
Interest rate contracts	Rate lock commitments	Other liabilities	$ 12	$ 133
Interest rate contracts	Forward sales commitments	Other liabilities	243	-
Total liability derivatives			$ 255	$ 133

The following table summarizes the types of derivatives, their locations within the *Condensed Consolidated Statements of Operations,* and the gains (losses) recorded during the three and nine months ended September 30, 2010 and 2009:

(in thousands)

Underlying Risk Exposure	Description	Income Statement Location	Three months ended September 30, 2010	2009
Interest rate contracts	Rate lock commitments	Mortgage banking revenue	$ (8)	$ 332
Interest rate contracts	Forward sales commitments	Mortgage banking revenue	(2,183)	(956)
Total			$ (2,191)	$ (624)

Underlying Risk Exposure	Description	Income Statement Location	Nine months ended September 30, 2010	2009
Interest rate contracts	Rate lock commitments	Mortgage banking revenue	$ 1,198	$ (433)
Interest rate contracts	Forward sales commitments	Mortgage banking revenue	(6,532)	(649)
Total			$ (5,334)	$ (1,082)

The Company s derivative instruments do not have specific credit risk-related contingent features. The forward sales commitments do have contingent features that may require transferring collateral to the broker/dealers upon their request. However, this amount would be limited to the net unsecured loss exposure at such point in time and would not materially affect the Company s liquidity or results of operations.

Note 11 Shareholders Equity

On February 3, 2010, the Company raised $303.6 million through a public offering by issuing 8,625,000 shares of the Company s common stock, including 1,125,000 shares pursuant to the underwriters over-allotment option, at a share price of $11.00 per share and 18,975,000 depository shares, including 2,475,000 depository shares pursuant to the underwriter s over-allotment option, also at a price of $11.00 per share. Fractional interests (1/100th) in each share of the Series B Common Stock Equivalent were represented by the 18,975,000 depositary shares; as a result, each depositary share would convert into one share of common stock. The net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were $288.1 million. The net proceeds from the offering were used to redeem the preferred stock issued to the United States Department of the Treasury (U.S. Treasury) under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP), to fund FDIC-assisted acquisition opportunities and for general corporate purposes.

On February 17, 2010, the Company redeemed all of the outstanding Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued to the U.S. Treasury under the TARP CPP for an aggregate purchase price of $214.2 million. As a result of the repurchase of the Series A preferred stock, the Company incurred a one-time deemed dividend of $9.7 million due to the accelerated amortization of the remaining issuance discount on the preferred stock.

On March 31, 2010, the Company repurchased the common stock warrant issued to the U.S. Treasury pursuant to the TARP CPP, for $4.5 million. The warrant repurchase, together with the Company s redemption in February 2010 of the entire amount of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, issued to the U.S. Treasury, represents full repayment of all TARP obligations and cancellation of all equity interests in the Company held by the U.S. Treasury.

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On April 20, 2010, shareholders of the Company approved an amendment to the Company s Restated Articles of Incorporation. The amendment, which became effective on April 21, 2010, increased the number of authorized shares of common stock to 200,000,000 (from 100,000,000). As a result of the effectiveness of the amendment, as of the close of business on April 21, 2010, the Company s Series B Common Stock Equivalent preferred stock automatically converted into newly issued shares of common stock at a conversion rate of 100 shares of common stock for each share of Series B Common Stock Equivalent preferred stock. All shares of Series B Common Stock Equivalent preferred stock and representative depositary shares ceased to exist upon the conversion. Trading in the depositary shares on NASDAQ (ticker symbol UMPQP) ceased and the UMPQP symbol voluntarily delisted effective as of the close of business on April 21, 2010.

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was $1.2 million and $2.6 million for the three and nine months ended September 30, 2010, respectively, as compared to $391,000 and $1.7 million for the three and nine months ended September 30, 2009, respectively. The total income tax benefit recognized related to stock-based compensation was $481,000 and $1.1 million for the three and nine months ended September 30, 2010, respectively, as compared to $157,000 and $678,000 for the comparable periods in 2009, respectively.

The following table summarizes information about stock option activity for the nine months ended September 30, 2010:

(in thousands, except per share data)

	Nine months ended September 30, 2010			
	Options Outstanding	Weighted-Avg Exercise Price	Weighted-Avg Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance, beginning of period	1,763	$ 15.05		
Granted	425	$ 12.45		
Exercised	(108)	$ 8.99		
Forfeited/expired	(23)	$ 14.25		
Balance, end of period	2,057	$ 14.84	6.18	$ 1,643
Options exercisable, end of period	1,231	$ 16.59	4.45	$ 1,287

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three and nine months ended September 30, 2010 was $26,000 and $408,000, respectively. This compared to the total intrinsic value of options exercised during the three and nine months ended September 30, 2009 of $4,000 and $209,000, respectively. During the three and nine months ended September 30, 2010, the amount of cash received from the exercise of stock options was $59,000 and $976,000, respectively, as compared to $44,000 and $276,000 for the same periods in 2009, respectively.

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. The following weighted average assumptions were used for stock options granted in the nine months ended September 30, 2010 and 2009:

	Nine months ended September 30,	
	2010	2009
Dividend yield	2.72%	2.23%
Expected life (years)	7.1	7.3

Expected volatility	52%	46%
Risk-free rate	2.72%	2.18%
Weighted average fair value of options on date of grant	$ 5.27	$ 3.65

The Company grants restricted stock periodically as a part of the 2003 Stock Incentive Plan for the benefit of employees. Restricted shares issued generally vest on an annual basis over five years. A deferred restricted stock award was granted to an executive in the second quarter of 2007. The award vests monthly based on continued service in various increments through July 1, 2011. The Company will issue certificates for the vested award within the seventh month following termination of the executive s employment. The following table summarizes information about nonvested restricted share activity for the nine months ended September 30, 2010:

(in thousands, except per share data)

	Nine months ended September 30, 2010	
	Restricted Shares Outstanding	**Weighted Average Grant Date Fair Value**
Balance, beginning of period	187	$ 21.46
Granted	265	$ 12.19
Released	(44)	$ 22.36
Forfeited/expired	(14)	$ 13.35
Balance, end of period	394	$ 15.40

The total fair value of restricted shares vested and released during the three and nine months ended September 30, 2010 was $9,000 and $547,000, respectively. This compares to the total fair value of restricted shares vested and released during the three and nine months ended September 30, 2009 of $8,000 and $417,000, respectively.

The Company grants restricted stock units as a part of the 2007 Long Term Incentive Plan for the benefit of certain executive officers. Restricted stock unit grants are subject to performance-based vesting as well as other approved vesting conditions. In the second quarter of 2007, restricted stock units were granted that cliff vest after three years based on performance and service conditions. In the first quarter of 2008 and 2009, additional restricted stock units were granted to these executives under substantially similar vesting terms. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements. The following table summarizes information about restricted stock unit activity for the nine months ended September 30, 2010:

(in thousands, except per share data)

	Nine months ended September 30, 2010	
	Restricted Stock Units Outstanding	**Weighted Average Grant Date Fair Value**
Balance, beginning of period	335	$ 15.54
Granted	-	$ -
Released	(16)	$ 24.52
Forfeited/expired	(95)	$ 24.52
Balance, end of period	224	$ 11.13

No restricted stock units were vested and released during the three months ended September 30, 2010. The total fair value of restricted stock units vested and released during the nine months ended September 30, 2010 was $213,000. This compares to the total fair value of restricted stock units vested and released during the three and nine months ended September 30, 2009 of none and $186,000, respectively.

As of September 30, 2010, there was $2.9 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 3.6 years. As of September 30, 2010, there was $3.8 million of total unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 3.0 years. As of September 30, 2010, there was $338,000 of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 0.9 years, assuming expected performance conditions are met.

For the three and nine months ended September 30, 2010, the Company received income tax benefits of $11,000 and $391,000, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. For the three and nine months ended September 30, 2009, the Company received income tax benefits of $5,000 and $311,000, respectively. In the nine months ended September 30, 2010, the Company had net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) of $207,000, compared to net tax deficiencies of $354,000 for the nine months ended September 30, 2009. Only cash flows from gross excess tax benefits are classified as financing cash flows.

