UMPQUA HOLDINGS CORP
Form 10-K
February 17, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[x] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	

Securities registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [x] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

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

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

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

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 Act). Yes [ ] No [x]

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2010, based on the closing price on that date of $11.48 per share, and 113,577,225 shares held was $1,303,866,547.

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

The number of shares of the Registrant s common stock (no par value) outstanding as of January 31, 2011 was 114,561,195.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 Annual Meeting of Shareholders of Umpqua Holdings Corporation are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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Umpqua Holdings Corporation

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PART I

ITEM 1. BUSINESS.

This Annual Report on Form 10-K contains 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 make 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 that could cause our financial performance to differ materially from our goals, plans, expectations and projections expressed in forward-looking statements include those set forth in our filings with the SEC, Item 1A of this Annual Report on Form 10-K, 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;

the impact of 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 firms in other industries who do not operate under those restrictions.

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

For a more detailed discussion of some of the risk factors, see the section entitled Risk Factors below. We do not intend to update any factors, except as required by SEC rules, or to publicly announce revisions to any of our forward-looking statements. Any forward-looking statement speaks only as of the date that suck statement was made. You should consider any forward looking statements in light of this explanation, and we caution you about relying on forward-looking statements.

Umpqua Holdings Corporation

Introduction

Umpqua Holdings Corporation (referred to in this report as we, our, Umpqua, and the Company), an Oregon corporation, was formed as a bank holding company in March 1999. At that time, we acquired 100% of the outstanding shares of South Umpqua Bank, an Oregon state-chartered bank formed in 1953. We became a financial holding company in March 2000 under the provisions of the Gramm-Leach-Bliley Act. Umpqua has 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 and York, Inc. (Strand).

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the Securities and Exchange Commission (SEC). You may obtain these reports, and any amendments, from the SEC s website at www.sec.gov. You may obtain copies of these reports, and any amendments, through our website at www.umpquaholdingscorp.com. These reports are available through our website as soon as reasonably practicable after they are filed electronically with the SEC. All of our SEC filings since November 14, 2002 have been made available on our website within two days of filing with the SEC.

General Background

Prior to 2009, the Company s footprint stretched from Seattle, Washington, to Sacramento, Calififornia, and included the Portland metropolitan and Willamette Valley areas of Oregon along the I-5 corridor, southern Oregon, the Oregon coast, Northern California, and Napa Valley. On January 16, 2009, the Washington Department of Financial Institutions closed the Bank of Clark County, Vancouver, Washington, and appointed the Federal Deposit Insurance Corporation (FDIC) as its receiver. The FDIC entered into a purchase and assumption agreement with Umpqua Bank to assume certain assets and the insured non-brokered deposit balances, representing two branches, at no premium. On January 22, 2010, the Washington Department of Financial Institutions closed EvergreenBank (Evergreen), Seattle, Washington. Umpqua Bank entered into a whole bank purchase and assumption agreement with the FDIC to assume all of the deposits of Evergreen and purchase essentially all of the assets. The FDIC and Umpqua Bank entered into a loss-share transaction on $374.8 million of Evergreen s assets. Umpqua Bank will share in the losses on the asset pools covered under the loss-share agreement. Evergreen s six Seattle metropolitan area branches opened as Umpqua Bank stores on January 25, 2010. On February 26, 2010, the Washington Department of Financial Institutions closed Rainier Pacific Bank (Rainier), Tacoma, Washington. Umpqua Bank entered into a whole bank purchase and assumption agreement with the FDIC to assume all of the deposits of Rainier and purchase essentially all of the assets. The FDIC and Umpqua Bank entered into a loss-share transaction on $574.6 million of Rainiers s assets. Umpqua Bank will share in the losses on the asset pools covered under the loss-share agreement. Rainier s 14 Tacoma metropolitan area branches opened as Umpqua Bank stores on March 1, 2010. On June 18, 2010, the Nevada State Financial Institutions Division closed Nevada Security Bank (Nevada Security), Reno, Nevada and appointed the FDIC as receiver. Umpqua Bank entered into a whole bank purchase and assumption agreement with the FDIC to assume all of the deposits of Nevada Security and purchase essentially all of the assets. The FDIC and Umpqua Bank entered into a loss-share transaction on $364.4 million of Nevada Security s assets. Umpqua Bank will share in the losses on the asset pools covered under the loss-share agreement. Nevada Security s four Nevada and one Northern California area branches opened as Umpqua Bank stores on June 21, 2010.

Headquartered in Portland, Oregon, 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. See Supervision and Regulation below for additional information.

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 actively engaged in the communities it serves. 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 and life insurance.

Business Strategy

Our principal objective is to become the leading community-oriented financial services retailer throughout the Pacific Northwest and Northern California. We plan to continue the expansion of our market from Seattle to San Francisco, primarily along the I-5 corridor. We intend to continue to grow our assets and increase profitability and shareholder value by differentiating ourselves from competitors through the following strategies:

Capitalize On Innovative Product Delivery System. Our philosophy has been to develop an environment for the customer that makes the banking experience relevant and enjoyable. With this approach in mind, we have developed a unique store concept that offers one-stop shopping and includes distinct physical areas or boutiques, such as a serious about service center, an investment opportunity center and a computer café, which make the Bank s products and services more tangible and accessible. In 2006, we introduced our Neighborhood Stores and in 2007, we introduced the Umpqua Innovation Lab. In 2010, we introduced the next generation version of our Neighborhood Store in the Capitol Hill area of Seattle, Washington. We are continuing to remodel existing and acquired stores in metropolitan locations to further our retail vision.

Deliver Superior Quality Service. We insist on quality service as an integral part of our culture, from the Board of Directors to our new sales associates, and believe we are among the first banks to introduce a measurable quality service program. Under our return on quality program, each sales associate s and store s performance is evaluated monthly based on specific measurable factors such as the sales effectiveness ratio that totals the average number of banking products purchased by each new customer. The evaluations also encompass factors such as the number of new loan and deposit accounts generated in each store, reports by incognito mystery shoppers and customer surveys. Based on scores achieved, Umpqua s return on quality program rewards both individual sales associates and store teams with financial incentives. Through such programs, we believe we can measure the quality of service provided to our customers and maintain employee focus on quality customer service.

Establish Strong Brand Awareness. As a financial services retailer, we devote considerable resources to developing the Umpqua Bank brand. This is done through marketing, merchandising, community based events, and our unique store environment. From bank branded bags of custom roasted coffee beans and chocolate coins with each transaction, to educational seminars and three Umpqua-branded ice cream trucks, Umpqua s goal is to engage our customer with the brand in a whole new way. The unique look and feel of our stores and interactive displays help position us as an innovative, customer friendly retailer of financial products and services. We build consumer preference for our products and services through strong brand awareness. During 2005, we secured naming rights to the office tower in Portland, Oregon in which our administrative offices and main branch are now located. This downtown building now displays prominent illuminated signage with the Bank s name and logo.

Use Technology to Expand Customer Base. Although our strategy continues to emphasize superior personal service, we plan to expand user-friendly, technology-based systems to attract customers that may prefer to interact with their financial institution electronically. We offer technology-based services including remote deposit capture, online banking, bill pay and treasury services, mobile banking, voice response banking, automatic payroll deposit programs, advanced function ATMs, interactive product kiosks, and a robust internet web site. We believe the availability of both traditional bank services and electronic banking services enhances our ability to attract a broader range of customers.

Increase Market Share in Existing Markets and Expand Into New Markets. As a result of our innovative retail product orientation, measurable quality service program and strong brand awareness, we believe that there is significant potential to increase business with current customers, to attract new customers in our existing markets and to enter new markets.

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Pursue FDIC-assisted transactions. A part of our strategy in this economic environment is to pursue certain failing banks that the FDIC makes available for bid, and that meet our strategic objectives. Failed bank transactions are attractive opportunities because we can acquire loans subject to a loss share agreement with the FDIC, or at a significant discount, that limits our downside risk on the purchased loan portfolio and, apart from our assumption of deposit liabilities, we have significant discretion as to the non-deposit liabilities that we assume. Assets purchased from the FDIC are marked to their fair value. We have completed four FDIC-assisted transactions since January 1, 2009.

Marketing and Sales

Our goal of increasing our share of financial services in our market areas is driven by a marketing and sales plan with the following key components:

Media Advertising. Our comprehensive marketing campaigns aim to strengthen the Umpqua Bank brand and heighten public awareness about our innovative delivery of financial products and services. The bank has been recognized nationally for its use of new media and unique approach. From programs like Umpqua s Discover Local Music Project and our ice cream truck, to campaigns like Save Hard Spend Smart and the Lemonaire, Umpqua is utilizing nontraditional media channels and leveraging mass market media in new ways. In 2005 Umpqua dubbed the term hand-shake marketing to describe the Company s fresh approach to localized marketing.

Retail Store Concept. As a financial services provider, we believe that the store environment is critical to successfully market and sell products and services. Retailers traditionally have displayed merchandise within their stores in a manner designed to encourage customers to purchase their products. Purchases are made on the spur of the moment due to the products availability and attractiveness. Umpqua Bank believes this same concept can be applied to financial institutions and accordingly displays financial services and products through tactile merchandising within our stores. Unlike many financial institutions whose strategy is to discourage customers from visiting their facilities in favor of ATMs or other forms of electronic banking, we encourage customers to visit our stores, where they are greeted by well-trained sales associates and encouraged to browse and to make impulse purchases. Our Next Generation store model includes features like wireless laptop computers customers can use, opening rooms with fresh fruit and refrigerated beverages and innovative products packaging like MainStreet for businesses a package that includes relationship pricing for deposit and loan products, access to our LocalSpace our social network for small businesses, and invitation to Business Therapy seminars. The stores host a variety of after-hours events, from poetry readings to seminars on how to build an art collection. To bring financial services to our customers in a cost-effective way, we introduced Neighborhood Stores. We build these stores in established neighborhoods and design them to be neighborhood hubs. These stand-alone full-service stores are smaller size and emphasize advanced technology. To strengthen brand recognition, all Neighborhood Stores are similar in appearance. Umpqua s Innovation Lab is a one-of-a-kind location, showcasing emerging and existing technologies that foster community and redefine what consumers can expect from a banking experience. As a testing ground for new initiatives, the Lab will change regularly to feature new technology, products, services and community events.

Service Culture. Umpqua believes strongly that if we lead with a service culture, we will have more opportunity to sell our products and services and to create deeper customer relationships. Although a successful marketing program will attract customers to visit our stores, a service environment and a well-trained sales team are critical to selling our products and services. We believe that our service culture has become well established throughout the organization due to our unique facility designs and ongoing training of our Universal Associates on all aspects of sales and service. We train our associates at our in-house training facility, known as The World s Greatest Bank University, to recognize and celebrate exceptional service, and pay commissions for the sale of the Bank s products and services. This service culture has helped transform us from a traditional community bank to a nationally recognized marketing company focused on selling financial products and services.

Products and Services

We offer a full array of financial products to meet the banking needs of our market area and target customers. To ensure the ongoing viability of our product offerings, we regularly examine the desirability and profitability of existing and potential new products. To make it easy for new prospective customers to bank with us and access our products, we offer a Switch Kit, which allows a customer to open a primary checking account with Umpqua Bank in less than ten minutes. Other avenues through which customers can access our products include our web site equipped with an e-switchkit which includes automated billpay switch, internet banking through umpqua.online, mobile banking, and our 24-hour telephone voice response system.

Deposit Products. We offer a traditional array of deposit products, including non-interest bearing checking accounts, interest bearing checking and savings accounts, money market accounts and certificates of deposit. These accounts earn interest at rates established by management based on competitive market factors and management s desire to increase certain types or maturities of deposit liabilities. Our approach is to tailor fit products and bundle those that meet the customer s needs. This approach adds value for the customer, increases products per household and produces higher service fee income. We also offer a seniors program to customers over fifty years old, which includes an array of banking services and other amenities, such as purchase discounts, vacation trips and seminars.

During the economic downturn, Umpqua opted to increase FDIC insurance coverage for our customers, providing greater peace of mind during these difficult times. In addition, the Company has an agreement with Promontory Interfinancial Network that makes it possible to offer FDIC insurance to depositors in excess of the current deposit limits. This Certificate of Deposit Account Registry Service (CDARS) uses a deposit-matching program to distribute excess deposit balances across other participating banks. This product is designed to enhance our ability to attract and retain customers and increase deposits, by providing additional FDIC coverage to customers. Due to the nature of the placement of the funds, CDARS deposits are classified as brokered deposits by regulatory agencies.

Private Bank. Umpqua Private Bank serves high net worth individuals with liquid investable assets by providing customized financial solutions and offerings. The private bank is designed to augment Umpqua s existing high-touch customer experience, and works collaboratively with the Bank s affiliate retail brokerage Umpqua Investments and with the independent capital management firm Ferguson Wellman Capital Management, to offer a comprehensive, integrated approach that meets clients financial goals.

Retail Brokerage Services. Umpqua Investments provides a full range of brokerage services including equity and fixed income products, mutual funds, annuities, options, retirement planning and money management services. Additionally, Umpqua Investments offers life insurance policies. At December 31, 2010, Umpqua Investments had 44 Series 7-licensed financial advisors serving clients at three stand-alone retail brokerage offices and Investment Opportunity Centers located in many Bank stores.

Asset Management Services. Umpqua entered into a strategic alliance with Ferguson Wellman in the fall of 2009 to further enhance our offerings to individuals, unions and corporate retirement plans, endowments and foundations.

Commercial Loans and Commercial Real Estate Loans. We offer specialized loans for business and commercial customers, including accounts receivable and inventory financing, equipment loans, international trade, real estate construction loans and permanent financing and SBA program financing. Additionally, we offer specially designed loan products for small businesses through our Small Business Lending Center, and have recently introduced a new business banking division to increase lending to small and mid-sized businesses. Ongoing credit management activities continue to focus on commercial real estate loans given this is a significant portion of our loan portfolio. We are also engaged in initiatives that continue to diversify the loan portfolio including a strong focus on commercial and industrial loans in addition to financing owner-occupied properties.

Residential Real Estate Loans. Real estate loans are available for construction, purchase and refinancing of residential owner-occupied and rental properties. Borrowers can choose from a variety of fixed and adjustable rate options and terms. We sell most residential real estate loans that we originate into the secondary market. Servicing is retained on the majority of these loans. We also support the Home Affordable Refinance Program and Home Affordable Modification Program.

Consumer Loans. We provide loans to individual borrowers for a variety of purposes, including secured and unsecured personal loans, home equity and personal lines of credit and motor vehicle loans.

Market Area and Competition

The geographic markets we serve are highly competitive for deposits, loans, leases and retail brokerage services. We compete with traditional banking and thrift institutions, as well as non-bank financial service providers, such as credit unions, brokerage firms and mortgage companies. In our primary market areas of Oregon, Western Washington, Northern California, and Nevada, major banks and large regional banks generally hold dominant market share positions. By virtue of their larger capital bases, these institutions have significantly larger lending limits than we do and generally have more expansive branch networks. Competition also includes other commercial banks that are community-focused.

As the industry becomes increasingly dependent on and oriented toward technology-driven delivery systems, permitting transactions to be conducted by telephone, computer and the internet, non-bank institutions are able to attract funds and provide lending and other financial services even without offices located in our primary service area. Some insurance companies and brokerage firms compete for deposits by offering rates that are higher than may be appropriate for the Bank in relation to its asset and liability management objectives. However, we offer a wide array of deposit products and believe we can compete effectively through rate-driven product promotions. We also compete with full service investment firms for non-bank financial products and services offered by Umpqua Investments.

Credit unions present a significant competitive challenge for our banking services and products. As credit unions currently enjoy an exemption from income tax, they are able to offer higher deposit rates and lower loan rates than we can on a comparable basis. Credit unions are also not currently subject to certain regulatory constraints, such as the Community Reinvestment Act, which, among other things, requires us to implement procedures to make and monitor loans throughout the communities we serve. Adhering to such regulatory requirements raises the costs associated with our lending activities, and reduces potential operating profits. Accordingly, we seek to compete by focusing on building customer relationships, providing superior service and offering a wide variety of commercial banking products that do not compete directly with products and services typically offered by the credit unions, such as commercial real estate loans, inventory and accounts receivable financing, and SBA program loans for qualified businesses.

Many of our stores are located in markets that have historically experienced growth below statewide averages. During the past several years, the States of Oregon, California, Washington, and Nevada have experienced economic difficulties. To the extent the fiscal condition of state and local governments does not improve, there could be an adverse effect on business conditions in the affected state that would negatively impact the prospects for the Bank s operations located there.

The current adverse economic conditions, driven by the U.S. recession, the housing market downturn, and declining real estate values in our markets, have negatively impacted aspects of our loan portfolio and the markets we serve. Continued deterioration in the real estate market or other segments of our loan portfolio could further negatively impact our operations in these markets, financial condition and results of operations.

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The following table presents the Bank s market share percentage for total deposits as of June 30, 2010, in each county where we have operations. The table also indicates the ranking by deposit size in each market. All information in the table was obtained from SNL Financial of Charlottesville, Virginia, which compiles deposit data published by the FDIC as of June 30, 2010 and updates the information for any bank mergers completed subsequent to the reporting date.

Oregon

County	Market Share	Market Rank	Number of Stores
Benton	6.5%	7	1
Clackamas	3.3%	8	5
Coos	39.5%	1	5
Curry	29.3%	2	1
Deschutes	4.4%	7	5
Douglas	62.6%	1	10
Jackson	14.8%	1	9
Josephine	17.3%	2	5
Lane	18.1%	1	9
Lincoln	12.7%	3	2
Linn	11.7%	4	3
Marion	7.3%	5	3
Multnomah	3.0%	6	14
Washington	3.3%	9	3

California

County	Market Share	Market Rank	Number of Stores
Amador	4.6%	7	1
Butte	3.2%	8	2
Calaveras	24.6%	2	4
Colusa	34.6%	1	2
Contra Costa	0.2%	26	2
El Dorado	7.4%	4	5
Glenn	27.1%	3	2
Humboldt	26.4%	1	7
Lake	15.0%	3	2
Mendocino	2.9%	7	1
Napa	11.6%	3	7
Placer	7.4%	3	9
Sacramento	1.2%	15	6
San Joaquin	0.6%	20	1
Shasta	2.6%	8	1
Solano	4.0%	9	4
Stanislaus	0.9%	15	2
Sutter	15.4%	3	2
Tehama	16.3%	3	2
Trinity	25.0%	2	1
Tuolumne	16.2%	3	5
Yolo	2.7%	12	1
Yuba	24.0%	2	2

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Washington

County	Market Share	Market Rank	Number of Stores
Clark	8.2%	6	5
King	0.5%	21	8
Pierce	3.9%	8	11
Snohomish	0.4%	24	1

Nevada

County	Market Share	Market Rank	Number of Stores
Washoe	0.7%	7	4

Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2010, commercial real estate, commercial, residential, and consumer and other represented approximately 69%, 22%, 9%, and 1%, respectively, of the total non-covered loan and lease portfolio.

Inter-agency guidelines adopted by federal bank regulators mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital. We have adopted as loan policy loan-to-value limits that range from 5% to 10% less than the federal guidelines for each category; however, policy exceptions are permitted for real estate loan customers with strong financial credentials.

Allowance for Loan and Lease Losses (ALLL) Methodology

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 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 10% 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. As of December 31, 2010, the unallocated allowance amount represented 8% of the allowance.

Management believes that the ALLL was adequate as of December 31, 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 82% of our total 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. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios, and have led to an increase in non-performing loans and the allowance for loan and lease losses. A continued deterioration or a prolonged delay in economic recovery in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

Employees

As of December 31, 2010, we had a total of 2,185 full-time equivalent employees. None of the employees are subject to a collective bargaining agreement and management believes its relations with employees to be good. Umpqua Bank was named #25 on *Fortune* magazine s 2011 list of 100 Best Companies to Work For , #23 on the 2010 list, #34 on the 2009 list, #13 on the 2008 list and #34 on the 2007 list. Information regarding employment agreements with our executive officers is contained in Item 11 below, which item is incorporated by reference to our proxy statement for the 2011 annual meeting of shareholders.

