UMPQUA HOLDINGS CORP
Form 10-Q
May 05, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended: **March 31, 2011**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from __________ to ____________.

Commission File Number: **001-34624**

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

One SW Columbia Street, Suite 1200

Portland, Oregon 97258

(Address of Principal Executive Offices)(Zip Code)

(503) 727-4100

(Registrant s Telephone Number, Including Area Code)

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

x Yes ¨ No

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

x Yes ¨ No

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company

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

¨ Yes x No

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

Common stock, no par value: 114,644,353 shares outstanding as of April 30, 2011

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UMPQUA HOLDINGS CORPORATION

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

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

	March 31, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 123,975	$ 111,946
Interest bearing deposits	515,429	891,634
Temporary investments	559	545
Total cash and cash equivalents	639,963	1,004,125
Investment securities		
Trading, at fair value	2,572	3,024
Available for sale, at fair value	3,285,219	2,919,180
Held to maturity, at amortized cost	4,634	4,762
Loans held for sale	52,655	75,626
Non-covered loans and leases	5,632,363	5,658,987
Allowance for non-covered loan and lease losses	(97,833)	(101,921)
Net non-covered loans and leases	5,534,530	5,557,066
Covered loans and leases, net	741,630	785,898
Restricted equity securities	34,295	34,475
Premises and equipment, net	139,539	136,599
Goodwill and other intangible assets, net	680,922	681,969
Mortgage servicing rights, at fair value	15,605	14,454
Non-covered other real estate owned	34,512	32,791
Covered other real estate owned	27,689	29,863
FDIC indemnification asset	131,873	146,413
Other assets	225,090	242,465
Total assets	$ 11,550,728	$ 11,668,710
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 1,671,797	$ 1,616,687
Interest bearing	7,620,875	7,817,118
Total deposits	9,292,672	9,433,805
Securities sold under agreements to repurchase	93,425	73,759
Term debt	257,240	262,760
Junior subordinated debentures, at fair value	81,220	80,688
Junior subordinated debentures, at amortized cost	102,785	102,866
Other liabilities	71,959	72,258
Total liabilities	9,899,301	10,026,136

COMMITMENTS AND CONTINGENCIES (NOTE 10)		
SHAREHOLDERS EQUITY		
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 114,642,471 in 2011 and 114,536,814 in 2010	1,541,539	1,540,928
Retained earnings	84,405	76,701
Accumulated other comprehensive income	25,483	24,945
Total shareholders equity	1,651,427	1,642,574
Total liabilities and shareholders equity	$ 11,550,728	$ 11,668,710

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended March 31, 2011	2010
INTEREST INCOME		
Interest and fees on loans	$ 100,280	$ 90,708
Interest and dividends on investment securities		
Taxable	22,043	16,075
Exempt from federal income tax	2,165	2,187
Dividends	3	-
Interest on temporary investments and interest bearing deposits	401	399
Total interest income	124,892	109,369
INTEREST EXPENSE		
Interest on deposits	15,666	18,789
Interest on securities sold under agreement to repurchase and federal funds purchased	122	123
Interest on term debt	2,289	1,520
Interest on junior subordinated debentures	1,913	1,885
Total interest expense	19,990	22,317
Net interest income	104,902	87,052
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	15,030	42,106
PROVISION FOR COVERED LOAN AND LEASE LOSSES	7,268	-
Net interest income after provision for loan and lease losses	82,604	44,946
NON-INTEREST INCOME		
Service charges on deposit accounts	7,821	8,365
Brokerage commissions and fees	3,377	2,639
Mortgage banking revenue, net	5,275	3,478
Loss on investment securities, net		
Gain on sale of investment securities, net	-	1
Total other-than-temporary impairment losses	-	(5)
Portion of other-than-temporary impairment losses transferred from other comprehensive income	(25)	(284)
Total loss on investment securities, net	(25)	(288)
(Loss) gain on junior subordinated debentures carried at fair value	(542)	6,088
Bargain purchase gain on acquisition	-	6,437
Change in FDIC indemnification asset	2,905	610
Other income	2,774	2,718
Total non-interest income	21,585	30,047
NON-INTEREST EXPENSE		
Salaries and employee benefits	44,610	36,240
Net occupancy and equipment	12,517	10,676

Communications	2,810	2,224
Marketing	851	1,009
Services	5,882	4,915
Supplies	781	726
FDIC assessments	3,873	3,444
Net loss on other real estate owned	3,784	2,311
Intangible amortization	1,251	1,308
Merger related expenses	181	1,906
Other expenses	7,661	5,112
Total non-interest expense	84,201	69,871
Income before provision for (benefit from) income taxes	19,988	5,122
Provision for (benefit from) income taxes	6,521	(3,392)
Net income	$ 13,467	$ 8,514

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended March 31,	
	2011	**2010**
Net income	$ 13,467	$ 8,514
Preferred stock dividends	-	12,192
Dividends and undistributed earnings allocated to participating securities	62	15
Net earnings (loss) available to common shareholders	$ 13,405	$ (3,693)
Earnings (loss) per common share:		
Basic	$ 0.12	$ (0.04)
Diluted	$ 0.12	$ (0.04)
Weighted average number of common shares outstanding:		
Basic	114,575	92,176
Diluted	114,746	92,176

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(in thousands, except shares)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE AT JANUARY 1, 2010	$ 204,335	86,785,588	$ 1,253,288	$ 83,939	$ 24,955	$ 1,566,517
Net income				28,326		28,326
Other comprehensive loss, net of tax					(10)	(10)
Comprehensive income						$ 28,316
Issuance of common stock		8,625,000	89,786			89,786
Stock-based compensation			3,505			3,505
Stock repurchased and retired		(22,541)	(284)			(284)
Issuances of common stock under stock plans and related net tax benefit		173,767	844			844
Redemption of preferred stock issued to U.S. Treasury	(214,181)					(214,181)
Issuance of preferred stock	198,289					198,289
Conversion of preferred stock to common stock	(198,289)	18,975,000	198,289			-
Amortization of discount on preferred stock	9,846			(9,846)		-
Dividends declared on preferred stock				(3,686)		(3,686)
Repurchase of warrants issued to U.S. Treasury			(4,500)			(4,500)
Cash dividends on common stock ($0.20 per share)				(22,032)		(22,032)
Balance at December 31, 2010	$ -	114,536,814	$ 1,540,928	$ 76,701	$ 24,945	$ 1,642,574
BALANCE AT JANUARY 1, 2011	$ -	114,536,814	$ 1,540,928	$ 76,701	$ 24,945	$ 1,642,574
Net income				13,467		13,467
Other comprehensive income, net of tax					538	538
Comprehensive income						$ 14,005
Stock-based compensation			1,119			1,119
Stock repurchased and retired		(44,666)	(488)			(488)
Issuances of common stock under stock plans and related net tax deficiencies		150,323	(20)			(20)
Cash dividends on common stock ($0.05 per share)				(5,763)		(5,763)
Balance at March 31, 2011	$ -	114,642,471	$ 1,541,539	$ 84,405	$ 25,483	$ 1,651,427

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Net income	$ 13,467	$ 8,514
Available for sale securities:		
Unrealized gains arising during the period	815	13,845
Reclassification adjustment for net gains realized in earnings (net of tax expense $1 for the three months ended March 31, 2010)	-	(1)
Income tax expense related to unrealized gains	(326)	(5,538)
Net change in unrealized gains	489	8,306
Held to maturity securities:		
Unrealized gains related to factors other than credit (net of tax expense of $6 and $69 for the three months ended March 31, 2011 and 2010, respectively)	8	103
Reclassification adjustment for impairments realized in net income (net of tax benefit of $10 and $116 for the three months ended March 31, 2011 and 2010, respectively)	15	173
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $18 and $40 for the three months ended March 31, 2011 and 2010, respectively)	26	61
Net change in unrealized losses related to factors other than credit	49	337
Other comprehensive income, net of tax	538	8,643
Comprehensive income	$ 14,005	$ 17,157

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Three months ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 13,467	$ 8,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	9,111	3,481
Gain on sale of investment securities, net	-	(1)
Other-than-temporary impairment on investment securities held to maturity	25	289
Loss on sale of non-covered other real estate owned	703	1,399
(Gain) loss on sale of covered other real estate owned	(305)	5
Valuation adjustment on non-covered other real estate owned	2,130	907
Valuation adjustment on covered other real estate owned	1,256	-
Provision for non-covered loan and lease losses	15,030	42,106
Provision for covered loan and lease losses	7,268	-
Bargain purchase gain on acquisition	-	(6,437)
Change in FDIC indemnification asset	(2,905)	(610)
Depreciation, amortization and accretion	3,031	3,363
Increase in mortgage servicing rights	(1,334)	(1,070)
Change in mortgage servicing rights carried at fair value	183	129
Change in junior subordinated debentures carried at fair value	532	(6,103)
Stock-based compensation	1,119	626
Net decrease in trading account assets	452	226
Loss (gain) on sale of loans	815	(1,092)
Origination of loans held for sale	(139,229)	(115,664)
Proceeds from sales of loans held for sale	161,385	116,405
Excess tax benefits from the exercise of stock options	(3)	(6)
Change in other assets and liabilities:		
Net decrease in other assets	137	10,320
Net increase in other liabilities	600	887
Net cash provided by operating activities	73,468	57,674
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(521,254)	(11,868)
Proceeds from investment securities available for sale	146,918	65,424
Proceeds from investment securities held to maturity	186	279
Redemption of restricted equity securities	180	-
Net non-covered loan and lease (originations) paydowns	(6,455)	108,148
Net covered loan and lease paydowns	33,964	19,106
Proceeds from sales of loans	5,392	13,027
Proceeds from disposals of furniture and equipment	115	1,059
Purchases of premises and equipment	(7,926)	(3,515)
Net proceeds from FDIC indemnification asset	33,862	-
Proceeds from sales of non-covered other real estate owned	5,349	5,764
Proceeds from sales of covered other real estate owned	4,259	-

Cash acquired in merger, net of cash consideration paid	-	112,986
Net cash (used) provided by investing activities	(305,410)	310,410

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)

	Three months ended March 31, 2011	Three months ended March 31, 2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposit liabilities	(140,870)	55,515
Net increase (decrease) in securities sold under agreements to repurchase	19,666	(3,137)
Repayment of term debt	(5,000)	(66,396)
Redemption of preferred stock	-	(214,181)
Proceeds from issuance of preferred stock	-	198,289
Net proceeds from issuance of common stock	-	89,866
Redemption of warrants	-	(4,500)
Dividends paid on preferred stock	-	(2,732)
Dividends paid on common stock	(5,743)	(4,347)
Excess tax benefits from stock based compensation	3	6
Proceeds from stock options exercised	212	784
Retirement of common stock	(488)	(250)
Net cash (used) provided by financing activities	(132,220)	48,917
Net (decrease) increase in cash and cash equivalents	(364,162)	417,001
Cash and cash equivalents, beginning of period	1,004,125	605,413
Cash and cash equivalents, end of period	$ 639,963	$ 1,022,414
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 21,623	$ 22,032
Income taxes	$ 70	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$ 489	$ 8,306
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$ 49	$ 337
Cash dividend declared on common and preferred stock and payable after period-end	$ 5,761	$ 5,740
Transfer of non-covered loans to non-covered other real estate owned	$ 9,903	$ 6,007
Transfer of covered loans to covered other real estate owned	$ 3,036	$ 109
Transfer from FDIC indemnification asset to due from FDIC and other	$ 17,445	$ 7,257
Receivable from sales of other real estate owned and loans	$ -	$ 6,144
Acquisitions:		
Assets acquired	$ -	$ 1,074,453
Liabilities assumed	$ -	$ 1,068,016

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as we , our or the Company) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Umpqua Bank (Bank), and Umpqua Investments, Inc. (Umpqua Investments). All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2010 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2010 Annual Report filed on Form 10-K.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to March 31, 2011 for potential recognition or disclosure. In management s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Note 2 Business Combinations

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

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

The operations of Evergreen and Rainier are included in our operating results from January 23, 2010 and February 27, 2010, respectively, and added combined revenue of $14.6 million and $12.3 million, non-interest expense of $5.3 million and $4.6 million, and earnings of $3.5 million and $5.0 million, net of tax, for the first quarter of 2011 and 2010, respectively. These operating results include a bargain purchase gain of $6.4 million, which is not indicative of future operating results. Evergreen s and Rainiers s results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $105,000 and $1.9 million for the first quarter of 2011 and 2010, respectively, have been incurred in connection with these acquisitions and recognized in a separate line item on the *Condensed Consolidated Statements of Operations*.

On June 18, 2010, the Nevada State Financial Institutions Division closed Nevada Security Bank (Nevada Security), Reno, Nevada and appointed the FDIC as receiver. That same date, Umpqua Bank assumed the banking operations of Nevada Security from the FDIC under a whole bank purchase and assumption agreement with loss-sharing. Under the terms of the loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO, and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on all covered assets. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates. With this agreement, Umpqua Bank assumed five additional store locations, including three in Reno, Nevada, one in Incline Village, Nevada,

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and one in Roseville, California. This acquisition expands our presence into the State of Nevada.

The operations of Nevada Security are included in our operating results from June 19, 2010, and added revenue of $6.7 million, non-interest expense of $3.5 million, and loss of $95,000, net of tax, for the first quarter of 2011. Nevada Security s results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $76,000 for the first quarter of 2011 have been incurred in connection with the acquisition of Nevada Security and recognized as a separate line item on the *Condensed Consolidated Statements of Operations*.

We refer to the acquired loan portfolios and other real estate owned as covered loans and covered other real estate owned , respectively, and these are presented as separate line items in our consolidated balance sheet. Collectively these balances are referred to as covered assets. Certain types of modifications or restructuring activities subsequent to acquisition may disqualify a loan from loss-share coverage under the provisions of the loss-share agreement. Loans that have been disqualified from loss-share coverage are prospectively reported as non-covered loans.