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Note 12 Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as the Oregon and California state jurisdictions. Except for the California amended returns of an acquired institution for the tax years 2001, 2002, and 2003, and only as it relates to the net interest deduction taken on these amended returns, the Company is no longer subject to U.S. federal or Oregon state tax authority examinations for years before 2006 and California state tax authority examinations for years before 2004. The Internal Revenue Service concluded an examination of the Company s U.S. income tax returns for 2006 and 2007 in the second quarter of 2010, and concluded an examination of the Company s U.S. income tax return for 2008 in the third quarter of 2010. The results of these examinations had no significant impact on the Company s financial statements.

Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company s income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax asset will not be realized.

The Company applies the provisions of FASB ASC 740, *Income Taxes*, relating to the accounting for uncertainty in income taxes. The Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities examinations of the Company s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

The Company recorded a reduction in its liability for unrecognized tax benefits relating to temporary differences settled during audit in the second quarter of 2010. The Company had gross unrecognized tax benefits recorded as of September 30, 2010 in the amount of $590,000. If recognized, the unrecognized tax benefit would reduce the 2010 annual effective tax rate by 1.5%. During the first nine months of 2010, the Company recognized a benefit of $202,000 in interest reversed primarily due to the reduction of its liability for unrecognized tax benefits during the same period. Interest expense is reported by the Company as a component of tax expense. As of September 30, 2010, the accrued interest related to unrecognized tax benefits is $163,000.

Note 13 Earnings Per Common Share

Nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company s nonvested restricted stock awards qualify as participating securities.

Net income, less any preferred dividends accumulated for the period (whether or not declared), is allocated between the common stock and participating securities pursuant to the two-class method. *Basic earnings per common share* is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. For all periods presented, warrants, stock options, certain restricted stock awards and restricted stock units are the only potentially dilutive non-participating instruments issued by the Company. Next, we determine and include in diluted earnings per common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Undistributed losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

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The following is a computation of basic and diluted income (loss) per common share for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
NUMERATORS:				
Net income (loss)	$ 8,191	$ (7,144)	$ 21,379	$ (126,684)
Less:				
Preferred stock dividends	-	3,225	12,192	9,632
Dividends and undistributed earnings allocated to participating securities [(1)]	18	7	49	22
Net income (loss) available to common shareholders	$ 8,173	$ (10,376)	$ 9,138	$ (136,338)
DENOMINATORS:				
Weighted average number of common shares outstanding - basic	114,528	74,085	105,695	64,878
Effect of potentially dilutive common shares [(2)]	232	-	229	-
Weighted average number of common shares outstanding - diluted	114,760	74,085	105,924	64,878
INCOME (LOSS) PER COMMON SHARE:				
Basic	$ 0.07	$ (0.14)	$ 0.09	$ (2.10)
Diluted	$ 0.07	$ (0.14)	$ 0.09	$ (2.10)

(1) Represents dividends paid and undistributed earnings allocated to nonvested restricted stock awards.

(2) Represents the effect of the assumed exercise of warrants, assumed exercise of stock options, vesting of non-participating restricted shares, and vesting of restricted stock units, based on the treasury stock method.

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three and nine months ended September 30, 2010 and 2009.

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Stock options	2,000	1,778	2,062	1,844
CPP warrant	-	1,703	366	2,047
Non-participating, nonvested restricted shares	8	16	10	18
Restricted stock units	-	96	-	111
	2,008	3,593	2,438	4,020

Note 14 Segment Information

The Company operates three primary segments: Community Banking, Mortgage Banking and Retail Brokerage. The Community Banking segment s principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of September 30, 2010, the Community Banking segment operated 184 locations throughout Oregon, Northern California, Washington, and Nevada.

The Mortgage Banking segment, which operates as a division of the Bank, originates, sells and services residential mortgage loans.

The Retail Brokerage segment consists of the operations of Umpqua Investments, which offers a full range of retail brokerage services and products to its clients who consist primarily of individual investors. The Company accounts for intercompany fees and services between Umpqua Investments and the Bank at estimated fair value according to regulatory requirements for services provided. Intercompany items relate primarily to management services, referral fees and deposit rebates.

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Summarized financial information concerning the Company s reportable segments and the reconciliation to the consolidated financial results is shown in the following tables:

Segment Information

(in thousands)

	Three Months Ended September 30, 2010			
	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Interest income	$ 129,591	$ 58	$ 3,297	$ 132,946
Interest expense	23,925	-	704	24,629
Net interest income	105,666	58	2,593	108,317
Provision for loan and lease losses	24,895	-	-	24,895
Non-interest income	2,263	2,683	7,187	12,133
Non-interest expense	77,480	3,474	4,216	85,170
Income (loss) before income taxes	5,554	(733)	5,564	10,385
Provision for (benefit from) income taxes	259	(291)	2,226	2,194
Net income (loss)	5,295	(442)	3,338	8,191
Preferred stock dividends	-	-	-	-
Dividends and undistributed earnings allocated to participating securities	18	-	-	18
Net earnings (loss) available to common shareholders	$ 5,277	$ (442)	$ 3,338	$ 8,173

	Nine Months Ended September 30, 2010			
	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Interest income	$ 348,478	$ 201	$ 9,240	$ 357,919
Interest expense	68,214	-	2,036	70,250
Net interest income	280,264	201	7,204	287,669
Provision for loan and lease losses	96,768	-	-	96,768
Non-interest income	40,159	8,655	13,948	62,762
Non-interest expense	208,806	10,373	10,695	229,874
Income (loss) before income taxes	14,849	(1,517)	10,457	23,789
(Benefit from) provision for income taxes	(1,175)	(598)	4,183	2,410
Net income (loss)	16,024	(919)	6,274	21,379
Preferred stock dividends	12,192	-	-	12,192

Dividends and undistributed earnings allocated to participating securities	49	-	-	49
Net (loss) earnings available to common shareholders	$ 3,783	$ (919)	$ 6,274	$ 9,138

	Three Months Ended September 30, 2009			
	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Interest income	$ 103,805	$ 46	$ 3,237	$ 107,088
Interest expense	24,463	-	863	25,326
Net interest income	79,342	46	2,374	81,762
Provision for loan and lease losses	52,108	-	-	52,108
Non-interest income	11,525	2,090	4,310	17,925
Non-interest expense	61,964	3,130	3,255	68,349
(Loss) income before income taxes	(23,205)	(994)	3,429	(20,770)
(Benefit from) provision for income taxes	(14,593)	(405)	1,372	(13,626)
Net (loss) income	(8,612)	(589)	2,057	(7,144)
Preferred stock dividends	3,225	-	-	3,225
Dividends and undistributed earnings allocated to participating securities	7	-	-	7
Net (loss) earnings available to common shareholders	$ (11,844)	$ (589)	$ 2,057	$ (10,376)

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	Nine Months Ended September 30, 2009			
	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Interest income	$ 306,589	$ 76	$ 9,582	$ 316,247
Interest expense	77,267	-	2,816	80,083
Net interest income	229,322	76	6,766	236,164
Provision for loan and lease losses	140,531	-	-	140,531
Non-interest income	39,117	6,629	14,746	60,492
Non-interest expense	287,753	8,423	10,727	306,903
(Loss) income before income taxes	(159,845)	(1,718)	10,785	(150,778)
(Benefit from) provision for income taxes	(27,713)	(695)	4,314	(24,094)
Net (loss) income	(132,132)	(1,023)	6,471	(126,684)
Preferred stock dividends	9,632	-	-	9,632
Dividends and undistributed earnings allocated to participating securities	22	-	-	22
Net (loss) earnings available to common shareholders	$ (141,786)	$ (1,023)	$ 6,471	$ (136,338)

(in thousands)

	September 30, 2010			
	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Total assets	$ 11,238,787	$ 13,835	$ 280,349	$ 11,532,971
Total loans (covered and non-covered)	$ 6,333,237	$ -	$ 205,499	$ 6,538,736
Total deposits	$ 9,278,234	$ -	$ 23,106	$ 9,301,340