Government Policies

The operations of our subsidiaries are affected by state and federal legislative changes and by policies of various regulatory authorities. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, and capital adequacy and liquidity constraints imposed by federal and state regulatory agencies. Congress enacted the *Emergency Economic Stabilization Act of 2008* (EESA), which granted significant authority to the U.S. Department of the Treasury (the Treasury) to invest in financial institutions, guarantee debt, buy troubled assets and take other action designed to stabilize financial markets. In November 2008, the Company closed a transaction under the Capital Purchase Program (CPP) in which the Company issued 214,181 shares of cumulative preferred stock to the Treasury and issued a warrant to purchase 2,221,795 (reduced in 2009 to 1,110,898) shares of common stock at $14.46 per share in exchange for $214,181,000. Agreements executed in connection with the CPP transaction placed restrictions on compensation payable to senior executive officers and provided that the Company may not declare dividends that exceed $0.19 per common share per quarter without Treasury s prior written consent. Federal and state governments have been actively responding to the financial market crisis that unfolded in 2008 and legislative and regulatory initiatives are expected to continue for the foreseeable future. In connection with the company s public offering in February 2010, Umpqua repurchased the preferred stock from the Treasury and the warrant in March 2010. See Note 22 of the *Notes to the Consolidated Financial Statement* in Item 8 below.

Supervision and Regulation

General. We are extensively regulated under federal and state law. These laws and regulations are generally intended to protect depositors and customers, not shareholders. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. Any change in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and by the policies of various regulatory authorities. We cannot accurately predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, or new federal or state legislation may have in the future. Umpqua is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities

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Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission. As a listed company on NASDAQ, Umpqua is subject to NASDAQ rules for listed companies.

Holding Company Regulation. We are a registered financial holding company under the Gramm-Leach-Bliley Act of 1999 (the GLB Act), and are subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the Federal Reserve). As a financial holding company, we are examined by and file reports with the Federal Reserve. The Federal Reserve expects a bank holding company to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank.

Financial holding companies are bank holding companies that satisfy certain criteria and are permitted to engage in activities that traditional bank holding companies are not. The qualifications and permitted activities of financial holdings companies are described below under Regulatory Structure of the Financial Services Industry.

Federal and State Bank Regulation. Umpqua Bank, as a state chartered bank with deposits insured by the FDIC, is primarily subject to the supervision and regulation of the Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities, the Washington Department of Financial Institutions, the California Department of Financial Institutions, the Nevada Division of Financial Institutions and the FDIC. These agencies may prohibit the Bank from engaging in what they believe constitute unsafe or unsound banking practices. Our primary state regulator (the State of Oregon) regularly examines the Bank or participates in joint examinations with the FDIC.

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. A less than Satisfactory rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination in April 2010, the Bank s CRA rating was Satisfactory.

Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interest of such persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as, and follow credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with persons not affiliated with the bank, and must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

The Federal Reserve Act and related Regulation W limit the amount of certain loan and investment transactions between the Bank and its affiliates, require certain levels of collateral for such loans, and limit the amount of advances to third parties that may be collateralized by the securities of Umpqua or its subsidiaries. Regulation W requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving nonaffiliated companies or, in the absence of comparable transactions, on terms and under circumstances, including credit standards, that in good faith would be offered to or would apply to nonaffiliated companies. Umpqua and its subsidiaries have adopted an Affiliate Transactions Policy and have entered into various affiliate agreements in compliance with Regulation W.

The Federal Reserve and the FDIC have adopted non-capital safety and soundness standards for institutions. These standards cover internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that it will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. We believe that the Bank is in compliance with these standards.

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Federal Deposit Insurance. Substantially all deposits with Umpqua Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a bank s capital level and supervisory ratings. The base assessment rates under the Federal Deposit Insurance Reform Act of 2005 (Reform Act), enacted in February 2006, ranged from $0.02 to $0.40 per $100 of deposits annually. The FDIC could increase or decrease the assessment rate schedule five basis points (annualized) higher or lower than the base rates in order to manage the DIF to prescribed statutory target levels. For 2007 the effective assessment amounts were $0.03 above the base rate amounts. Assessment rates for well managed, well capitalized institutions ranged from $0.05 to $0.07 per $100 of deposits annually. The Bank s assessment rate for 2008 fell within this range. In 2007, the FDIC issued one-time assessment credits that could be used to offset this expense. The Bank s credit was fully utilized in 2007 and covered the majority of that year s assessment. The Bank did not have any remaining credit to offset assessments in 2008.

In December 2008, the FDIC adopted a rule that amended the system for risk-based assessments and changed assessment rates in attempt to restore targeted reserve ratios in the DIF. Effective January 1, 2009, the risk-based assessment rates were uniformly raised by seven basis points (annualized). On February 27, 2009, the FDIC adopted further modified the risk-based assessment system, effective April 1, 2009, to effectively require larger risk institutions to pay a larger share of the assessment. Characteristics of larger risk institutions include a significant reliance on secured liabilities or brokered deposits, particularly when combined with rapid asset growth. The rule also provided incentives for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. The initial base assessment rates range from $0.12 to $0.45 per $100 of deposits annually. After potential adjustments related to unsecured debt, secured liabilities and brokered deposit balances, the final total assessment rates range from $0.07 to $0.775 per $100 of deposits annually. Initial base assessment rates for well managed, well capitalized institutions ranged from $0.12 to $0.16 per $100 of deposits annually. The Bank s assessment rate for 2010 fell within this range. Further increases in the assessment rate could have a material adverse effect on our earnings, depending upon the amount of the increase.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forego the uniform three-basis point increase in initial assessment rates schedules for January 1, 2011, and maintain the current schedule of assessment rates. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, increase or decrease assessment rates. The FDIC has proposed additional rules to change the deposit insurance assessment system.

In 2006, the Reform Act increased the deposit insurance limit for certain retirement plan deposit accounts from $100,000 to $250,000. The basic insurance limit for other deposits, including individuals, joint account holders, businesses, government entities, and trusts, remained at $100,000. The Reform Act also provided for the merger of the two deposit insurance funds administered by the FDIC, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), into the DIF. On October 3, 2008, the EESA temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The basic deposit insurance limit would have returned to $100,000 after December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in the standard maximum deposit insurance amount to $250,000 per depositor through December 31, 2013. The standard maximum deposit insurance amount would return to $100,000 on January 1, 2014. The Dodd-Frank Act permanently raises the current standard maximum federal deposit insurance amount from $100,000 to $250,000 per qualified account.

In November 2008, the FDIC approved the final ruling establishing the Transaction Account Guarantee Program (TAGP) as part of the Temporary Liquidity Guarantee Program (TLGP). Under this program, effective immediately and through December 31, 2009, all non-interest bearing transaction accounts became fully guaranteed by the FDIC for the entire amount in the account. This unlimited coverage also extended to NOW (interest bearing deposit accounts) earning an interest rate no greater than 0.50% and all IOLTAs (lawyers trust accounts). Coverage under the TAGP, funded through insurance premiums paid by participating financial institutions, was in addition to and separate from the additional coverage announced under EESA. In August 2009, the FDIC extended the TAGP portion of the TLGP through June 30, 2010. In June 2010, the FDIC extended the TAGP portion of the TLGP for an additional six months, from July 1, 2010 to December 31, 2010. The rule required that interest rates on qualifying NOW accounts offered by banks participating in the program be reduced to 0.25% from 0.50%. The rule provided for an additional extension of the program, without further rulemaking, for a period of time not to exceed December 31, 2011. Umpqua elected to participate in the TAGP program through the extended period. In July, the Dodd-Frank Act, was enacted which provides for unlimited deposit insurance for noninterest bearing transactions accounts (excluding NOW, but including IOLTAs) beginning December 31, 2010 for a period of two years.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines that the institution has engaged in or is engaging in unsafe and unsound banking practices, is in an unsafe or unsound condition or has violated any applicable law, regulation or order or any condition imposed in writing by, or pursuant to, any written agreement with the FDIC. The termination of deposit insurance for the Bank could have a material adverse effect on our financial condition and results of operations due to the fact that the Bank s liquidity position would likely be affected by deposit withdrawal activity.

Dividends. Under the Oregon Bank Act and the Federal Deposit Insurance Corporation Improvement Act of 1991, the Bank is subject to restrictions on the payment of cash dividends to its parent company. A bank may not pay cash dividends if that payment would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. In addition, under the Oregon Bank Act, the amount of the dividend paid by the Bank may not be greater than net unreserved retained earnings, after first deducting to the extent not already charged against earnings or reflected in a reserve, all bad debts, which are debts on which interest is unpaid and past due at least six months unless the debt is fully secured and in the process of collection; all other assets charged-off as required by Oregon bank regulators or a state or federal examiner; and all accrued expenses, interest and taxes of the Bank. In addition, state and federal regulatory authorities are authorized to prohibit banks and holding companies from paying dividends that would constitute an unsafe or unsound banking practice. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve s view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company s capital needs, asset quality and overall financial condition.

The agreements that we executed with the Treasury in connection with the CPP transaction provided that the Company could not pay dividends on, repurchase, or redeem any other class of stock unless we were current in the payment of all dividends on the preferred stock issued to Treasury. Furthermore, the agreement limited the amount of cash dividends on the Company s common stock. Those agreements and the related dividend limitations terminated in the first quarter of 2010 when we repurchased the warrants from the Treasury. See Note 22 of the *Notes to the Consolidated Financial Statement* in Item 8 below.

Capital Adequacy. The federal and state bank regulatory agencies use capital adequacy guidelines in their examination and regulation of holding companies and banks. If capital falls below the minimum levels established by these guidelines, a holding company or a bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities.

The FDIC and Federal Reserve have adopted risk-based capital guidelines for holding companies and banks. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profile among holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. The capital adequacy guidelines limit the degree to which a holding company or bank may leverage its equity capital.

Federal regulations establish minimum requirements for the capital adequacy of depository institutions, such as the Bank. Banks with capital ratios below the required minimums are subject to certain administrative actions, including prompt corrective action, the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires federal banking regulators to take prompt corrective action with respect to a capital-deficient institution, including requiring a capital restoration plan and restricting certain growth activities of the institution. Umpqua could be required to guarantee any such capital restoration plan required of the Bank if the Bank became undercapitalized. Pursuant to FDICIA, regulations were adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Under the regulations, the Bank is considered well capitalized as of December 31, 2010.

Federal and State Regulation of Broker-Dealers. Umpqua Investments, Inc. is a fully disclosed introducing broker-dealer clearing through First Clearing LLC. Umpqua Investments is regulated by the Financial Industry Regulatory Authority (FINRA) and has deposits insured through the Securities Investors Protection Corp (SIPC) as well as third party insurers. FINRA performs regular examinations of the firm that include reviews of policies, procedures, recordkeeping, trade practices, and customer protection as well as other inquiries.

SIPC protects client securities and cash up to $500,000, including $100,000 for cash with additional coverage provided through First Clearing for the remaining net equity balance in a brokerage account, if any. This coverage does not include losses in investment accounts.

Broker-Dealer and Related Regulatory Supervision. Umpqua Investments is a member of, and is subject to the regulatory supervision of, the FINRA. Areas subject to this regulatory review include compliance with trading rules, financial reporting, investment suitability for clients, and compliance with stock exchange rules and regulations.

Effects of Government Monetary Policy. Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, through its open market operations in U.S. Government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits. These activities influence growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

Regulatory Structure of the Financial Services Industry. Federal laws and regulations governing banking and financial services underwent significant changes in recent years and are subject to significant changes in the future. From time to time, legislation is introduced in the United States Congress that contains proposals for altering the structure, regulation, and competitive relationships of the nation s financial institutions. If enacted into law, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, and other financial institutions. Whether or in what form any such legislation may be adopted or the extent to which our business might be affected thereby cannot be predicted.

The GLB Act, enacted in November 1999, repealed sections of the Banking Act of 1933, commonly referred to as the Glass-Steagall Act, that prohibited banks from engaging in securities activities, and prohibited securities firms from engaging in banking. The GLB Act created a new form of holding company, known as a financial holding company, that is permitted to acquire subsidiaries that are variously engaged in banking, securities underwriting and dealing, and insurance underwriting.

A bank holding company, if it meets specified requirements, may elect to become a financial holding company by filing a declaration with the Federal Reserve, and may thereafter provide its customers with a broader spectrum of products and services than a traditional bank holding company is permitted to do. A financial holding company may, through a subsidiary, engage in any activity that is deemed to be financial in nature and activities that are incidental or complementary to activities that are financial in nature. These activities include traditional banking services and activities previously permitted to bank holding companies under Federal Reserve regulations, but also include underwriting and dealing in securities, providing investment advisory services, underwriting and selling insurance, merchant banking (holding a portfolio of commercial businesses, regardless of the nature of the business, for investment), and arranging or facilitating financial transactions for third parties.

To qualify as a financial holding company, the bank holding company must be deemed to be well-capitalized and well-managed, as those terms are used by the Federal Reserve. In addition, each subsidiary bank of a bank holding company must also be well-capitalized and well-managed and be rated at least satisfactory under the Community Reinvestment Act. A bank holding company that does not qualify, or has not chosen, to become a financial holding company must limit its activities to traditional banking activities and those non-banking activities the Federal Reserve has deemed to be permissible because they are closely related to the business of banking.

The GLB Act also includes provisions to protect consumer privacy by prohibiting financial services providers, whether or not affiliated with a bank, from disclosing non-public personal, financial information to unaffiliated parties without the consent of the customer, and by requiring annual disclosure of the provider s privacy policy.

Legislation enacted by Congress in 1995 permits interstate banking and branching, which allows banks to expand nationwide through acquisition, consolidation or merger. Under this law, an adequately capitalized bank holding company may acquire banks in any state or merge banks across state lines if permitted by state law. Further, banks may establish and operate branches in any state subject to the restrictions of applicable state law. Under Oregon law, an out-of-state bank or bank holding company may merge with or acquire an Oregon state chartered bank or bank holding company if the Oregon bank, or in the case of a bank holding company, the subsidiary bank, has been in existence for a minimum of three years, and the law of the state in which the acquiring bank is located permits such merger. The Bank now has the ability to open additional de novo branches in the states of Oregon, California,Washington, and Nevada.

Section 613 of the Dodd-Frank Act eliminates interstate branching restrictions that were implemented as part of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, and removes many restrictions on de novo interstate branching by national and state-chartered banks. The FDIC and the OCC now have authority to approve applications by insured state nonmember banks and national banks, respectively, to establish de novo branches in states other than the bank s home state if the law of the State in which the branch is located, or is to be located, would permit establishment of the branch, if the bank were a State bank chartered by such State. The enactment of this section may significantly increase interstate banking by community banks in western states, where barriers to entry were previously high.

Anti-Terrorism Legislation. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA Patriot Act), enacted in 2001:

- prohibits banks from providing correspondent accounts directly to foreign shell banks;
- imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals;
- requires financial institutions to establish an anti-money-laundering (AML) compliance program; and
- generally eliminates civil liability for persons who file suspicious activity reports.

The USA Patriot Act also increases governmental powers to investigate terrorism, including expanded government access to account records. The Department of the Treasury is empowered to administer and make rules to implement the Act, which to some degree, affects our record-keeping and reporting expenses. Should the Bank s AML compliance program be deemed insufficient by federal regulators, we would not be able to grow through acquiring other institutions or opening de novo branches.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 addresses public company corporate governance, auditing, accounting, executive compensation and enhanced and timely disclosure of corporate information.

The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and regulation of the relationship between a Board of Directors and management and between a Board of Directors and its committees.

The Sarbanes-Oxley Act provides for, among other things:

- prohibition on personal loans by Umpqua to its directors and executive officers except loans made by the Bank in accordance with federal banking regulations;
- independence requirements for Board audit committee members and our auditors;

certification of Exchange Act reports by the chief executive officer, chief financial officer and principal accounting officer;

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- disclosure of off-balance sheet transactions;
- expedited reporting of stock transactions by insiders; and
- increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act also requires:

- management to establish, maintain and evaluate disclosure controls and procedures;
- management to report on its annual assessment of the effectiveness of internal controls over financial reporting;
- our external auditor to attest to the effectiveness of internal controls over financial reporting.

The SEC has adopted regulations to implement various provisions of the Sarbanes-Oxley Act, including disclosures in periodic filings pursuant to the Exchange Act. Also, in response to the Sarbanes-Oxley Act, NASDAQ adopted new standards for listed companies. In 2004, the Sarbanes-Oxley Act substantially increased our reporting and compliance expenses.

Emergency Economic Stabilization Act of 2008 (EESA). This act granted broad powers to the U.S. Treasury, the FDIC, and the Federal Reserve to stabilize the financial markets under the following programs:

- the Capital Purchase Program allocated $250 billion to Treasury to purchase senior preferred shares and warrants to purchase commons stock from approved financial institutions;
- the Troubled Asset Purchase Program allocated $250 billion to Treasury to purchase troubled assets from financial institutions, with Treasury to also receive securities issued by participating institutions;
- the Temporary Liquidity Guaranty Program (TLGP) authorized the FDIC to insure newly issued senior unsecured debt and insure the total balance in non-interest bearing transactional deposit accounts of those institutions who elect to participate;
- the Commercial Paper and Money Market Investor Funding Facilities authorized the Federal Reserve Bank of New York to purchase rated commercial paper from U.S. companies and to purchase money market instruments from U.S. money market mutual funds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act. On July 21, 2010, President Obama signed the Dodd-Frank Act, which is a sweeping overhaul of financial industry regulation. In general, the Act:

- Creates a systemic-risk council of top regulators, the Financial Stability Oversight Council (FSOC), whose purpose is to identify risks and respond to emerging threats to the financial stability of the U.S. arising from large, interconnected bank holding companies or nonbank financial companies;
- Gives the FDIC authority to unwind large failing financial firms. Treasury would supply funds to cover the up-front costs of winding down the failed firm, but the government would have to put a repayment plan in place. Regulators would recoup any losses incurred from the wind-down afterwards by assessing fees on financial firms with more than $50 billion in assets;

Directs the FDIC to base deposit-insurance assessments on assets minus tangible capital instead of on domestic deposits and requires the FDIC to increase premium rates to raise the Deposit Insurance Fund s (DIF) minimum reserve ratio from 1.15% to 1.35% by September 30, 2020. Banks, like Umpqua, with consolidated assets greater than $10 billion would pay the increased premiums;

Extends the FDIC s Transaction Account Guarantee (TAG) program to December 31, 2012. There is no opt-out from the extension;

Permanently increases FDIC deposit-insurance coverage to $250,000, retroactive to January 1, 2008. The Act eliminates the 1.5% cap on the DIF reserve ratio and automatic dividends when the ratio exceeds 1.35%. Under the agreement, the FDIC would have discretion on whether to provide dividends to DIF members;

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Umpqua Holdings Corporation

Authorizes banks to pay interest on business checking accounts, which is likely to significantly increase our interest expense;

Creates a new Consumer Financial Protection Bureau (CFPB), housed under the Federal Reserve and led by a director appointed by the President and confirmed by the Senate. All existing consumer laws and regulations will be transferred to this agency and each existing regulatory agency will contribute their respective consumer regulatory and exam staffs to the CFPB;

Grants to CFPB the authority to write consumer protection rules for banks and nonbank financial firms offering consumer financial services or products and to ensure that consumers are protected from unfair, deceptive, or abusive acts or practices. The CFPB also would have authority to examine and enforce regulations for banks, like Umpqua, with greater than $10 billion in assets;

Authorizes the CFPB to require banks to compile and provide reports relating to its consumer lending, marketing and other consumer business activities and to make that information available to the public if it is in the public interest ;

Directs the Federal Reserve to set interchange fees for debit card transactions charged by banks with more than $10 billion in assets. It must establish what it determines are reasonable fees by factoring in their transaction costs compared to those for checks;

Requires loan originators to retain 5% of any loan sold and securitized, unless it is a qualified residential mortgage , which includes standard 30 and 15 year fixed rate loans. It also specifically exempts from risk retention FHA, VA, Farmer Mac and Rural Housing Service loans;

Excludes the proceeds of trust preferred securities from Tier 1 capital except for trust preferred securities issued before May 19, 2010 by bank holding companies, like the Company, with less than $15 billion in assets at December 31, 2009;

Adopts various mortgage lending and predatory lending provisions;

Requires federal regulators jointly to prescribe regulations mandating that financial institutions with more than $1 billion in assets to disclose to their regulators their incentive compensation plans to permit the regulators to determine whether the plans provide executive officers, employees, directors or principal shareholders with excessive compensation, fees or benefits; or could lead to material financial loss to the institution;

Imposes a number of requirements related to executive compensation that apply to all public companies, such as prohibition of broker discretionary voting in connection with a shareholder vote on executive compensation; mandatory shareholder say on pay (every one to three years) and say on golden parachutes ; and clawback of incentive compensation from current or former executive officers following any accounting restatement;

Establishes a modified version of the Volcker Rule and generally prohibits banks from engaging in proprietary trading or holding or obtaining an interest in a hedge fund or private equity fund, to the extent that it would exceed 3% of its Tier 1 capital. A bank s interest in any single hedge fund or private equity fund may not exceed 3% of the assets of that fund.

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ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the factors discussed below. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Difficult market conditions have adversely affected and may continue to have an adverse affect on our industry.