The assets acquired and liabilities assumed from the Evergreen, Rainier, and Nevada Security acquisitions have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates. The fair values of the assets acquired and liabilities assumed were determined based on the requirements of the Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification (the FASB ASC). The amounts are subject to adjustments based upon final settlement with the FDIC. In addition, the tax treatment of FDIC-assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition date. The terms of the agreements provide for the FDIC to indemnify the Bank against claims with respect to liabilities of Evergreen, Rainier, and Nevada Security not assumed by the Bank and certain other types of claims identified in the agreement. The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of $6.4 million in the Evergreen acquisition, $35.8 million of goodwill in the Rainier acquisition and $10.4 million of goodwill in the Nevada Security acquisition.

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

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Cost basis net assets (liabilities)	$ 58,811	$ (50,295)	$ 53,629
Cash payment received from (paid to) the FDIC	-	59,351	(29,950)
Fair value adjustments:			
Loans	(117,449)	(103,137)	(112,975)
Other real estate owned	(2,422)	(6,581)	(17,939)
Other intangible assets	440	6,253	322
FDIC indemnification asset	71,755	76,603	99,160
Deposits	(1,023)	(1,828)	(1,950)
Term debt	(2,496)	(13,035)	-
Other	(1,179)	(3,139)	(690)
Bargain purchase gain (goodwill)	$ 6,437	$ (35,808)	$ (10,393)

In FDIC-assisted transactions, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer s bid, the FDIC may be required to make a cash payment to the acquirer or the acquirer may be required to make payment to the FDIC.

In the Evergreen acquisition, cost basis net assets of $58.8 million were transferred to the Company. The bargain purchase gain represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed. Core deposit intangible assets of $250,000 recognized are deductible for income tax purposes.

In the Rainier acquisition, cost basis net liabilities of $50.3 million and a cash payment received from the FDIC of $59.4 million were transferred to the Company. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired. Goodwill of $27.5 million and core deposit intangible assets of $1.1 million recognized are deductible for income tax purposes.

In the Nevada Security acquisition, cost basis net assets of $53.6 million were transferred to the Company and a cash payment of $30.0 million was made to the FDIC. The goodwill represents the excess of the estimated fair value of the liabilities assumed over the estimated fair value of the assets acquired. Goodwill of $10.4 million and core deposit intangible assets of $322,000 recognized are deductible for income tax purposes.

The Bank did not immediately acquire all the real estate, banking facilities, furniture or equipment of Evergreen, Rainier, or Nevada Security as part of the purchase and assumption agreements. Rather, the Bank was granted the option to purchase or lease the real

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estate and furniture and equipment from the FDIC. The term of this option expired 90 days from the acquisition dates, unless extended by the FDIC. Acquisition costs of the real estate and furniture and equipment are based on current mutually agreed upon appraisals. Prior to the expiration of the option term, Umpqua exercised the right to purchase approximately $344,000 of furniture and equipment for Evergreen, $26.3 million of real estate and furniture and equipment for Rainier, and $153,000 of furniture and equipment for Nevada Security. The Bank has the option to purchase one store location as part of the Nevada Security acquisition and expects resolution in the third quarter of 2011.

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

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010
Assets Acquired:			
Cash and equivalents	$ 18,919	$ 94,067	$ 66,060
Investment securities	3,850	26,478	22,626
Covered loans	252,493	458,340	215,507
Premises and equipment	-	17	50
Restricted equity securities	3,073	13,712	2,951
Goodwill	-	35,808	10,393
Other intangible assets	440	6,253	322
Mortgage servicing rights	-	62	-
Covered other real estate owned	2,421	6,580	17,938
FDIC indemnification asset	71,755	76,603	99,160
Other assets	328	3,254	2,588
Total assets acquired	$ 353,279	$ 721,174	$ 437,595
Liabilities Assumed:			
Deposits	$ 285,775	$ 425,771	$ 437,299
Term debt	60,813	293,191	-
Other liabilities	254	2,212	296
Total liabilities assumed	346,842	721,174	437,595
Net assets acquired/bargain purchase gain	$ 6,437	$ -	$ -

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

Note 3 Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at March 31, 2011 and December 31, 2010:

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March 31, 2011

(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 117,472	$ 1,103	$ (1)	$ 118,574
Obligations of states and political subdivisions	218,396	6,593	(458)	224,531
Residential mortgage-backed securities and collateralized mortgage obligations	2,904,010	52,807	(16,857)	2,939,960
Other debt securities	152	-	-	152
Investments in mutual funds and other equity securities	1,959	43	-	2,002
	$ 3,241,989	$ 60,546	$ (17,316)	$ 3,285,219
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 2,350	$ 9	$ -	$ 2,359
Residential mortgage-backed securities and collateralized mortgage obligations	2,284	251	(159)	2,376
	$ 4,634	$ 260	(159)	$ 4,735

December 31, 2010

(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 117,551	$ 1,239	$ (1)	$ 118,789
Obligations of states and political subdivisions	213,129	4,985	(1,388)	216,726
Residential mortgage-backed securities and collateralized mortgage obligations	2,543,974	57,506	(19,976)	2,581,504
Other debt securities	152	-	-	152
Investments in mutual funds and other equity securities	1,959	50		2,009
	$ 2,876,765	$ 63,780	$ (21,365)	$ 2,919,180
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 2,370	$ 5	$ -	$ 2,375
Residential mortgage-backed securities and collateralized mortgage obligations	2,392	216	(209)	2,399
	$ 4,762	$ 221	$ (209)	$ 4,774

Investment securities that were in an unrealized loss position as of March 31, 2011 and December 31, 2010 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

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March 31, 2011

(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ -	$ -	$ 104	$ 1	$ 104	$ 1
Obligations of states and political subdivisions	22,937	450	1,014	8	23,951	458
Residential mortgage-backed securities and collateralized mortgage obligations	1,372,401	16,850	1,531	7	1,373,932	16,857
Total temporarily impaired securities	$ 1,395,338	$ 17,300	$ 2,649	$ 16	$ 1,397,987	$ 17,316
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 761	$ 159	$ 761	$ 159
Total temporarily impaired securities	$ -	$ -	$ 761	$ 159	$ 761	$ 159

December 31, 2010

(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ -	$ -	$ 110	$ 1	$ 110	$ 1
Obligations of states and political subdivisions	60,110	1,366	1,003	22	61,113	1,388
Residential mortgage-backed securities and collateralized mortgage obligations	1,238,483	19,968	1,539	8	1,240,022	19,976
Total temporarily impaired securities	$ 1,298,593	$ 21,334	$ 2,652	$ 31	$ 1,301,245	$ 21,365
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 658	$ 209	$ 658	$ 209
Total temporarily impaired securities	$ -	$ -	$ 658	$ 209	$ 658	$ 209

The unrealized losses on investments in U.S. Treasury and agencies securities were caused by interest rate increases subsequent to the purchase of these securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of March 31, 2011. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at March 31, 2011 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

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

The following tables present the OTTI losses for the three months ended March 31, 2011 and 2010:

(in thousands)

	Three months ended March 31,	
	2011	**2010**
Total other-than-temporary impairment losses	$ -	$ 5
Portion of other-than-temporary impairment losses transferred from other comprehensive income (1)	25	284
Net impairment losses recognized in earnings (2)	$ 25	$ 289

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

The OTTI recognized on investment securities held to maturity relate to non-agency residential collateralized mortgage obligations. Each of these securities holds various levels of credit subordination. The underlying mortgage loans of these securities were originated from 2003 through 2007. At origination, the weighted average loan-to-value of the underlying mortgages was 69%; the underlying borrowers had weighted average FICO scores of 731, and 59% were limited documentation loans. These securities are valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimate cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management s estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows are then discounted at the interest rate used to recognize interest income on each security. We review the actual collateral performance of these securities on a quarterly basis and update the inputs as appropriate to determine the projected cash flows. The following table presents a summary of the significant inputs utilized to measure management s estimate of the credit loss component on these non-agency collateralized mortgage obligations as of March 31, 2011 and 2010:

	2011			**2010**		
	Range		**Weighted**	**Range**		**Weighted**
	Minimum	**Maximum**	**Average**	**Minimum**	**Maximum**	**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%	16.8%
Loss severity	25.0%	55.0%	37.9%	20.0%	50.0%	34.7%

The following table presents a roll forward of the credit loss component of held to maturity debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in OCI for the three months ended March 31, 2011 and 2010:

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(in thousands)

	Three months ended March 31	
	2011	2010
Balance, beginning of period	$ 12,778	$ 12,364
Subsequent OTTI credit losses	25	289
Balance, end of period	$ 12,803	$ 12,653

The following table presents the maturities of investment securities at March 31, 2011:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$ 21,190	$ 21,287	$ 1,465	$ 1,467
Over three months through twelve months	392,590	404,683	340	345
After one year through five years	2,263,286	2,293,296	596	601
After five years through ten years	494,378	496,741	72	74
After ten years	68,586	67,210	2,161	2,248
Other investment securities	1,959	2,002	-	-
	$ 3,241,989	$ 3,285,219	$ 4,634	$ 4,735

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

The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the three months ended March 31, 2011 and 2010:

(in thousands)

	Three months ended March 31, 2010	
	Gains	Losses
Obligations of states and political subdivisions	$ 2	$ 1
	$ 2	$ 1

The following table presents, as of March 31, 2011, investment securities which were pledged to secure borrowings and public deposits as permitted or required by law:

(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$ 280,121	$ 294,699
To state and local governments to secure public deposits	855,736	884,894
To U.S. Treasury and Federal Reserve to secure customer tax payments	4,368	4,667
Other securities pledged	157,762	160,656
Total pledged securities	$ 1,297,987	$ 1,344,916

Note 4 Non-covered Loans and Leases

The following table presents the major types of non-covered loans recorded in the balance sheets as of March 31, 2011 and December 31, 2010:

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(in thousands)

	March 31, 2011	December 31, 2010
Commercial real estate		
Term & multifamily	$ 3,488,079	$ 3,483,475
Construction & development	219,258	247,814
Residential development	132,078	147,813
Commercial		
Term	531,628	509,453
LOC & other	740,021	747,419
Residential		
Mortgage	225,579	222,416
Home equity loans & lines	275,403	278,585
Consumer & other	31,601	33,043
Total	5,643,647	5,670,018
Deferred loan fees, net	(11,284)	(11,031)
Total	$ 5,632,363	$ 5,658,987

As of March 31, 2011, loans totaling $3.6 billion were pledged to secure borrowings and available lines of credit.

Note 5 Allowance for Non-Covered Loan Loss and Credit Quality

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.

Our methodology for assessing the appropriateness of the ALLL consists of three key elements, which include 1) the formula allowance; 2) the specific allowance; and 3) the unallocated allowance. By incorporating these factors into a single allowance requirement analysis, all risk-based activities within the loan portfolio are simultaneously considered.

Formula Allowance

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 formula allowance.

The formula allowance is calculated by applying risk factors to various segments of pools of outstanding loans. Risk factors are assigned to each portfolio segment based on management s evaluation of the losses inherent within each segment. Segments or regions with greater risk of loss will therefore be assigned a higher risk factor.

Base risk The portfolio is segmented into loan categories, and these categories are assigned a Base Risk factor based on an evaluation of the loss inherent within each segment.

Extra risk Additional risk factors provide for an additional allocation of ALLL based on the loan risk rating system and loan delinquency, and reflect the increased level of inherent losses associated with more adversely classified loans.

Changes to risk factors   Risk factors may be changed periodically based on management s evaluation of the following factors: loss experience; changes in the level of non-performing loans; regulatory exam results; changes in the level of adversely classified loans (positive or negative); improvement or deterioration in local economic conditions; and any other factors deemed relevant.

Specific Allowance

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

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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 Allowance 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. Loans determined to be impaired with a specific allowance are excluded from the formula allowance so as not to double-count the loss exposure. Prior to the second quarter of 2008, we would recognize the charge-off of the impairment reserve of a collateral depending non-accrual loan when the loan was resolved, sold, or foreclosed/transferred to OREO. Starting in the second quarter of 2008, we accelerated the charge-off of the impairment reserve to the period in which it arises. Therefore the non-accrual impaired loans as of period end have already been partially charged off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

The combination of the formula allowance component and the specific allowance component lead to an allocated allowance for loan and lease losses.

Unallocated Allowance

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 quarterly with consideration of factors including, but not limited to:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in the experience and ability of lending management and other relevant staff;
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
- Changes in the quality of the institution s loan review system;
- Changes in the value of underlying collateral for collateral-depending loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions existing portfolio.

These factors are evaluated through a management survey of the Chief Credit Officer, Chief Lending Officers, Special Asset Manager, and Credit Review Manager. The survey requests responses to evaluate current changes in the nine qualitative factors. This information is then incorporated into our understanding of the reasonableness of the formula factors and our evaluation of the unallocated portion of the ALLL.

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. For each portfolio segment, 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 short (one year), medium (three year), and long-term charge-off rates,
- Recovery experience;
- Peer comparison loss rates.

There have been no significant changes to the Bank s methodology or policies in the periods presented.

Management believes that the ALLL was adequate as of March 31, 2011. 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. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively

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impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios. A continued deterioration in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

Activity in the Non-Covered Allowance for Loan and Lease Losses

The following table summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan portfolio segment for the three months ended March 31, 2011 and 2010, respectively:

(in thousands)

	March 31, 2011					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance:						
Balance at beginning of year:	$ 64,405	$ 22,146	$ 5,926	$ 803	$ 8,641	$ 101,921
Charge-offs	(11,431)	(8,176)	(734)	(534)	-	(20,875)
Recoveries	1,246	396	21	94	-	1,757
Provision	9,308	6,432	413	493	(1,616)	15,030
Ending balance	$ 63,528	$ 20,798	$ 5,626	$ 856	$ 7,025	$ 97,833
Ending balance: individually evaluated for impairment	$ 1,084	$ 8	$ 7	$ -		$ 1,099
Non-covered loans and leases:						
Ending balance [(1)]	$ 3,839,415	$ 1,271,649	$ 500,982	$ 31,601		$ 5,643,647
Ending balance: individually evaluated for impairment	$ 174,680	$ 28,766	$ 178	$ -		$ 203,624

(1) The gross non-covered loan and lease balance excludes deferred loans fees of $11.3 million at March 31, 2011.