	December 31, 2009			
	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Total assets	$ 9,127,104	$ 13,634	$ 240,634	$ 9,381,372
Total loans (covered and non-covered)	$ 5,807,214	$ -	$ 192,053	$ 5,999,267
Total deposits	$ 7,432,647	$ -	$ 7,787	$ 7,440,434

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Note 15 Fair Value Measurement

The following table presents estimated fair values of the Company s financial instruments as of September 30, 2010 and December 31, 2009, whether or not recognized or recorded at fair value in the *Condensed Consolidated Balance Sheets*:

(in thousands)

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$ 1,064,040	$ 1,064,040	$ 605,413	$ 605,413
Trading securities	2,155	2,155	2,273	2,273
Securities available for sale	2,599,263	2,599,263	1,795,616	1,795,616
Securities held to maturity	5,108	5,183	6,061	6,136
Loans held for sale	57,407	57,407	33,715	33,715
Non-covered loans and leases, net	5,590,169	5,889,799	5,891,610	5,208,893
Covered loans and leases	840,469	871,053	-	-
Restricted equity securities	34,665	34,665	15,211	15,211
Mortgage servicing rights	13,454	13,454	12,625	12,625
Bank owned life insurance assets	89,315	89,315	86,853	86,853
FDIC indemnification asset	217,696	191,252	-	-
Derivatives	1,313	1,313	969	969
Visa Class B common stock	-	16,868	-	19,336
FINANCIAL LIABILITIES:				
Deposits	$ 9,301,340	$ 9,322,455	$ 7,440,434	$ 7,440,631
Securities sold under agreement to repurchase	55,333	55,333	45,180	45,180
Term debt	268,256	295,415	76,274	77,130
Junior subordinated debentures, at fair value	80,146	80,146	85,666	85,666
Junior subordinated debentures, at amortized cost	102,946	64,661	103,188	69,194
Derivatives	255	255	133	133

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009:

(in thousands)

	Fair Value at September 30, 2010			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Trading securities				
Obligations of states and political subdivisions	$ 582	$ 582	$ -	$ -
Equity securities	1,477	1,477	-	-
Other investments securities[1]	96	96	-	-
Available for sale securities				
U.S. Treasury and agencies	119,392	-	119,392	-
Obligations of states and political subdivisions	230,251	-	230,251	-
Residential mortgage-backed securities and collateralized mortgage obligations	2,247,405	-	2,247,405	-
Other debt securities	159	-	159	-
Investments in mutual funds and other equity securities	2,056	-	2,056	-

Mortgage servicing rights, at fair value		13,454		-		-		13,454
Derivatives		1,313		-		1,313		-
Total assets measured at fair value	$	2,616,185	$	2,155	$	2,600,576	$	13,454
Junior subordinated debentures, at fair value	$	80,146	$	-	$	-	$	80,146
Derivatives		255		-		255		-
Total liabilities measured at fair value	$	80,401	$	-	$	255	$	80,146

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(in thousands)

Description	Fair Value at December 31, 2009 Total	Level 1	Level 2	Level 3
Trading securities				
Obligations of states and political subdivisions	$ 693	$ 693	$ -	$ -
Equity securities	1,438	1,438	-	-
Other investments securities[1]	142	142	-	-
Available for sale securities				
U.S. Treasury and agencies	11,794	-	11,794	-
Obligations of states and political subdivisions	211,825	-	211,825	-
Residential mortgage-backed securities and collateralized mortgage obligations	1,569,849	-	1,569,849	-
Other debt securities	159	-	159	-
Investments in mutual funds and other equity securities	1,989	-	1,989	-
Mortgage servicing rights, at fair value	12,625	-	-	12,625
Derivatives	969	-	969	-
Total assets measured at fair value	$ 1,811,483	$ 2,273	$ 1,796,585	$ 12,625
Junior subordinated debentures, at fair value	$ 85,666	$ -	$ -	$ 85,666
Derivatives	133	-	133	-
Total liabilities measured at fair value	$ 85,799	$ -	$ 133	$ 85,666

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies.

The following methods were used to estimate the fair value of each class of financial instrument above:

Cash and Cash Equivalents - For short-term instruments, including cash and due from banks, and interest-bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

Securities - Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, or broker indicative bids, when market quotes are not readily accessible or available.

Loans Held For Sale - For loans held for sale, carrying value approximates fair value.

Non-covered Loans - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, including commercial, real estate and consumer loans. Each loan category is further segregated by fixed and variable rate, performing and nonperforming categories. For variable rate loans, carrying value approximates fair value. Effective in the second quarter of 2010, the fair value of fixed rate loans is calculated by discounting contractual cash flows at rates which similar loans are currently being made. These amounts are discounted further by embedded probable losses expected to be realized in the portfolio.

Covered Loans - Covered loans are measured at estimated fair value on the date of acquisition. Subsequent to acquisition, the fair value of covered loans is measured using the same methodology as that of non-covered loans.

Restricted Equity Securities - The carrying value of restricted equity securities approximates fair value as the shares can only be redeemed by the issuing institution at par.

Mortgage Servicing Rights - The fair value of mortgage servicing rights is estimated using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Due to the limited observability of all significant inputs utilized in the valuation model, particularly the discount rate and projected constant prepayment rate, and how changes in these assumptions could potentially impact the ending valuation of this asset, as well as the lack of readily available quotes or observable trades of similar assets in the current period, we have classified this as a Level 3 fair value measure in the third quarter of 2009. The transfer into Level 3 did not result in any changes in the methodology applied or the amount of realized or unrealized gains or losses recognized in the period. Management believes the significant inputs utilized are indicative of those that would be used by market participants.

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Bank Owned Life Insurance Assets - Fair values of insurance policies owned are based on the insurance contract s cash surrender value.

Deposits - The fair value of deposits with no stated maturity, such as non-interest-bearing deposits, savings and interest checking accounts, and money market accounts, is equal to the amount payable on demand as of September 30, 2010 and December 31, 2009. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold under Agreements to Repurchase and Federal Funds Purchased - For short-term instruments, including securities sold under agreements to repurchase and federal funds purchased, the carrying amount is a reasonable estimate of fair value.

Term Debt - The fair value of medium term notes is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can be obtained.

Junior Subordinated Debentures - The fair value of junior subordinated debentures is estimated using an income approach valuation technique. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to the increasing credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, we have classified this as a Level 3 fair value measure since the third quarter of 2008. In the second quarter of 2009, due to continued inactivity in the junior subordinated debenture and related markets and clarified guidance relating to the determination of fair value when the volume and level of activity for an asset or liability have significantly decreased or where transactions are not orderly, management evaluated and determined to rely on a third-party pricing service to estimate the fair value of these liabilities. The pricing service utilizes an income approach valuation technique, specifically an option-adjusted spread (OAS) valuation model. This OAS model values the cash flows over multiple interest rate scenarios and discounts these cash flows using a credit risk adjustment spread over the three month LIBOR swap curve. Prior to the second quarter of 2009, we estimated the fair value of junior subordinated debentures using an internal discounted cash flow model. The OAS model utilized is more sophisticated and computationally intensive than the model previously used; however, the models react similarly to changes in the underlying inputs, and the results are considered comparable.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law which, among other things, limits the ability for certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. It is anticipated that this law may require many banks to raise new Tier 1 capital and would effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they are no longer to able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future. As a result, for the third quarter of 2010, Management evaluated current market conditions and determined that the 11.6% effective yield utilized to discount the junior subordinated debentures, and the related prices, to determine fair value as of March 31, 2010, continued to represent appropriate estimates the fair value of these liabilities as of September 30, 2010.

In the third quarter of 2010, the Company began utilizing a discounted cash flow model to measure these instruments at fair value, which will have the long-term effect of amortizing the cumulative fair value discount of $53.9 million as of September 30, 2010, over each junior subordinated debentures expected term, to eventually return the carrying value of these instruments to their notional values at their expected redemption dates. This will result in recognizing losses on junior subordinated debentures carried at fair value on quarterly basis within non-interest income. The Company will continue to monitor activity in the trust preferred markets to validate the 11.6% effective yield utilized. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) above the periodic change in fair value under the effective yield method.