Since 2007, dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment and under-employment have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. We expect only moderate improvement in these conditions in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We face increased regulation of our industry, including as a result of the Emergency Economic Stabilization Act of 2008 (the EESA), the American Recovery and Reinvestment Act of 2009 (the ARRA) and Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Compliance with such regulation will increase our costs, reduce existing sources of revenue and may limit our ability to pursue business opportunities.

- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future performance.

- The process we use to estimate losses inherent in our loan portfolio requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which process may no longer be capable of accurate estimation and may, in turn, impact its reliability.

- We may be required to pay significantly higher Federal Deposit Insurance Corporation premiums in the future if losses further deplete the FDIC deposit insurance fund.

- There may be downward pressure on our stock price.

- Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions and government sponsored entities.

- We may face increased competition due to intensified consolidation of the financial services industry.

If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

The majority of our assets are loans, which if not repaid would result in losses to the Bank.

The Bank, like other lenders, is subject to credit risk, which is the risk of losing principal or interest due to borrowers failure to repay loans in accordance with their terms. Underwriting and documentation controls cannot mitigate all credit risk. A downturn in the economy or the real estate market in our market areas or a rapid increase in interest rates could have a negative effect on

collateral values and borrowers ability to repay. To the extent loans are not paid timely by borrowers, the loans are placed on non-accrual status, thereby reducing interest income. Further, under these circumstances, an additional provision for loan and lease losses or unfunded commitments may be required. See Management s Discussion and Analysis of Financial Condition and Results of Operations Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments , Provision for Loan and Lease Losses and Asset Quality and Non-Performing Assets .

A large percentage of our loan portfolio is secured by real estate, in particular commercial real estate. Continued deterioration in the real estate market or other segments of our loan portfolio would lead to additional losses, which could have a material adverse effect on our business, financial condition and results of operations.

As of December 31, 2010, approximately 82% of our total loan portfolio is secured by real estate, the majority of which is commercial real estate. As a result of increased levels of commercial and consumer delinquencies and declining real estate values, sine 2007 we have experienced elevated levels of net charge-offs and allowances for loan and lease reserves. Increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

Continued deterioration in the real estate market could result in loans that we have restructured to become delinquent and classified as non-accrual loans.

At December 31, 2010, impaired loans of $84.4 million were classified as performing restructured loans. We restructured the loans in response to borrower financial difficulty, and generally provided for a temporary modification of loan repayment terms. Loans are reported as restructured when we grant concessions to a borrower experiencing financial difficulties that we would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity dates or providing a lower interest rate than would be normally available for a transaction of similar risk. In exchange for these concessions, at the time of restructure, we require additional collateral to bring the loan to value to at most 100%. A further decline in the economic conditions in our general market areas or other factors could adversely impact borrowers with restructured loans and cause borrowers to become delinquent or otherwise default or call into question their ability to repay full interest and principal in accordance with the restructured terms, which would result in the restructured loan being reclassified as non-accrual.

The effects of the current economic recession have been particularly severe in our primary market areas in the Pacific Northwest, Northern California, and Nevada.

Substantially all of our loans are to businesses and individuals in Northern California, Oregon, Washington, and Nevada. The Pacific Northwest has one of the nation s highest unemployment rates and major employers in Oregon and Washington have implemented substantial employee layoffs or scaled back growth plans. Severe declines in housing prices and property values have been particularly acute in our primary market areas. The States of California, Oregon, Washington, and Nevada continue to face fiscal challenges, the long-term effects of which on each State s economy cannot be predicted. A further deterioration in the economic conditions or a prolonged delay in economic recovery in our primary market areas could result in the following consequences, any of which could materially and adversely affect our business: loan delinquencies may increase; problem assets and foreclosures may increase putting further price pressures on valuations generally; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans.

The benefits of our FDIC loss-sharing agreements may be reduced or eliminated.

In connection with Umpqua Bank s assumption of the banking operations of EvergreenBank, Rainier Pacific Bank, and Nevada Security Bank, the Bank entered into Whole Bank Purchase and Assumption Agreements with Loss-Share. Our decisions regarding the fair value of assets acquired, including the FDIC loss-sharing assets, could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects. Management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss-sharing agreements, we record a loss-sharing asset that reflects our estimate of the timing and amount of future losses that are anticipated to occur in and used to value the acquired loan portfolio. In determining the size of the loss-sharing asset, we analyze the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information.

If our assumptions relating the timing or amount expected losses are incorrect, there could be a negative impact on our operating results. Increases in the amount of future losses in response to different economic conditions or adverse developments in the acquired loan portfolio may result in increased credit loss provisions. Changes in our estimate of the timing of those losses, specifically if those losses are to occur beyond the applicable loss-sharing periods, may result in impairments of the FDIC indemnification asset.

Our ability to obtain reimbursement under the loss-sharing agreements on covered assets depends on our compliance with the terms of the loss-sharing agreements.

Management must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss-sharing agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss-sharing coverage. Additionally, management may decide to forgo loss-share coverage on certain assets to allow greater flexibility over the management of certain assets. As of December 31, 2010, $815.8 million, or 7.0%, of the Company s assets were covered by the aforementioned FDIC loss-sharing agreements.

Under the terms of the FDIC loss-sharing agreements, the assignment or transfer of a loss-sharing agreement to another entity generally requires the written consent of the FDIC. In addition, the Bank may not assign or otherwise transfer a loss-sharing agreement during its term without the prior written consent of the FDIC. No assurances can be given that we will manage the covered assets in such a way as to maintain loss-share coverage on all such assets.

FDIC-assisted acquisition opportunities may not become available and increased competition may make it more difficult for us to successfully bid on failed bank transactions.

Our near-term business strategy includes analyzing and bidding on failing banks that the FDIC plans to place in receivership. The FDIC may not place banks that meet our strategic objectives into receivership. Failed bank transactions are attractive opportunities in part because of loss sharing arrangements, or significant discounts, with the FDIC that limit the acquirer s downside risk on the purchased loan portfolio. In addition, assets purchased from the FDIC are marked to their fair value and in many cases there often is little or no addition to goodwill arising from FDIC-assisted transaction. However, the bidding process for failing banks has become very competitive and the FDIC does not provide information about bids until after the failing bank is closed. We may not be able to match or beat the bids of other acquirers unless we bid aggressively by increasing the premium paid on assumed deposits or reducing the discount bid on assets purchased, which could make the acquisition less beneficial to the financial performance of the Bank.

A rapid change in interest rates could make it difficult to maintain our current interest income spread and could result in reduced earnings.

Our earnings are largely derived from net interest income, which is interest income and fees earned on loans and investments, less interest paid on deposits and other borrowings. Interest rates are highly sensitive to many factors that are beyond the control of our management, including general economic conditions and the policies of various governmental and regulatory authorities. As interest rates change, net interest income is affected. With fixed rate assets (such as fixed rate loans and most investment securities) and liabilities (such as certificates of deposit), the effect on net interest income depends on the cash flows associated with the maturity of the asset or liability. Asset/liability management policies may not be successfully implemented and from time to time our risk position is not balanced. An unanticipated rapid decrease or increase in interest rates could have an adverse effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore on the level of net interest income. For instance, any rapid increase in interest rates in the future could result in interest expense increasing faster than interest income because of fixed rate loans and longer-term investments. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth than previously experienced. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk .

Interest rate volatility and credit risk adjusted rate spreads may impact our financial assets and liabilities measured at fair value, particularly the fair value of our junior subordinated debentures.

The widening of the credit risk adjusted rate spreads on potential new issuances of junior subordinated debentures above our contractual spreads and reductions in three month LIBOR rates have contributed to cumulative positive fair value adjustments in our junior subordinated debentures carried at fair value over the last three years. Tightening of these credit risk adjusted rate spreads and interest rate volatility may result in recognizing negative fair value adjustments charged to earnings in the future.

The Dodd-Frank Act and other recent legislative and regulatory initiatives contain numerous provisions and requirements that could detrimentally affect the Company s business.

The Dodd-Frank Act and related regulations subject us and other financial institutions to additional restrictions, oversight, reporting obligations and costs, which could have an adverse impact on our business, financial condition, results of operations or the price of our common stock. In addition, this increased regulation of the financial services industry restricts the ability of firms within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Congress or state legislatures could also adopt laws reducing the amount that borrowers are otherwise contractually required to pay under existing loan contracts, require lenders to extend or restructure certain loans or limit foreclosure and collection remedies. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof. Compliance with such current and potential regulation and scrutiny will significantly increase our costs, impede the efficiency of our internal business processes, may require us to increase our regulatory capital and may limit our ability to pursue business opportunities in an efficient manner. In response, we may be required to or choose to raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock.

We may be required to raise additional capital in the future, but that capital may not be available when it is needed, or it may only be available on unacceptable terms, which could adversely affect our financial condition and results of operations.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations or to support future FDIC-assisted acquisitions. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations and pursue our growth strategy could be materially impaired.

Conditions in the financial markets may limit our access to additional funding to meet our liquidity needs.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. An adverse regulatory action against us could detrimentally impact our access to liquidity sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole as evidenced by turmoil in the domestic and worldwide credit markets.

Our wholesale funding sources may prove insufficient to support our future growth or an unexpected reduction in deposits.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and

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investments. If we grow more rapidly than any increase in our deposit balances, we are likely to become more dependent on these sources, which include Federal Home Loan Bank advances, proceeds from the sale of loans and liquidity resources at the holding company. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs, and our profitability would be adversely affected.

As a bank holding company that conducts substantially all of our operations through Umpqua Bank, our banking subsidiary, our ability to pay dividends, repurchase our shares or to repay our indebtedness depends upon liquid assets held by the holding company and the results of operations of our subsidiaries.

Umpqua Holdings Corporation is a separate and distinct legal entity from our subsidiaries and it receives substantially all of its revenue from dividends paid from Umpqua Bank. There are legal limitations on the extent to which the Bank may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, us. Our inability to receive dividends from the Bank could adversely affect our business, financial condition, results of operations and prospects.

Our net income depends primarily upon Umpqua Bank s net interest income, which is the income that remains after deducting from total income generated by earning assets the expense attributable to the acquisition of the funds required to support earning assets (primarily interest paid on deposits). The amount of interest income is dependent on many factors including the volume of earning assets, the general level of interest rates, the dynamics of changes in interest rates and the levels of nonperforming loans. All of those factors affect the Bank s ability to pay dividends to the holding company.

Various statutory provisions restrict the amount of dividends the Bank can pay to us without regulatory approval. The Bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet the adequately capitalized level in accordance with regulatory capital requirements. It is also possible that, depending upon the financial condition of the Bank and other factors, regulatory authorities could conclude that payment of dividends or other payments, including payments to us, is an unsafe or unsound practice and impose restrictions or prohibit such payments. Under Oregon law, the Bank may not pay dividends in excess of unreserved retained earnings, deducting there from, to the extent not already charged against earnings or reflected in a reserve, the following: (1) all bad debts, which are debts on which interest is past due and unpaid for at least six months, unless the debt is fully secured and in the process of collection; (2) all other assets charged-off as required by Oregon bank regulators or a state or federal examiner; and (3) all accrued expenses, interest and taxes of the institution. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve s view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company s capital needs, asset quality and overall financial condition.

A significant decline in the company s market value could result in an impairment of goodwill.

Recently, the Company s common stock has been trading at a price below its book value, including goodwill and other intangible assets. The valuation of goodwill is estimated using discounted cash flows of forecasted earnings, estimated sales price based on recent observable market transactions and market capitalization based on current stock price. If impairment was deemed to exist, a write down of the asset would occur with a charge to earnings. In the second quarter 2009, we recognized a goodwill impairment charge of $112.0 million related to our Community Banking operating segment. See Management s Discussion and Analysis of Financial Condition and Results of Operations Goodwill and Other Intangible Assets .

A deferred tax asset position comprises $9.6 million of our total assets at December 31, 2010, and we are required to assess the recoverability of this asset on an ongoing basis.

Deferred tax assets are evaluated on a quarterly basis to determine if they are expected to be recoverable in the future. Our evaluation considers positive and negative evidence to assess whether it is more likely than not that a portion of the asset will not be realized. The risk of a valuation allowance increases if continuing operating losses are incurred. Future negative operating performance or other negative evidence may result in a valuation allowance being recorded against some or all of this amount. A valuation allowance on our deferred tax asset could have a material adverse impact on our capital and results of operations.

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Umpqua Holdings Corporation

We are pursuing an aggressive growth strategy that is expected to include mergers and acquisitions, which could create integration risks.

Umpqua is among the fastest-growing community financial services organizations in the United States. Since 2000, we have completed the acquisition and integration of 10 other financial institutions. There is no assurance that future acquisitions will be successfully integrated. We have announced our intent to pursue FDIC-assisted acquisition opportunities, traditional M&A transactions, and to open new stores in Oregon, Washington and California to continue our growth strategy. If we pursue our growth strategy too aggressively, or if factors beyond management s control divert attention away from our integration plans, we might not be able to realize some or all of the anticipated benefits. Moreover, we are dependent on the efforts of key personnel to achieve the synergies associated with our acquisitions. The loss of one or more of our key persons could have a material adverse effect upon our ability to achieve the anticipated benefits.

The financial services industry is highly competitive.

We face pricing competition for loans and deposits. We also face competition with respect to customer convenience, product lines, accessibility of service and service capabilities. Our most direct competition comes from other banks, brokerages, mortgage companies and savings institutions. We also face competition from credit unions, government-sponsored enterprises, mutual fund companies, insurance companies and other non-bank businesses. This significant competition in attracting and retaining deposits and making loans as well as in providing other financial services throughout our market area may impact future earnings and growth.

Involvement in non-bank business creates risks associated with the securities industry.

Umpqua Investments retail brokerage operations present special risks not borne by community banks that focus exclusively on community banking. For example, the brokerage industry is subject to fluctuations in the stock market that may have a significant adverse impact on transaction fees, customer activity and investment portfolio gains and losses. Likewise, additional or modified regulations may adversely affect Umpqua Investments operations. Umpqua Investments is also dependent on a small number of established brokers, whose departure could result in the loss of a significant number of customer accounts. A significant decline in fees and commissions or trading losses suffered in the investment portfolio could adversely affect Umpqua Investments income and potentially require the contribution of additional capital to support its operations. Umpqua Investments is subject to claim arbitration risk arising from customers who claim their investments were not suitable or that their portfolios were too actively traded. These risks increase when the market, as a whole, declines. The risks associated with retail brokerage may not be supported by the income generated by those operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations Non-interest Income .

Our banking and brokerage operations are subject to extensive government regulation that is expected to become more burdensome, increase our costs and make us less competitive compared to financial services firms that are not subject to the same regulation.

We and our subsidiaries are subject to extensive regulation under federal and state laws. These laws and regulations are primarily intended to protect customers, depositors and the deposit insurance fund, rather than shareholders. The Bank is an Oregon state-chartered commercial bank whose primary regulator is the Oregon Division of Finance and Corporate Securities. The Bank is also subject to the supervision by and the regulations of the Washington Department of Financial Institutions, the California Department of Financial Institutions, the Nevada Division of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits. Umpqua Investments is subject to extensive regulation by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority. Umpqua is subject to regulation and supervision by the Board of Governors of the Federal Reserve System, the SEC and NASDAQ. Federal and state regulations may place banks and brokerage firms at a competitive disadvantage compared to less regulated competitors such as finance companies, credit unions, mortgage banking companies and leasing companies. There is also the possibility that laws could be enacted that would prohibit a company from controlling both an FDIC-insured bank and a broker dealer, or restrict their activities if under common ownership. If we receive less than satisfactory results on regulatory examinations, we could be restricted from making acquisitions, adding new stores, developing new lines of business or otherwise continuing our growth strategy for a period of time. Future changes in federal and state banking and brokerage regulations could adversely affect our operating results and ability to continue to compete effectively.

The value of the securities in our investment securities portfolio may be negatively affected by continued disruptions in securities markets.

The market for some of the investment securities held in our portfolio has become extremely volatile over the past three years. Volatile market conditions or deteriorating financial performance of the issuer or obligor may detrimentally affect the value of these securities. There can be no assurance that the declines in market value associated with these disruptions will not result in other-than-temporary or permanent impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

The volatility of our mortgage banking business can adversely affect earnings if our mitigating strategies are not successful.

Changes in interest rates greatly affect the mortgage banking business. One of the principal risks in this area is prepayment of mortgages and the consequent detrimental effect on the value of mortgage servicing rights (MSR). We may employ hedging strategies to mitigate this risk but if the hedging decisions and strategies are not successful, our net income could be adversely affected. See Management s Discussion and Analysis of Financial Condition and Results of Operations Mortgage Servicing Rights .

Our business is highly reliant on technology and our ability to manage the operational risks associated with technology.

We depend on internal and outsourced technology to support all aspects of our business operations. Interruption or failure of these systems creates a risk of business loss such as civil fines or damage claims from privacy breaches and adverse customer experience. Risk management programs are expensive to maintain and will not protect the Company from all risks associated with maintaining the security of customer information, proprietary data, external and internal intrusions, disaster recovery and failures in the controls used by vendors.

Our business is highly reliant on third party vendors and our ability to manage the operational risks associated with outsourcing those services.

We rely on third parties to provide services that are integral to our operations. These third party service providers support our operations and our sales efforts. Any disruption in the services provided by these third parties, or any reputational risk or damage they may suffer as a result of such disruptions could have an adverse effect on our reputation, operations and our ability to meet the needs of our customers. In our asset management business, we have a business alliance with Ferguson Wellman, a registered investment advisor to whom we refer customers for investment advice and asset management services. We cannot be sure that we will be able to maintain these relationships on favorable terms. We are dependent on third party service providers for data processing and information processing services that support our day-to-day banking and brokerage services. Some of these providers are associated with our competitors. The loss of these third party relationships could produce disruption of service and significant costs in connection with replacing these services.

Store construction can disrupt banking activities and may not be completed on time or within budget, which could result in reduced earnings.

The Bank has, over the past several years, been transformed from a traditional community bank into a community-oriented financial services retailer. We have announced plans to build new stores in Oregon, Washington and California as part of our de novo branching strategy. This includes our strategy of building Neighborhood Stores. We also continue to remodel acquired bank branches to resemble retail stores that include distinct physical areas or boutiques such as a serious about service center, an investment opportunity center and a computer cafe. Store construction involves significant expense and risks associated with locating store sites and delays in obtaining permits and completing construction. Remodeling involves significant expense, disrupts banking activities during the remodeling period, and presents a new look and feel to the banking services and products being offered. Financial constraints may delay remodeling projects. Customers may not react favorably to the construction-related activities or the remodeled look and feel. There are risks that construction or remodeling costs will exceed forecasted budgets and that there may be delays in completing the projects, which could cause disruption in those markets.

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Changes in accounting standards may impact how we report our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the Financial Accounting Standards Board (FASB) changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a restatement of prior period financial statements.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive offices of Umpqua are located at One SW Columbia Street in Portland, Oregon in office space that is leased. The main office of Umpqua Investments is located at 200 SW Market Street in Portland, Oregon in office space that is leased. The Bank owns its main office located in Roseburg, Oregon. At December 31, 2010, the Bank conducted Community Banking activities or operated Commercial Banking Centers at 183 locations, in Northern California, Oregon and Washington along the I-5 corridor; in the San Francisco Bay area, Inland Foothills, Napa and Coastal regions in California; in Bend and along the Coast of Oregon; in greater Seattle and Bellevue, Washington, and in Reno, Nevada, of which 64 are owned and 119 are leased under various agreements. As of December 31, 2010, the Bank also operated 11 facilities for the purpose of administrative and other functions, such as back-office support, of which four are owned and seven are leased. All facilities are in a good state of repair and appropriately designed for use as banking or administrative office facilities. As of December 31, 2010, Umpqua Investments leased four stand-alone offices from unrelated third parties and also leased space in six Bank stores under lease agreements that are based on market rates.

Additional information with respect to owned premises and lease commitments is included in Notes 8 and 20, respectively, of the *Notes to Consolidated Financial Statements* in Item 8 below.

ITEM 3. LEGAL PROCEEDINGS.

In December 2010, we closed the settlement of two litigation cases filed in the Circuit Court of the State of Oregon for Multnomah County by Kevin D. Padrick, Trustee of the Summit Accommodators Liquidating Trust (case no. 0906-08488) and by Danae Miller and fifty-seven additional plaintiffs, who are creditors in the Summit bankruptcy (case no. 0909-12729), together with a related case filed by Padrick against various insurance companies who issued policies to Summit Accommodators, Inc., which was filed in U.S. District Court for the District of Oregon (case no. 3:10-CV195). The terms of the settlement are confidential and no party admitted liability, fault or wrongdoing.