	March 31, 2010					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance:						
Balance at beginning of year:	$ 67,281	$ 24,583	$ 5,811	$ 455	$ 9,527	$ 107,657
Charge-offs	(15,930)	(22,904)	(636)	(289)	-	(39,759)
Recoveries	284	279	120	97	-	780
Provision	18,825	18,932	2,940	600	809	42,106
Ending balance	$ 70,460	$ 20,890	$ 8,235	$ 863	$ 10,336	$ 110,784
Ending balance: individually evaluated for impairment	$ 2,950	$ 5	$ 211	$ -		$ 3,166
Non-covered loans and leases:						

Ending balance [1]	$ 4,054,278	$ 1,286,423	$ 471,468	$ 30,722	$ 5,842,891
Ending balance: individually evaluated for impairment	$ 223,255	$ 53,709	$ 4,516	$ -	$ 281,480

(1) The gross non-covered loan and lease balance excludes deferred loans fees of $11.0 million March 31, 2010.

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Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the reserve for unfunded commitments (RUC) and unfunded commitments for the three months ended March 31, 2011 and 2010, respectively:

(in thousands)

	March 31, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 33	$ 575	$ 158	$ 52	$ 818
Net change to other expense	43	46	4	-	93
Balance, end of period	$ 76	$ 621	$ 162	$ 52	$ 911
Unfunded commitments	$ 76,585	$ 591,455	$ 217,810	$ 45,598	$ 931,448

	March 31, 2010				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 57	$ 484	$ 144	$ 46	$ 731
Net change to other expense	(10)	47	(4)	1	34
Balance, end of period	$ 47	$ 531	$ 140	$ 47	$ 765
Unfunded commitments	$ 47,463	$ 521,851	$ 215,130	$ 40,272	$ 824,716

Non-covered loans sold

In the course of managing the loan portfolio, at certain times, management may decide to sell loans prior to resolution. The following table summarizes loans sold by loan portfolio during the three months ended March 31, 2011 and 2010, respectively:

(In thousands)

	Three months ended March 31,	
	2011	2010
Commercial real estate		
Term & multifamily	$ 2,499	$ 9,759
Construction & development	-	1,175
Residential development	2	4,035
Commercial		
Term	151	-
LOC & other	2,740	462
Total	$ 5,392	$ 15,431

Asset Quality and Non-Performing Loans

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. 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 an ongoing 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.

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.

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 loans are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for non-accrual status. 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.

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 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-accrual loans as of March 31, 2011 to their estimated net realizable value, generally based on disposition value, and expects resolution with no additional material loss, absent further decline in market prices.

Non-Covered Non-Accrual Loans and Loans Past Due

The following table summarizes our non-covered non-accrual loans and loans past due by loan class as of March 31, 2011 and December 31, 2010:

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(in thousands)

	March 31, 2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current	Total Non-covered Loans and Leases
Commercial real estate							
Term & multifamily	$ 16,512	$ 16,252	$ -	$ 32,764	$ 55,113	$ 3,400,202	$ 3,488,079
Construction & development	5,369	165	-	5,534	19,681	194,043	219,258
Residential development	8,539	1,638	-	10,177	33,760	88,141	132,078
Commercial							
Term	2,031	2,677	-	4,708	6,999	519,921	531,628
LOC & other	8,475	3,260	-	11,735	20,572	707,714	740,021
Residential							
Mortgage	3,918	-	4,078	7,996	-	217,583	225,579
Home equity loans & lines	639	264	1,732	2,635	-	272,768	275,403
Consumer & other	64	862	517	1,443	-	30,158	31,601
Total	$ 45,547	$ 25,118	$ 6,327	$ 76,992	$ 136,125	$ 5,430,530	$ 5,643,647
Deferred loan fees, net							(11,284)
Total							$ 5,632,363

	December 31, 2010						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current	Total Non-covered Loans and Leases
Commercial real estate							
Term & multifamily	$ 14,596	$ 8,328	$ 3,008	$ 25,932	$ 49,162	$ 3,408,381	$ 3,483,475
Construction & development	2,172	6,726	-	8,898	20,124	218,792	247,814
Residential development	640	-	-	640	34,586	112,587	147,813
Commercial							
Term	2,010	932	-	2,942	6,271	500,240	509,453
LOC & other	5,939	1,418	18	7,375	28,034	712,010	747,419
Residential							
Mortgage	1,314	1,101	3,372	5,787	-	216,629	222,416
Home equity loans & lines	1,096	1,351	232	2,679	-	275,906	278,585
Consumer & other	361	233	441	1,035	-	32,008	33,043
Total	$ 28,128	$ 20,089	$ 7,071	$ 55,288	$ 138,177	$ 5,476,553	$ 5,670,018
Deferred loan fees, net							(11,031)
Total							$ 5,658,987

Non-covered Impaired Loans

The following table summarizes our impaired non-covered loans by loan class as of March 31, 2011 and December 31, 2010:

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(in thousands)

	March 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	$ 63,925	$ 55,113	$ -
Construction & development	25,357	19,681	-
Residential development	58,892	40,286	-
Commercial			
Term	7,728	7,692	-
LOC & other	57,651	20,869	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
With an allowance recorded:			
Commercial real estate			
Term & multifamily	18,760	18,760	491
Construction & development	5,468	5,468	23
Residential development	38,564	35,372	570
Commercial			
Term	899	205	8
LOC & other	-	-	-
Residential			
Mortgage	-	178	7
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
Total:			
Commercial real estate	210,966	174,680	1,084
Commercial	66,278	28,766	8
Residential	-	178	7
Consumer & other	-	-	-
Total	$ 277,244	$ 203,624	$ 1,099

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	December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	$ 62,605	$ 49,790	$ -
Construction & development	33,091	25,558	-
Residential development	63,859	39,011	-
Commercial			
Term	8,024	6,969	-
LOC & other	56,046	19,814	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
With an allowance recorded:			
Commercial real estate			
Term & multifamily	29,926	28,070	1,614
Construction & development	-	-	-
Residential development	46,059	44,504	906
Commercial			
Term	205	205	9
LOC & other	9,878	8,519	2,702
Residential			
Mortgage	179	179	8
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
Total:			
Commercial real estate	235,540	186,933	2,520
Commercial	74,153	35,507	2,711
Residential	179	179	8
Consumer & other	-	-	-
Total	$ 309,872	$ 222,619	$ 5,239

Loans with no related allowance reported generally represent non-accrual loans. The Company recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans as of March 31, 2011 have already been written-down to their estimated net realizable value, based on disposition value, and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan s carrying value.

At March 31, 2011 and December 31, 2010, impaired loans of $67.5 million and $84.4 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The 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 for 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 March 31, 2011.

The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class as of March 31, 2011 and 2010:

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	March 31, 2011		March 31, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$ 55,558	$ -	$ 68,125	$ -
Construction & development	23,634	-	31,898	-
Residential development	38,945	-	33,616	-
Commercial				
Term	8,556	-	10,507	-
LOC & other	29,542	-	42,977	-
Residential				
Mortgage	-	-	-	-
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
With an allowance recorded:				
Commercial real estate				
Term & multifamily	23,639	232	22,552	253
Construction & development	3,587	72	-	
Residential development	44,989	327	67,064	479
Commercial				
Term	303	11	225	15
LOC & other	942	3	-	4
Residential				
Mortgage	1,964	1	4,481	59
Home equity loans & lines	11	-	35	-
Consumer & other	-	-	-	-
Total:				
Commercial real estate	190,352	631	223,255	732
Commercial	39,343	14	53,709	19
Residential	1,975	1	4,516	59
Consumer & other	-	-	-	-
Total	$ 231,670	$ 646	$ 281,480	$ 810

For the three months ended March 31, 2011 and 2010, interest income of approximately $646,000 and $810,000, respectively, was recognized in connection with impaired loans. The impaired loans for which these interest income amounts were recognized primarily relate to accruing restructured loans.

Non-covered Credit Quality Indicators

As previously noted, the Company s risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Bank differentiates its lending portfolios into homogeneous loans (generally consumer loans) and non-homogeneous loans (generally all non-consumer loans). The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

Pass/Watch These loans, risk rated 1 to 6, range from minimal credit risk to lower than average, but still acceptable, credit risk.

Special Mention A special mention loan, risk rated 7, has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institutions credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a Substandard classification. A Special Mention loan has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank s position at some future date. Such weaknesses include:

Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate

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working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.

Loans with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.

Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating.

This rating may be assigned when a loan officer is unable to supervise the credit properly due to inadequate expertise, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.

Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

Substandard A substandard asset, risk rated 8, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans are classified as Substandard when they have unsatisfactory characteristics causing unacceptable levels of risk.

A substandard loan normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard. The following are examples of well-defined weaknesses:

Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.

Borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.

Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.

Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.

Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Bank s primary source of repayment (unless this was the original source of repayment). If the collateral is under the Bank s control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be Special Mention or Watch.

The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.

There is material, uncorrectable faulty documentation or materially suspect financial information.

Doubtful/Loss Loans classified as doubtful, risk rated 9 to 10, have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a Doubtful rating will be temporary, while the Bank is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged off. The remaining balance, properly margined, may then be upgraded to Substandard, however must remain on non-accrual. A loss rating is assigned to loans considered un-collectible and of such little value that the continuance as an active Bank asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged off now, even though partial or full recovery may be possible in the future.

Impaired Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as non-accrual and troubled debt restructurings.

The following table summarizes our internal risk rating by loan class as of March 31, 2011 and December 31, 2010:

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(in thousands)

	March 31, 2011					
	Pass/ Watch	**Special Mention**	**Substandard**	**Doubtful/Loss**	**Impaired**	**Total**
Commercial real estate						
Term & multifamily	$ 2,981,393	$ 291,493	$ 141,320	$ -	$ 73,873	$ 3,488,079
Construction & development	136,654	11,920	45,535	-	25,149	219,258
Residential development	24,895	12,459	19,066	-	75,658	132,078
Commercial						
Term	482,847	12,709	28,157	18	7,897	531,628
LOC & other	644,733	28,879	45,540	-	20,869	740,021
Residential						
Mortgage	217,776	3,313	2,319	1,993	178	225,579
Home equity loans & lines	272,768	903	382	1,350	-	275,403
Consumer & other	30,869	215	23	494	-	31,601
Total	$ 4,791,935	$ 361,891	$ 282,342	$ 3,855	$ 203,624	$ 5,643,647
Deferred loan fees, net						(11,284)
Total						$ 5,632,363

	December 31, 2010					
	Pass/ Watch	**Special Mention**	**Substandard**	**Doubtful/Loss**	**Impaired**	**Total**
Commercial real estate						
Term & multifamily	$ 2,978,116	$ 314,094	$ 113,405	$ -	$ 77,860	$ 3,483,475
Construction & development	145,108	25,295	51,853	-	25,558	247,814
Residential development	27,428	13,764	23,106	-	83,515	147,813
Commercial						
Term	472,512	17,658	12,109	-	7,174	509,453
LOC & other	646,163	30,761	42,162	-	28,333	747,419
Residential						
Mortgage	216,899	2,414	786	2,138	179	222,416
Home equity loans & lines	275,906	2,447	125	107	-	278,585
Consumer & other	32,008	595	29	411	-	33,043
Total	$ 4,794,140	$ 407,028	$ 243,575	$ 2,656	$ 222,619	$ 5,670,018
Deferred loan fees, net						(11,031)
Total						$ 5,658,987

Note 6 Covered Assets and FDIC Indemnification Asset

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

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

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

The allowance on covered loans accounted for under ASC 310-30 was $7.4 million and $2.3 million at March 31, 2011 and December 31, 2010, respectively. The allowance on covered loan advances on acquired loans subsequent to acquisition was $770,000 and $375,000 at March 31, 2011 and December 31, 2010, respectively.

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

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(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010	Total
Commercial real estate				
Term & multifamily	$ 141,076	$ 331,869	$ 154,119	$ 627,064
Construction & development	18,832	562	9,481	28,875
Residential development	16,219	10,340	15,641	42,200
Commercial				
Term	27,272	14,850	18,257	60,379
LOC & other	23,965	18,169	11,408	53,542
Residential				
Mortgage	11,886	39,897	1,539	53,322
Home equity loans & lines	8,308	31,029	4,421	43,758
Consumer & other	4,935	11,624	641	17,200
Total	$ 252,493	$ 458,340	$ 215,507	$ 926,340

The following table presents the major types of covered loans as of March 31, 2011 and December 31, 2010:

(in thousands)

	March 31, 2011			
	Evergreen	Rainier	Nevada Security	Total
Commercial real estate				
Term & multifamily	$ 120,227	$ 285,907	$ 138,411	$ 544,545
Construction & development	12,491	741	6,986	20,218
Residential development	8,665	759	10,288	19,712
Commercial				
Term	16,939	9,818	13,308	40,065
LOC & other	9,974	14,156	6,824	30,954
Residential				
Mortgage	8,319	32,853	1,888	43,060
Home equity loans & lines	5,606	24,095	3,444	33,145
Consumer & other	2,839	7,092	-	9,931
Total	$ 185,060	$ 375,421	$ 181,149	$ 741,630

	December 31, 2010			
	Evergreen	Rainier	Nevada Security	Total
Commercial real estate				
Term & multifamily	$ 124,743	$ 303,585	$ 141,314	$ 569,642
Construction & development	14,162	854	7,419	22,435
Residential development	11,024	2,310	11,372	24,706
Commercial				
Term	18,828	10,811	12,961	42,600
LOC & other	11,876	14,320	9,031	35,227
Residential				
Mortgage	8,129	35,026	1,669	44,824
Home equity loans & lines	6,737	25,163	3,725	35,625
Consumer & other	2,781	8,058	-	10,839

Total	$ 198,280	$ 400,127	$ 187,491	$ 785,898

The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at March 31, 2011 was $270.6 million, $461.5 million and $290.6 million, for Evergreen, Rainier, and Nevada Security, respectively, as compared to $286.6 million, $481.7 million and $295.4 million, for Evergreen, Rainier, and Nevada Security, respectively, at December 31, 2010.