FDIC Indemnification Asset - The FDIC indemnification asset is calculated as the expected future cash flows under the loss-share agreement discounted by a rate reflective of the creditworthiness of the FDIC.

Derivative Instruments - The fair value of the derivative instruments is estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate.

Visa Class B Common Stock -The fair value of Visa Class B common stock is estimated by applying a 5% discount to the value of the unredeemed Class A equivalent shares. The discount is determined by a third-party and primarily represents the risk related to the further potential reduction of the conversion ratio between Class B and Class A shares and a liquidity risk premium.

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The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three and nine months ended September 30, 2010 and 2009. The amount included in the Transfers into Level 3 column represents the beginning balance of an item in the period for which it is designated as a Level 3 fair value measure.

(in thousands)

Three months ended September 30,	Beginning Balance	Change included in earnings	Purchases and issuances	Sales and settlements	Transfers into Level 3	Ending Balance	Net change in unrealized gains or losses relating to items held at end of period
2010							
Mortgage servicing rights	$ 12,895	$ (1,057)	$ 1,616	$	$	$ 13,454	$ (434)
Junior subordinated debentures	79,590	1,600		(1,044)		80,146	1,600
2009							
Mortgage servicing rights	$	$ (802)	$ 1,723	$	$ 10,631	$ 11,552	$ (349)
Junior subordinated debentures	83,036	109	(1,153)			81,992	109

(in thousands)

Nine months ended September 30,	Beginning Balance	Change included in earnings	Purchases, issuances and settlements	Sales and settlements	Transfers into Level 3	Ending Balance	Net change in unrealized gains or losses relating to items held at end of period
2010							
Mortgage servicing rights	$ 12,625	$ (2,857)	$ 3,686	$	$	$ 13,454	$ (1,697)
Junior subordinated debentures	85,666	(2,550)		(2,969)		80,146	(2,550)
2009							
Mortgage servicing rights	$	$ (802)	$ 1,723	$	$ 10,631	$ 11,552	$ (349)
Junior subordinated debentures	92,520	(6,360)	(4,168)			81,992	(6,360)

Gains (losses) on mortgage servicing rights carried at fair value are recorded in mortgage banking revenue within other non-interest income. Gains resulting from the widening of the credit risk adjusted spread and changes in the three month LIBOR swap curve are recorded as gains on junior subordinated debentures carried at fair value within other non-interest income. The contractual interest expense on the junior subordinated debentures is recorded on an accrual basis as interest on junior subordinated debentures within interest expense. Settlements related to the junior subordinated debentures represent the payment of accrued interest that is embedded in the fair value of these liabilities.

Management believes that the credit risk adjusted spread being utilized is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. The widening of the credit risk adjusted spread above the Company s contractual spreads has primarily contributed to the positive fair value adjustments. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company s junior subordinated debentures at fair value as of September 30, 2010, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments.

Additionally, from time to time, certain assets are measured at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The following table presents

information about the Company s assets and liabilities measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported upon.

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(in thousands)

	September 30, 2010			
	Total	Level 1	Level 2	Level 3
Description				
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$ 1,106	$ -	$ -	$ 1,106
Non-covered loans and leases	93,324	-	-	93,324
Non-covered other real estate owned	2,260	-	-	2,260
Covered other real estate owned	5,458	-	-	5,458
	$ 102,148	$ -	$ -	$ 102,148

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Description				
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$ 2,875	$ -	$ -	$ 2,875
Non-covered loans and leases	138,134	-	-	138,134
Goodwill	607,307	-	-	607,307
Other intangible assets, net	295			295
Non-covered other real estate owned	16,607	-	-	16,607
	$ 765,218	$ -	$ -	$ 765,218

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and nine months ended September 30, 2010 and 2009:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$ 44	$ 4	$ 332	$ 9,520
Non-covered loans and leases	31,343	46,671	95,932	125,981
Goodwill	-	-	-	111,952
Non-covered other real estate owned	442	4,595	2,163	7,171
Covered other real estate owned	920	-	925	-
Total loss from nonrecurring measurements	$ 32,749	$ 51,270	$ 99,352	$ 254,624

The investment securities held to maturity above relate to non-agency collateralized mortgage obligations where other-than-temporary impairment (OTTI) has been identified and the investments have been adjusted to fair value. The fair value of these investments securities were obtained from third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. While we do not expect to recover the entire amortized cost basis of these securities, as we as we do not intend to sell these securities and it is not likely that we will be required to sell these securities before maturity, only the credit loss component of the impairment is recognized in earnings. The

credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. The remaining impairment loss related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to a separate component other comprehensive income (OCI). We estimate the cash flows of the underlying collateral within each security considering credit, interest and prepayment risk models that incorporate management s estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then use a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows are then discounted at the interest rate used to recognize interest income on each security.

The non-covered loans and leases amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this

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impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

The non-covered and covered other real estate owned amount above represents impaired real estate that has been adjusted to fair value. Non-covered other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property s new basis. Any write-downs based on the asset s fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on non-covered other real estate owned for fair value adjustments based on the fair value of the real estate.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

This Report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as anticipates, expects, believes, estimates and intends and words or phrases of similar meaning. We m forward-looking statements regarding projected sources of funds, use of proceeds, availability of acquisition and growth opportunities, dividends, adequacy of our allowance for loan and lease losses and provision for loan and lease losses, our commercial real estate portfolio and subsequent chargeoffs. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties include those set forth in our filings with the SEC, and the following factors that might cause actual results to differ materially from those presented:

- our ability to attract new deposits and loans and leases;
- demand for financial services in our market areas;
- competitive market pricing factors;
- deterioration in economic conditions that could result in increased loan and lease losses;
- risks associated with concentrations in real estate related loans;
- market interest rate volatility;
- stability of funding sources and continued availability of borrowings;
- changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;
- our ability to recruit and retain key management and staff;
- availability of, and competition for, FDIC-assisted acquisition opportunities;
- risks associated with merger and acquisition integration;

significant decline in the market value of the Company that could result in an impairment of goodwill;

our ability to raise capital or incur debt on reasonable terms;

regulatory limits on the Bank s ability to pay dividends to the Company;

effectiveness of the Emergency Economic Stabilization Act of 2008 (EESA) and other legislative and regulatory efforts to help stabilize the U.S. financial markets;

the impact of the EESA and the American Recovery and Reinvestment Act (ARRA), the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and related rules and regulations on the Company s business operations and competitiveness, including the impact of executive compensation restrictions, which may affect the Company s ability to retain and recruit executives in competition with other firms who do not operate under those restrictions;

the impact of the Dodd-Frank Act on the Company s interchange fee revenue, FDIC deposit insurance assessments and regulatory compliance expenses.

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. We do not intend to update these forward-looking statements. Readers should consider any forward-looking statements in light of this explanation, and we caution readers about relying on forward-looking statements.

General

Umpqua Holdings Corporation (referred to in this report as we, our, Umpqua, and the Company), an Oregon corporation, is a financial holding company with two principal operating subsidiaries, Umpqua Bank (the Bank) and Umpqua Investments, Inc. (Umpqua Investments). Prior to July 2009, Umpqua Investments was known as Strand, Atkinson, Williams & York, Inc.

Our headquarters are located in Portland, Oregon, and we engage primarily in the business of commercial and retail banking and the delivery of retail brokerage services. The Bank provides a wide range of banking, mortgage banking and other financial services to corporate, institutional and individual customers. Along with our subsidiaries, we are subject to the regulations of state and federal agencies and undergo periodic examinations by these regulatory agencies.

We are considered one of the most innovative community banks in the United States, combining a retail product delivery approach with an emphasis on quality-assured personal service. The Bank has evolved from a traditional community bank into a community-oriented financial services retailer by implementing a variety of retail marketing strategies to increase revenue and differentiate ourselves from our competition.

