UMPQUA HOLDINGS CORP
Form 10-Q
November 04, 2010
Table of Contents

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

Table of Contents

UMPQUA HOLDINGS CORPORATION

FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION		3
Item 1.	Financial Statements (unaudited)	3
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	74
Item 4.	Controls and Procedures	74
PART II. OTHER INFORMATION		75
Item 1.	Legal Proceedings	75
Item 1A.	Risk Factors	75
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	77
Item 3.	Defaults Upon Senior Securities	77
Item 4.	(Removed and Reserved)	77
Item 5.	Other Information	77
Item 6.	Exhibits	77
SIGNATURES		78
EXHIBIT INDEX		79

Table of Contents

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

Table of Contents

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)

Table of Contents

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

5

Table of Contents

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

Table of Contents

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

Table of Contents

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)

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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%

Table of Contents

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.

16

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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		5,310	6,398	10.875%	8.15%		

	March 2000					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			