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

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired

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loans is the accretable yield . The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

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

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010	Total
Undiscounted contractual cash flows	$ 498,216	$ 821,972	$ 396,134	$ 1,716,322
Undiscounted cash flows not expected to be collected (nonaccretable difference)	(124,131)	(125,774)	(115,021)	(364,926)
Undiscounted cash flows expected to be collected	374,085	696,198	281,113	1,351,396
Accretable yield at acquisition	(121,592)	(237,858)	(65,606)	(425,056)
Estimated fair value of loans acquired at acquisition	$ 252,493	$ 458,340	$ 215,507	$ 926,340

The following table presents the changes in the accretable yield for the three months ended March 31, 2011 and 2010 for each respective acquired loan portfolio:

(in thousands)

	Three months ended March 31, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 90,771	$ 172,615	$ 73,515	$ 336,901
Accretion to interest income	(9,017)	(8,715)	(5,123)	(22,855)
Disposals	(2,792)	(6,644)	(1,404)	(10,840)
Reclassifications (to)/from nonaccretable difference	(3,881)	(1,971)	2,313	(3,539)
Balance, end of period	$ 75,081	$ 155,285	$ 69,301	$ 299,667

	Three months ended March 31, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ -	$ -	$ -	$ -
Additions resulting from acquisitions	121,592	237,858	-	359,450
Accretion to interest income	(3,231)	(3,024)	-	(6,255)
Disposals	(591)	(1,457)	-	(2,048)
Reclassifications (to)/from nonaccretable difference	349	301	-	650
Balance, end of period	$ 118,119	$ 233,678	$ -	$ 351,797

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

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

The following table summarizes the activity related to the covered OREO for the three months ended March 31, 2011 and 2010:

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(in thousands)

	Three months ended March 31,	
	2011	2010
Balance, beginning of period	$ 29,863	$ -
Acquisition	-	9,001
Additions to covered OREO	3,036	109
Dispositions of covered OREO	(3,954)	(115)
Valuation adjustments in the period	(1,256)	-
Balance, end of period	$ 27,689	$ 8,995

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

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

The following table summarizes the activity related to the FDIC indemnification asset for the three months ended March 31, 2011 and 2010:

(in thousands)

	Three months ended March 31, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 40,606	$ 43,726	$ 62,081	$ 146,413
Change in FDIC indemnification asset	4,745	(4,110)	2,270	2,905
Transfers to due from FDIC and other	(4,972)	(1,741)	(10,732)	(17,445)
Balance, end of period	$ 40,379	$ 37,875	$ 53,619	$ 131,873

	Three months ended March 31, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ -	$ -	$ -	$ -
Acquisitions	71,755	76,847	-	148,602
Change in FDIC indemnification asset	400	210	-	610
Transfers to due from FDIC and other	(459)	(6,798)	-	(7,257)
Balance, end of period	$ 71,696	$ 70,259	$ -	$ 141,955

Note 7 Mortgage Servicing Rights

The following table presents the changes in the Company s mortgage servicing rights (MSR) for the three months ended March 31, 2011 and 2010:

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(in thousands)

	Three months ended March 31,	
	2011	2010
Balance, beginning of period	$ 14,454	$ 12,625
Additions for new mortgage servicing rights capitalized	1,334	1,070
Acquired mortgage servicing rights	-	62
Changes in fair value:		
Due to changes in model inputs or assumptions(1)	129	(155)
Other(2)	(312)	26
Balance, end of period	$ 15,605	$ 13,628

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

Information related to our serviced loan portfolio as of March 31, 2011 and December 31, 2010 was as follows:

(dollars in thousands)

	March 31, 2011	December 31, 2010
Balance of loans serviced for others	$ 1,691,112	$ 1,603,414
MSR as a percentage of serviced loans	0.92%	0.90%

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the *Condensed Consolidated Statements of Operations*, was $1.1 million for the three months ended March 31, 2011, as compared to $904,000 for the three months ended March 31, 2010.

Key assumptions used in measuring the fair value of MSR as of March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011	December 31, 2010
Constant prepayment rate	18.82%	18.54%
Discount rate	8.60%	8.62%
Weighted average life (years)	4.6	4.5

Note 8 Non-covered Other Real Estate Owned, Net

The following table presents the changes in non-covered other real estate owned (OREO) for the three months ended March 31, 2011 and 2010:

(in thousands)

	Three months ended March 31,	
	2011	2010
Balance, beginning of period	$ 32,791	$ 24,566

Additions to OREO	9,903	6,007
Dispositions of OREO	(6,052)	(10,794)
Valuation adjustments in the period	(2,130)	(907)
Balance, end of period	$ 34,512	$ 18,872

Note 9 Junior Subordinated Debentures

As of March 31, 2011, the Company had 14 wholly-owned trusts (Trusts), including a Master Trust formed in 2007 to issue two separate series of trust preferred securities, that were formed to issue trust preferred securities and related common securities of the Trusts and are not consolidated. Nine Trusts, representing aggregate total obligations of approximately $96.0 million (fair value of approximately $107.3 million as of the merger dates), were assumed in connection with previous mergers.

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Following is information about the Trusts as of March 31, 2011:

(dollars in thousands)

Trust Name	Issue Date	Issued Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date	Redemption Date
AT FAIR VALUE:							
Umpqua Statutory Trust II	October 2002	$ 20,619	$ 13,921	Floating (4)	11.62%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	21,115	Floating (5)	11.62%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	6,508	Floating (6)	11.64%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	6,500	Floating (6)	11.64%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	20,541	Floating (7)	11.69%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	12,635	Floating (8)	11.65%	December 2037	December 2012
		134,024	81,220				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,370	10.875%	8.19%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	5,926	10.200%	8.21%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,418	Floating (9)	3.06%	December 2031	December 2006
Humboldt Bancorp Statutory Trust III	September 2003	27,836	30,703	Floating (10)	2.53%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,252	Floating (5)	3.06%	November 2032	November 2007
Western Sierra Statutory Trust I	July 2001	6,186	6,186	Floating (11)	3.88%	July 2031	July 2006
Western Sierra Statutory Trust II	December 2001	10,310	10,310	Floating (9)	3.91%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,310	Floating (12)	3.20%	September 2033	September 2008
Western Sierra Statutory Trust IV	September 2003	10,310	10,310	Floating (12)	3.20%	September 2033	September 2008
		96,037	102,785				
	Total	$ 230,061	$ 184,005				

(1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of March 2011.
(4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
(5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
(6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
(7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
(8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
(9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
(10) Rate based on LIBOR plus 2.95%, adjusted quarterly.
(11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
(12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The $230.1 million of trust preferred securities issued to the Trusts as of March 31, 2011 and December 31, 2010, with carrying values of $184.0 million and $183.6 million, respectively, are reflected as junior subordinated debentures in the *Condensed Consolidated Balance Sheets*. The common stock issued by the Trusts is recorded in other assets in the *Condensed Consolidated Balance Sheets*, and totaled $6.9 million at March 31, 2011 and December 31, 2010.

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

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

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

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and will effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer to able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future. As a result, management evaluated current market conditions and determined that the 11.6% effective yield utilized to discount the junior subordinated debentures, and the related prices, to determine fair value as of March 31, 2010 continued to represent appropriate estimates of the fair value of these liabilities as of March 31, 2011. Since the Company had less than $15 billion in assets at December 31, 2009, under the Dodd-Frank Act, the Company will be able to continue to include its existing trust preferred securities, less the common stock of the Trusts, in Tier 1 capital. At March 31, 2011, the Company s restricted core capital elements were 19% of total core capital, net of goodwill and any associated deferred tax liability.

Absent changes to any of the significant inputs utilized in the discounted cash flow model utilized to measure these instruments at fair value each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner analogous to the effective yield method as if these instruments were accounted for under the amortized cost method. This will result in recognizing losses on junior subordinated debentures carried at fair value on a quarterly basis within non-interest income. The Company will continue to monitor activity in the trust preferred and related markets to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

For the three months ended March 31, 2011 and 2010, we recorded a loss of $542,000 and a gain of $6.1 million, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Management believes that the credit risk adjusted spread being utilized is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. In management s estimation, a change in fair value of the junior subordinated debentures during the period represents changes in the market s nonperformance risk expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. Any gains recognized are recorded in gain on junior subordinated debentures carried at fair value within non-interest income. The contractual interest expense on junior subordinated debentures continues to be recorded on an accrual basis and is reported in interest expense. The junior subordinated debentures recorded at fair value of $81.2 million had contractual unpaid principal amounts of $134.0 million outstanding as of March 31, 2011. The junior subordinated debentures recorded at fair value of $80.7 million had contractual unpaid principal amounts of $134.0 million outstanding as of December 31, 2010.

Note 10 Commitments and Contingencies

Lease Commitments The Company leases 134 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term. In addition, in connection with the Nevada Security acquisition, the Company has the option to purchase one of the leased facilities, which is expected to be resolved in third quarter 2011.

Rent expense for the three months ended March 31, 2011 and 2010 was $4.1 million and $3.5 million, respectively. Rent expense was offset by rent income for the three months ended March 31, 2011 and 2010 of $272,000 and $184,000 respectively.

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

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

(in thousands)

		As of March 31, 2011
Commitments to extend credit	$	1,117,889
Commitments to extend overdrafts	$	232,353
Forward sales commitments	$	76,500
Standby letters of credit	$	60,806
Commitments to originate loans held for sale	$	58,343

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

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

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and did not incur any losses in connection with standby letters of credit during the three months ended March 31, 2011 and 2010. At March 31, 2011, approximately $32.2 million of standby letters of credit expire within one year, and $28.6 million expire thereafter. Upon issuance, the Company recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $237,000 as of March 31, 2011.

At March 31, 2011 and December 31, 2010, the reserve for unfunded commitments, which is included in other liabilities on the *Condensed Consolidated Balance Sheets*, was $911,000 and $818,000, respectively. The adequacy of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amount of commitments, loss experience, and economic conditions.

Mortgage loans sold to investors may be sold with servicing rights retained, for which it makes only standard legal representations and warranties as to meeting certain underwriting and collateral documentation standards. In the past two years, the Bank has had to repurchase fewer than 10 loans due to deficiencies in underwriting or loan documentation and has not realized significant losses

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related to these repurchases. Management believes that any liabilities that may result from such recourse provisions are not significant.

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

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

In July 2010, Visa deposited an additional $700 million into the litigation escrow account. While the outcome of the remaining litigation cases remains unknown, this addition to the escrow account provides additional reserves to cover potential losses. As a result of the deposit, the conversion ratio applicable to Class B common stock outstanding decreased further from 0.6296 per Class A share to 0.5824 per Class A share.

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

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

In March 2011, Visa deposited an additional $400 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 0.5102 per Class A share to 0.4881 per Class A share.

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

As of March 31, 2011, the value of the Class A shares was $73.62 per share. Utilizing the new conversion ratio effective in October 2010, the value of unredeemed Class A equivalent shares owned by the Company was $17.4 million as of March 31, 2011, and has not been reflected in the accompanying financial statements.

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

Concentrations of Credit Risk The Company grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, and Nevada. In management s judgment, a concentration exists in real estate-related loans, which represented approximately 82% of the Company s non-covered loan and lease portfolio at March 31, 2011, and 82% at December 31, 2010. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Company s primary market areas in particular, such as was seen with the deterioration in the residential development market since 2007, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

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

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Note 11 Derivatives

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

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates (MBS TBAs) in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three months ended March 31, 2011 and 2010. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At March 31, 2011, the Bank had commitments to originate mortgage loans held for sale totaling $58.3 million and forward sales commitments of $76.5 million.

The following tables summarize the types of derivatives, separately by assets and liabilities, their locations on the *Condensed Consolidated Balance Sheets*, and the fair values of such derivatives as of March 31, 2011 and December 31, 2010:

(in thousands)

Underlying Risk Exposure	Description	Balance Sheet Location	March 31, 2011	December 31, 2010
Asset Derivatives				
Interest rate contracts	Rate lock commitments	Other assets	$ 320	$ 306
Interest rate contracts	Forward sales commitments	Other assets	286	754
Total asset derivatives			$ 606	$ 1,060
Liability Derivatives				
Interest rate contracts	Rate lock commitments	Other liabilities	$ 73	$ 170
Interest rate contracts	Forward sales commitments	Other liabilities	2	191
Total liability derivatives			$ 75	$ 361

The following table summarizes the types of derivatives, their locations within the *Condensed Consolidated Statements of Operations,* and the gains (losses) recorded during the three months ended March 31, 2011 and 2010:

(in thousands)

Underlying Risk Exposure	Description	Income Statement Location	Three months ended March 31, 2011	2010
Interest rate contracts	Rate lock commitments	Mortgage banking revenue	$ 110	$ 167
Interest rate contracts	Forward sales commitments	Mortgage banking revenue	197	(832)
Total			$ 307	$ (665)

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

Note 12 Shareholders Equity

On February 3, 2010, the Company raised $303.6 million through a public offering by issuing 8,625,000 shares of the Company s common stock, including 1,125,000 shares pursuant to the underwriters over-allotment option, at a share price of $11.00 per share and 18,975,000 depository shares, including 2,475,000 depository shares pursuant to the underwriter s over-allotment option, also at a price of $11.00 per share. Fractional interests (1/100th) in each share of the Series B Common Stock Equivalent were represented by the 18,975,000 depositary shares; as a result, each depositary share would convert into one share of common stock. The net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were $288.1 million. The net

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proceeds from the offering were used to redeem the preferred stock issued to the United States Department of the Treasury (U.S. Treasury) under the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP), to fund FDIC-assisted acquisition opportunities and for general corporate purposes.