Umpqua Investments is a registered broker-dealer and investment advisor with offices in Portland, Eugene, and Medford, Oregon, and in many Umpqua Bank stores. The firm is one of the oldest investment companies in the Northwest and is active in many community events. Umpqua Investments offers a full range of investment products and services including: stocks, fixed income securities (municipal, corporate, and government bonds, CDs, and money market instruments), mutual funds, annuities, options, retirement planning, money management services, life insurance, disability insurance and medical supplement policies.

Executive Overview

Significant items for the third quarter of 2010 were as follows:

Net income available to common shareholders per diluted common share was $0.07 and $0.09 for the three and nine months ended September 30, 2010, as compared to net loss available to common shareholders per diluted common share of $0.14 and $2.10 for the three and nine months ended September 30, 2009. Operating income per diluted common share, defined as earnings available to common shareholders before net loss (gain) on fair value of junior subordinated debentures, net of tax, goodwill impairment, bargain purchase gains, net of tax, and merger related expenses, net of tax, divided by the same diluted share total used in determining diluted earnings per common share, was $0.08 and $0.04 for the three and nine months ended September 30, 2010, as compared to operating loss per diluted common share of $0.15 and $0.47 for the three and nine months ended September 30, 2009. Operating income per diluted share is considered a non-GAAP financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading *Results of Operations - Overview* below.

Non-covered, non-performing assets decreased to $183.6 million, or 1.59% of total assets, as of September 30, 2010, as compared to $205.5 million, or 1.90% of total assets, as of June 30, 2010, and $223.6 million, or 2.38% of total assets, as of December 31, 2009. Non-covered non-performing loans decreased to $151.6 million, or 2.66% of total loans, as of September 30, 2010, as compared to $179.8 million, or 3.14% of total non-covered loans, as of June 30, 2010, and $199.0 million, or 3.32% of total non-covered loans, as of December 31, 2009. Non-accrual loans have been written-down to their estimated net realizable values.

Net charge-offs on non-covered loans were $30.0 million for the three months ended September 30, 2010, or 2.08% of average non-covered loans and leases (annualized), as compared to net charge-offs of $47.3 million, or 3.07% of average non-covered loans and leases (annualized), for the three months ended September 30, 2009. Non-covered net charge-offs were $95.7 million for the nine months ended September 30, 2010, or 2.20% of average non-covered loans and leases (annualized), as compared to net charge-offs of $133.3 million, or 2.91% of average non-covered loans and leases (annualized), for the nine months ended September 30, 2009.

The provision for non-covered loan and lease losses was $24.2 million and $96.1 million for the three and nine months ended September 30, 2010, as compared to the $52.1 million and $140.5 million recognized for the three and nine months ended September 30, 2009. This resulted from the decrease in net charge-offs and non-performing loans.

We recorded a loss of $0.6 million and a $5.5 million gain representing the change in fair value on our junior subordinated debentures measured at fair value in the three and nine months ended September 30, 2010, compared to gains of $982,000 and $10.2 million in the three and nine months ended September 30, 2009. The gains recognized during these periods primarily resulted from the widening of the credit risk adjusted rate spread above the Company s contractual spreads.

Mortgage banking revenue was $7.1 million and $13.8 million for the three and nine months ended September 30, 2010, compared to $4.3 million and $14.6 million for the three and nine months ended September 30, 2009. Closed mortgage volume increased 46% in the current year-to-date over the prior year same period due to an increase in purchase and refinancing activity.

Net interest margin, on a tax equivalent basis, increased to 4.42% for the three months and 4.18% for the nine months ended September 30, 2010, compared to 4.05% and 4.11% for the same periods a year ago. The increase in net interest margin resulted from an increase in average covered loans outstanding, increased yields on the covered loan portfolios, declining costs of interest bearing deposits, partially offset by interest reversals of new non-accrual loans, a decline in non-covered loans outstanding, and the impact of holdings much higher levels of interest bearing cash. Excluding interest reversals on

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loans of $0.6 million and $2.3 million for the three and nine months ended September 30, 2010, net interest margin would have been 4.44% and 4.24%, respectively.

Total risk based capital increased to 17.59% as of September 30, 2010, compared to 17.16% as of December 31, 2009, due to the successful public stock offering completed in February 2010, partially offset by the redemption of preferred stock issued to the U.S. Treasury and growth in total assets from FDIC-assisted transactions.

Total gross non-covered loans and leases were $5.7 billion as of September 30, 2010, a decrease of $301.0 million, or 5.0%, as compared to December 31, 2009. This decrease is principally attributable to charge-offs of $102.7 million, transfers to other real estate owned of $29.9 million, and net non-covered loan paydowns and maturities of $144.3 million during the period.

Total deposits were $9.3 billion as of September 30, 2010, an increase of $1.9 billion, or 25.0%, as compared to December 31, 2009. Excluding the deposits acquired through the FDIC-assisted acquisitions, the annualized organic deposit growth rate was 15.2%.

Total consolidated assets were $11.5 billion as of September 30, 2010, representing an increase of $2.2 billion compared to December 31, 2009. The increase is primarily attributable to the FDIC-assisted acquisitions of EvergreenBank (Evergreen), Rainier Pacific Bank (Rainier), and Nevada Security Bank (Nevada Security) and organic growth in deposits year to date.

Cash dividends declared in the third quarter of 2010 were $0.05 per common share, consistent with the amounts declared since the fourth quarter of 2008.

Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2009 included in the Form 10-K filed with the Securities and Exchange Commission (SEC) on February 25, 2010. Not all of these critical accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC s definition.

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. The Company s risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management Allowance for Loan and Lease Losses (ALLL) Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank s Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans and leases with similar risk rating. Credit loss factors may vary by region based on management s belief that there may ultimately be different credit loss rates experienced in each region.

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses or charge-off the

impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses.

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

The reserve for unfunded commitments (RUC) is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management s evaluation of numerous factors. These factors include the quality of the current loan portfolio; the trend in the loan portfolio s risk ratings; current economic conditions; loan concentrations; loan growth rates; past-due and non-performing trends; evaluation of specific loss estimates for all significant problem loans; historical charge-off and recovery experience; and other pertinent information.

Management believes that the ALLL was adequate as of September 30, 2010. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 81% of our non-covered loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. Over the last several years, there has been deterioration in the residential development market which has led to an increase in non-performing loans and the allowance for loan and lease losses. A continued deterioration in this market or deterioration in other segments of our loan portfolio, such as commercial real estate or commercial construction, may lead to additional charges to the provision for loan and lease losses.

Mortgage Servicing Rights (MSR)

The Company determines its classes of servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company measures its residential mortgage servicing assets at fair value and reports changes in fair value through earnings. Fair value adjustments encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are separately reported. Under the fair value method, the MSR is carried in the balance sheet at fair value and the changes in fair value are reported in earnings under the caption mortgage banking revenue in the period in which the change occurs.

Retained mortgage servicing rights are measured at fair values as of the date of sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys.

The expected life of the loan can vary from management s estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management s estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in the model, which we base on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights. Additional information is included in Note 6 of the *Notes to Consolidated Financial Statements*.

Valuation of Goodwill and Intangible Assets

At September 30, 2010, we had $680.9 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstance indicate impairment potentially exists. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption may result in additional impairment of all, or some portion of, goodwill.

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Stock-based Compensation

In accordance with FASB ASC 718, *Stock Compensation*, we recognize expense in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the Black-Scholes methodology, and ultimately, the expense that will be recognized over the life of the option. Additional information is included in Note 11 of the *Notes to Consolidated Financial Statements*.