Due to the nature of our business, we are involved in legal proceedings that arise in the ordinary course of our business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

See Note 20 (Legal Proceedings) for a discussion of the Company s involvement in litigation pertaining to Visa, Inc.

ITEM 4. (REMOVED AND RESERVED)

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PART II

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

(a) Our Common Stock is traded on The NASDAQ Global Select Market under the symbol UMPQ. As of December 31, 2010, there were 200,000,000 common shares authorized for issuance. The following table presents the high and low sales prices of our common stock for each period, based on inter-dealer prices that do not include retail mark-ups, mark-downs or commissions, and cash dividends declared for each period:

Quarter Ended	High	Low	Cash Dividend Per Share
December 31, 2010	$ 12.59	$ 10.42	$ 0.05
September 30, 2010	$ 13.15	$ 10.20	$ 0.05
June 30, 2010	$ 15.90	$ 11.34	$ 0.05
March 31, 2010	$ 14.24	$ 10.87	$ 0.05
December 31, 2009	$ 13.73	$ 9.41	$ 0.05
September 30, 2009	$ 11.84	$ 6.95	$ 0.05
June 30, 2009	$ 12.11	$ 7.58	$ 0.05
March 31, 2009	$ 14.54	$ 6.68	$ 0.05

In April 2010, our shareholders increased our common shares authorized for issuance from 100,000,000 shares to 200,000,000 shares. In addition, they increased the authorized preferred shares from 2,000,000 shares to 4,000,000 shares.

As of December 31, 2010, our common stock was held by approximately 4,900 shareholders of record, a number that does not include beneficial owners who hold shares in street name , or shareholders from previously acquired companies that have not exchanged their stock. At December 31, 2010, a total of 2.1 million stock options, 401,000 shares of restricted stock and 225,000 restricted stock units were outstanding. Additional information about stock options, restricted stock and restricted stock units is included in Note 22 of the *Notes to Consolidated Financial Statements* in Item 8 below and in Item 12 below.

The payment of future cash dividends is at the discretion of our Board and subject to a number of factors, including results of operations, general business conditions, growth, financial condition and other factors deemed relevant by the Board of Directors. Further, our ability to pay future cash dividends is subject to certain regulatory requirements and restrictions discussed in the *Supervision and Regulation* section in Item 1 above.

In connection with the issuance and sale of preferred stock in the fourth quarter of 2008, the Company had entered into a Letter Agreement including the Securities Purchase Agreement Standard Terms (the Agreement) with the U.S. Treasury. The Agreement had contained certain limitations on the payment of quarterly cash dividends on the Company s common stock in excess of $0.19 per share, and on the Company s ability to repurchase its common stock. The preferred stock had no maturity date and ranked senior to our common stock with respect to the payment of dividends and distribution of amounts payable upon liquidation, dissolution and winding up of the Company. The preferred had no general voting or participation rights, and no sinking fund requirements. In the event dividends on the preferred stock were not paid in full for six dividend periods, whether or not consecutive, the preferred stock holders would have had the right to elect two directors. Additional information about the preferred stock is included in Note 22 of the *Notes to Consolidated Financial Statements* in Item 8 below. Following the company s public offering in February 2010, Umpqua redeemed the preferred stock on February 17, 2010 and repurchased the warrants held by the Treasury on March 31, 2010 and thereby terminated the restrictions on the payment of common stock dividends under the Agreement. See Note 22 of the *Notes to the Consolidated Financial Statement* in Item 8 below.

During 2010, Umpqua s Board of Directors declared a quarterly cash dividend of $0.05 per common share per quarter. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy. Such dividends are subject to the restrictions described in the preceding paragraph.

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Umpqua Holdings Corporation

We have a dividend reinvestment plan that permits shareholder participants to purchase shares at the then-current market price in lieu of the receipt of cash dividends. Shares issued in connection with the dividend reinvestment plan are purchased in open market transactions.

Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that provide for the award of securities or the grant of options to purchase securities to employees and directors of Umpqua, its subsidiaries and its predecessors by merger that were in effect at December 31, 2010.

(shares in thousands)

	Equity Compensation Plan Information		
Plan category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted average exercise price of outstanding options, warrants and rights(4)	(C) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A)
Equity compensation plans approved by security holders			
2003 Stock Incentive Plan(1)	1,623	$ 15.70	1,799
2007 Long Term Incentive Plan(2)	225		736
Other(3)	482	$ 11.91	
Total	2,330	$ 14.82	2,535
Equity compensation plans not approved by security holders			
Total	2,330	$ 14.82	2,535

(1) At Umpqua s 2010 Annual Meeting, shareholders approved an amendment to the 2003 Stock Incentive Plan to make an additional two million shares of stock available for issuance through awards of incentive stock options, nonqualified stock options or restricted stock grants, provided awards of stock options and restricted stock grants under the 2003 Stock Incentive Plan, when added to options outstanding under all other plans, are limited to a maximum 10% of the outstanding shares on a fully diluted basis. The Plan s termination date was extended to June 30, 2015.

(2) At Umpqua s 2007 Annual Meeting, shareholders approved a 2007 Long Term Incentive Plan. The plan authorized the issuance of one million shares of stock through awards of performance-based restricted stock unit grants to executive officers. Target grants of 111,000 and maximum grants of 194,000 were approved to be issued in 2007, target grants of 105,000 and maximum grants of 183,000 were approved to be issued in 2008, and target grants of 65,000 and maximum grants of 114,000 were approved to be issued in 2009 under this plan. During 2008, 76,000 units forfeited upon the retirement of an executive. During 2009, 23,000 units vested and were released and 57,000 units forfeited upon the retirement of an executive. During 2010, 16,000 units vested and were released and 94,000 units forfeited upon the retirement of an executive. As of December 31, 2010, 197,000 restricted stock units are expected to vest if the current estimate of performance-based targets is satisfied, and would result in 764,000 securities available for future issuance.

(3) Includes other Umpqua stock plans and stock plans assumed through previous mergers. Includes 24,000 shares issued under North Bay Bancorp s stock option plans, having a weighted average exercise price of $17.17. Includes 270,000 shares issued under all other previously acquired companies stock option plans, having a weighted average exercise price of $8.58 per share.

(4) Weighted average exercise price is based solely on securities with an exercise price.

(b) Not applicable.

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(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2010:

Period	Total number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(2)	Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan
10/1/10 - 10/31/10	231	$ 11.31		1,542,945
11/1/10 - 11/30/10		$		1,542,945
12/1/10 - 12/31/10		$		1,542,945
Total for quarter	231	$ 11.31		

(1) Shares repurchased by the Company during the quarter consist of cancellation of 231 restricted shares to pay withholding taxes. There were no shares tendered in connection with option exercises and no shares were repurchased pursuant to the Company s publicly announced corporate stock repurchase plan described in (2) below.

(2) The Company s share repurchase plan, which was approved by the Board and announced in August 2003, originally authorized the repurchase of up to 1.0 million shares. Prior to 2008, the authorization was amended to increase the repurchase limit to 6.0 million shares. On April 21, 2009, the Board of Directors approved an extension to the expiration date of the common stock repurchase plan to June 30, 2011. As of December 31, 2010, a total of 1.5 million shares remained available for repurchase. The Company repurchased no shares under the repurchase plan in 2010 or 2009. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan.

During the year ended December 31, 2010, there were 4,515 shares tendered in connection with option exercises. During the year ended December 31, 2009, there were no shares tendered in connection with option exercises. Restricted shares cancelled to pay withholding taxes totaled 12,443 and 11,257 shares during the years ended December 31, 2010 and 2009, respectively. Restricted stock units cancelled to pay withholding taxes totaled 5,583 during the year ended December 31, 2010. Restricted stock units cancelled to pay withholding taxes totaled 8,259 during the year ended December 31, 2009.

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Umpqua Holdings Corporation

STOCK PERFORMANCE GRAPH

The following chart, which is furnished not filed, compares the yearly percentage changes in the cumulative shareholder return on our common stock during the five fiscal years ended December 31, 2010, with (i) the Total Return Index for NASDAQ Bank Stocks (ii) the Total Return Index for The Nasdaq Stock Market (U.S. Companies) and (iii) the Standard and Poor s 500. This comparison assumes $100.00 was invested on December 31, 2005, in our common stock and the comparison indices, and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. Price information from December 31, 2005 to December 31, 2010, was obtained by using the NASDAQ closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2005	**12/31/2006**	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**
Umpqua Holdings Corporation	$ 100.00	$ 105.36	$ 56.91	$ 56.05	$ 52.98	$ 48.91
Nasdaq Bank Stocks	$ 100.00	$ 113.82	$ 91.16	$ 71.52	$ 59.87	$ 68.34
Nasdaq U.S.	$ 100.00	$ 110.39	$ 122.15	$ 73.32	$ 106.57	$ 125.91
S&P 500	$ 100.00	$ 115.79	$ 122.16	$ 76.96	$ 97.33	$ 111.99

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ITEM 6. SELECTED FINANCIAL DATA.

Umpqua Holdings Corporation

Annual Financial Trends

(in thousands, except per share data)

	2010	2009	2008	2007	2006
Interest income	$ 488,596	$ 423,732	$ 442,546	$ 488,392	$ 405,941
Interest expense	93,812	103,024	152,239	202,438	143,817
Net interest income	394,784	320,708	290,307	285,954	262,124
Provision for non-covered loan and lease losses	113,668	209,124	107,678	41,730	2,552
Provision for covered loan and lease losses	5,151				
Non-interest income	75,904	73,516	107,118	64,829	53,525
Non-interest expense	311,063	267,178	215,588	210,804	177,104
Goodwill impairment		111,952	982		
Merger related expenses	6,675	273		3,318	4,773
Income (loss) before provision for (benefit from) income taxes	34,131	(194,303)	73,177	94,931	131,220
Provision for (benefit from) income taxes	5,805	(40,937)	22,133	31,663	46,773
Net income (loss)	28,326	(153,366)	51,044	63,268	84,447
Preferred stock dividends	12,192	12,866	1,620		
Dividends and undistributed earnings allocated to participating securities	67	30	154	187	192
Net earnings (loss) available to common shareholders	$ 16,067	$ (166,262)	$ 49,270	$ 63,081	$ 84,255
YEAR END					
Assets	$ 11,668,710	$ 9,381,372	$ 8,597,550	$ 8,340,053	$ 7,344,236
Earning assets	10,374,131	8,344,203	7,491,498	7,146,841	6,287,202
Non-covered loans and leases(1)	5,658,987	5,999,267	6,131,374	6,055,635	5,361,862
Covered loans and leases	785,898				
Deposits	9,433,805	7,440,434	6,588,935	6,589,326	5,840,294
Term debt	262,760	76,274	206,531	73,927	9,513
Junior subordinated debentures, at fair value	80,688	85,666	92,520	131,686	
Junior subordinated debentures, at amortized cost	102,866	103,188	103,655	104,680	203,688
Common shareholders equity	1,642,574	1,362,182	1,284,830	1,239,938	1,156,211
Total shareholders equity	1,642,574	1,566,517	1,487,008	1,239,938	1,156,211
Common shares outstanding	114,537	86,786	60,146	59,980	58,080
AVERAGE					
Assets	$ 10,830,486	$ 8,975,178	$ 8,342,005	$ 7,897,568	$ 6,451,660
Earning assets	9,567,341	7,925,014	7,215,001	6,797,834	5,569,619
Non-covered loans and leases(1)	5,783,452	6,103,666	6,118,540	5,822,907	4,803,509
Covered Loans and leases	681,569				
Deposits	8,607,980	7,010,739	6,459,576	6,250,521	5,003,949
Term debt	261,170	129,814	194,312	57,479	58,684
Junior subordinated debentures	184,134	190,491	226,349	221,833	187,994
Common shareholders equity	1,589,393	1,315,953	1,254,730	1,222,628	970,394
Total shareholders equity	1,657,544	1,519,119	1,281,220	1,222,628	970,394
Basic common shares outstanding	107,922	70,399	60,084	59,828	52,311
Diluted common shares outstanding	108,153	70,399	60,424	60,404	52,990
PER COMMON SHARE DATA					
Basic earnings (loss)	$ 0.15	$ (2.36)	$ 0.82	$ 1.05	$ 1.61
Diluted earnings (loss)	0.15	(2.36)	0.82	1.04	1.59
Book value	14.34	15.70	21.36	20.67	19.91

Tangible book value(2)	8.39	8.33	8.76	7.92	8.21
Cash dividends declared	0.20	0.20	0.62	0.74	0.60

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Umpqua Holdings Corporation

(dollars in thousands)

	2010	2009	2008	2007	2006
PERFORMANCE RATIOS					
Return on average assets(3)	0.15%	-1.85%	0.59%	0.80%	1.31%
Return on average common shareholders equity(4)	1.01%	-12.63%	3.93%	5.16%	8.68%
Return on average tangible common shareholders equity(5)	1.76%	-26.91%	9.99%	13.05%	20.79%
Efficiency ratio(6), (7)	66.90%	95.34%	54.08%	60.62%	57.32%
Average common shareholders equity to average assets	14.68%	14.66%	15.04%	15.48%	15.04%
Leverage ratio(8)	10.56%	12.79%	12.38%	9.24%	10.28%
Net interest margin (fully tax equivalent)(9)	4.17%	4.09%	4.07%	4.24%	4.74%
Non-interest revenue to total net revenue(10)	16.13%	18.65%	26.95%	18.48%	16.96%
Dividend payout ratio(11)	133.33%	-8.47%	75.61%	70.48%	37.27%
ASSET QUALITY					
Non-covered, non-performing loans	$ 145,248	$ 199,027	$ 133,366	$ 91,099	$ 9,058
Non-covered, non-performing assets	178,039	223,593	161,264	98,042	9,058
Allowance for non-covered loan and lease losses	101,921	107,657	95,865	84,904	60,090
Net charge-offs	119,404	197,332	96,717	21,994	574
Non-covered, non-performing loans to total loans	2.57%	3.32%	2.18%	1.50%	0.17%
Non-covered, non-performing assets to total assets	1.53%	2.38%	1.88%	1.18%	0.12%
Allowance for non-covered loan and lease losses to total non-covered loans and leases	1.80%	1.79%	1.56%	1.40%	1.12%
Allowance for credit losses to total non-covered loans	1.82%	1.81%	1.58%	1.42%	1.15%
Net charge-offs to average non-covered loans and leases	2.06%	3.23%	1.58%	0.38%	0.01%

(1) Excludes loans held for sale
(2) Average common shareholders equity less average intangible assets (excluding MSR) divided by shares outstanding at the end of the year.
(3) Net earnings (loss) available to common shareholders divided by average assets.
(4) Net earnings (loss) available to common shareholders divided by average common shareholders equity.
(5) Net earnings (loss) available to common shareholders divided by average common shareholders equity less average intangible assets. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Overview for the reconciliation of non-GAAP financial measures, in Item 7 of this report.
(6) Non-interest expense divided by the sum of net interest income (fully tax equivalent) and non-interest income.
(7) The efficiency ratio calculation includes goodwill impairment charges of $112.0 million and $1.0 million in 2009 and 2008, respectively. Goodwill impairment losses are a non-cash expense that have no direct effect on the Company s or the Bank s liquidity or capital ratios.
(8) Tier 1 capital divided by leverage assets. Leverage assets are defined as quarterly average total assets, net of goodwill, intangibles and certain other items as required by the Federal Reserve.
(9) Net interest margin (fully tax equivalent) is calculated by dividing net interest income (fully tax equivalent) by average interest earnings assets.
(10) Non-interest revenue divided by the sum of non-interest revenue and net interest income
(11) Dividends declared per common share divided by basic earnings per common share.

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

FORWARD LOOKING STATEMENTS AND RISK FACTORS

See the discussion of forward-looking statements and risk factors in Part I Item 1 and Item 1A of this report.

EXECUTIVE OVERVIEW

Significant items for the year ended December 31, 2010 were as follows:

Capital, FDIC Assisted Acquisitions and Growth Initiatives

Raised $303.6 million through a public offering by issuing 8,625,000 shares of common stock and 18,975,000 depository shares, which were converted into common stock. After deducting underwriting discounts and commissions and offering expenses, net proceeds to the Company were $288.1 million. The proceeds from the offering qualify as Tier 1 capital and were used to redeem the preferred stock issued to the United States Department of the Treasury (U.S. Treasury) under the TARP Capital Purchase program (CPP), to fund FDIC-assisted acquisition opportunities and for general corporate purposes.

Redeemed all of the outstanding preferred stock issued to the U.S. Treasury under the TARP CPP for an aggregate purchase price of $214.2 million. Also, repurchased the common stock warrant issued to the U.S. Treasury for $4.5 million. This represents full repayment of all TARP obligations and cancellation of all equity interests in the Company held by the U.S. Treasury.

Increased our total risk based capital ratio to 17.6% as of December 31, 2010, compared to 17.2% 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.

Declared cash dividends of $0.05 per common share for each quarter in 2010. In determining the amount of dividends to be paid, we consider capital preservation, expected asset growth, projected earnings and our overall dividend pay-out ratio.

Umpqua Bank entered into purchase and assumption agreements with the FDIC to purchase certain assets and assume certain liabilities of EvergreenBank (Evergreen) in Seattle, Washington, Rainier Pacific Bank (Rainier) in Tacoma, Washington, and Nevada Security Bank (Nevada Security) in Reno, Nevada. Total assets assumed were $353.3 million, $721.2 million and $437.6 million, respectively, and resulted in six and 14 new stores in the Washington market, and three in the greater Reno, Nevada area, one in Incline Village, Nevada, and one in Roseville, California.

Opened a new Commercial Banking Center in Walnut Creek, California, and Community Banking stores in Portland, Oregon, Santa Rosa, California, and Seattle, Washington.

Launched our new Trust Services Group and new Debt Capital Markets Group to provide additional products and services to our customers.

Financial Performance

Net earnings per diluted common share was $0.15 in 2010, as compared to net loss of $2.36 per diluted common share earned in 2009. The increase in net earnings per diluted common share is principally attributed to reduced provision for loan and lease losses and no goodwill impairment in 2010. Operating income per diluted common share, defined 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 divided by the same diluted share total used in determining diluted earnings per common share, was $0.12 in 2010, as compared to operating loss per diluted common share of $0.82 in 2009. Operating income per diluted common share is

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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.

Net interest margin, on a tax equivalent basis, increased to 4.17% in 2010 from 4.09% in 2009. The increase in net interest margin resulted from the increase in average covered loans outstanding, increased yield on the covered loan portfolio as a result of payoffs ahead of expectations, and declining costs of interest bearing deposits, partially offset by interest reversals of new non-accrual loans, a decline in non-covered loans outstanding, the impact of holding much higher levels of interest bearing cash, and the purchase of low-yielding taxable investments securities during the current year as compared to the prior year. Excluding a $3.3 million reversal of interest income on loans in 2010, the tax equivalent net interest margin would have been 4.21%.

We recorded gains of $5.0 million in the income statement representing the change in fair value on our junior subordinated debentures measured at fair value in 2010, compared to gains of $6.5 million in 2009.

Mortgage banking revenue was $21.2 million in 2010, compared to $18.7 million in 2009. Closed mortgage volume increased 4% in the current year due to an increase in purchase and refinancing activity, resulting from historically low mortgage interest rates.

Total gross non-covered loans and leases decreased to $5.7 billion as of December 31, 2010, a decrease of $340.3 million, or 5.7%, as compared to December 31, 2009. This decrease is principally attributable to charge-offs of $128.5 million, transfers to other real estate owned of $41.5 million, loans sold of $38.7 million, and net loan paydowns of $146.3 million during the year.

Total deposits were $9.4 billion as of December 31, 2010, an increase of $2.0 billion, or 26.8%, as compared to December 31, 2009. Excluding the deposits acquired through FDIC-assisted acquisitions, the annualized organic deposit growth rate was 13.3%.

Total consolidated assets were $11.7 billion as of December 31, 2010, compared to $9.4 billion as of December 31, 2009, representing an increase of $2.3 billion or 24.4%. The increase is primarily attributable to the FDIC-assisted acquisitions of Evergreen, Rainier, and Nevada Security and organic growth in deposits.

Credit Quality

Non-covered, non-performing assets decreased to $178.0 million, or 1.53% of total assets, as of December 31, 2010, compared to $223.6 million, or 2.38% of total assets as of December 31, 2009. Non-covered, non-performing loans decreased to $145.2 million, or 2.57% of non-covered total loans, as of December 31, 2010, compared to $199.0 million, or 3.32% of total non-covered loans as of December 31, 2009. Non-covered, non-accrual loans have been written-down to their estimated net realizable values.