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

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

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

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was $1.1 million and $626,000 for the three months ended March 31, 2011 and 2010, respectively. The total income tax benefit recognized related to stock-based compensation was $448,000 and $250,000 for the three months ended March 31, 2011 and 2010, respectively.

The following table summarizes information about stock option activity for the three months ended March 31, 2011:

(in thousands, except per share data)

	Three months ended March 31, 2011			
	Options Outstanding	Weighted-Avg Exercise Price	Weighted-Avg Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance, beginning of period	2,067	$ 14.82		
Granted	237	$ 11.01		
Exercised	(29)	$ 7.23		
Forfeited/expired	(3)	$ 10.74		
Balance, end of period	2,272	$ 14.52	6.26	$ 1,659
Options exercisable, end of period	1,336	$ 16.38	4.51	$ 1,283

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three months ended March 31, 2011 and 2010 was $115,000 and $289,000, respectively. During the three months ended March 31, 2011 and 2010, the amount of cash received from the exercise of stock options was $212,000 and $764,000, respectively.

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. The following weighted average assumptions were used for stock options granted in the three months ended March 31, 2011 and 2010:

	Three months ended March 31, 2011	2010
Dividend yield	2.79%	2.73%
Expected life (years)	7.1	7.1
Expected volatility	52%	52%
Risk-free rate	2.71%	3.04%
Weighted average fair value of options on date of grant	$ 4.65	$ 5.18

The Company grants restricted stock periodically as a part of the 2003 Stock Incentive Plan for the benefit of employees. Restricted shares issued generally vest on an annual basis over five years. A deferred restricted stock award was granted to an executive in the second quarter of 2007. The award vests monthly based on continued service in various increments through July 1, 2011. The Company will issue certificates for the vested award within the seventh month following termination of the executive s employment. The following table summarizes information about nonvested restricted share activity for the three months ended March 31, 2011:

(in thousands, except per share data)

	Three months ended March 31, 2011	
	Restricted Shares Outstanding	Weighted Average Grant Date Fair Value
Balance, beginning of period	401	$ 15.29
Granted	267	$ 11.00
Released	(58)	$ 19.12
Forfeited/expired	(1)	$ 15.27
Balance, end of period	609	$ 13.05

The total fair value of restricted shares vested and released during the three months ended March 31, 2011 and 2010 was $651,000 and $487,000, respectively.

The Company grants restricted stock units as a part of the 2007 Long Term Incentive Plan for the benefit of certain executive officers. Restricted stock unit grants are subject to performance-based vesting as well as other approved vesting conditions. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements. The following table summarizes information about restricted stock unit activity for the three months ended March 31, 2011:

(in thousands, except per share data)

	Three months ended March 31, 2011	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance, beginning of period	225	$ 11.13
Granted	105	$ 10.42
Released	(63)	$ 14.33

Forfeited/expired	(48)	$	14.33
Balance, end of period	219	$	9.17

The total fair value of restricted stock units vested and released during the three months ended March 31, 2011 and 2010 was $677,000 and $213,000, respectively.

As of March 31, 2011, there was $3.5 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 3.4 years. As of March 31, 2011, there was $5.2 million of total unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 3.3 years. As of March 31, 2011, there was $752,000 of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 1.8 years, assuming expected performance conditions are met.

For the three months ended March 31, 2011 and 2010, the Company received income tax benefits of $457,000 and $326,000, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. In the three months ended March 31, 2011 and 2010, the Company had net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) of $233,000 and $195,000, respectively. Only cash flows from gross excess tax benefits are classified as financing cash flows.

Note 13 Income Taxes

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

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

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

The Company recorded a reduction in its liability for unrecognized tax benefits relating to temporary differences settled during audit in 2010. The Company had gross unrecognized tax benefits relating to California tax incentives of $555,000 recorded as of March 31, 2011. If recognized, the unrecognized tax benefit would reduce the 2011 annual effective tax rate by 0.4%. During the first quarter of 2011, the Company recognized an expense of $6,000 in interest relating to its liability for unrecognized tax benefits during the same period. Interest expense is reported by the Company as a component of tax expense. As of March 31, 2011, the accrued interest related to unrecognized tax benefits is $177,000.

Note 14 Earnings Per Common Share

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

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

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

The following is a computation of basic and diluted earnings (loss) per common share for the three months ended March 31, 2011 and 2010:

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(in thousands, except per share data)

	Three months ended March 31, 2011	2010
NUMERATORS:		
Net income	$ 13,467	$ 8,514
Less:		
Preferred stock dividends	-	12,192
Dividends and undistributed earnings allocated to participating securities (1)	62	15
Net earnings (loss) available to common shareholders	$ 13,405	$ (3,693)
DENOMINATORS:		
Weighted average number of common shares outstanding - basic	114,575	92,176
Effect of potentially dilutive common shares (2)	171	-
Weighted average number of common shares outstanding - diluted	114,746	92,176
EARNINGS (LOSS) PER COMMON SHARE:		
Basic	$ 0.12	$ (0.04)
Diluted	$ 0.12	$ (0.04)

(1) Represents dividends paid and undistributed earnings allocated to nonvested restricted stock awards.
(2) Represents the effect of the assumed exercise of warrants, assumed exercise of stock options, vesting of non-participating restricted shares, and vesting of restricted stock units, based on the treasury stock method.

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three months ended March 31, 2011 and 2010.

(in thousands)

	Three months ended March 31, 2011	2010
Stock options	2,214	1,855
CPP warrant	-	1,111
Non-participating, nonvested restricted shares	4	12
Restricted stock units	-	56
	2,218	3,034

Note 15 Segment Information

The Company operates three primary segments: Community Banking, Mortgage Banking and Wealth Management. The Community Banking segment s principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of March 31, 2011, the Community Banking segment operated 184 locations throughout Oregon, Northern California, Washington, and Nevada.

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

The Wealth Management segment consists of the operations of Umpqua Investments, which offers a full range of retail brokerage services and products to its clients who consist primarily of individual investors, and Umpqua Private Bank, which serves high net worth individuals with liquid investable assets and provides customized financial solutions and offerings, and Umpqua Financial Advisors. The Company accounts for intercompany fees and services between Umpqua Investments and the Bank at estimated fair value according to regulatory requirements for services provided. Intercompany items relate primarily to management services, referral fees and deposit rebates.

Prior to January 1, 2011, the Company reported Retail Brokerage, consisting of Umpqua Investments, as its own segment. Effective in 2011, the Company began reporting Umpqua Investments, Umpqua Private Bank, and Umpqua Financial Advisors under the Wealth Management segment. Umpqua Private Bank and Umpqua Financial Advisors do not meet the quantitative thresholds for reporting as separate segments and service the same customer base on Umpqua Investments. As a result of the change in reportable segment, prior periods have been adjusted in the financial information below.

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

Segment Information

(in thousands)

	Three Months Ended March 31, 2011			
	Community Banking	Wealth Management	Mortgage Banking	Consolidated
Interest income	$ 119,057	$ 2,467	$ 3,368	$ 124,892
Interest expense	18,812	580	598	19,990
Net interest income	100,245	1,887	2,770	104,902
Provision for non-covered loan and lease losses	15,030	-	-	15,030
Provision for covered loan and lease losses	7,268	-	-	7,268
Non-interest income	12,676	3,596	5,313	21,585
Non-interest expense	75,759	4,102	4,340	84,201
Income before income taxes	14,864	1,381	3,743	19,988
Provision for income taxes	4,793	231	1,497	6,521
Net income	10,071	1,150	2,246	13,467
Dividends and undistributed earnings allocated to participating securities	62	-	-	62
Net earnings available to common shareholders	$ 10,009	$ 1,150	$ 2,246	$ 13,405

	Three Months Ended March 31, 2010			
	Community Banking	Wealth Management	Mortgage Banking	Consolidated
Interest income	$ 106,219	$ 275	$ 2,875	$ 109,369
Interest expense	21,327	295	695	22,317
Net interest income	84,892	(20)	2,180	87,052
Provision for non-covered loan and lease losses	42,106	-	-	42,106
Provision for covered loan and lease losses	-	-	-	-
Non-interest income	23,447	3,091	3,509	30,047
Non-interest expense	63,029	3,777	3,065	69,871
Income (loss) before income taxes	3,204	(706)	2,624	5,122
(Benefit from) provision for income taxes	(4,246)	(196)	1,050	(3,392)
Net income (loss)	7,450	(510)	1,574	8,514
Preferred stock dividends	12,192	-	-	12,192
Dividends and undistributed earnings allocated to participating securities	15	-	-	15
Net (loss) earnings available to common shareholders	$ (4,757)	$ (510)	$ 1,574	$ (3,693)

	March 31, 2011			
	Community Banking	Wealth Management	Mortgage Banking	Consolidated
Total assets	$ 11,216,786	$ 41,980	$ 291,962	$ 11,550,728
Total loans and leases (covered and non-covered)	$ 6,125,562	$ 27,765	$ 220,666	$ 6,373,993
Total deposits	$ 9,022,074	$ 257,488	$ 13,110	$ 9,292,672

	December 31, 2010			
	Community Banking	Wealth Management	Mortgage Banking	Consolidated
Total assets	$ 11,314,681	$ 37,757	$ 316,272	$ 11,668,710
Total loans and leases (covered and non-covered)	$ 6,198,532	$ 23,631	$ 222,722	$ 6,444,885
Total deposits	$ 9,160,058	$ 262,148	$ 11,599	$ 9,433,805

Note 16 Fair Value Measurement

The following table presents estimated fair values of the Company s financial instruments as of March 31, 2011 and December 31, 2010, whether or not recognized or recorded at fair value in the *Condensed Consolidated Balance Sheets*:

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(in thousands)

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$ 639,963	$ 639,963	$ 1,004,125	$ 1,004,125
Trading securities	2,572	2,572	3,024	3,024
Securities available for sale	3,285,219	3,285,219	2,919,180	2,919,180
Securities held to maturity	4,634	4,735	4,762	4,774
Loans held for sale	52,655	52,655	75,626	75,626
Non-covered loans and leases, net	5,534,530	5,552,031	5,557,066	5,767,506
Covered loans and leases, net	741,630	815,487	785,898	893,682
Restricted equity securities	34,295	34,295	34,475	34,475
Mortgage servicing rights	15,605	15,605	14,454	14,454
Bank owned life insurance assets	90,357	90,357	90,161	90,161
FDIC indemnification asset	131,873	78,726	146,413	90,011
Derivatives	606	606	1,060	1,060
Visa Class B common stock	-	16,533	-	15,987
FINANCIAL LIABILITIES:				
Deposits	$ 9,292,672	$ 9,301,889	$ 9,433,805	$ 9,464,406
Securities sold under agreements to repurchase	93,425	93,425	73,759	73,759
Term debt	257,240	274,729	262,760	282,127
Junior subordinated debentures, at fair value	81,220	81,220	80,688	80,688
Junior subordinated debentures, at amortized cost	102,785	66,392	102,866	65,771
Derivatives	75	75	361	361

The following tables present information about the Company s assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

(in thousands)

	Fair Value at March 31, 2011			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Trading securities				
Obligations of states and political subdivisions	$ 644	$ 644	$ -	$ -
Equity securities	1,835	1,835	-	-
Other investments securities(1)	93	93	-	-
Available for sale securities				
U.S. Treasury and agencies	118,574	-	118,574	-
Obligations of states and political subdivisions	224,531	-	224,531	-
Residential mortgage-backed securities and collateralized mortgage obligations	2,939,960	-	2,939,960	-
Other debt securities	152	-	152	-
Investments in mutual funds and other equity securities	2,002	-	2,002	-
Mortgage servicing rights, at fair value	15,605	-	-	15,605
Derivatives	606	-	606	-
Total assets measured at fair value	$ 3,304,002	$ 2,572	$ 3,285,825	$ 15,605
Junior subordinated debentures, at fair value	$ 81,220	$ -	$ -	$ 81,220

Derivatives		75		-		75	-
Total liabilities measured at fair value	$	81,295	$	-	$	75	$ 81,220

(in thousands)

		Fair Value at December 31, 2010		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Trading securities				
Obligations of states and political subdivisions	$ 1,282	$ 1,282	$ -	$ -
Equity securities	1,645	1,645	-	-
Other investments securities[(1)]	97	97	-	-
Available for sale securities				
U.S. Treasury and agencies	118,789	-	118,789	-
Obligations of states and political subdivisions	216,726	-	216,726	-
Residential mortgage-backed securities and collateralized mortgage obligations	2,581,504	-	2,581,504	-
Other debt securities	152	-	152	-
Investments in mutual funds and other equity securities	2,009	-	2,009	-
Mortgage servicing rights, at fair value	14,454	-	-	14,454
Derivatives	1,060	-	1,060	-
Total assets measured at fair value	$ 2,937,718	$ 3,024	$ 2,920,240	$ 14,454
Junior subordinated debentures, at fair value	$ 80,688	$ -	$ -	$ 80,688
Derivatives	361	-	361	-
Total liabilities measured at fair value	$ 81,049	$ -	$ 361	$ 80,688

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

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

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

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

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

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

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

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

Mortgage Servicing Rights - The fair value of mortgage servicing rights is estimated using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Management believes the significant inputs utilized are indicative of those that would be used by market participants.

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

FDIC Indemnification Asset - The FDIC indemnification asset is calculated as the expected future cash flows under the loss-share

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agreement discounted by a rate reflective of the creditworthiness of the FDIC as would be required from the market.