Fair Value

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 15 of the *Notes to Consolidated Financial Statements* for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

Acquired Loans

In accordance with FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, acquired loans are aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flow were estimated for each pool. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The Company aggregated all of the loans acquired in the FDIC-assisted acquisitions into different pools based on common risk characteristics. A loan will be removed from a pool of loans only if the loan is sold, foreclosed, assets are received in full satisfaction of the loan, or the loan is written off, and will be removed from the pool at its carrying value. If an individual loan is removed from a pool of loans, the difference between its relative carrying amount and its cash, fair value of the collateral, or other assets received will be recognized in income immediately and would not affect the effective yield used to recognize the accretable yield on the remaining pool. Loans originally placed into a performing pool will not be reported individually as 30-89 days past due, non-performing (90+ days past due or nonaccrual), or accounted for as a troubled debt restructuring as the pool is the unit of accounting. Rather, these metrics related to the underlying loans within a performing pool will be considered in our ongoing assessment and estimates of future cash flows. If, at acquisition, the loans are collateral dependent and acquired primarily for the rewards of ownership of the underlying collateral, or if cash flows expected to be collected cannot be reasonably estimated, accrual of income is inappropriate. Such loans will be placed into nonperforming (nonaccrual) loan pools.

The cash flows expected to be received over the life of the pool were estimated by management with the assistance of a third party valuation specialist. These cash flows were input into a ASC 310-30 compliant accounting loan system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions will be periodically reassessed and updated within the accounting model to update our expectation of future cash flows. The excess of the cash flows expected to be collected over the pool s carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows. For the performing loan pools, we initially apply a prepayment assumption as documented by the valuation specialist. Changes in the accretable yield will be disclosed quarterly.

The excess of the undiscounted contractual balances due over the cash flows expected to be collected is considered to be the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected to occur and was considered in determining the fair value of the loans as of the acquisition date. Subsequent to the acquisition date, any increases in expected cash flows over those expected at purchase date in excess of fair value are adjusted through the accretable difference on a prospective basis. Any subsequent decreases in expected cash flows over those expected at purchase date are recognized by recording a provision for loan losses. Any disposals of loans, including sales of loans, payments in full or foreclosures, result in the removal of the loan from the pool at its carrying amount.

The acquired loan portfolio also includes revolving lines of credit with funded and unfunded commitments. Funds advanced at the time of acquisition will be accounted for under FASB ASC 310-30. Any additional advances on these loans subsequent to the acquisition date will not be accounted for under ASC 310-30.

Recent Accounting Pronouncements

In April 2009, FASB amended FASB ASC 820, *Fair Value Measurements and Disclosures*, to address issues related to the determination of fair value when the volume and level of activity for an asset or liability has significantly decreased, and identifying transactions that are not orderly. The revisions affirm the objective that fair value is the price that would be received to sell an asset in an orderly transaction (that is not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions, even if the market is inactive. The amendment provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have decreased significantly. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. If determined that a quoted price is distressed (not orderly), and thereby not representative of fair value, the entity may need to make adjustments to the quoted price or utilize an alternative valuation technique (e.g. income approach or multiple valuation techniques) to determine fair value. Additionally, an entity must incorporate appropriate risk premium adjustments, reflective of an orderly transaction under current market conditions, due to uncertainty in cash flows. The revised guidance requires disclosures in interim and annual periods regarding the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. It also requires financial institutions to disclose the fair values of investment securities by major security type. The changes are effective for the interim reporting period ending after June 15, 2009, and are to be applied prospectively. The adoption of these amendments impacted the Company s determination of fair value related to our junior subordinated debentures measured at fair value. As of March 31, 2009, prior to the adoption of these amendments, we discounted these liabilities by the current three month LIBOR plus a credit risk adjusted spread of 500 basis points. Due to the lack of observable, orderly transactions, of either new issuances or trades, we estimated that a market participant would utilize a credit risk adjusted spread of 500 basis points if an actual market transaction in an active market were to take place for an entity with comparable nonperformance risk. The amendments clarify that a fair value measurement shall assume a risk premium market participants would require at a measurement date under current market conditions, even if the market is inactive. With the assistance of a third-party pricing service, we determined that a credit risk adjusted spread of 675 basis points would be representative of the nonperformance risk premium a market participant would require under current market conditions as of June 30, 2009. In accordance with the guidance, this was accounted for as a change in accounting estimate. This increase in the credit risk adjusted spread is the primary factor resulting in the $8.6 million gain on junior subordinated debentures carried at fair value recognized in the second quarter of 2009. The effect of these amendments did not have a significant impact on the fair value measurement of any other assets or liabilities.

In April 2009, FASB revised FASB ASC 320, *Investments Debt and Equity Securities*, to change the OTTI model for debt securities. Previously, an entity was required to assess whether it has the intent and ability to hold a security to recovery in determining whether an impairment of that security is other-than-temporary. If the impairment was deemed other-than-temporarily impaired, the investment was written-down to fair value through earnings. Under the revised guidance, OTTI is triggered if an entity has the intent to sell the security, it is likely that it will be required to sell the security before recovery, or if the entity does not expect to recover the entire amortized cost basis of the security. If the entity intends to sell the security or it is likely it will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the entity does not intend to sell the security and it is not likely that the entity will be required to sell the security but the entity does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings as an OTTI. The credit loss is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected of a security. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment loss related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, would be recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are to be presented as a separate category within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated accordingly based on the procedures described above. Upon adoption of the revised guidance, the noncredit portion of previously recognized OTTI shall be reclassified to accumulated OCI by a cumulative-effect adjustment to the opening balance of retained earnings. These revisions became effective in the interim reporting period ending after June 15, 2009. Upon adoption of this guidance the Company analyzed the securities for which OTTI had been previously recognized and determined that as of the adoption date such losses were credit related. As such, there was no cumulative effect adjustment to the opening balance of retained earnings or a corresponding adjustment to accumulated OCI.

In December 2009, FASB issued ASU No. 2009-17, *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets.* This update codifies SFAS No. 166, *Accounting for Transfers of Financial Assets an Amendment of FASB Statement No. 140*, which was previously issued by FASB in June 2009 but was not included in the original codification. ASU 2009-17 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. This statement is effective for annual reporting periods beginning after November 15, 2009, and for interim periods therein. This standard will primarily impact the

Company s accounting and reporting of transfers representing a portion of a financial asset for which the Company has a continuing involvement, generally known as loan participations. In order to recognize the transfer of a portion of a financial asset as a sale, the transferred portion and any portion that continues to be held by the transferor must represent a participating interest, and the transfer of the participating interest must meet the conditions for surrender of control. To qualify as a participating interest (i) the portions of a financial asset must represent a proportionate ownership interest in an entire financial asset, (ii) from the date of transfer, all cash flows received from the entire financial asset must be divided proportionately