Net charge-offs were $119.4 million in 2010, or 2.06% of average non-covered loans and leases, as compared to net charge-offs of $197.3 million, or 3.23% of average non-covered loans and leases in 2009. The overall improving trends in credit quality indicators in the current year has contributed to the decrease in net charge-offs.

Provision for non-covered loan and lease losses in 2010 was $113.7 million as compared to $209.1 million in 2009. For the first time since 2005, provision expense was less than net charge offs for the year, as a result of improving conditions of the non-covered loan portfolio.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The SEC defines critical accounting policies as those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Our significant accounting policies are described in Note 1 in the *Notes to Consolidated*

Financial Statements in Item 8 of this report. 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 10% of the allowance, but may be maintained at higher levels during times of 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. As of December 31, 2010, the unallocated allowance amount represented 8% of the allowance.

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 December 31, 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 82% of our 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.

Covered Loans and Indemnification Asset

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. Acquired loans are aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flows 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 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 a 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. Changes in the accretable yield are disclosed quarterly.

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.

Mortgage Servicing Rights

In accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 860, *Transfers and Servicing*, 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 elected to measure its residential mortgage servicing assets at fair value and to report 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 value 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, as available.

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 10 of the *Notes to Consolidated Financial Statements*.

Valuation of Goodwill and Intangible Assets

At December 31, 2010, we had $682.0 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. As a result of the year-end analysis in 2008, management

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determined that there was a $1.0 million impairment related to the Retail Brokerage reporting segment as of December 31, 2008, which resulted from the Company s evaluation following the departure of certain Umpqua Investments financial advisors. The valuation of the impairment at the Retail Brokerage operating segment was determined using an income approach by discounting cash flows of forecasted earnings. The remaining balance of goodwill and other intangible assets relate to the Community Banking reporting segment. The Company performed a goodwill impairment analysis of the Community Banking reporting segment as of June 30, 2009, due to a further decline in the Company s market capitalization below the book value of equity and continued weakness in the banking industry. The Company engaged an independent valuation consultant to assist us in determining whether our goodwill asset was impaired. The valuation of the reporting unit was determined using discounted cash flows of forecasted earnings, estimated sales price multiples based on recent observable market transactions and market capitalization based on current stock price. The results of the Company s and valuation specialist s step one test indicated that the reporting unit s fair value was less than its carrying value, and therefore the Company performed a step two analysis. In the step two analysis, we calculated the fair value for the reporting unit s assets and liabilities, as well as its unrecognized identifiable intangible assets, such as the core deposit intangible and trade name, in order to determine the implied fair value of goodwill. Fair value adjustments to items on the balance sheet primarily related to investment securities held to maturity, loans, other real estate owned, Visa Class B common stock, deferred taxes, deposits, term debt, and junior subordinated debentures. Based on the results of the step two analysis, the Company determined that the implied fair value of the goodwill was greater than its carrying amount on the Company s balance sheet, and as a result, recognized a goodwill impairment loss of $112.0 million. This write-down of goodwill is a non-cash charge that did not affect the Company s or the Bank s liquidity or operations. In addition, because goodwill is excluded in the calculation of regulatory capital, the Company s well-capitalized capital ratios were not affected by this charge.

The Company evaluated the Community Banking reporting segment as of December 31, 2010. In the first step of the goodwill impairment test the Company determined that the fair value of the Community Banking reporting unit exceeded its carrying amount. This determination is consistent with the events occurring after the Company recognized the $112.0 million impairment of goodwill second quarter of 2009. First, the market capitalization and estimated fair value of the Company increased significantly subsequent to the recognition of the impairment charge as the fair value of the Company s stock increased 57% from June 30, 2009 to December 31, 2010. Secondly, the Company s successful public common stock offerings in the third quarter of 2009 and first quarter of 2010 diluted the carrying value of the reporting unit s book equity on a per share basis. 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 will not result in additional impairment of all, or some portion of, goodwill. Additional information is included in Note 9 of the *Notes to Consolidated Financial Statements*.

Stock-based Compensation

Consistent with the provisions of FASB ASC 718, *Stock Compensation*, we recognize expense 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 1 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 24 of the *Notes to Consolidated Financial Statements* for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

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 was effective for annual reporting periods beginning after November 15, 2009, and for interim periods therein. This standard primarily impacts 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 reviews 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 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 was effective for annual reporting periods beginning after November 15, 2009, and for interim periods therein. The Company evaluated the impact of this guidance in regards to our involvement with variable interest entities. This guidance potentially impacted 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 are 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 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. 2010-06 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 were 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 was 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 was 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 one-time 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 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 adoption of this ASU did not have a material impact on the Company s consolidated financial statements and the disclosures required are included in Note 6 of the *Notes to Consolidated Financial Statements*.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*. This update clarifies that if comparative financial statements are presented in disclosure of supplementary pro forma information for a business combination, revenue and earnings of the combined entity should be disclosed as though the business combination occurred as of the beginning of the comparable prior annual reporting period only. Additionally, supplemental pro forma disclosures should include a description of the nature and amount of material, nonrecurring pro forma adjustments included in the reported pro forma revenue and earnings. This update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28 *Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial statements.

In January 2010, the FASB issued ASU No. No. 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. This ASU temporarily delays the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations

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on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. Accordingly, the Company has not included the disclosures deferred by this ASU.

RESULTS OF OPERATIONS OVERVIEW

For the year ended December 31, 2010, net earnings available to common shareholders was $16.1 million, or $0.15 per diluted common share, as compared to net loss available to common shareholders of $166.3 million, or $2.36 per diluted common share for the year ended December 31, 2009. The increase in net earnings available to common shareholders in 2010 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 of $6.4 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.

For the year ended December 31, 2009, net loss available to common shareholders was $166.3 million, or $2.36 per diluted common share. The decrease in net earnings available to common shareholders in 2009 is principally attributable to increased provision for loan and lease losses, decreased non-interest income, increased non-interest expense and increased preferred stock dividends, partially offset by increased net interest income. Non-interest expense in the year ended December 31, 2009 includes a goodwill impairment charge recognized in the second quarter of $112.0 million related to the Community Banking operating segment. We assumed the insured non-brokered deposit balances and certain other assets of the Bank of Clark County on January 16, 2009 and the results of the acquired operations are included in our financial results starting on January 17, 2009.

We recognize 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, we incur 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, we 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 (see Note 25 of the *Notes to Consolidated Financial Statements* in Item 8 below). Operating earnings and operating earnings per diluted share are considered non-GAAP financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the *Financial Statements and Supplementary Data* in Item 8 below.

Umpqua Holdings Corporation

The following table presents a reconciliation of operating earnings (loss) and operating earnings (loss) per diluted share to net earnings (loss) and net earnings (loss) per diluted common share for years ended December 31, 2010, 2009 and 2008:

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

Years Ended December 31,

(in thousands, except per share data)

	2010	2009	2008
Net earnings (loss) available to common shareholders	$ 16,067	$ (166,262)	$ 49,270
Net gain on junior subordinated debentures carried at fair value, net of tax	(2,988)	(3,889)	(23,342)
Bargain purchase gain on acquisitions, net of tax	(3,862)		
Goodwill impairment		111,952	982
Merger-related expenses, net of tax	4,005	164	
Operating earnings (loss)	$ 13,222	$ (58,035)	$ 26,910
Per diluted common share:			
Net earnings (loss) available to common shareholders	$ 0.15	$ (2.36)	$ 0.82
Net gain on junior subordinated debentures carried at fair value, net of tax	(0.03)	(0.06)	(0.39)
Bargain purchase gain on acquisitions, net of tax	(0.04)		
Goodwill impairment		1.59	0.01
Merger-related expenses, net of tax	0.04	0.01	0.01
Operating earnings (loss)	$ 0.12	$ (0.82)	$ 0.45

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The following table presents the returns on average assets, average common shareholders equity and average tangible common shareholders equity for the years ended December 31, 2010, 2009 and 2008. For each of the years presented, the table includes the calculated ratios based on reported net earnings (loss) available to common shareholders and operating earnings (loss) as shown in the table above. Our return on average common shareholders equity is negatively impacted as a 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 common tangible shareholders equity. The return on average common tangible shareholders equity is calculated by dividing net earnings (loss) available to common shareholders by average common 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.

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

For the Years Ended December 31,

(dollars in thousands)

	2010	2009	2008
RETURNS ON AVERAGE ASSETS:			
Net earnings (loss) available to common shareholders	0.15%	-1.85%	0.59%
Operating earnings (loss)	0.12%	-0.65%	0.32%
RETURNS ON AVERAGE COMMON SHAREHOLDERS EQUITY:			
Net earnings (loss) available to common shareholders	1.01%	-12.63%	3.93%
Operating earnings (loss)	0.83%	-4.41%	2.14%
RETURNS ON AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Net earnings (loss) available to common shareholders	1.76%	-26.91%	9.99%
Operating earnings (loss)	1.45%	-9.39%	5.46%
CALCULATION OF AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Average common shareholders equity	$ 1,589,393	$ 1,315,953	$ 1,254,730
Less: average goodwill and other intangible assets, net	(674,597)	(698,223)	(761,672)
Average tangible common shareholders equity	$ 914,796	$ 617,730	$ 493,058

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.

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Umpqua Holdings Corporation

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 December 31, 2010 and December 31, 2009:

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

(dollars in thousands)

	2010	2009
Total shareholders equity	$ 1,642,574	$ 1,566,517
Subtract:		
Preferred Stock		204,335
Goodwill and other intangible assets, net	681,969	639,634
Tangible common shareholders equity	$ 960,605	$ 722,548
Total assets	$ 11,668,710	$ 9,381,372
Subtract:		
Goodwill and other intangible assets, net	681,969	639,634
Tangible assets	$ 10,986,741	$ 8,741,738
Tangible common equity ratio	8.74%	8.27%

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 2010 was $394.8 million, an increase of $74.1 million, or 23% over 2009. Net interest income for 2009 was $320.7 million, an increase of $30.4 million, or 10% over 2008. The negative impact to net interest income of the reversal of interest income on loans during the year was $3.3 million in 2010 and $4.4 million in both 2009 and 2008. The increase in net interest income in 2010 as compared to 2009 is attributable to growth in outstanding average interest-earning assets, primarily covered loans and investment securities, partially offset by a decline in non-covered loans outstanding. 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 an increase in interest earning assets and interest bearing liabilities in 2010 over 2009. The increase in net interest income in 2009 as compared to 2008 is attributable to growth in outstanding average interest earnings assets, primarily investment securities, and a modest increase in net interest margin, partially offset by growth in interest bearing liabilities, primarily time deposits. In addition to organic growth, the FDIC-assisted purchase and assumption of certain assets and liabilities of the Bank of Clark County, which was completed on January 16, 2009, partially contributed to the increase in interest earning assets and interest bearing liabilities in 2009 over 2008.

The net interest margin (net interest income as a percentage of average interest earnings assets) on a fully tax-equivalent basis was 4.17% for 2010, an increase of 8 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 32 basis points due to declining costs of interest bearing deposits, partially offset by the interest reversals of new non-accrual loans (contributing to a 4 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). The increase in net interest margin related to covered loan yields was offset by a corresponding decrease to the change in FDIC indemnification asset in other non-interest income.

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The net interest margin on a fully tax-equivalent basis was 4.09% for 2009, an increase of 2 basis points as compared to the same period in 2008. The increase in net interest margin primarily resulted from the decrease in our interest expense to earning assets of 81 basis points in 2009 resulting from the lower costs of interest bearing deposits, and junior subordinated debentures that are indexed to the three month LIBOR. This was partially offset by the decreased yield on interest-earning assets of 79 basis points primarily resulting from reductions in the prime rate, holding higher interest bearing cash balances with the Federal Reserve Bank (at 25 basis points), and interest reversals on loans. The increased interest bearing cash balances result from the historically low yields available in the bond markets that do not present an attractive long-term investment alternative. The $4.4 million reversal of interest income on loans in 2009 contributed to a 6 basis point decline in the tax equivalent net interest margin for the year.

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Umpqua Holdings Corporation

Our net interest income is affected by changes in the amount and mix of interest earnings assets and interest bearing liabilities, as well as changes in the yields earned on interest earnings assets and rates paid on deposits and borrowed funds. The following table presents condensed average balance sheet information, together with interest income and yields on average interest earnings assets, and interest expense and rates paid on average interest bearing liabilities for the years ended December 31, 2010, 2009 and 2008:

Average Rates and Balances

(dollars in thousands)

	2010			2009			2008		
	Average Balance	Interest Income or Expense	Average Yields or Rates	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)	$ 5,828,637	$ 336,235	5.77%	$ 6,145,927	$ 355,195	5.78%	$ 6,136,380	$ 393,927	6.42%
Covered loans and leases	681,569	73,897	10.84%			NA			NA
Taxable securities	1,946,222	67,402	3.46%	1,386,960	60,217	4.34%	883,987	41,523	4.70%
Non-taxable securities(2)	227,589	13,109	5.76%	198,641	11,522	5.80%	170,277	9,667	5.68%
Temporary investments and interest bearing deposits	883,324	2,223	0.25%	193,486	526	0.27%	24,357	443	1.82%
Total interest earning assets	9,567,341	492,866	5.15%	7,925,014	427,460	5.39%	7,215,001	445,560	6.18%
Allowance for non-covered loan and lease losses	(102,016)			(96,916)			(84,649)		
Other assets	1,365,161			1,147,080			1,211,653		
Total assets	$ 10,830,486			$ 8,975,178			$ 8,342,005		
INTEREST BEARING LIABILITIES:									
Interest bearing checking and savings accounts	$ 4,203,109	$ 31,632	0.75%	$ 3,333,088	$ 32,341	0.97%	$ 3,196,763	$ 55,739	1.74%
Time deposits	2,875,706	44,609	1.55%	2,358,697	56,401	2.39%	2,007,550	73,631	3.67%
Securities sold under agreements to repurchase and federal funds purchased	54,696	517	0.95%	60,722	680	1.12%	99,366	2,220	2.23%
Term debt	261,170	9,229	3.53%	129,814	4,576	3.53%	194,312	6,994	3.60%
Junior subordinated debentures	184,134	7,825	4.25%	190,491	9,026	4.74%	226,349	13,655	6.03%
Total interest bearing liabilities	7,578,815	93,812	1.24%	6,072,812	103,024	1.70%	5,724,340	152,239	2.66%
Noninterest bearing deposits	1,529,165			1,318,954			1,255,263		
Other liabilities	64,962			64,293			81,182		
Total liabilities	9,172,942			7,456,059			7,060,785		
Preferred equity	68,151			203,166			26,490		
Common equity	1,589,393			1,315,953			1,254,730		
Total shareholders equity	1,657,544			1,519,119			1,281,220		
Total liabilities and shareholders equity	$ 10,830,486			$ 8,975,178			$ 8,342,005		
NET INTEREST INCOME(2)		$ 399,054			$ 324,436			$ 293,321	

NET INTEREST SPREAD	3.91%	3.69%	3.52%
AVERAGE YIELD ON EARNING ASSETS(1),(2)	5.15%	5.39%	6.18%
INTEREST EXPENSE TO EARNING ASSETS	0.98%	1.30%	2.11%
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN(1),(2)	4.17%	4.09%	4.07%

(1) Non-covered, non-accrual loans and loans held for sale are included in the average balance.
(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $4.3 million, $3.7 million, and $3.0 million for the years ended 2010, 2009 and 2008, respectively.

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The following table sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for 2010 compared to 2009 and 2009 compared to 2008. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

Rate/Volume Analysis

(in thousands)

	2010 COMPARED TO 2009 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN			2009 COMPARED TO 2008 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
INTEREST EARNING ASSETS:						
Non-covered loans and leases	$ (18,304)	$ (656)	$ (18,960)	$ 612	$ (39,344)	$ (38,732)
Covered loans and leases	73,897		73,897			
Taxable securities	21,009	(13,824)	7,185	22,047	(3,353)	18,694
Non-taxable securities(1)	1,668	(81)	1,587	1,641	214	1,855
Temporary investments and interest bearing deposits	1,739	(42)	1,697	746	(663)	83
Total(1)	80,009	(14,603)	65,406	25,046	(43,146)	(18,100)
INTEREST BEARING LIABILITIES:						
Interest bearing checking and savings accounts	7,424	(8,133)	(709)	2,285	(25,683)	(23,398)
Time deposits	10,694	(22,486)	(11,792)	11,380	(28,610)	(17,230)
Securities sold under agreements to repurchase and federal funds purchased	(64)	(99)	(163)	(675)	(865)	(1,540)
Term debt	4,642	11	4,653	(2,277)	(141)	(2,418)
Junior subordinated debentures	(293)	(908)	(1,201)	(1,966)	(2,663)	(4,629)
Total	22,403	(31,615)	(9,212)	8,747	(57,962)	(49,215)
Net increase in net interest income(1)	$ 57,606	$ 17,012	$ 74,618	$ 16,299	$ 14,816	$ 31,115

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 35% tax rate.

PROVISION FOR LOAN AND LEASE LOSSES

The provision for non-covered loan and lease losses was $113.7 million for 2010, compared to $209.1 million for 2009 and $107.7 million for 2008. As a percentage of average outstanding loans, the provision for loan losses recorded for 2010 was 1.97%, a decrease of 146 basis points from 2009 and an increase of 21 basis points from 2008, respectively.

The decrease in the provision for loan and lease losses in 2010 as compared to 2009 is principally attributable to a reduction in downgrades within the portfolio, an easing in the velocity of declining real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio, and the decrease in net charge-offs during the period. The increase in the provision for loan and lease losses in 2009 as compared to 2008 is principally attributable to downgrades within the portfolio related primarily to the housing market downturn and its impact on our residential development and other segments of our portfolio, the U.S. recession and declining real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio, and the increase in loans charged-off.

Prior to the second quarter of 2008, the Company established specific reserves within the allowance for loan and leases losses for loan impairments and recognized the charge-off of the impairment reserve when the loan was resolved, sold, or foreclosed and transferred to other real estate owned. Due to declining real estate values in our markets and the deterioration of the U.S. economy in general, it is increasingly likely that impairment reserves on collateral dependent loans, particularly those relating to real estate, will not be recoverable and represent a confirmed loss. As a result, beginning in the second quarter of 2008, the Company began recognizing the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. This process has effectively accelerated the recognition of charge-offs recognized since the second quarter of 2008. The change in our assessment of the possible recoverability of our collateral dependent impaired loans carrying values has ultimately had no impact on our impairment valuation procedures or the amount of provision for loan and leases losses included within the *Consolidated Statements of Operations*. Therefore, the non-covered, non-accrual loans of $138.2 million as of December 31, 2010 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

The provision for non-covered loan and lease losses is based on management s evaluation of inherent risks in the loan portfolio and a corresponding analysis of the allowance for loan and lease losses. Additional discussion on loan quality and the allowance for loan and lease losses is provided under the heading *Asset Quality and Non-Performing Assets* below.

The provision for covered loan and lease losses for the year ended December 31, 2010 was $5.2 million. Provisions for covered loan and leases are recognized subsequent to acquisition to the extent it is probable we will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when determined losses of unpaid principal incurred exceed previous loss expectations to-date, or future cash flows previously expected to be collectible are no longer probable of collection. Provisions for covered loan and lease losses, excluding amounts advanced subsequent to acquisition, are not reflected in the allowance for loan and lease losses, rather as a valuation allowance netted against the carrying value of the covered loan and lease balance accounted for under ASC 310-30, in accordance with the guidance.

NON-INTEREST INCOME

Non-interest income in 2010 was $75.9 million, an increase of $2.4 million, or 3%, compared to 2009. Non-interest income in 2009 was $73.5 million, a decrease of $33.6 million, or 31%, compared to 2008. The following table presents the key components of non-interest income for years ended December 31, 2010, 2009 and 2008:

Non-Interest Income

Years Ended December 31,

(dollars in thousands)

			2010 compared to 2009				2009 compared to 2008	
	2010	2009	Change Amount	Change Percent	2009	2008	Change Amount	Change Percent
Service charges on deposit accounts	$ 34,874	$ 32,957	$ 1,917	6%	$ 32,957	$ 34,775	$ (1,818)	-5%
Brokerage commissions and fees	11,661	7,597	4,064	53%	7,597	8,948	(1,351)	-15%
Mortgage banking revenue, net	21,214	18,688	2,526	14%	18,688	2,436	16,252	667%
Gain (loss) on investment securities, net	1,912	(1,677)	3,589	-214%	(1,677)	1,349	(3,026)	-224%
Gain on junior subordinated debentures carried at fair value	4,980	6,482	(1,502)	-23%	6,482	38,903	(32,421)	-83%
Proceeds from Visa mandatory partial redemption						12,633	(12,633)	-100%
Bargain purchase gain on acquisition	6,437		6,437	NM				
Change in FDIC indemnification asset	(16,445)		(16,445)	NM				
Other income	11,271	9,469	1,802	19%	9,469	8,074	1,395	17%
Total	$ 75,904	$ 73,516	$ 2,388	3%	$ 73,516	$ 107,118	$ (33,602)	-31%

NM Not meaningful

The increase in deposit service charges in 2010 compared to 2009 is principally attributable to increased non-sufficient funds and overdraft fee income in the current period due to higher average overdraft balances and due to increased deposit service charges related to the deposits acquired in the Rainier, Evergreen and Nevada Security acquisitions, offset by reductions in non-sufficient funds and overdraft fee income from recent regulatory reform changes, which took place in the third quarter of 2010. The decrease in deposit service charges in 2009 compared to 2008 is principally attributable to decreased non-sufficient funds and overdraft fee income due to lower average overdraft balances.