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

Deposits - The fair value of deposits with no stated maturity, such as non-interest bearing deposits, savings and interest checking accounts, and money market accounts, is equal to the amount payable on demand as of March 31, 2011 and December 31, 2010. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

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

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

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

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law which, among other things, limits the ability for certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. It is anticipated that this law may require many banks to raise new Tier 1 capital and would effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they are no longer to able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future. As a result, Management evaluated current market conditions and determined that the 11.6% effective yield utilized to discount the junior subordinated debentures, and the related prices, to determine fair value as of March 31, 2010, continued to represent appropriate estimates the fair value of these liabilities as of March 31, 2011.

Absent changes to any of the significant inputs utilized in the discounted cash flow model utilized to measure these instruments at fair value each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner analogous to the effective yield method as if these instruments were accounted for under the amortized cost method. This will result in recognizing losses on junior subordinated debentures carried at fair value on a quarterly basis within non-interest income. The Company will continue to monitor activity in the trust preferred and related markets to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

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

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three months ended March 31, 2011 and 2010. The amount included in the Transfers into Level 3 column represents the beginning balance of an item in the period for which it is designated as a Level 3 fair value measure.

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(in thousands)

Three months ended March 31,	Beginning Balance	Change included in earnings	Purchases and issuances	Sales and settlements	Transfers into Level 3	Ending Balance	Net change in unrealized gains or (losses) relating to items held at end of period
2011							
Mortgage servicing rights	$ 14,454	$ (183)	$ 1,334	$	$	$ 15,605	$ 124
Junior subordinated debentures	80,688	1,510		(978)		81,220	1,510
2010							
Mortgage servicing rights	$ 12,625	$ (129)	$ 1,132	$	$	$ 13,628	$ 105
Junior subordinated debentures	85,666	(5,134)		(969)		79,563	(5,134)

Gains (losses) on mortgage servicing rights carried at fair value are recorded in mortgage banking revenue within other non-interest income. Gains (losses) on junior subordinated debentures carried at fair value are recorded within other non-interest income. The contractual interest expense on the junior subordinated debentures is recorded on an accrual basis as interest on junior subordinated debentures within interest expense. Settlements related to the junior subordinated debentures represent the payment of accrued interest that is embedded in the fair value of these liabilities.

Management believes that the credit risk adjusted spread being utilized is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. The widening of the credit risk adjusted spread above the Company s contractual spreads has primarily contributed to the positive fair value adjustments. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company s junior subordinated debentures at fair value as of March 31, 2011, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments.

Additionally, from time to time, certain assets are measured at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment. The following table presents information about the Company s assets and liabilities measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported upon.

(in thousands)

	March 31, 2011			
	Total	Level 1	Level 2	Level 3
Description				
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$ 88	$ -	$ -	$ 88
Non-covered loans and leases	27,951	-	-	27,951
Non-covered other real estate owned	6,303	-	-	6,303
Covered other real estate owned	2,188	-	-	2,188
	$ 36,530	$ -	$ -	$ 36,530

December 31, 2010

Description	Total	Level 1	Level 2	Level 3
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$ 1,226	$ -	$ -	$ 1,226
Non-covered loans and leases	74,639	-	-	74,639
Non-covered other real estate owned	7,958	-	-	7,958
Covered other real estate owned	8,708			8,708
	$ 92,531	$ -	$ -	$ 92,531

The following table presents the losses resulting from nonrecurring fair value adjustments for the three months ended March 31, 2011 and 2010:

(in thousands)

	Three months ended March 31,			
	2011		2010	
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$	25	$	289
Non-covered loans and leases		15,916		33,140
Non-covered other real estate owned		2,130		907
Covered other real estate owned		1,256		-
Total loss from nonrecurring measurements	$	19,327	$	34,336

The investment securities held to maturity above relate to non-agency collateralized mortgage obligations where other-than-temporary impairment (OTTI) has been identified and the investments have been adjusted to fair value. The fair value of these investments securities were obtained from third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. While we do not expect to recover the entire amortized cost basis of these securities, as we as we do not intend to sell these securities and it is not likely that we will be required to sell these securities before maturity, only the credit loss component of the impairment is recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. The remaining impairment loss related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to a separate component other comprehensive income (OCI). We estimate the cash flows of the underlying collateral within each security considering credit, interest and prepayment risk models that incorporate management s estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then use a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows are then discounted at the interest rate used to recognize interest income on each security.

The non-covered loans and leases amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

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

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

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

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

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

General

Umpqua Holdings Corporation (referred to in this report as we, our, Umpqua, and the Company), an Oregon corporation, is a financial holding company with two principal operating subsidiaries, Umpqua Bank (the Bank) and Umpqua Investments, Inc. (Umpqua Investments).

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

We are considered one of the most innovative community banks in the United States, combining a retail product delivery approach with an emphasis on quality-assured personal service. The Bank has evolved from a traditional community bank into a community-

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

Executive Overview

Significant items for the first quarter of 2011 were as follows:

Net earnings available to common shareholders per diluted common share were $0.12 for the three months ended March 31, 2011, as compared to net loss available to common shareholders per diluted common share of $0.04 for the three months ended March 31, 2010. Operating income per diluted common share, defined as earnings available to common shareholders before net gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains, 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 for the three months ended March 31, 2011, as compared to operating loss per diluted common share of $0.11 for the three months ended March 31, 2010. Operating income (loss) per diluted share is considered a non-GAAP financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading *Results of Operations Overview* below.

Net interest margin, on a tax equivalent basis, increased to 4.18% for the three months ended March 31, 2011, compared to 4.04% for the same period a year ago. The increase in net interest margin resulted from an increase in average investments outstanding, increased yields on the covered loan portfolio, declining costs of interest bearing deposits, partially offset by interest reversals of new non-accrual loans, and a decline in non-covered loans outstanding.

The provision for non-covered loan and lease losses was $15.0 million for the three months ended March 31, 2011, as compared to the $42.1 million recognized for the three months ended March 31, 2010. This resulted from a decrease in net charge-offs and non-performing loans.

Mortgage banking revenue was $5.3 million for the three months ended March 31, 2011, compared to $3.5 million for the three months ended March 31, 2010. Closed mortgage volume increased 31% in the current year-to-date over the prior year same period due to an increase in purchase and refinancing activity.

Total gross non-covered loans and leases were $5.6 billion as of March 31, 2011, a decrease of $26.6 million as compared to December 31, 2010. This decrease is principally attributable to charge-offs and transfers to other real estate owned during the period.

Total deposits were $9.3 billion as of March 31, 2011, a decrease of $141.1 million, or 1%, as compared to December 31, 2010. Despite the decline in total deposits, non-interest bearing deposits increased $55.1 million, or 3%, and low cost savings accounts increased $20.6 million, or 6%, on a sequential quarter basis.

Total consolidated assets were $11.6 billion as of March 31, 2011, representing a decrease from the $11.7 billion at December 31, 2010. The decrease is attributable to the decrease in total loans and total deposits.

Non-covered, non-performing assets decreased to $177.0 million, or 1.53% of total assets, as of March 31, 2011, as compared to $178.0 million, or 1.53% of total assets, as of December 31, 2010. Non-covered, non-performing loans decreased to $142.5 million, or 2.53% of total non-covered loans, as of March 31, 2011, as compared to $145.2 million, or 2.57% of total non-covered loans as of December 31, 2010. Non-accrual loans have been written-down to their estimated net realizable values.

Net charge-offs on non-covered loans were $19.1 million for the three months ended March 31, 2011, or 1.38% of average non-covered loans and leases (annualized), as compared to net charge-offs of $39.0 million, or 2.66% of average non-covered loans and leases (annualized), for the three months ended March 31, 2010.

Total risk based capital decreased to 17.51% as of March 31, 2011, compared to 17.62% as of December 31, 2010, due to the increase in risk-based assets during the quarter.

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Cash dividends declared in the first quarter of 2011 were $0.05 per common share, consistent with the amounts declared since the fourth quarter of 2008.

Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2010 included in the Form 10-K filed with the Securities and Exchange Commission (SEC) on February 17, 2011. 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.

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 March 31, 2011. 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 FDIC 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 carrying value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted or amortized into non-interest income over the life of the FDIC indemnification asset, which is maintained at the loan pool level.

Mortgage Servicing Rights (MSR)

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

Retained mortgage servicing rights are measured at fair values as of the date of sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, 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 7 of the *Notes to Consolidated Financial Statements*.

Valuation of Goodwill and Intangible Assets

At March 31, 2011, we had $680.9 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstance indicate impairment potentially exists. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption may result in additional impairment of all, or some portion of, goodwill.

Stock-based Compensation

In accordance with FASB ASC 718, *Stock Compensation*, we recognize expense in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the Black-Scholes methodology, and ultimately, the expense that will be recognized over the life of the option. Additional information is included in Note 12 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 16 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 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 is 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 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 5 of the *Notes to Consolidated Financial Statements*.

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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 did not 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 did not have a material impact on the Company s consolidated financial statements.

In January 2011, the FASB issued ASU 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 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.

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. The Update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. The ASU also ends the deferral issued in January 2010 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The provisions of ASU No. 2011-02 and the disclosure requirements of ASU No. 2010-20 are effective for the Company s interim reporting period ending September 30, 2011. The guidance applies retrospectively to restructurings occurring on or after January 1, 2011. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial statements.

RESULTS OF OPERATIONS

OVERVIEW

For the three months ended March 31, 2011, net earnings available to common shareholders were $13.4 million, or $0.12 per diluted common share, as compared to net loss available to common shareholders of $3.7 million, or $0.04 per diluted common share for the three months ended March 31, 2010. The increase in net earnings for the three months ended March 31, 2011 compared to the same period of the prior year is principally attributable to increased net interest income and decreased provision for loan losses, partially offset by decreased non-interest income and increased non-interest expense. We assumed certain assets and liabilities of Evergreen, Rainier, and Nevada Security on January 22, 2010, February 26, 2010, and June 18, 2010, respectively, and the results of the acquired operations are included in our financial results starting on January 23, 2010, February 27, 2010, and June 19, 2010, respectively.

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

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the same diluted share total used in determining diluted earnings per common share.

The following table provides the reconciliation of earnings (loss) available to common shareholders (GAAP) to operating earnings (loss) (non-GAAP), and earnings (loss) per diluted common share (GAAP) to operating earnings (loss) per diluted share (non-GAAP) for the three months ended March 31, 2011 and 2010:

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

(in thousands, except per share data)

	Three months ended March 31, 2011	2010
Net earnings (loss) available to common shareholders	$ 13,405	$ (3,693)
Adjustments:		
Net loss (gain) on junior subordinated debentures carried at fair value, net of tax	325	(3,653)
Bargain purchase gain on acquisitions, net of tax	-	(3,862)
Merger-related expenses, net of tax	109	1,144
Operating earnings (loss)	$ 13,839	$ (10,064)
Per diluted share:		
Net earnings (loss) available to common shareholders	$ 0.12	$ (0.04)
Adjustments:		
Net loss (gain) on junior subordinated debentures carried at fair value, net of tax	-	(0.04)
Bargain purchase gain on acquisitions, net of tax	-	(0.04)
Merger-related expenses, net of tax	-	0.01
Operating earnings (loss)	$ 0.12	$ (0.11)

The following table presents the returns on average assets, average common shareholders equity and average tangible common shareholders equity for the three months ended March 31, 2011 and 2010. For each of the periods presented, the table includes the calculated ratios based on reported net earnings (loss) available to common shareholders and operating income (loss) as shown in the table above. Our return on average common shareholders equity is negatively impacted as the result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger-related intangible assets, we believe it beneficial to also consider the return on average tangible common shareholders equity. The return on average tangible common shareholders equity is calculated by dividing net earnings (loss) available to common shareholders by average shareholders common equity less average goodwill and intangible assets, net (excluding MSRs). The return on average tangible common shareholders equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders equity.

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

(dollars in thousands)

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	Three months ended March 31, 2011	2010
Returns on average assets:		
Net earnings (loss) available to common shareholders	0.47%	-0.15%
Operating earnings (loss)	0.48%	-0.41%
Returns on average common shareholders equity:		
Net earnings (loss) available to common shareholders	3.30%	-1.05%
Operating earnings (loss)	3.40%	-2.86%
Returns on average tangible common shareholders equity:		
Net earnings (loss) available to common shareholders	5.62%	-1.94%
Operating earnings (loss)	5.80%	-5.28%
Calculation of average common tangible shareholders equity:		
Average common shareholders equity	$ 1,649,674	$ 1,426,935
Less: average goodwill and other intangible assets, net	(681,494)	(653,778)
Average tangible common shareholders equity	$ 968,180	$ 773,157

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

The following table provides a reconciliation of ending shareholders equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of March 31, 2011 and December 31, 2010:

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

(dollars in thousands)

	March 31, 2011	December 31, 2010
Total shareholders equity	$ 1,651,427	$ 1,642,574
Subtract:		
Goodwill and other intangible assets, net	680,922	681,969
Tangible common shareholders equity	$ 970,505	$ 960,605
Total assets	$ 11,550,728	$ 11,668,710
Subtract:		
Goodwill and other intangible assets, net	680,922	681,969
Tangible assets	$ 10,869,806	$ 10,986,741
Tangible common equity ratio	8.93%	8.74%

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

NET INTEREST INCOME

Net interest income is the largest source of our operating income. Net interest income for the three months ended March 31, 2011 was $104.9 million, an increase of $17.9 million or 21% compared to the same period in 2010. The results for the three months ended March 31, 2011 as compared to the same period in 2010 are attributable to growth in outstanding average interest-earning assets, primarily covered loans and investment securities, and an increase in net interest margin, partially offset by growth in interest-bearing liabilities. In addition to organic growth, the FDIC-assisted purchase and assumption of certain assets and liabilities of Evergreen, Rainier, and Nevada Security, which were completed on January 22, 2010, February 26, 2010, and June 18, 2010, respectively, contributed to the increase in interest-earning assets and interest-bearing liabilities in the three months ended March 31, 2011 over the same period in 2010.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 4.18% for the three months ended March 31, 2011, an increase of 14 basis points as compared to the same period in 2010. The increase in net interest margin primarily resulted from investing excess interest earning cash into the investment portfolio, an increase in 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 an increase in interest and fee income reversals on non-covered, non-accrual loans, a decline in non-covered loans outstanding and an increase in interest-bearing liabilities.