among the participating interest holders in an amount equal to their share of ownership, (iii) involve no recourse (other than standard representation and warranties) to, or subordination by, any participating interest holder, and (iv) no party has the right to pledge or exchange the entire financial asset. If the participating interest or surrender of control criteria are not met the transfer is not accounted for as a sale and derecognition of the asset is not appropriate. Rather the transaction is accounted for as a secured borrowing arrangement. The impact of certain participations being reported as secured borrowings rather than derecognizing a portion of a financial asset would increase total assets (loans), liabilities (term debt) and their respective interest income and expense. An increase in total assets also increases regulatory risk-weighted assets and could negatively impact our capital ratios. The Company is reviewing our participation agreements to ensure new originations meet the criteria to allow for sale accounting in order to limit the impact upon our financial statements. The terms contained in certain participation and loan sale agreements, however, are outside the control of the Company. These arrangements largely relate to Small Business Administration (SBA) loan sales. These sales agreements contain recourse provisions (generally 90 days) that will initially preclude sale accounting; however, once the recourse provision expires, transfers of portions of financial assets may be reevaluated to determine if they meet the participating interest definition. As a result, we expect to report SBA and potentially certain other transfers of financial assets as secured borrowings which will defer the gain of sale on these transactions, at least until the recourse provision expires, assuming all other sales criteria for each transaction are met. The Company does not believe it has or will have a significant amount of participations subject to recourse provisions or other features that would preclude derecognition of the assets transferred. The adoption of ASU No. 2009-17 did not materially impact the Company s consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-18, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.* This update codifies SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which was previously issued by FASB in June 2009 but was not included in the original codification. ASU 2009-18 eliminates FASB Interpretations 46(R) (FIN 46(R)) exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity (VIE). Under the revised guidance, the primary beneficiary of a VIE (party who must consolidate the VIE) is the enterprise that has (i) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance, and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE, or the right to receive benefits of the VIE that could potentially be significant to the VIE. ASU 2009-18 also contains a new requirement that any term, transaction, or arrangement that does not have a substantive effect on an entity s status as a variable interest entity, a company s power over a variable interest entity, or a company s obligation to absorb losses or its right to receive benefits of an entity must be disregarded in applying FIN 46(R) provisions. The elimination of the qualifying special-purpose entity concept and its consolidation exceptions means more entities will be subject to consolidation assessments and reassessments. This statement requires additional disclosures regarding an entity s involvement in a variable interest entity. This statement is effective for annual reporting periods beginning after November 15, 2009, and for interim periods therein. The Company has evaluated the impact of this guidance in regards to our involvement with variable interest entities. This guidance potentially impacts the accounting for our limited partnership equity investments in affordable housing development funds and real estate investment funds. In regards to affordable housing investments, the primary activities that most significantly impacts the VIE s economic performance include leasing rental units at appropriate rent rates in compliance with low income housing restrictions and requirements, operating the rental property thereby generating income/loss from the partnership operations, and protecting the low income housing tax credits from recapture. As a limited partner, the Company generally does not participate in the control of the partnerships business, our involvement is limited to providing a stated amount of financial support (commitment or subscription) as stated within contractual agreements, and the primary purpose of the investment is to receive the tax attributes (tax credits) of the partnership. The general partner, which generally are a developer or non-profit organization, exercise the day-to-day control and management of the partnerships that most significantly impacts the VIE s economic performance. In regards to the real estate investment funds, the primary activities that most significantly impacts the VIE s economic performance include the development, financing, and leasing of real estate related properties, and ultimately finding a profitable exit from such investments. The Company s involvement in these funds is as a limited minority interest partners. According to the terms of the partnerships, the general partners have exclusive control to manage the enterprise and power to direct activities that impact the VIE s economic performance. The impact of adoption did not result in the Company consolidating or deconsolidating any variable interest entities as accounted for under previous guidance and, therefore, did not have a material impact on the Company s consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*. This update amends FASB ASC 820, *Fair Value Measurements and Disclosure*, in regards to the fair value measurement of liabilities. FASB ASC 820 clarifies that in circumstances in which a quoted price for a identical liability in an active market in not available, a reporting entity shall utilize one or more of the following techniques: i) the quoted price of the identical liability when traded as an asset, ii) the quoted price for a similar liability or a similar liability when traded as an asset, or iii) another valuation technique that is consistent with the principles of FASB ASC 820. In all instances a reporting entity shall utilize the approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Also, when measuring the fair value of a liability, a reporting entity shall not include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update was effective for the Company in the fourth quarter of 2009, and primarily affected our considerations related to our measurement of junior subordinated debentures carried at fair value. The adoption of FASB ASU 2009-05 did not have a material impact on the Company s consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. FASB ASU No. 2009-06 requires (i) fair value disclosures by each class of assets and liabilities (generally a subset within a line item as presented in the statement of financial position) rather than major category, (ii) for items measured at fair value on a recurring basis, the amounts of significant transfers between Levels 1 and 2, and transfers into and out of Level 3, and the reasons for those transfers, including separate discussion related to the transfers into each level apart from transfers out of each level, and (iii) gross presentation of the amounts of purchases, sales, issuances, and settlements in the Level 3 recurring measurement reconciliation. Additionally, the ASU clarifies that a description of the valuation techniques(s) and inputs used to measure fair values is required for both recurring and nonrecurring fair value measurements. Also, if a valuation technique has changed, entities should disclose that change and the reason for the change. Disclosures other than the gross presentation changes in the Level 3 reconciliation are effective for the first reporting period beginning after December 15, 2009. The requirement to present the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis will be effective for fiscal years beginning after December 15, 2010. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and disclosure Requirements.* This ASU eliminates the requirement for to disclose the date through which a Company has evaluated subsequent events and refines the scope of the disclosure requirements for reissued financial statements. This ASU is effective for the first quarter of 2010. This ASU did not have a material impact on the Company s consolidated financial statements.

In March 2010, the FASB issued ASU No. 2010-11, *Derivatives and Hedging (Topic 815) Scope Exception Related to Embedded Credit Derivatives*. The ASU eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial instrument to another. The ASU is effective the first quarter beginning after June 15, 2010. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-18, *Receivables (Topic 310) Effect of a Loan Modification When the Loan Is Part of a Pool That is Accounted for as a Single Asset*. This ASU clarifies that modifications of loans that are accounted for within a pool under Topic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required with this ASU. The amendments in this ASU are effective for modifications of loans accounted for within pools under Topic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively and early application is permitted. Upon initial adoption of the guidance in this ASU, an entity may make a onetime election to terminate accounting for loans as a pool under Topic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* The ASU expands existing disclosures to require an entity to provide additional information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. Specifically, entities will be required to present a roll forward of activity in the allowance for credit losses, the nonaccrual status of financing receivables by class of financing receivables, and impaired financing receivables by class of financing receivables, all on a disaggregated basis. The ASU also requires an entity to provide additional disclosures on credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables, the aging of past due financing receivables at the end of the reporting period by class of financing receivables, the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses, the nature and extent of financing receivables modified as troubled debt restructurings within the previous 12 months that defaulted during the reporting period by class of financing receivables and their effect on the allowance for credit losses, and significant purchases and sales of financing receivables during the reporting period disaggregated by portfolio segment. For public entities, the disclosures of period-end balances are effective for interim and annual reporting periods ending after December 15, 2010. For public entities, the disclosures of activity are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company is currently evaluating the impact of the ASU on the Company s consolidated financial statements.

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RESULTS OF OPERATIONS

OVERVIEW

For the three months ended September 30, 2010, net earnings available to common shareholders was $8.2 million, or $0.07 per diluted common share, as compared to net loss available to common shareholders of $10.4 million, or $0.14 per diluted common share for the three months ended September 30, 2009. For the nine months ended September 30, 2010, net earnings available to common shareholders was $9.1 million, or $0.09 per diluted common share, as compared to net loss available to common shareholders of $136.3 million, or $2.10 per diluted common share for the nine months ended September 30, 2009. The increase in net earnings available to common shareholders for the three months ended September 30, 2010 compared to the same period of the prior year is principally attributable to increased net interest income, decreased provision for non-covered loan and lease losses, and decreased preferred stock dividends, partially offset by increased non-interest expense and decreased non-interest income. The increase in net income for the nine months ended September 30, 2010 compared to the same period of the prior year is principally attributable to increased net interest income, increased non-interest income, decreased provision for loan losses, and decreased non-interest expense. Non-interest income includes a bargain purchase gain on acquisition in the first quarter of $8.5 million relating to the acquisition of Evergreen. We assumed certain assets and liabilities of Evergreen, Rainier, and Nevada Security on January 22, 2010, February 26, 2010, and June 18, 2010, respectively, and the results of the acquired operations are included in our financial results starting on January 23, 2010, February 27, 2010, and June 19, 2010, respectively.

Umpqua recognizes gains or losses on our junior subordinated debentures carried at fair value resulting from the estimated market credit risk adjusted spread and changes in interest rates that do not directly correlate with the Company s operating performance. Also, Umpqua incurs significant expenses related to the completion and integration of mergers and acquisitions. Additionally, we may recognize goodwill impairment losses that have no direct effect on the Company s or the Bank s cash balances, liquidity, or regulatory capital ratios. Lastly, Umpqua may recognize one-time bargain purchase gains on certain FDIC-assisted acquisitions that are not reflective of Umpqua s on-going earnings power. Accordingly, management believes that our operating results are best measured on a comparative basis excluding the impact of gains or losses on junior subordinated debentures measured at fair value, net of tax, merger-related expenses, net of tax, and other charges related to business combinations such as goodwill impairment charges or bargain purchase gains, net of tax. We define *operating earnings* as earnings available to common shareholders before gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains on acquisitions, net of tax, merger related expenses, net of tax, and goodwill impairment, and we calculate operating earnings per diluted share by dividing operating earnings by the same diluted share total used in determining diluted earnings per common share.