Brokerage commissions and fees in 2010 increased 53% as a result of the increase in assets under management at Umpqua Investments. Brokerage commissions and fees declined as a result of the continuation of stressed conditions in the trading market during 2009, relative to 2008, and the departure of certain Umpqua Investments financial advisors in the fourth quarter of 2008. Brokerage commissions and fees in the second half of 2009 increased 43% over the first half of 2009, due to the new leadership s ability to recruit new brokers and grow assets under management.

Mortgage banking revenue in 2010 increased due to an increase in purchase and refinancing activity, compared to 2009. Closed mortgage volume for 2010 was $785.4 million, representing a 4% increase over 2009 production. Closed mortgage volume for 2009 was $757.0 million, representing an 131% increase over 2008 production. The continuing low mortgage interest rate environment contributed to a $3.9 million decline in fair value on the mortgage servicing right (MSR) asset in 2010, compared to a $3.2 million decline in fair value recognized in 2009. Additionally, mortgage banking revenue in the first quarter of 2008 reflects a $2.4 million realized loss on an ineffective MSR hedge, which has been suspended indefinitely, due to widening spreads and price declines that were not offset by a corresponding gain in the related MSR asset.

The net gain on investment securities recognized in 2010 represents the realized gain on sale of investment securities of $2.3 million offset by an other-than-temporary impairment (OTTI) charge of $414,000. The net loss on investment securities recognized in 2009 represents an other-than-temporary impairment (OTTI) charge of $10.6 million, partially offset by the realized gain on sale of investment securities of $8.9 million. In 2008, the Company realized a $5.5 million gain on sale of investment securities as part of a repositioning of the investment portfolio to reduce the weighted average life in response to the current economic outlook, and other factors. This gain was partially offset by a $4.2 million OTTI charge. The OTTI charge recognized in earnings for all periods primarily related to held to maturity non-agency collateralized mortgage obligations, and the amount recognized in earnings represents our estimate of the credit loss component of the total impairment. Additional discussion on the OTTI charges and gain on sale of investment securities are provided in Note 4 of the *Notes to Consolidated Financial Statements* and under the heading *Investment Securities*.

The gain on junior subordinated debentures carried at fair value primarily resulted from the widening of the credit risk adjusted spread over the contractual rate of each junior subordinated debenture measured at fair value. Additional information on the junior subordinated debentures carried at fair value is included in Note 18 of the *Notes to Consolidated Financial Statements* and under the heading *Junior Subordinated Debentures*.

A bargain purchase gain of $6.4 million represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed in the Evergreen acquisition. Additional information on the bargain purchase gain is included in Note 2 of the *Notes to Consolidated Financial Statements* and under the heading *Business Combinations*.

The change in FDIC indemnification asset represents a decrease in cash flows expected to be realized under the loss-share agreements entered into with the FDIC in connection with the Evergreen, Rainier, and Nevada Security FDIC-assisted acquisitions, resulting primarily by collecting more than originally expected on accelerated payoffs, partially offset by the loss sharing on the covered provision for loan losses. Additional information on the FDIC indemnification asset is included in Note 7 of the *Notes to Consolidated Financial Statements* and under the heading *Covered Assets* below.

In the first quarter of 2008 Visa completed an initial public offering and the Company received $12.6 million as part of a subsequent mandatory partial redemption of our Visa Class B shares. As part of this offering, Visa also established a $3.0 billion escrow account to cover settlements, the resolution of pending litigation and related claims (covered litigation). The Company s remaining 468,659 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. A conversion ratio of 0.71429 was established for the conversion rate of Class B shares into Class A shares. 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. In December 2008, Visa deposited additional funds into the escrow account to satisfy a settlement with Discover Card related to an antitrust lawsuit. In July 2009, Visa deposited additional funds into the litigation escrow account to provide additional reserves to cover potential losses related to the two remaining litigation cases. The deposit of these funds into the escrow account reduced the conversion ratio applicable to Class B common stock outstanding from 0.71429 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. As of December 31, 2010, the value of the Class A shares was $70.38 per share. The value of unredeemed Class A equivalent shares owned by the Company was $16.8 million as of December 31, 2010, and has not been reflected in the accompanying financial statements.

Other income increased in 2010 over 2009 by $1.8 million, primarily attributable to various sundry recoveries. Other income increased in 2009 over 2008 as a result of compensatory damages awarded to the Company and increased income on trading assets invested in trust for the benefit of certain executives or former employees of acquired institutions as required by agreements. The increase was partially offset by decreased gains and broker fee income related to Small Business Administration loan sales and proceeds from a legal settlement.

NON-INTEREST EXPENSE

Non-interest expense for 2010 was $317.7 million, a decrease of $61.7 million or 16% compared to 2009. Non-interest expense for 2009 was $379.4 million, an increase of $162.8 million or 75% compared to 2008. The following table presents the key elements of non-interest expense for the years ended December 31, 2010, 2009 and 2008.

Non-Interest Expense

Years Ended December 31,

(dollars in thousands)

			2010 compared to 2009				2009 compared to 2008	
	2010	2009	Change Amount	Change Percent	2009	2008	Change Amount	Change Percent
Salaries and employee benefits	$ 162,875	$ 126,850	$ 36,025	28%	$ 126,850	$ 114,600	$ 12,250	11%
Net occupancy and equipment	45,940	39,673	6,267	16%	39,673	37,047	2,626	7%
Communications	10,464	7,671	2,793	36%	7,671	7,063	608	9%
Marketing	6,225	4,529	1,696	37%	4,529	4,573	(44)	-1%
Services	22,576	21,918	658	3%	21,918	18,792	3,126	17%
Supplies	3,998	3,257	741	23%	3,257	2,908	349	12%
FDIC assessments	15,095	15,825	(730)	-5%	15,825	5,182	10,643	205%
Net loss on other real estate owned	5,925	23,204	(17,279)	-74%	23,204	8,313	14,891	179%
Intangible amortization and impairment	5,389	6,165	(776)	-13%	6,165	5,857	308	5%
Goodwill impairment		111,952	(111,952)	NM	111,952	982	110,970	NM
Merger related expenses	6,675	273	6,402	NM	273		273	NM
Visa litigation				NM		(5,183)	5,183	-100%
Other expenses	32,576	18,086	14,490	80%	18,086	16,436	1,650	10%
Total	$ 317,738	$ 379,403	$ (61,665)	-16%	$ 379,403	$ 216,570	$ 162,833	75%

NM Not meaningful

Management believes there are several categories of non-interest expense which are outside of the control of the Company or depend on changes in market values, including FDIC deposit insurance assessments, gain or loss on other real estate owned, as well as infrequently occurring expenses such as merger related costs and goodwill impairments. Excluding the impact of these non-controllable or infrequently occurring items, non-interest expense increased $61.9 million, or 27%, in 2010 over 2009, which is more than the 24% growth in total assets during the current year. Excluding the impact of these non-controllable or infrequently occurring items, non-interest expense increased $20.9 million in 2009 over 2008. In 2009, of the increase, $6.1 million relates to the increase in variable costs in the Mortgage Division that directly corresponds to the significant increase in mortgage banking revenue as discussed under the heading *Non-Interest Income* above. Excluding the incremental impact of the mortgage division s variable costs, non-interest expense in 2009 over 2008 increased $15.0 million, or 7%.

Of the $36.0 million increase in total salaries and employee benefits expense in 2010 compared to 2009, approximately $13.8 million of the increase is the result of the FDIC-assisted acquisition of Rainier, Evergreen, and Nevada Security, respectively, $1.2 million is the result of variable mortgage compensation based on increased volume and revenue, $724,000 is a result of reduced loan origination activity related to lower customer demand, resulting in a reduced offset to compensation expense for deferred loan costs. The remainder primarily results from the increase in employees (not through acquisition) by 108 in full-time equivalents in 2010. Of the $12.3 million increase in total salaries and employee benefits expense in 2009 compared to 2008, approximately $5.3 million is a direct result of increased production in our mortgage banking division, and $1.6 million is a result of reduced loan origination activity related to lower customer demand, resulting in a reduced offset to compensation expense for deferred loan costs. The remainder primarily results from the increase in employees by 157 full-time equivalents in 2009.

Net occupancy and equipment expense continues to increase primarily as a result of the growth in the number of our Company s locations. The growth in 2010 is the result of the cost of operating new locations through the FDIC-assisted acquisition of Rainier, Evergreen and Nevada Security, respectively, the addition of five de novo Community Banking locations, in Portland, Oregon, Seattle, Washington, and Santa Rosa, California, the opening of one new Commercial Banking Center in Walnut Creek, California and two Mortgage Offices in Tigard, Oregon, and Longview, Washington. Additionally, in 2010, we remodeled 48 stores, including locations acquired. The growth in 2009 reflects the two new banking locations obtained through the FDIC-assisted purchase and assumption of the Bank of Clark County in January 2009, the addition of two de novo Community Banking locations, in Portland, Oregon and Vancouver, Washington, and the opening of a new Commercial Banking Center in Lynnwood, Washington. In 2008, we opened a new Commercial Banking Center in San Francisco, California and a Mortgage Office in Stockton, California. Additionally, in 2008, we remodeled 38 stores, primarily locations acquired through acquisitions, to meet Umpqua brand standards and customer expectations throughout the California region. The increase in net occupancy and equipment expense in 2009 also reflects increased maintenance contract and software amortization costs.

Communications, marketing and supplies fluctuated in the current year as a result of normal operations and the FDIC assumptions. Services expense increased in 2009 compared to 2008 primarily due to higher legal and other professional fees and remains elevated in 2010.

The decrease in FDIC assessments in 2010 resulted from the one-time $4.0 million special assessment incurred in the second quarter of 2009, partially offset by the industry wide increase in the assessment rate, organic deposit growth, and deposit growth resulting from the FDIC-assisted acquisitions. The increase in FDIC assessment expense in 2009 compared to 2008 resulted from the industry-wide increase in assessment rates and a one-time $4.0 million special assessment imposed in the second quarter of 2009 by the FDIC in efforts to rebuild the Deposit Insurance Fund. Additional discussion on FDIC insurance assessments is provided in Item 1 *Business* above, under the heading *Federal Deposit Insurance*.

The slowdown in the housing industry, which has continued to detrimentally affect our residential development portfolio, has led to a continued elevated level of foreclosures on residential development related properties and movement of the properties into other real estate owned (OREO). Through 2010, declines in the market values of these properties after foreclosure have resulted in additional losses on the sale of the properties or by valuation adjustments. As a result, during 2010, the Company recognized losses on sale of non-covered OREO of $4.0 million and non-covered valuation adjustments of $4.1 million. During 2009, the Company recognized losses on sale of non-covered OREO of $11.0 million and non-covered valuation adjustments of $12.2 million. During 2008, the Company recognized losses on sale of non-covered OREO of $3.2 million and non-covered valuation adjustments of $5.1 million.

Included within the results for 2010, the Company recognized gains on sale of covered OREO properties of $4.1 million, representing proceeds received in excess of their estimated acquisition date fair values, and valuation adjustments of $1.9 million. As the estimated credit losses realized on these properties were less than originally anticipated at acquisition date, there is a corresponding decrease in non-interest income within the Change in FDIC indemnification asset line item representing the reduction of anticipated covered credit losses. Additional discussion regarding our procedures to determine and recognize valuation adjustments on other real estate owned is provided under the heading *Asset Quality and Non-Performing Assets* below.

The decrease in intangible amortization in 2010 as compared to 2009, and increase in intangible amortization in 2009 as compared to 2008, results primarily from an $804,000 impairment recognized in the fourth quarter of 2009 related to the merchant servicing portfolio obtained through a prior acquisition, partially offset by the run-off of intangible assets in 2009 that were amortized on an accelerated basis.

The goodwill impairment charge incurred in 2009 relates to the Community Banking operating segment. This charge primarily resulted from a decline in the fair value of the Community Banking reporting unit, which corresponded to the decline in the Company s market capitalization and the banking industry in general, and its effect on the implied fair value of the goodwill. The goodwill impairment charge incurred in 2008 related to the Retail Brokerage reporting segment, which resulted from the Company s evaluation following the departure of certain Umpqua Investments financial advisors. Discussion related to the goodwill impairment charge is provided in Note 9 of the *Notes to Consolidated Financial Statements* and under the heading *Goodwill and Other Intangible Assets* below.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. Classification of expenses as merger-related is done in accordance with the provisions of a Board-approved policy. The following table presents the merger-related expenses by major category for the year ended December 31, 2010 and 2009. The Company incurred no merger-related expenses in 2008. The merger-related expenses incurred in 2010 relate to the FDIC-assisted acquisitions of Evergreen, Rainier, and Nevada Security. The merger-related expenses incurred in 2009 relate to the FDIC-assisted purchase and assumption of certain assets and liabilities of the Bank of Clark County. We do not expect to incur any additional significant merger-related expenses in connection with the Evergreen, Rainier, Nevada Security, Bank of Clark County or any other previous acquisition.

Merger-Related Expense

Years Ended December 31,

(in thousands)

	2010	2009
Professional fees	$ 2,984	$ 143
Compensation and relocation	962	39
Communications	330	61
Premises and equipment	630	2
Travel	710	
Other	1,059	28
Total	$ 6,675	$ 273

In connection with Visa establishing a $3.0 billion litigation escrow account from the proceeds of an initial public offering, the Company reversed the $5.2 million reserve in the first quarter of 2008, reflected as a reduction of other non-interest expense. We were required to recognize an estimate of Visa s pending litigation settlements in the fourth quarter of 2007 based on our

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ownership position prior to the initial public offering by Visa. With the escrow litigation account funded for the estimated liability for covered litigation, we were able to reverse the accrual. 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 are obligated to fund the settlement and share in losses resulting from this litigation that are not already provided for in the escrow account. Visa notified the Company that it had established an additional reserve related to the settlement with Discover Card that has not already been funded into the escrow account. In connection with this settlement, the Company recorded, in the third quarter of 2008, a liability and corresponding expense of $2.1 million pre-tax, for its proportionate share of that liability. The Company is not a party to the Visa litigation and its liability arises solely from the Bank s membership interest in Visa. In December 2008, this liability and expense were reversed when Visa deposited additional funds into the escrow account to cover the remaining amount of the settlement.

Other non-interest expense increased in 2010 over 2009 primarily as a result of expenses related to problem covered and non-covered loans and covered and non-covered other real estate owned as well as various other growth initiatives underway. Other non-interest expense increased in 2009 over 2008 primarily as a result of expenses related to problem loans, other real estate owned, and settlement fees related to the retail brokerage subsidiary.

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2010 was 17.0%, compared to 21.0% for 2009 and 30.2% for 2008. The effective tax rates were below the federal statutory rate of 35% and the apportioned state rate of 5.6% (net of the federal tax benefit) principally because of the non-deductible impairment loss on goodwill (for 2009), non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities, tax credits arising from low income housing investments, Business Energy tax credits and exemptions related to loans and hiring in designated enterprise zones. The income tax expense from income taxes in 2010 is a result of the operating income recognized in the period.

Additional information on income taxes is provided in Note 13 of the *Notes to Consolidated Financial Statements* in Item 8 below.

FINANCIAL CONDITION

INVESTMENT SECURITIES

The composition of our investment securities portfolio reflects management s investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of interest income. The investment securities portfolio also mitigates interest rate and credit risk inherent in the loan portfolio, while providing a vehicle for the investment of available funds, a source of liquidity (by pledging as collateral or through repurchase agreements) and collateral for certain public funds deposits.

Trading securities consist of securities held in inventory by Umpqua Investments for sale to its clients and securities invested in trust for the benefit of former employees of acquired institutions as required by agreements. Trading securities were $3.0 million at December 31, 2010, as compared to $2.3 million at December 31, 2009. This increase is principally attributable to increases in the fair market value of investments securities invested for the benefit of former employees and contributions made to supplemental retirement plans for the benefit of certain executives of $162,000 and an increase of $586,000 in Umpqua Investments inventory of trading securities.

Investment securities available for sale increased $1.1 billion to $2.9 billion as of December 31, 2010, as compared to December 31, 2009. This increase is principally attributable to purchases of $1.5 billion of investment securities available for sale and investment securities available for sale of $53.0 million assumed in the Evergreen, Rainier, and Nevada Security acquisitions, which were partially offset by paydowns of $408.7 million and amortization of net purchase price premiums of $20.5 million.

Investment securities held to maturity were $4.8 million as of December 31, 2010, as compared to $6.1 million at December 31, 2009. This decrease is principally attributable to paydowns and maturities of investment securities held to maturity of $1.7 million, partially offset by the accretion of the non-credit related losses in other comprehensive income of $288,000.

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Umpqua Holdings Corporation

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of December 31 for each of the last three years:

Summary of Investment Securities

As of December 31,

(in thousands)

			December 31,
	2010	2009	2008
AVAILABLE FOR SALE:			
U.S. Treasury and agencies	$ 118,789	$ 11,794	$ 31,226
Obligations of states and political subdivisions	216,726	211,825	179,585
Residential mortgage-backed securities and collateralized mortgage obligations	2,581,504	1,569,849	1,025,295
Other debt securities	152	159	634
Investments in mutual funds and other equity securities	2,009	1,989	1,972
	$ 2,919,180	$ 1,795,616	$ 1,238,712
HELD TO MATURITY:			
Obligations of states and political subdivisions	$ 2,370	$ 3,216	$ 4,166
Residential mortgage-backed securities and collateralized mortgage obligations	2,392	2,845	11,496
Other investment securities			150
	$ 4,762	$ 6,061	$ 15,812

The following table presents information regarding the amortized cost, fair value, average yield and maturity structure of the investment portfolio at December 31, 2010.

Investment Securities Composition*

December 31, 2010

(dollars in thousands)

	Amortized Cost	Fair Value	Average Yield
U.S. TREASURY AND AGENCIES			
One year or less	$	$	0.00%
One to five years	117,333	118,557	1.30%
Five to ten years	218	232	3.68%
	117,551	118,789	1.30%
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS			
One year or less	25,640	25,966	5.77%
One to five years	74,450	77,475	5.53%
Five to ten years	71,628	72,868	6.10%
Over ten years	43,781	42,792	6.14%

	215,499	219,101	5.87%
OTHER DEBT SECURITIES			
Over ten years	152	152	5.99%
Serial maturities	2,546,366	2,583,903	3.41%
Other investment securities	1,959	2,009	3.60%
Total securities	$ 2,881,527	$ 2,923,954	3.51%

*Weighted average yields are stated on a federal tax-equivalent basis of 35%. Weighted average yields for available for sale investments have been calculated on an amortized cost basis.

The mortgage-related securities in Serial maturities in the table above include both pooled mortgage-backed issues and high-quality collaterized mortgage obligation structures, with an average duration of 2.7 years. These mortgage-related securities provide yield spread to U.S. Treasury or agency securities; however, the cash flows arising from them can be volatile due to refinancing of the underlying mortgage loans.

The equity security in Other investment securities in the table above at December 31, 2010 principally represents an investment in a Community Reinvestment Act investment fund comprised largely of mortgage-related securities, although funds may also invest in municipal bonds, money market accounts or asset-backed securities.

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.

Prior to the second quarter of 2009, the Company would assess an OTTI or permanent impairment based on the nature of the decline and whether the Company had the ability and intent to hold the investments until a market price recovery. If the Company determined a security to be other-than-temporarily or permanently impaired, the full amount of impairment would be recognized through earnings in its entirety. New guidance related to the recognition and presentation of OTTI of debt securities became effective in the second quarter of 2009. Rather than asserting whether a Company has the ability and intent to hold an investment until a market price recovery, a Company must consider whether they intend to sell a security or if it is likely that they would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. 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 amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is reevaluated accordingly to the procedures described above.