Loan disposal related activities within the covered loan portfolio, either through loans being paid off in full or transferred to other real estate owned (OREO), result in gains within covered loan interest income to the extent assets received in satisfaction of debt (such as cash or the net realizable value of OREO received) exceeds the allocated carrying value of the loan disposed of from the pool. Loan disposal activities contributed $6.3 million of interest income for the three months ended March 31, 2011. No loan disposal gains were recognized during the three months ended March 31, 2010. Excluding the impact of covered loan disposal gains, consolidated net interest margin on a fully tax equivalent basis would have been 3.93% and 4.04% for the three months ended March 31, 2011 and 2010, respectively. While dispositions of covered loans positively impact net interest margin, we recognize a corresponding decrease to the change in FDIC indemnification asset at the incremental loss-sharing rate within other non-interest income.

Net interest income for the three months ended March 31, 2011 was negatively impacted by the $1.3 million reversal of interest and fee income on non-covered, non-accrual loans, as compared to the $1.1 million reversal of interest and fee income during the three months ended March 31, 2010. These reversals reduced tax equivalent net interest margin by 5 basis points for each respective period. Excluding the impact of covered loan disposal gains and interest and fee income reversals on non-covered, non-accrual loans, tax equivalent net interest margin would have been 3.98% for the three months ended 2011 and 4.09% for the three months ended March 31, 2010.

Also contributing to the increase in net interest margin in the current quarter as compared is to the same period of the prior year is the continued management to reduce the cost of interest-bearing liabilities, specifically interest-bearing deposits. The total cost of interest-bearing deposits for the three months ended March 31, 2011 was 0.83%, representing a 36 basis point decrease since the three months ended March 31, 2010.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds. The following table presents condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the three months ended March 31, 2011 and 2010:

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Average Rates and Balances

(dollars in thousands)

	Three months ended March 31, 2011			Three months ended March 31, 2010		
	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]	$ 5,671,457	$ 78,733	5.63%	$ 5,958,946	$ 84,453	5.75%
Covered loans and leases	767,911	21,547	11.38%	363,315	6,255	6.99%
Taxable securities	2,964,410	22,046	2.97%	1,610,407	16,075	3.99%
Non-taxable securities [2]	219,523	3,238	5.90%	221,405	3,235	5.84%
Temporary investments and interest-bearing deposits	652,844	401	0.25%	678,930	399	0.24%
Total interest earning assets	10,276,145	125,965	4.97%	8,833,003	110,417	5.07%
Allowance for loan and lease losses	(100,183)			(106,413)		
Other assets	1,396,789			1,250,810		
Total assets	$ 11,572,751			$ 9,977,400		
INTEREST-BEARING LIABILITIES:						
Interest-bearing checking and savings accounts	$ 4,703,292	$ 5,643	0.49%	$ 3,853,380	$ 7,424	0.78%
Time deposits	2,980,111	10,023	1.36%	2,535,712	11,365	1.82%
Federal funds purchased and repurchase agreements	84,136	122	0.59%	48,706	123	1.02%
Term debt	260,798	2,289	3.56%	180,955	1,520	3.41%
Junior subordinated debentures	183,423	1,913	4.23%	188,623	1,885	4.05%
Total interest-bearing liabilities	8,211,760	19,990	0.99%	6,807,376	22,317	1.33%
Non-interest-bearing deposits	1,644,452			1,448,668		
Other liabilities	66,865			62,094		
Total liabilities	9,923,077			8,318,138		
Preferred equity	-			232,327		
Common equity	1,649,674			1,426,935		
Total liabilities and shareholders equity	$ 11,572,751			$ 9,977,400		
NET INTEREST INCOME		$ 105,975			$ 88,100	
NET INTEREST SPREAD			3.98%			3.74%
AVERAGE YIELD ON EARNING ASSETS [1], [2]			4.97%			5.07%
INTEREST EXPENSE TO EARNING ASSETS			0.79%			1.03%

NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)	4.18%	4.04%

(1) Non-covered non-accrual loans, leases, and mortgage 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 $1.1 million and $1.0 million for the three months ended March 31, 2011 and 2010, respectively.

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 the three months ended March 31, 2011 as compared to the same period in 2010. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

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Rate/Volume Analysis

(in thousands)

	Three months ended March 31, 2011 compared to 2010 Increase (decrease) in interest income and expense due to changes in		
	Volume	**Rate**	**Total**
INTEREST-EARNING ASSETS:			
Non-covered loans and leases	$ (4,016)	$ (1,704)	$ (5,720)
Covered loans and leases	9,768	5,524	15,292
Taxable securities	10,872	(4,901)	5,971
Non-taxable securities (1)	(28)	31	3
Temporary investments and interest bearing deposits	(15)	17	2
Total (1)	16,581	(1,033)	15,548
INTEREST-BEARING LIABILITIES:			
Interest bearing checking and savings accounts	1,409	(3,191)	(1,782)
Time deposits	1,787	(3,128)	(1,341)
Repurchase agreements and federal funds	65	(66)	(1)
Term debt	698	71	769
Junior subordinated debentures	(53)	81	28
Total	3,906	(6,233)	(2,327)
Net increase in net interest income (1)	$ 12,675	$ 5,200	$ 17,875

(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 $15.0 million for the three months ended March 31, 2011, as compared to $42.1 million for the same period in 2010. As an annualized percentage of average outstanding loans, the provision for loan losses recorded for the three months ended March 31, 2011 was 1.08% as compared to 2.88% in the same period in 2010.

The decrease in the provision for loan and lease losses in the three months ended March 31, 2011 as compared to the same period in 2010 is principally attributable to non-covered loan upgrades exceeding downgrades within the portfolio, stabilization of non-performing loans, and the decrease in net charge-offs during the period.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Therefore, the non-covered, non-accrual loans of $136.1 million as of March 31, 2011 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 non-covered loan and lease losses. Additional discussion on loan quality and the allowance for non-covered loan and lease losses is provided under the heading *Asset Quality and Non-Performing Assets* below.

The provision for covered loan and lease losses was $7.3 million for the three months ended March 31, 2011, as compared to no provision for the same period in 2010. Provisions for covered loan and leases losses 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 non-covered 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

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Non-interest income for the three months ended March 31, 2011 was $21.6 million, a decrease of $8.5 million, or 28%, as compared to the same period in 2010. The following table presents the key components of non-interest income for the three months ended March 31, 2011 and 2010:

Non-Interest Income

(in thousands)

	Three months ended March 31, 2011	Three months ended March 31, 2010	Change Amount	Change Percent
Service charges on deposit accounts	$ 7,821	$ 8,365	$ (544)	-7%
Brokerage commissions and fees	3,377	2,639	738	28%
Mortgage banking revenue, net	5,275	3,478	1,797	52%
Loss on investment securities, net	(25)	(288)	263	-91%
(Loss) gain on junior subordinated debentures carried at fair value	(542)	6,088	(6,630)	-109%
Bargain purchase gain on acquisition	-	6,437	(6,437)	NM
Change in FDIC indemnification asset	2,905	610	2,295	376%
Other income	2,774	2,718	56	2%
Total	$ 21,585	$ 30,047	$ (8,462)	-28%

NM - Not meaningful

The decrease in deposit service charges in the three months ended March 31, 2011 compared to the same period in 2010 reflects a $1.6 million, or 34%, reduction in non-sufficient funds and overdraft fee revenue in the current period due to regulatory reform changes which took place in the third quarter of 2010. Other deposit service charges increased $1.1 million in the first quarter of 2011 as compared to the first quarter of 2010 as a result of the overall increase in deposits including deposits acquired from the Rainier, Evergreen and Nevada Security acquisitions.

Brokerage commissions and fees for the three months ended March 31, 2011 increased 28% as a result of the increase in assets under management under the Wealth Management segment.

Mortgage banking revenue for the three months ended March 31, 2011 increased due to an increase in purchase and refinancing activity, compared to the same period of the prior year. Closed mortgage volume for the three months ended March 31, 2011 was $166.7 million, representing a 31% increase compared to the same period of the prior year.

For the three months ended March 31, 2011, we recorded a loss of $542,000, as compared to a gain of $6.1 million for the three months ended March 31, 2010, in the change of fair value on the junior subordinated debentures recorded at fair value. Additional information on the junior subordinated debentures carried at fair value is included in Note 9 of the *Notes to Condensed Consolidated Financial Statements* and under the heading *Junior Subordinated Debentures*.

In the prior year, a bargain purchase gain of $6.4 million represented the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed in the Evergreen acquisition.

The change in FDIC indemnification asset represents an increase in cash flows expected to be recoverable under the loss-share agreements entered into with the FDIC in connection with the Evergreen, Rainier, and Nevada Security FDIC-assisted acquisitions.

NON-INTEREST EXPENSE

Non-interest expense for the three months ended March 31, 2011 was $84.2 million, an increase of $14.3 million, or 21%, as compared to the same period in 2010. The following table presents the key elements of non-interest expense for the three months ended March 31, 2011 and 2010:

Non-Interest Expense

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(in thousands)

	Three months ended March 31,			
	2011	2010	Change Amount	Change Percent
Salaries and employee benefits	$ 44,610	$ 36,240	$ 8,370	23%
Net occupancy and equipment	12,517	10,676	1,841	17%
Communications	2,810	2,224	586	26%
Marketing	851	1,009	(158)	-16%
Services	5,882	4,915	967	20%
Supplies	781	726	55	8%
FDIC assessments	3,873	3,444	429	12%
Net loss on other real estate owned	3,784	2,311	1,473	64%
Intangible amortization	1,251	1,308	(57)	-4%
Merger related expenses	181	1,906	(1,725)	-91%
Other expenses	7,661	5,112	2,549	50%
Total	$ 84,201	$ 69,871	$ 14,330	21%

Included in non-interest expense are several categories which are outside of the operational control of the Company or depend on changes in market values, including FDIC deposit insurance assessments and gain or loss on other real estate owned (OREO), as well as infrequently occurring expenses such as merger related costs. Excluding these non-controllable or infrequently occurring items, the remaining non-interest expense items totaled $76.4 million compared to $62.2 million for the first quarter of 2010.

Salaries and employee benefits costs increased $8.4 million in the three months ending March 31, 2011, as compared to the same period prior year. Approximately $2.0 million of the increase is the result of the acquisition of Rainier, Evergreen, and Nevada Security, with additional increases due to variable mortgage compensation based on increase volume and revenue, and the remainder primarily results from the increase in full-time equivalent employees.

Net occupancy and equipment expense increased $1.8 million for the three months ended March 31, 2011, as compared to the same period in the prior year. The growth in 2011 is the result of the cost of operating new locations through the acquisition of Rainier, Evergreen and Nevada Security, respectively, and the addition of five de novo Community Banking locations, one Commercial Banking Center and two Mortgage Offices during 2010. Additionally, during 2010 we remodeled 48 stores including locations acquired.

FDIC assessments increased for the three months ending March 31, 2011 as compared to the same period of the prior year. The increase resulted from organic deposit growth and deposit growth resulting from FDIC-assisted acquisitions.

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 merger-related expenses incurred in 2011 relate to the FDIC-assisted acquisitions of Evergreen, Rainier, and Nevada Security.

The slowdown in the housing industry, which has continued to detrimentally affect our non-covered loan portfolio, has led to a continued elevated level of foreclosures on related properties and movement of the properties into other real estate owned. Through the first quarter of 2011, declines in the market values of these properties after foreclosure resulted in additional losses on the sale of the properties or by valuation adjustments. In the three months ended March 31, 2011, the Company recognized net losses on OREO of $3.8 million as compared to net losses of $2.3 million in the same period a year ago. Included within the results for the three months ended March 31, 2011, the Company recognized net losses on sale and valuation adjustments of covered OREO properties of $1.0 million as compared to no losses in the same period a year ago.

Other expenses increased $2.5 million in the three months ending March 31, 2011, as compared to the same period in the prior year. The increase is primarily associated with covered and non-covered loan and covered and non-covered OREO workout costs, as well as various growth initiatives underway.

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for the three months ended March 31, 2011 was 32.6% as compared to (66.2)% for the three months ended March 31, 2010. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 5.4% (net of the federal tax benefit) principally because of non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities, tax credits arising from low income housing investments, and Business Energy tax credits.

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FINANCIAL CONDITION

INVESTMENT SECURITIES

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 certain executives or former employees of acquired institutions as required by agreements. Trading securities were $2.6 million at March 31, 2011, as compared to $3.0 million at December 31, 2010. This decrease is principally attributable to a decrease in Umpqua Investments inventory of trading securities.

Investment securities available for sale were $3.3 billion as of March 31, 2011 compared to $2.9 billion at December 31, 2010. Purchases of $521.3 million of investment securities available for sale and an increase in fair value of investments securities available for sale of $815,000 were partially offset by paydowns of $142.9 million and amortization of net purchase price premiums of $9.1 million.

Investment securities held to maturity were $4.6 million as of March 31, 2011 as compared to holdings of $4.8 million at December 31, 2010. The change primarily relates to paydowns and maturities of investment securities held to maturity of $186,000.