The following table provides the reconciliation of earnings (loss) available to common shareholders (GAAP) to operating earnings (loss) (non-GAAP), and earnings (loss) per diluted common share (GAAP) to operating earnings (loss) per diluted share (non-GAAP) for the three and nine months ended September 30, 2010 and 2009:

Reconciliation of Net Earnings (Loss) Available to Common Shareholders to Operating Earnings (Loss)

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Net earnings (loss) available to common shareholders	$ 8,173	$ (10,376)	$ 9,138	$ (136,338)
Adjustments:				
Net loss (gain) on junior subordinated debentures carried at fair value, net of tax	332	(589)	(3,320)	(6,104)
Bargain purchase gain on acquisitions, net of tax	-	-	(5,074)	-
Merger-related expenses, net of tax	986	-	3,431	164
Goodwill impairment	-	-	-	111,952
Operating earnings (loss)	$ 9,491	$ (10,965)	$ 4,175	$ (30,326)
Per diluted share:				
Net earnings (loss) available to common shareholders	$ 0.07	$ (0.14)	$ 0.09	$ (2.10)

Adjustments:				
Net loss (gain) on junior subordinated debentures carried at fair value, net of tax	-	(0.01)	(0.03)	(0.10)
Bargain purchase gain on acquisitions, net of tax	-	-	(0.05)	-
Merger-related expenses, net of tax	0.01	-	0.03	-
Goodwill impairment	-	-	-	1.73
Operating earnings (loss)	$ 0.08	$ (0.15)	$ 0.04	$ (0.47)

The following table presents the returns on average assets, average common shareholders equity and average tangible common shareholders equity for the three and nine months ended September 30, 2010 and 2009. For each of the periods presented, the table includes the calculated ratios based on reported net income (loss) available to common shareholders and operating income (loss) as shown in the table above. Our return on average common shareholders equity is negatively impacted as the result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger-related intangible assets, we believe it beneficial to also consider the return on average tangible common shareholders equity. The return on average tangible common shareholders equity is calculated by dividing net earnings (loss)

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available to common shareholders by average shareholders common equity less average goodwill and intangible assets, net (excluding MSRs). The return on average tangible common shareholders equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders equity.

Return on Average Assets, Common Shareholders Equity and Tangible Common Shareholders Equity

(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	**2009**	**2010**	**2009**
Returns on average assets:				
Net earnings (loss) available to common shareholders	0.29%	-0.45%	0.12%	-2.06%
Operating earnings (loss)	0.34%	-0.48%	0.05%	-0.46%
Returns on average common shareholders equity:				
Net earnings (loss) available to common shareholders	1.95%	-3.19%	0.78%	-14.20%
Operating earnings (loss)	2.26%	-3.37%	0.36%	-3.16%
Returns on average tangible common shareholders equity:				
Net earnings (loss) available to common shareholders	3.31%	-6.34%	1.36%	-32.21%
Operating earnings (loss)	3.84%	-6.70%	0.62%	-7.16%
Calculation of average common tangible shareholders equity:				
Average common shareholders equity	$ 1,661,701	$ 1,291,218	$ 1,566,833	$ 1,283,476
Less: average goodwill and other intangible assets, net	(681,476)	(642,315)	(670,492)	(717,509)
Average tangible common shareholders equity	$ 980,225	$ 648,903	$ 896,341	$ 565,967

Additionally, management believes tangible common equity and the tangible common equity ratio are meaningful measures of capital adequacy. Umpqua believes the exclusion of certain intangible assets in the computation of tangible common equity and tangible common equity ratio provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results and capital of the Company. Tangible common equity is calculated as total shareholders equity less preferred stock and less goodwill and other intangible assets, net (excluding MSRs). In addition, tangible assets are total assets less goodwill and other intangible assets, net (excluding MSRs). The tangible common equity ratio is calculated as tangible common shareholders equity divided by tangible assets. The tangible common equity and tangible common equity ratio is considered a non-GAAP financial measure and should be viewed in conjunction with the total shareholders equity and the total shareholders equity ratio.

The following table provides a reconciliation of ending shareholders equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of September 30, 2010 and December 31, 2009:

Reconciliations of Total Shareholders Equity to Tangible Common Shareholders Equity and Total Assets to Tangible Assets

(dollars in thousands)

	September 30, 2010	December 31, 2009
Total shareholders equity	$ 1,651,714	$ 1,566,517
Subtract:		
Preferred Stock	-	204,335
Goodwill and other intangible assets, net	680,893	639,634
Tangible common shareholders equity	$ 970,821	$ 722,548
Total assets	$ 11,532,971	$ 9,381,372
Subtract:		
Goodwill and other intangible assets, net	680,893	639,634
Tangible assets	$ 10,852,078	$ 8,741,738
Tangible common equity ratio	8.95%	8.27%

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Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although we believe these non-GAAP financial measure are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

NET INTEREST INCOME

Net interest income is the largest source of our operating income. Net interest income for the three months ended September 30, 2010 was $108.3 million, an increase of $26.6 million or 32% compared to the same period in 2009. Net interest income for the three months ended September 30, 2010 was negatively impacted by the $569,000 reversal of interest income on loans during the quarter. Net interest income for the nine months ended September 30, 2010 was $287.7 million, an increase of $51.5 million or 22% compared to the same period in 2009. Net interest income for the nine months ended September 30, 2010 was negatively impacted by the $2.3 million reversal of interest income on loans during the period. The results for the three and nine months ended September 30, 2010 as compared to the same period in 2009 are attributable to growth in outstanding average interest-earning assets, primarily covered loans and investment securities, partially offset by growth in interest-bearing liabilities, primarily time deposits, and an increase in net interest margin. In addition to organic growth, the FDIC-assisted purchase and assumption of certain assets and liabilities of Evergreen, Rainier, and Nevada Security, which were completed on January 22, 2010, February 26, 2010, and June 18, 2010, respectively, contributed to the increase in assets and liabilities in the three and nine months ended September 30, 2010 over the same periods in 2009.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax-equivalent basis was 4.42% for the three months ended September 30, 2010, an increase of 37 basis points as compared to the same period in 2009. The increase in net interest margin primarily resulted from an increase in average covered loans outstanding, increased yield on the covered loan portfolio as a result of payoffs ahead of expectations, and a decrease in our interest expense to earning assets of 25 basis points due to declining costs of interest bearing deposits, partially offset by the interest reversals of new non-accrual loans (contributing to a 2 basis point decline), a decline in non-covered loans outstanding, the impact of holding much higher levels of interest bearing cash with the Federal Reserve Bank (at 25 basis points), and the purchase of short-term, low-yielding investment securities during the quarter.

The net interest margin on a fully tax-equivalent basis was 4.18% for the nine months ended September 30, 2010, an increase of 7 basis points as compared to the same period in 2009. The increase in net interest margin primarily resulted from an increase in average covered loans outstanding, increased yield on the covered loan portfolio as a result of payoffs ahead of expectations, and a decrease in our interest expense to earning assets of 36 basis points due to declining costs of interest bearing deposits, partially offset by the interest reversals of new non-accrual loans (contributing to a 3 basis point decline), a decline in non-covered loans outstanding, and the impact of holding much higher levels of interest bearing cash with the Federal Reserve Bank (at 25 basis points).

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds. The following tables present condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2010 and 2009:

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Average Rates and Balances (Quarterly)

(dollars in thousands)

	Three months ended September 30, 2010			Three months ended September 30, 2009		
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:						
Non-covered loans and leases [1]	$ 5,764,517	$ 83,829	5.77%	$ 6,151,061	$ 89,474	5.77%
Covered loans and leases [2]	847,704	28,823	13.49%	-	-	NA
Taxable securities	1,984,672	17,427	3.51%	1,458,333	15,387	4.22%
Non-taxable securities [3]						