Prior to the Company s adoption of the new guidance related to the recognition and presentation of OTTI of debt securities which became effective in the second quarter of 2009, the Company recorded a $2.1 million OTTI charge in the three months ended March 31, 2009. This charge related to three non-agency collateralized mortgage obligations carried as held to maturity for which the default rates and loss severities of the underlying collateral and credit coverage ratios of the security indicated that it was probable that credit losses were expected to occur. In 2008, the Company recorded $4.2 million in OTTI. Charges of $3.8 million related to seven non-agency collateralized mortgage obligations carried as held to maturity for which the default rates and loss severities of the underlying collateral and credit coverage ratios of the security indicated that it was probable that credit losses were expected to occur. These securities were valued by third party pricing services using matrix or model pricing methodologies, and were corroborated by broker indicative bids. The remaining non-agency securities within mortgage-backed securities and collateralized mortgage obligations carried as held to maturity were specifically evaluated for OTTI, and the default rates and loss severities of the underlying collateral indicated that credit losses are not expected to occur. Upon adoption of the new OTTI guidance in the second quarter of 2009, the Company analyzed these securities as well as other securities where 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.

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The following table presents the OTTI losses for the years ended December 31, 2010, 2009, and 2008.

	2010 Held To Maturity	2010 Available For Sale	2009 Held To Maturity	2009 Available For Sale	2008 Held To Maturity	2008 Available For Sale
Total other-than-temporary impairment losses	$ 93	$	$ 12,317	$ 239	$ 4,041	$ 139
Portion of other-than-temporary impairment losses transferred from (recognized in) other comprehensive income(1)	321		(1,983)			
Net impairment losses recognized in earnings(2)	$ 414	$	$ 10,334	$ 239	$ 4,041	$ 139

(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 primarily relates to 29 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 were valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimated the 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 were 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 residential collateralized mortgage obligations as of December 31, 2010 and 2009:

	2010 Range Minimum	2010 Range Maximum	2010 Weighted Average	2009 Range Minimum	2009 Range Maximum	2009 Weighted Average
Constant prepayment rate	5.0%	20.0%	14.9%	4.0%	25.0%	14.8%
Collateral default rate	5.0%	15.0%	10.6%	8.0%	45.0%	16.7%
Loss severity	25.0%	55.0%	37.9%	20.0%	40.0%	31.4%

In the second quarter of 2009 the Company recorded an OTTI charge of $239,000 related to an available for sale collateralized debt obligation that holds trust preferred securities. Management noted certain deferrals and defaults in the pool and believes the impairment represents credit loss in its entirety.

Gross unrealized losses in the available for sale investment portfolio was $21.4 million at December 31, 2010. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $20.0 million and unrealized losses on obligations of states and political subdivisions of $1.4 million. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. 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. Additional information about the investment securities portfolio is provided in Note 4 of the *Notes to Consolidated Financial Statements* in Item 8 below.

RESTRICTED EQUITY SECURITIES

Restricted equity securities were $34.5 million at December 31, 2010 and $15.2 million at December 31, 2009. The increase of $19.3 million is attributable to the FDIC-assisted acquisitions of Evergreen, Rainier, and Nevada Security. Of the $34.5 million at December 31, 2010, $28.6 million and $4.6 million represent the Bank s investment in the Federal Home Loan Banks (FHLB) of Seattle and San Francisco, respectively. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par. The remaining restricted equity securities primarily represent investments in Pacific Coast Bankers Bancshares stock.

Although as of December 31, 2010, the FHLB of Seattle complies with all of its regulatory requirements (including the risk-based capital requirement), it remains classified as undercapitalized by the Federal Housing Finance Agency (Finance Agency). On October 25, 2010, the Finance Agency announced that the Board of Directors of the FHLB of Seattle agreed to the stipulation and issuance of a Consent Order by the Finance Agency that resolves certain capital and supervisory matters. The Consent Order and associated agreement constitute the FHLB s capital restoration plan, which included steps the FHLB would take to resume timely repurchases and redemptions of member capital stock.

Management periodically evaluates FHLB stock for other-than-temporary or permanent impairment. Management s determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

Under Finance Agency regulations, a FHLB that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock in excess of what is required for members current loans. The FHLBs have access to the U.S. Government-Sponsored Enterprise Credit Facility, a secured lending facility that serves as a liquidity backstop, substantially reducing the likelihood that the FHLBs would need to sell securities to raise liquidity and, thereby, cause the realization of large economic losses. Standard and Poors rating of AA+ was reaffirmed in July 2010. Based on the above, the Company has determined there is not an other-than-temporary impairment on the FHLB stock investment as of December 31, 2010.

LOANS AND LEASES

Non-covered loans and leases

Total non-covered loans and leases outstanding at December 31, 2010 were $5.7 billion, a decrease of $340.3 million, or 5.7%, from year-end 2009. This decrease is principally attributable to charge-offs of $128.5 million, transfers to other real estate owned of $41.5 million, loans sold of $38.7 million, and non-covered net loan paydowns and maturities of $146.3 million during the period.

The Bank provides a wide variety of credit services to its customers, including construction loans, commercial lines of credit, secured and unsecured commercial loans, commercial real estate loans, residential mortgage loans, home equity credit lines, consumer loans and commercial leases. Loans are principally made on a secured basis to customers who reside, own property or operate businesses within the Bank s principal market area.

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The following table presents the composition of the non-covered loan portfolio as of December 31 for each of the last five years.

Non-covered Loan Portfolio Composition

As of December 31,

(dollars in thousands)

	2010		2009		2008		2007		2006	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Commercial real estate	$ 3,879,102	68.5%	$ 4,115,593	68.6%	$ 4,139,289	67.5%	$ 4,187,819	69.2%	$ 3,807,715	71.0%
Commercial	1,256,872	22.2%	1,390,491	23.2%	1,503,400	24.5%	1,438,505	23.8%	1,153,088	21.5%
Residential	501,001	8.9%	468,486	7.8%	465,361	7.6%	404,900	6.6%	369,607	6.9%
Consumer & other	33,043	0.6%	36,098	0.6%	34,774	0.6%	35,700	0.6%	42,912	0.8%
Deferred loan fees, net	(11,031)	-0.2%	(11,401)	-0.2%	(11,450)	-0.2%	(11,289)	-0.2%	(11,460)	-0.2%
Total loans and leases	$ 5,658,987	100.0%	$ 5,999,267	100.0%	$ 6,131,374	100.0%	$ 6,055,635	100.0%	$ 5,361,862	100.0%

The following table presents the concentration distribution of our non-covered loan portfolio by major type:

Non-Covered Loan Concentrations

As of December 31, 2010 and 2009

(dollars in thousands)

	2010		2009	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Term & multifamily	$ 3,483,475	61.6%	$ 3,523,104	58.7%
Construction & development	247,814	4.4%	366,680	6.1%
Residential development	147,813	2.6%	225,809	3.8%
Commercial				
Term	509,453	9.0%	585,856	9.8%
LOC & other	747,419	13.2%	804,635	13.4%
Residential				
Mortgage	222,416	3.9%	182,757	3.0%
Home equity loans & lines	278,585	4.9%	285,729	4.8%
Consumer & other	33,043	0.6%	36,098	0.6%
Deferred loan fees, net	(11,031)	-0.2%	(11,401)	-0.2%
Total	$ 5,658,987	100.0%	$ 5,999,267	100.0%

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The following table presents the maturity distribution of our non-covered loan portfolios and the sensitivity of these loans to changes in interest rates as of December 31, 2010:

Maturities and Sensitivities of Loans to Changes in Interest Rates

(in thousands)

	By Maturity				Loans Over One Year by Rate Sensitivity	
	One Year or Less	One Through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial real estate	$ 494,905	$ 1,230,126	$ 2,154,071	$ 3,879,102	$ 693,871	$ 2,690,326
Commercial(1)	$ 605,008	$ 403,804	$ 217,182	$ 1,225,994	$ 407,985	$ 213,001

(1) Excludes the lease portfolio.

In order to assist with understanding the concentrations and risks associated with our portfolio, we are providing several additional tables to provide details of the most significant classes of the Company s non-covered loan portfolio. The classification of non-covered loan balances are presented in accordance with how management monitors and manages the risks of the non-covered loan portfolio, including how the Company applies its allowance for non-covered loan and lease losses methodology.

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The following table presents a distribution of the non-covered commercial real estate term & multifamily portfolio by type and region as of December 31, 2010 and December 31, 2009.

Non-Covered Commercial Real Estate Term & Multifamily Portfolio by Type and Region

(in thousands)

	December 31, 2010							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2009
Non-owner occupied:								
Commercial building	$ 134,268	$ 3,660	$ 34,948	$ 37,863	$ 77,562	$ 102,485	$ 390,786	$ 376,934
Medical office	66,564	1,081	15,087	4,172	13,681	12,272	112,857	131,574
Professional office	152,400	7,497	50,722	29,378	119,363	58,609	417,969	438,149
Storage	28,290	789	17,460		17,105	34,113	97,757	97,150
Multi-family	67,899	742	10,855	5,550	8,079	23,466	116,591	98,310
Resort	5,432		679				6,111	7,145
Retail	204,502	4,787	30,573	12,334	158,695	57,591	468,482	510,469
Residential	35,278	97	8,769	5,032	8,796	16,428	74,400	80,336
Farmland & agricultural	4,993	188	517		197	18,071	23,966	36,041
Apartments	69,500		9,963	458	17,269	17,607	114,797	105,251
Assisted living	59,774		67,529	1,743	4,309	7,880	141,235	185,751
Hotel & motel	45,747		823	11,355	17,724	5,757	81,406	99,636
Industrial	28,066	2,554	6,343		33,192	22,081	92,236	101,539
RV park	31,559	655	18,307		780	5,353	56,654	54,107
Warehouse	10,125		230		1,148	1,612	13,115	14,568
Other	27,481	491	3,409	1,858	3,515	6,880	43,634	49,441
Total	$ 971,878	$ 22,541	$ 276,214	$ 109,743	$ 481,415	$ 390,205	$ 2,251,996	$ 2,386,401
Owner occupied:								
Commercial building	$ 160,780	$ 2,737	$ 28,600	$ 17,367	$ 73,444	$ 106,884	$ 389,812	$ 380,253
Medical office	93,370	3,814	18,410	531	6,318	26,707	149,150	115,412
Professional office	59,839	2,242	12,044	1,381	22,028	18,139	115,673	106,414
Storage	14,681	146			1,837	12,863	29,527	21,108
Multi-family	801		51	3,145	146		4,143	1,087
Resort	5,596		4,247		3,050	1,038	13,931	9,934
Retail	47,212	2,428	10,833	2,302	46,013	51,152	159,940	168,873
Residential	5,980		2,599		1,698	2,204	12,481	13,821
Farmland & agricultural	9,869		802	2,000		45,676	58,347	56,632
Apartments	1,042		721		642		2,405	994
Assisted living	47,558		115		6,799	15,483	69,955	50,385
Hotel & motel	13,139		184	708		34,156	48,187	37,464
Industrial	54,014	1,378	15,104	6,725	8,171	37,193	122,585	119,046
RV park	824		2,489		153	1,139	4,605	4,088
Warehouse	10,774		398			6,783	17,955	19,361
Other	27,653	517			231	4,382	32,783	31,831
Total	$ 553,132	$ 13,262	$ 96,597	$ 34,159	$ 170,530	$ 363,799	$ 1,231,479	$ 1,136,703
Total	$ 1,525,010	$ 35,803	$ 372,811	$ 143,902	$ 651,945	$ 754,004	$ 3,483,475	$ 3,523,104

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	December 31, 2009						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total non-owner occupied	$ 1,035,772	$ 24,138	$ 294,399	$ 79,539	$ 503,644	$ 448,909	$ 2,386,401
Total owner occupied	509,465	14,798	95,356	24,926	139,733	352,425	1,136,703
Total	$ 1,545,237	$ 38,936	$ 389,755	$ 104,465	$ 643,377	$ 801,334	$ 3,523,104

The following table presents a distribution of the non-covered term commercial real estate portfolio by type and year of origination as of December 31, 2010:

Non-Covered Commercial Real Estate Term & Multifamily Portfolio by Type and Year of Origination

(in thousands)

	December 31, 2010					
	Prior to 2000	2001 - 2004	2005 - 2006	2007 - 2008	2009 - 2010	Total
Non-owner occupied:						
Commercial building	$ 7,460	$ 82,050	$ 59,593	$ 146,719	$ 94,964	$ 390,786
Medical office	386	44,662	16,740	29,894	21,175	112,857
Professional office	7,370	148,548	114,326	81,507	66,218	417,969
Storage	1,526	45,550	20,381	25,340	4,960	97,757
Multi-family	3,065	25,153	18,182	44,174	26,017	116,591
Resort	714	1,292		679	3,426	6,111
Retail	9,441	154,190	140,338	132,675	31,838	468,482
Residential	1,256	7,493	26,135	21,287	18,229	74,400
Farmland & agricultural	829	1,114	6,105	5,148	10,770	23,966
Apartments	800	20,208	21,075	19,140	53,574	114,797
Assisted living	5,888	52,101	46,712	15,553	20,981	141,235
Hotel & motel	9,615	26,254	19,546	22,585	3,406	81,406
Industrial	3,806	40,577	33,768	10,107	3,978	92,236
RV park	2,834	16,820	13,589	10,063	13,348	56,654
Warehouse	1,056	8,567	2,996	496		13,115
Other	636	11,872	10,488	19,636	1,002	43,634
Total	$ 56,682	$ 686,451	$ 549,974	$ 585,003	$ 373,886	$ 2,251,996
Owner occupied:						
Commercial building	$ 9,349	$ 70,494	$ 77,524	$ 127,557	$ 104,888	$ 389,812
Medical office	2,190	22,424	9,807	41,323	73,406	149,150
Professional office	2,857	32,148	35,510	34,148	11,010	115,673
Storage	525	7,783	9,879	10,686	654	29,527
Multi-family	168	830			3,145	4,143
Resort	405	10,494	134		2,898	13,931
Retail	5,393	36,691	59,884	51,309	6,663	159,940
Residential	101	5,041	4,941	1,307	1,091	12,481
Farmland & agricultural	798	14,180	12,605	14,734	16,030	58,347
Apartments	40		602	914	849	2,405
Assisted living	4,930	7,505	41,448	13,636	2,436	69,955
Hotel & motel	5,688	25,515	5,624	1,541	9,819	48,187
Industrial	2,422	42,161	30,793	15,785	31,424	122,585
RV park	835	1,557	130	1,949	134	4,605
Warehouse	108	7,823	2,600	2,776	4,648	17,955
Other		2,999	21,586	7,348	850	32,783
Total	$ 35,809	$ 287,645	$ 313,067	$ 325,013	$ 269,945	$ 1,231,479
Total	$ 92,491	$ 974,096	$ 863,041	$ 910,016	$ 643,831	$ 3,483,475

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The following table presents a distribution of the non-covered term commercial real estate portfolio by type and year of maturity as of December 31, 2010:

Non-Covered Commercial Real Estate Term & Multifamily Portfolio by Type and Year of Maturity

(in thousands)

							December 31, 2010
	2011	2012	2013 - 2014	2015 - 2016	2017 - 2021	2022 & Later	Total
Non-owner							
Commercial building	$ 22,853	$ 22,682	$ 79,639	$ 82,637	$ 169,425	$ 13,550	$ 390,786
Medical office	305	549	33,974	14,969	54,618	8,442	112,857
Professional office	25,820	11,306	94,325	125,222	147,667	13,629	417,969
Storage	8,371	13	23,901	27,156	37,205	1,111	97,757
Multi-family	4,079	2,790	16,877	20,795	65,595	6,455	116,591
Resort			809	4,140	1,162		6,111
Retail	37,900	20,968	98,145	152,987	153,632	4,850	468,482
Residential	15,877	8,826	13,933	9,513	19,089	7,162	74,400
Farmland & agricultural	1,237		3,095	6,275	10,583	2,776	23,966
Apartments	4,981	2,287	7,044	14,689	84,074	1,722	114,797
Assisted living	6,640	13,674	3,720	66,246	48,771	2,184	141,235
Hotel & motel	7,635	2,103	18,251	19,847	29,639	3,931	81,406
Industrial	5,168	7,365	15,734	28,918	29,563	5,488	92,236
RV park	1,412	2,056	11,260	10,343	29,286	2,297	56,654
Warehouse	462	635	7,561	1,452	1,930	1,075	13,115
Other	14,050	3,249	13,487	3,982	5,394	3,472	43,634
Total	$ 156,790	$ 98,503	$ 441,755	$ 589,171	$ 887,633	$ 78,144	$ 2,251,996
Owner occupied:							
Commercial building	$ 5,374	$ 16,186	$ 47,261	$ 69,550	$ 197,367	$ 54,074	$ 389,812
Medical office	533	1,841	9,415	7,043	106,839	23,479	149,150
Professional office	2,105	3,535	20,717	24,965	58,841	5,510	115,673
Storage	1,456		2,630	7,019	17,412	1,010	29,527
Multi-family			830	51	3,262		4,143
Resort			3,954	134	5,596	4,247	13,931
Retail	7,968	2,829	31,698	36,630	72,216	8,599	159,940
Residential	1,547	1,507	2,350	1,708	3,826	1,543	12,481
Farmland & agricultural	3,950	349	12,110	12,505	26,726	2,707	58,347
Apartments			40		2,365		2,405
Assisted living	11,917		12,277	28,411	14,934	2,416	69,955
Hotel & motel		4,089	12,516	15,298	6,434	9,850	48,187
Industrial	5,011	8,405	14,443	29,394	53,784	11,548	122,585
RV park	79	40	1,731	384	2,218	153	4,605
Warehouse	320	1,189	5,192	4,588	6,580	86	17,955
Other	2,521	60	964	1,524	27,631	83	32,783
Total	$ 42,781	$ 40,030	$ 178,128	$ 239,204	$ 606,031	$ 125,305	$ 1,231,479
Total	$ 199,571	$ 138,533	$ 619,883	$ 828,375	$ 1,493,664	$ 203,449	$ 3,483,475

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The following table presents a distribution of the non-covered commercial real estate construction portfolio by type and region as of December 31, 2010 and December 31, 2009.

Non-Covered Commercial Real Estate Construction and Development Portfolio by Type and Region

(in thousands)

	December 31, 2010							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2009
Non-owner occupied:								
Commercial building	$ 897	$	$ 2,297	$ 300	$ 16,236	$ 6,147	$ 25,877	$ 65,998
Medical office	12,458					1,430	13,888	16,093
Professional office	9,294		2,238		8,525	3,020	23,077	35,152
Storage	8,447						8,447	10,905
Multi-family				2,837	7,868		10,705	7,523
Retail	10,968				2,530		13,498	23,469
Residential	27,156	310	3,822	1,784	22,990	5,996	62,058	91,205
Apartments	13,324						13,324	13,621
Assisted living	9,300				3,747		13,047	16,405
Hotel & motel								4,070
Industrial								1,533
Other	124					2,980	3,104	3,249
Total	$ 91,968	$ 310	$ 8,357	$ 4,921	$ 61,896	$ 19,573	$ 187,025	$ 289,223
Owner occupied:								
Commercial building	$ 12,646	$	$ 166	$	$ 584	$ 11,983	$ 25,379	$ 35,432
Medical office	14,479						14,479	18,849
Professional office								
Storage								995
Multi-family								
Retail								4,041
Residential	5,346					598	5,944	9,275
Apartments								860
Assisted living	7,342						7,342	7,472
Hotel & motel						5,447	5,447	
Industrial	2,121		77				2,198	533
Other								
Total	$ 41,934	$	$ 243	$	$ 584	$ 18,028	$ 60,789	$ 77,457
Total	$ 133,902	$ 310	$ 8,600	$ 4,921	$ 62,480	$ 37,601	$ 247,814	$ 366,680

	December 31, 2009						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total non-owner occupied	$ 134,247	$ 1,778	$ 8,415	$ 14,064	$ 102,008	$ 28,711	$ 289,223
Total owner occupied	43,537		692		17,607	15,621	77,457
Total	$ 177,784	$ 1,778	$ 9,107	$ 14,064	$ 119,615	$ 44,332	$ 366,680

Umpqua Holdings Corporation

The following table presents a distribution of the non-covered commercial loan portfolio (excluding leases) by type and region as of December 31, 2010 and December 31, 2009.