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of March 31, 2011 and December 31, 2010:

Investment Securities Composition

(dollars in thousands)

	Investment Securities Available for Sale			
	March 31, 2011		December 31, 2010	
	Fair Value	%	Fair Value	%
U.S. Treasury and agencies	$ 118,574	4%	$ 118,789	4%
Obligations of states and political subdivisions	224,531	7%	216,726	8%
Residential mortgage-backed securities and collateralized mortgage obligations	2,939,960	89%	2,581,504	88%
Other debt securities	152	-	152	-
Investments in mutual funds and other equity securities	2,002	-	2,009	-
Total	$ 3,285,219	100%	$ 2,919,180	100%

	Investment Securities Held to Maturity			
	March 31, 2011		December 31, 2010	
	Amortized Cost	%	Amortized Cost	%
Obligations of states and political subdivisions	$ 2,350	51%	$ 2,370	50%
Residential mortgage-backed securities and collateralized mortgage obligations	2,284	49%	2,392	50%
Total	$ 4,634	100%	$ 4,762	100%

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of

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additional credit losses the security is reevaluated according to the procedures described above.

The following tables present the OTTI losses for the three months ended March 31, 2011 and 2010 in the held to maturity portfolio:

(in thousands)

	Three months ended March 31	
	2011	**2010**
Total other-than-temporary impairment losses	$ -	$ 5
Portion of other-than-temporary impairment losses transferred from other comprehensive income [(1)]	25	284
Net impairment losses recognized in earnings [(2)]	$ 25	$ 289

(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 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 collateralized mortgage obligations as of March 31, 2011 and 2010:

	2011			2010		
	Range		Weighted	Range		Weighted
	Minimum	**Maximum**	**Average**	**Minimum**	**Maximum**	**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%	16.8%
Loss severity	25.0%	55.0%	37.9%	20.0%	50.0%	34.7%

Gross unrealized losses in the available for sale investment portfolio was $17.3 million at March 31, 2011. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $16.9 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 portfolio is provided in Note 3 of the *Notes to Condensed Consolidated Financial Statements*.

RESTRICTED EQUITY SECURITIES

Restricted equity securities were $34.3 million at March 31, 2011 and $34.5 million at December 31, 2010. The decrease of $181,000 is attributable to a stock redemption by the Federal Home Loan Bank (FHLB) of San Francisco during the quarter. Of the $34.3 million at March 31, 2011, $33.0 million represent the Bank s investment in the FHLB of Seattle and San Francisco. The remaining restricted equity securities represent investments in Pacific Coast Bankers Bancshares stock.

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. Although as of March 31, 2011, 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). 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.

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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. Moody s Investors Services rating of the FHLB of Seattle as Aaa with stable outlook was reaffirmed in May 2010, Standard and Poors rating of AA+ was reaffirmed in July 2010 and Fitch Ratings assigned a AAA rating with stable rating outlook in April 2011, reflecting the assumption of U.S. Government support. The Company has determined there is not an other-than-temporary impairment on the FHLB stock investment as of March 31, 2011.

LOANS AND LEASES

Non-covered loans and leases

Total non-covered loans and leases outstanding at March 31, 2011 were $5.6 billion, a decrease of $22.6 million as compared to year-end 2010. This decrease is principally attributable to charge-offs of $20.9 million and transfers to other real estate owned of $9.9 million, and net loan originations of $6.5 million during the period. The following table presents the concentration distribution of our non-covered loan portfolio at March 31, 2011 and December 31, 2010.

Non-covered Loan Concentrations

(dollars in thousands)

	March 31, 2011		December 31, 2010	
	Amount	**Percentage**	**Amount**	**Percentage**
Commercial real estate				
Term & multifamily	$ 3,488,079	61.9%	$ 3,483,475	61.6%
Construction & development	219,258	3.9%	247,814	4.4%
Residential development	132,078	2.3%	147,813	2.6%
Commercial				
Term	531,628	9.4%	509,453	9.0%
LOC & other	740,021	13.1%	747,419	13.2%
Residential				
Mortgage	225,579	4.0%	222,416	3.9%
Home equity loans & lines	275,403	5.0%	278,585	4.9%
Consumer & other	31,601	0.6%	33,043	0.6%
Deferred loan fees, net	(11,284)	-0.2%	(11,031)	-0.2%
Total	$ 5,632,363	100.0%	$ 5,658,987	100.0%

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

Covered loans and leases

Total covered loans and leases outstanding at March 31, 2011 were $741.6 million, a decrease of $44.3 million as compared to year-end 2010. This decrease is principally attributable to net loan paydowns and maturities of $32.1 million and transfers to covered other real estate owned of $3.0 million. The following table presents the concentration distribution of our covered loan portfolio at March 31, 2011 and December 31, 2010.

Covered Loan Concentrations

(dollars in thousands)

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	March 31, 2011		December 31, 2010	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Term & multifamily	$ 544,545	73.4%	$ 569,642	72.5%
Construction & development	20,218	2.7%	22,435	2.9%
Residential development	19,712	2.7%	24,706	3.1%
Commercial				
Term	40,065	5.4%	42,600	5.4%
LOC & other	30,954	4.2%	35,227	4.5%
Residential				
Mortgage	43,060	5.8%	44,824	5.7%
Home equity loans & lines	33,145	4.5%	35,625	4.5%
Consumer & other	9,931	1.3%	10,839	1.4%
Total	$ 741,630	100.0%	$ 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. As of March 31, 2011, losses have exceeded $30.2 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 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

Non-covered, non-performing loans, which include non-covered, non-accrual loans and non-covered accruing loans past due over 90 days, totaled $142.5 million, or 2.53% of non-covered total loans, at March 31, 2011, as compared to $145.2 million or 2.57% of total non-covered loans, at December 31, 2010. Non-covered non-performing assets, which include non-covered non-performing loans and non-covered OREO, totaled $177.0 million, or 1.53% of total assets, as of March 31, 2011, as compared to $178.0 million, or 1.53% of total assets, as of December 31, 2010.

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. 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 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 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

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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 of maturity or payment of principal or interest by 90 days or more unless such loans are well-secured and in the process of collection. Additionally, all non-covered 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 three months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on i) updated appraisals received during the period, or ii) 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 March 31, 2011 totaled $34.5 million and consisted of 46 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 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 March 31, 2011 to their estimated net realizable value, based on disposition value, and are expected to be resolved with no additional material loss, absent further decline in market prices. The following table summarizes our non-covered non-performing assets and restructured loans as of March 31, 2011 and December 31, 2010:

Non-covered Non-Performing Assets

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(in thousands)

	March 31, 2011	December 31, 2010
Non-covered loans on non-accrual status	$ 136,125	$ 138,177
Non-covered loans past due 90 days or more and accruing	6,327	7,071
Total non-covered non-performing loans	142,452	145,248
Non-covered other real estate owned	34,512	32,791
Total non-covered non-performing assets	$ 176,964	$ 178,039
Restructured loans (1)	$ 67,499	$ 84,441
Allowance for loan losses	$ 97,833	$ 101,921
Reserve for unfunded commitments	911	818
Allowance for credit losses	$ 98,744	$ 102,739
Asset quality ratios:		
Non-covered, non-performing assets to total assets	1.53%	1.53%
Non-covered, non-performing loans to total non-covered loans	2.53%	2.57%
Allowance for loan losses to total non-covered loans	1.74%	1.80%
Allowance for credit losses to total non-covered loans	1.75%	1.82%
Allowance for credit losses to total non-covered non-performing loans	69%	71%

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

The following tables summarize our non-covered non-performing assets by loan type and region as of March 31, 2011 and December 31, 2010:

Non-covered Non-Performing Assets by Type and Region

(in thousands)

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	March 31, 2011						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Loans on non-accrual status:							
Commercial real estate							
Term & multifamily	$ 31,265	$ 2,341	$ -	$ 2,074	$ 9,379	$ 10,054	$ 55,113
Construction & development	10,061	-	472	-	9,039	109	19,681
Residential development	13,871	-	829	3,033	8,073	7,954	33,760
Commercial							
Term	840	2,012	239	194	559	3,155	6,999
LOC & other	7,181	476	130	3,982	6,692	2,111	20,572
Residential							
Mortgage	-	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-	-
Total	63,218	4,829	1,670	9,283	33,742	23,383	136,125
Loans past due 90 days or more and accruing:							
Commercial real estate							
Term & multifamily	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction & development	-	-	-	-	-	-	-
Residential development	-	-	-	-	-	-	-
Commercial	-	-	-	-	-	-	-
Term	-	-	-	-	-	-	-
LOC & other	-	-	-	-	-	-	-
Residential							
Mortgage	4,078	-	-	-	-	-	4,078
Home equity loans & lines	285	-	-	200	1,247	-	1,732
Consumer & other	413	-	-	100	4	-	517
Total	4,776	-	-	300	1,251	-	6,327
Total non-performing loans	67,994	4,829	1,670	9,583	34,993	23,383	142,452
Other real estate owned:							
Commercial real estate							
Term & multifamily	$ 5,826	$ 837	$ 2,063	$ -	$ 2,523	$ 5,316	$ 16,565
Construction & development	4,590	539	-	313	3,991	-	9,433
Residential development	590	1,934	2,094	83	174	1,064	5,939
Commercial							
Term	-	-	-	-	-	44	44
LOC & other	-	359	282	968	-	-	1,609
Residential							
Mortgage	922	-	-	-	-	-	922
Home equity loans & lines	-	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-	-
Total	11,928	3,669	4,439	1,364	6,688	6,424	34,512
Total non-performing assets	$ 79,922	$ 8,498	$ 6,109	$ 10,947	$ 41,681	$ 29,807	$ 176,964

	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	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

As of March 31, 2011, the non-covered non-performing assets of $177.0 million have been written down by 41%, or $121.1 million, from their original balance of $298.1 million.

Our 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 for the periods shown:

Non-covered Residential Development Loans

(dollars in thousands)

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	December 31, 2010	March 31, 2011	Change Since December 31, 2010
Northwest Oregon	$ 64,263	$ 59,862	-7%
Central Oregon	3,629	2,035	-44%
Southern Oregon	6,256	4,607	-26%
Washington	9,308	9,766	5%
Greater Sacramento	49,329	41,537	-16%
Northern California	15,028	14,207	-5%
Total	$ 147,813	$ 132,014	-11%
Percentage of total non-covered loan portfolio	3%	2%	
Quarterly change amount		$ (15,799)	

At March 31, 2011, $33.8 million, or 24%, of the total $142.5 million of non-covered non-performing loans were non-covered residential development loans. The following table presents a geographic distribution of the non-covered non-performing residential development loans for the periods shown:

Non-covered Residential Development Non-Performing Loans

(dollars in thousands)

	December 31, 2010	March 31, 2011	Change Since December 31, 2010
Northwest Oregon	$ 10,191	$ 13,871	36%
Central Oregon	110	-	-100%
Southern Oregon	2,122	829	-61%
Washington	3,033	3,033	0%
Greater Sacramento	10,761	8,073	-25%
Northern California	8,369	7,954	-5%
Total	$ 34,586	$ 33,760	-2%
Percentage of non-covered non-performing loans	24%	24%	
Quarterly change amount		$ (826)	

The following table presents the remaining non-covered performing residential development loans by size and geographic distribution as of March 31, 2011:

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	$ 1,889	$ 4,549	$ 8,742	$ 10,277	$ 6,160	$ 14,374	$ 45,991

Central Oregon	379	1,656					2,035
Southern Oregon	833	1,845	1,100				3,778
Washington	1,110	339	5,284				6,733
Greater Sacramento	3,379	3,114	3,661		11,455	11,855	33,464
Northern California	1,083	1,026	4,144				6,253
Total	$ 8,673	$ 12,529	$ 22,931	$ 10,277	$ 17,615	$ 26,229	$ 98,254

Of the remaining non-covered non-performing loan balances as of March 31, 2011, 33% 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 were performed on both our non-owner and owner occupied credits. These reviews were completed to verify leasing status, to ensure the accuracy of risk ratings, and to develop proactive action plans with borrowers on projects where debt service

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coverage has dropped below the Bank s benchmark. 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.

At March 31, 2011 and December 31, 2010, non-covered impaired loans of $67.5 million and $84.4 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 has no obligations to lend additional funds on the restructured loans as of March 31, 2011.

The following tables summarize our performing non-covered restructured loans by loan type and region as of March 31, 2011 and December 31, 2010:

Non-covered Restructured Loans by Type and Region

(in thousands)

	March 31, 2011					
	Northwest Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate						
Term & multifamily	$	$ 3,888	$	$ 11,336	$ 3,536	$ 18,760
Construction & development				5,468		5,468
Residential development	14,895		5,284	21,718		41,897
Commercial						
Term					899	899
LOC & other					297	297
Residential						
Mortgage	178					178
Home equity loans & lines						
Consumer & other						
Total	$ 15,073	$ 3,888	$ 5,284	$ 38,522	$ 4,732	$ 67,499

	December 31, 2010					
	Northwest 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						
Term					904	904
LOC & other					298	298
Residential						
Mortgage	179					179
Home equity loans & lines						
Consumer & other						
Total	$ 31,902	$ 3,888	$ 5,330	$ 38,576	$ 4,745	$ 84,441

The following table presents a distribution of our performing non-covered restructured loans by year of maturity, according to the restructured terms, as of March 31, 2011:

(in thousands)

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Year	Amount
2011	$ 41,674
2012	16,745
2013	-
2014	1,618
2015	4,832
Thereafter	2,630
Total	$ 67,499

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 4 of the *Notes to Condensed Consolidated Financial Statements*.

Covered Non-Performing Assets

Covered nonperforming assets totaled $27.7 million, or 0.24% of total assets at March 31, 2011 as compared to $29.9 million, or 0.26% of total assets at December 31, 2010. These covered nonperforming assets are subject to shared-loss agreements with the FDIC. The following tables summarize our covered non-performing assets by loan type as of March 31, 2011 and December 31, 2010:

(in thousands)

	March 31, 2011			
	Evergreen	Rainier	Nevada Security	Total
Covered other real estate owned:				
Commercial real estate				
Term & multifamily	$ 2,586	$ 209	$ 7,085	$ 9,880
Construction & development	2,432	-	2,161	4,593
Residential development	1,301	6,849	3,688	11,838
Commercial				
Term	284	-	-	284
LOC & other	120	-	-	120
Residential				
Mortgage	-	974	-	974
Home equity loans & lines				