Commercial Loan Portfolio by Type and Region

(in thousands)

	December 31, 2010							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2009
Commercial line of credit	$ 101,125	$ 1,453	$ 22,531	$ 22,826	$ 154,244	$ 70,140	$ 372,319	$ 464,417
Asset-based line of credit	111,948	118	8,831	13,021	11,245	61,022	206,185	147,374
Term loans	155,608	3,433	27,037	9,753	48,209	99,927	343,967	379,433
Agricultural	25,050		459		332	57,491	83,332	84,230
Municipal	11,858		18,485		37,587	4,064	71,994	119,896
SBA						57,529	57,529	60,936
Small business lending	42,569			4,769	41,752		89,090	98,183
Total	$ 448,158	$ 5,004	$ 77,343	$ 50,369	$ 293,369	$ 350,173	$ 1,224,416	$ 1,354,469

	December 31, 2009						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total	$ 513,375	$ 7,348	$ 81,185	$ 47,573	$ 320,784	$ 384,204	$ 1,354,469

Due to the impact of the continuing housing market downturn on our residential development loan portfolio, discussion of and tables related to this loan segment is provided under the heading *Asset Quality and Non-Performing Assets* below.

Covered loans and leases, net

Total covered loans and leases outstanding at December 31, 2010 were $785.9 million. All covered loans and leases were acquired in 2010. The following table presents the concentration distribution of our covered loan portfolio at December 31, 2010.

Covered Loan and Leases, Net Concentrations

(dollars in thousands)

	2010	
	Amount	Percentage
Commercial real estate		
Term & multifamily	$ 569,642	72.5%
Construction & development	22,435	2.9%
Residential development	24,706	3.1%
Commercial		
Term	42,600	5.4%
LOC & other	35,227	4.5%
Residential		
Mortgage	44,824	5.7%

Home equity loans & lines	35,625	4.5%
Consumer & other	10,839	1.4%
Total	$ 785,898	100.0%

The covered loans are subject to loss-sharing agreements with the FDIC. Under the terms of the Evergreen acquisition 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 dates.

Under the terms of the Rainier 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.

Under the terms of the Nevada Security 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.

Discussion of and tables related to the covered loan segment is provided under the heading *Asset Quality and Non-Performing Assets.*

ASSET QUALITY AND NON-PERFORMING ASSETS

Non-Covered Loans and Leases

We manage asset quality and control credit risk through diversification of the non-covered loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank s Credit Quality Group is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. The provision for non-covered loan and lease losses charged to earnings is based upon management s judgment of the amount necessary to maintain the allowance at a level adequate to absorb probable incurred losses. The amount of provision charge is dependent upon many factors, including loan growth, net charge-offs, changes in the composition of the non-covered loan portfolio, delinquencies, management s assessment of loan portfolio quality, general economic conditions that can impact the value of collateral, and other trends. The evaluation of these factors is performed through an analysis of the adequacy of the allowance for loan and lease losses. Reviews of non-performing, past due non-covered loans and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on a quarterly basis. These reviews consider such factors as the financial strength of borrowers, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors. Additional information regarding the methodology used in determining the adequacy of the allowance for loan and lease losses is contained in Part I Item 1 of this report in the section titled *Lending and Credit Functions.*

Non-covered, non-performing loans, which include non-covered, non-accrual loans and non-covered accruing loans past due over 90 days, totaled $145.2 million or 2.57% of total non-covered loans as of December 31, 2010, as compared to $199.0 million, or 3.32% of total loans, at December 31, 2009. Non-covered, non-performing assets, which include non-covered, non-performing loans and non-covered, foreclosed real estate (other real estate owned), totaled $178.0 million, or 1.53% of total assets as of December 31, 2010 compared with $223.6 million, or 2.38% of total assets as of December 31, 2009. The decrease in non-performing assets in 2010 is attributable to the improving economic environment, an easing in the velocity of declining real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio.

A loan is considered impaired when based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when loans are identified as impaired they are moved to our Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discount 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 collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every six to nine months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac s nor the Bank s Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Company s Allowance for Loan and Lease Losses (ALLL) Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

Non-covered loans are classified as non-accrual when collection of principal or interest is doubtful generally if they are past due as to maturity or payment of principal or interest by 90 days or more unless such non-covered loans are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for non-accrual status. Non-covered loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain.

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess whether a lower price reflects the market value of the property and would enable us to sell the property. In addition, we update appraisals on other real estate owned property six to nine months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on a) updated appraisals received during the period, or b) management s authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan moving to other real estate owned. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan or market value of the property less expected selling costs. Non-covered other real estate owned at December 31, 2010 totaled $32.8 million and consisted of 43 properties.

Non-covered loans are reported as restructured when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment

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reserves on non-collateral dependent restructured loans are 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. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

The Company has written down impaired, non-covered non-accrual loans as of December 31, 2010 to their estimated net realizable value, based on disposition value, and expects resolution with no additional material loss, absent further decline in market prices.

The following table summarizes our non-covered non-performing assets as of December 31 for each of the last five years.

Non-Covered, Non-Performing Assets

As of December 31,

(dollars in thousands)

	2010	2009	2008	2007	2006
Non-covered, non-performing assets					
Non-covered loans on non-accrual status	$ 138,177	$ 193,118	$ 127,914	$ 81,317	$ 8,629
Non-covered loans past due 90 days or more and accruing	7,071	5,909	5,452	9,782	429
Total non-covered non-performing loans	145,248	199,027	133,366	91,099	9,058
Non-covered other real estate owned	32,791	24,566	27,898	6,943	
Total non-covered non-performing assets	$ 178,039	$ 223,593	$ 161,264	$ 98,042	$ 9,058
Restructured loans(1)	$ 84,441	$ 134,439	$ 23,540	$	$ 7,986
Allowance for non-covered loan and lease losses	$ 101,921	$ 107,657	$ 95,865	$ 84,904	$ 60,090
Reserve for unfunded commitments	818	731	983	1,182	1,313
Allowance for credit losses	$ 102,739	$ 108,388	$ 96,848	$ 86,086	$ 61,403
Asset quality ratios:					
Non-covered non-performing assets to total assets	1.53%	2.38%	1.88%	1.18%	0.12%
Non-covered non-performing loans to total non-covered loans	2.57%	3.32%	2.18%	1.50%	0.17%
Allowance for non-covered loan losses to total non-covered loans	1.80%	1.79%	1.56%	1.40%	1.12%
Allowance for credit losses to total non-covered loans	1.82%	1.81%	1.58%	1.42%	1.15%
Allowance for credit losses to total non-covered non-performing loans	71%	54%	73%	94%	678%

(1) Represents accruing restructured loans performing according to their restructured terms.

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The following tables summarize our non-covered non-performing assets by loan type and region as of December 31, 2010 and December 31, 2009:

Non-covered, Non-Performing Assets by Type and Region

(in thousands)

	December 31, 2010						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Loans on non-accrual status:							
Commercial real estate							
Term & multifamily	$ 24,180	$ 4,816	$ 537	$ 1,898	$ 9,010	$ 8,721	$ 49,162
Construction & development	12,726		472		6,817	109	20,124
Residential development	10,191	110	2,122	3,033	10,761	8,369	34,586
Commercial							
Term	710	1,679	320	373	98	3,092	6,272
LOC & other	7,586	878	768	6,830	8,628	3,343	28,033
Residential							
Mortgage							
Home equity loans & lines							
Consumer & other							
Total	55,393	7,483	4,219	12,134	35,314	23,634	138,177
Loans past due 90 days or more and accruing:							
Commercial real estate							
Term & multifamily	$ 79	$	$	$ 176	$ 2,753	$	$ 3,008
Construction & development							
Residential development							
Commercial							
Term							
LOC & other							
Residential							
Mortgage	2,925						2,925
Home equity loans & lines	73				159		232
Consumer & other	880				26		906
Total	3,957			176	2,938		7,071
Total non-performing loans	59,350	7,483	4,219	12,310	38,252	23,634	145,248
Other real estate owned:							
Commercial real estate							
Term & multifamily	$ 5,396	$	$ 1,656	$	$ 3,091	$ 5,686	$ 15,829
Construction & development	3,443	539		313	4,392		8,687
Residential development	674	1,844	1,368	112		1,118	5,116
Commercial							
Term							
LOC & other							
Residential							
Mortgage	954						954
Home equity loans & lines							
Consumer & other					481	1,724	2,205
Total other real estate owned	10,467	2,383	3,024	425	7,964	8,528	32,791
Total non-performing assets	$ 69,817	$ 9,866	$ 7,243	$ 12,735	$ 46,216	$ 32,162	$ 178,039

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	December 31, 2009						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Loans on non-accrual status:							
Commercial real estate							
Term & multifamily	$ 16,101	$ 4,043	$ 5,029	$ 1,566	$ 20,821	$ 14,819	$ 62,379
Construction & development	10,061	987		2,700	18,602	4,308	36,658
Residential development	4,090	2,729	4,950		23,391	10,324	45,484
Commercial							
Term	3,338	2,347	264	509	188	2,174	8,820
LOC & other	27,991	1,244	217	9,454	140	731	39,777
Residential							
Mortgage							
Home equity loans & lines							
Consumer & other							
Total	61,581	11,350	10,460	14,229	63,142	32,356	193,118
Loans past due 90 days or more and accruing:							
Commercial real estate							
Term & multifamily	$	$	$	$ 247	$	$	$ 247
Construction & development							
Residential development							
Commercial							
Term					16		16
LOC & other				1,000	250		1,250
Residential							
Mortgage	4,126						4,126
Home equity loans & lines	92				140		232
Consumer & other	4				34		38
Total	4,222			1,247	440		5,909
Total non-performing loans	65,803	11,350	10,460	15,476	63,582	32,356	199,027
Other real estate owned:							
Commercial real estate							
Term & multifamily	$ 430	$	$ 514	$	$	$	$ 944
Construction & development	359	392		426	3,595		4,772
Residential development	2,772	4,643	1,064	4,885	1,987	144	15,495
Commercial							
Term						151	151
LOC & other	303	982					1,285
Residential							
Mortgage	1,919						1,919
Home equity loans & lines							
Consumer & other							
Total other real estate owned	5,783	6,017	1,578	5,311	5,582	295	24,566
Total non-performing assets	$ 71,586	$ 17,367	$ 12,038	$ 20,787	$ 69,164	$ 32,651	$ 223,593

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As of December 31, 2010, non-covered, non-performing assets of $178.0 million have been written down by 39%, or $111.8 million, from their original balance of $289.8 million.

Of these non-covered, non-performing loan balances as of December 31, 2010, 42% are directly affected by the housing market downturn or the real estate bubble, or indirectly impacted from the contraction of real estate dependent businesses. The remaining non-covered, non-performing loans in these segments primarily reflect the impact of the U.S. recession on certain businesses.

The Company is continually performing extensive reviews of our permanent commercial real estate portfolio, including stress testing. These reviews are being performed on both our non-owner and owner occupied credits. These reviews are being completed to verify leasing status, to ensure the accuracy of risk ratings, and to develop proactive action plans with borrowers on projects. The stress testing has been performed to determine the effect of rising cap rates, interest rates and vacancy rates, on this portfolio. Based on our analysis, the Company believes our lending teams are effectively managing the risks in this portfolio. There can be no assurance that any further declines in economic conditions, such as potential increases in retail or office vacancy rates, will exceed the projected assumptions utilized in the stress testing and may result in additional non-covered, non-performing loans in the future.

The following table summarizes our loans past due 30-89 days by loan type and by region as of December 31, 2010 and December 31, 2009. Loans past due 30-89 days have increased 16% between the two periods.

Non-Covered Loans Past Due 30-89 Days by Type and Region

(in thousands)

							December 31, 2010
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate							
Term & multifamily	$ 6,636	$ 1,719	$	$	$ 5,524	$ 9,045	$ 22,924
Construction & development	373				8,525		8,898
Residential development					480	160	640
Commercial							
Term	354			64	868	1,655	2,941
LOC & other	1,542		17	1,670	1,291	1,961	6,481
Residential							
Mortgage	2,414						2,414
Home equity loans & lines	469			200	1,778		2,447
Consumer & other	1,339			100	32	1	1,472
Total	$ 13,127	$ 1,719	$ 17	$ 2,034	$ 18,498	$ 12,822	$ 48,217

							December 31, 2009
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate							
Term & multifamily	$ 4,160	$ 695	$ 287	$ 3,819	$ 2,629	$ 7,055	$ 18,645
Construction & development	442			683		110	1,235
Residential development	7,500	1,041			283	126	8,950
Commercial							
Term	544	323			2	4,786	5,655
LOC & other	1,009	206			770	745	2,730
Residential							
Mortgage	1,927						1,927
Home equity loans & lines	359				921		1,280
Consumer & other	885				151		1,036

Total	$ 16,826	$ 2,265	$ 287	$ 4,502	$ 4,756	$ 12,822	$ 41,458

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Our non-covered residential development loan portfolio, a subset of the construction and development category, has been adversely impacted by the housing market downturn. As a result, the Company has focused its efforts to reduce our exposure to this segment. The following table presents a geographic distribution of the non-covered residential development portfolio during 2010 by quarter:

Non-Covered Residential Development Loans

(dollars in thousands)

	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	Change Since December 31, 2009
Northwest Oregon	$ 88,762	$ 81,409	$ 75,373	$ 69,129	$ 64,263	-28%
Central Oregon	9,059	4,962	4,107	4,079	3,629	-60%
Southern Oregon	19,006	17,149	13,440	8,774	6,256	-67%
Washington	8,616	8,462	7,723	7,570	9,308	8%
Greater Sacramento	74,993	67,676	54,710	52,761	49,329	-34%
Northern California	25,373	22,140	20,653	18,072	15,028	-41%
Total	$ 225,809	$ 201,798	$ 176,006	$ 160,385	$ 147,813	-35%
Percentage of non-covered total loan portfolio	4%	3%	3%	3%	3%	
Quarterly change amount		$ (24,011)	$ (25,792)	$ (15,621)	$ (12,572)	
Quarterly change percentage		-11%	-13%	-9%	-8%	
Year-to-date change amount		$ (24,011)	$ (49,803)	$ (65,424)	$ (77,996)	
Year-to-date change percentage		-11%	-22%	-29%	-35%	

At December 31, 2010, $34.6 million, or 24%, of the total $145.2 million of non-covered non-performing loans were non-covered residential development loans. The following table presents a geographic distribution of the non-performing residential development loans during 2010 by quarter:

Non-Covered Residential Development Non-Performing Loans

(dollars in thousands)

	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	Change Since December 31, 2009
Northwest Oregon	$ 4,090	$ 1,389	$ 7,799	$ 8,353	$ 10,191	149%
Central Oregon	2,729	936	109	109	110	-96%
Southern Oregon	4,950	4,145	2,366	2,840	2,122	-57%
Washington			1,497	1,260	3,033	100%
Greater Sacramento	23,391	19,011	13,730	13,063	10,761	-54%
Northern California	10,324	7,829	7,108	4,453	8,369	-19%
Total	$ 45,484	$ 33,310	$ 32,609	$ 30,078	$ 34,586	-24%
Percentage of non-performing loans	23%	17%	18%	20%	24%	
Quarterly change amount		$ (12,174)	$ (701)	$ (2,531)	$ 4,508	
Quarterly change percentage		-27%	-2%	-8%	15%	
Year-to-date change amount		$ (12,174)	$ (12,875)	$ (15,406)	$ (10,898)	
Year-to-date change percentage		-27%	-28%	-34%	-24%	

Umpqua Holdings Corporation

The following table presents the remaining non-covered performing residential development loans by size and geographic distribution as of December 31, 2010:

Non-Covered Residential Development Performing Loans

(dollars in thousands)

	$250k and less	$250k to $1 million	$1 million to $3 million	$3 million to $5 million	$5 million to $10 million	$10 million and greater	Total
Northwest Oregon	$ 1,955	$ 5,646	$ 8,189	$ 10,277	$ 13,541	$ 14,464	$ 54,072
Central Oregon	384	718	2,417				3,519
Southern Oregon	1,174	1,860	1,100				4,134
Washington	601	344	5,330				6,275
Greater Sacramento	3,308	3,905	1,894	4,780	11,455	13,226	38,568
Northern California	1,489	1,026	4,144				6,659
Total	$ 8,911	$ 13,499	$ 23,074	$ 15,057	$ 24,996	$ 27,690	$ 113,227

At December 31, 2010 and December 31, 2009, impaired loans of $84.4 million and $134.4 million were classified as non-covered performing 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 performing 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 had no obligations to lend additional funds on the restructured loans as of December 31, 2010.

The following tables summarize our non-covered performing restructured loans by loan type and region as of December 31, 2010 and December 31, 2009:

Non-Covered Restructured Loans by Type and Region

(in thousands)

							December 31, 2010
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate							
Term & multifamily	$ 9,446	$	$ 3,888	$	$ 11,820	$ 3,543	$ 28,697
Construction & development					5,434		5,434
Residential development	22,277			5,330	21,322		48,929
Commercial						904	904
Term							
LOC & other						298	298
Residential	179						179
Mortgage							
Home equity loans & lines							
Consumer & other							
Total	$ 31,902	$	$ 3,888	$ 5,330	$ 38,576	$ 4,745	$ 84,441

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	December 31, 2009						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate							
Term & multifamily	$ 18,349	$	$ 5,790	$	$ 9,742	$ 7,866	$ 41,747
Construction & development							
Residential development	26,994		306	7,985	33,103		68,388
Commercial							
Term	315					1,785	2,100
LOC & other	400				279	16,843	17,522
Residential	4,597						4,597
Mortgage							
Home equity loans & lines	31				35		66
Consumer & other	6				13		19
Total	$ 50,692	$	$ 6,096	$ 7,985	$ 43,172	$ 26,494	$ 134,439

The following table presents a distribution of our non-covered performing restructured loans by year of maturity, according to the restructured terms, as of December 31, 2010:

(in thousands)

Year	Amount
2011	$ 58,519
2012	16,356
2013	
2014	1,631
2015	5,293
Thereafter	2,642
Total	$ 84,441

A further decline in the economic conditions in our general market areas or other factors could adversely impact individual borrowers or the loan portfolio in general. Accordingly, there can be no assurance that loans will not become 90 days or more past due, become impaired or placed on non-accrual status, restructured or transferred to other real estate owned in the future. Additional information about the loan portfolio is provided in Note 5 of the *Notes to Consolidated Financial Statements* in Item 8 below.

Covered non-performing assets

Covered non-performing assets, which include covered other real estate owned (covered OREO) totaled $29.9 million, representing 0.26% of total assets at December 31, 2010. These covered non-performing assets are subject to shared-loss agreements with the FDIC.

Total non-performing loans and leases

The following tables summarize our total (including covered and non-covered) nonperforming assets at December 31:

	2010	2009	2008	2007	2006
Loans on non-accrual status	$ 138,177	$ 193,118	$ 127,914	$ 81,317	$ 8,629
Loans past due 90 days or more and accruing	7,071	5,909	5,452	9,782	429
Total non-performing loans	145,248	199,027	133,366	91,099	9,058
Other real estate owned	62,654	24,566	27,898	6,943	
Total non-performing assets	$ 207,902	$ 223,593	$ 161,264	$ 98,042	$ 9,058

Umpqua Holdings Corporation

ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED COMMITMENTS

The allowance for non-covered loan and lease losses (ALLL) totaled $101.9 million and $107.7 million at December 31, 2010 and 2009, respectively. The decrease in the allowance for loan and lease losses as of December 31, 2010 as compared to prior year is principally attributable to a decrease in provision for non-covered loan and lease losses at a level below net charge offs for the year, as a result of the improving conditions of the non-covered loan portfolio.

The following table sets forth the allocation of the allowance for non-covered loan and lease losses:

Allowance for loan and lease losses Composition

As of December 31,

(in thousands)

	2010	2009	2008	2007	2006
Commercial real estate	$ 64,405	$ 67,281	$ 57,907	$ 57,433	$ 41,135
Commercial	22,146	24,583	23,104	19,514	14,094
Residential	5,926	5,811	5,778	3,406	3,111
Consumer & other	803	455	484	504	603
Unallocated	8,641	9,527	8,592	4,047	1,147
Allowance for loan and lease losses	$ 101,921	$ 107,657	$ 95,865	$ 84,904	$ 60,090

The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the allowance for loan and lease losses, and acknowledges the inherent imprecision of all loss prediction models. As of December 31, 2010, the unallocated allowance amount represented 8% of the allowance for loan and lease losses, compared to 9% at December 31, 2009. The level in unallocated ALLL in the current year reflects management s evaluation of the existing general business and economic conditions, and declining credit quality and collateral values of real estate in our markets. The ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge-offs may occur.

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The following table provides a summary of activity in the ALLL by major loan type for each of the five years ended December 31:

Activity in the Allowance for loan and lease losses

Years Ended December 31,

(dollars in thousands)

	2010	2009	2008	2007	2006
Balance at beginning of year	$ 107,657	$ 95,865	$ 84,904	$ 60,090	$ 43,885
Loans charged off:					
Commercial real estate	(71,030)	(136,382)	(82,919)	(20,632)	(300)
Commercial	(50,242)	(57,932)	(14,614)	(2,208)	(2,353)
Residential	(5,168)	(4,331)			