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: **June 30, 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: 114,538,506 shares outstanding as of July 29, 2011

Table of Contents

UMPQUA HOLDINGS CORPORATION

FORM 10-Q

Table of Contents

Table of Contents

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

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

	June 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 137,033	$ 111,946
Interest bearing deposits	478,221	891,634
Temporary investments	628	545
Total cash and cash equivalents	615,882	1,004,125
Investment securities		
Trading, at fair value	2,522	3,024
Available for sale, at fair value	3,177,460	2,919,180
Held to maturity, at amortized cost	5,553	4,762
Loans held for sale	60,416	75,626
Non-covered loans and leases	5,735,553	5,658,987
Allowance for non-covered loan and lease losses	(97,795)	(101,921)
Net non-covered loans and leases	5,637,758	5,557,066
Covered loans and leases, net of allowance of $10,219 and $2,721	698,676	785,898
Restricted equity securities	32,839	34,475
Premises and equipment, net	145,192	136,599
Goodwill and other intangible assets, net	679,671	681,969
Mortgage servicing rights, at fair value	16,350	14,454
Non-covered other real estate owned	34,409	32,791
Covered other real estate owned	30,153	29,863
FDIC indemnification asset	116,928	146,413
Other assets	205,883	242,465
Total assets	$ 11,459,692	$ 11,668,710
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 1,733,640	$ 1,616,687
Interest bearing	7,412,772	7,817,118
Total deposits	9,146,412	9,433,805
Securities sold under agreements to repurchase	120,889	73,759
Term debt	256,719	262,760
Junior subordinated debentures, at fair value	81,766	80,688
Junior subordinated debentures, at amortized cost	102,705	102,866
Other liabilities	76,880	72,258
Total liabilities	9,785,371	10,026,136

COMMITMENTS AND CONTINGENCIES (NOTE 10)		
SHAREHOLDERS EQUITY		
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 114,537,782 in 2011 and 114,536,814 in 2010	1,540,933	1,540,928
Retained earnings	96,434	76,701
Accumulated other comprehensive income	36,954	24,945
Total shareholders equity	1,674,321	1,642,574
Total liabilities and shareholders equity	$ 11,459,692	$ 11,668,710

See notes to condensed consolidated financial statements

3

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
INTEREST INCOME				
Interest and fees on loans	$ 101,547	$ 97,240	$ 201,827	$ 187,948
Interest and dividends on investment securities				
Taxable	24,348	15,569	46,391	31,644
Exempt from federal income tax	2,178	2,247	4,343	4,434
Dividends	4	3	7	3
Interest on temporary investments and interest bearing deposits	340	545	741	944
Total interest income	128,417	115,604	253,309	224,973
INTEREST EXPENSE				
Interest on deposits	14,698	18,463	30,364	37,252
Interest on securities sold under agreement to repurchase and federal funds purchased	131	123	253	246
Interest on term debt	2,301	2,779	4,590	4,299
Interest on junior subordinated debentures	1,926	1,939	3,839	3,824
Total interest expense	19,056	23,304	39,046	45,621
Net interest income	109,361	92,300	214,263	179,352
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	15,459	29,767	30,489	71,873
PROVISION FOR COVERED LOAN AND LEASE LOSSES	3,755	-	11,023	-
Net interest income after provision for loan and lease losses	90,147	62,533	172,751	107,479
NON-INTEREST INCOME				
Service charges on deposit accounts	8,540	9,585	16,361	17,950
Brokerage commissions and fees	3,276	3,139	6,653	5,778
Mortgage banking revenue, net	4,807	3,209	10,082	6,687
Gain (loss) on investment securities, net				
Gain on sale of investment securities, net	5,678	-	5,678	1
Total other-than-temporary impairment losses	(110)	-	(110)	(5)
Portion of other-than-temporary impairment losses transferred from	-			
other comprehensive income	63	-	38	(284)
Total gain (loss) on investment securities, net	5,631	-	5,606	(288)
(Loss) gain on junior subordinated debentures carried at fair value	(547)	-	(1,089)	6,088
Bargain purchase gain on acquisition	-	-	-	6,437

Change in FDIC indemnification asset	(5,551)	263	(2,646)	873
Other income	3,471	2,367	6,245	5,085
Total non-interest income	19,627	18,563	41,212	48,610
NON-INTEREST EXPENSE				
Salaries and employee benefits	43,808	39,604	88,418	75,844
Net occupancy and equipment	12,547	11,472	25,064	22,148
Communications	2,796	2,596	5,606	4,820
Marketing	1,798	1,714	2,649	2,723
Services	6,026	5,831	11,908	10,746
Supplies	843	1,003	1,624	1,729
FDIC assessments	2,821	3,555	6,694	6,999
Net loss (gain) on other real estate owned	3,917	(952)	7,701	1,359
Intangible amortization	1,251	1,368	2,502	2,676
Merger related expenses	71	2,169	252	4,075
Other expenses	7,329	6,473	14,990	11,585
Total non-interest expense	83,207	74,833	167,408	144,704
Income before provision for income taxes	26,567	6,263	46,555	11,385
Provision for (benefit from) income taxes	8,782	2,800	15,303	(592)
Net income	$ 17,785	$ 3,463	$ 31,252	$ 11,977

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income	$ 17,785	$ 3,463	$ 31,252	11,977
Preferred stock dividends	-	-	-	12,192
Dividends and undistributed earnings allocated to participating securities	86	16	148	31
Net earnings (loss) available to common shareholders	$ 17,699	$ 3,447	$ 31,104	$ (246)
Earnings (loss) per common share:				
Basic	$ 0.15	$ 0.03	$ 0.27	$ -
Diluted	$ 0.15	$ 0.03	$ 0.27	$ -
Weighted average number of common shares outstanding:				
Basic	114,611	110,135	114,593	101,205
Diluted	114,785	114,733	114,796	101,435

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(in thousands, except shares)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) 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				31,252		31,252
Other comprehensive income, net of tax					12,009	12,009
Comprehensive income						$ 43,261
Stock-based compensation			1,987			1,987
Stock repurchased and retired		(170,205)	(1,960)			(1,960)
Issuances of common stock under stock plans and related net tax deficiencies		171,173	(22)			(22)
Cash dividends on common stock ($0.10 per share)				(11,519)		(11,519)
Balance at June 30, 2011	$ -	114,537,782	$ 1,540,933	$ 96,434	$ 36,954	$ 1,674,321

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Net income	$ 17,785	$ 3,463	$ 31,252	$ 11,977
Available for sale securities:				
Unrealized gains arising during the period	24,835	14,249	25,649	28,094
Reclassification adjustment for net gains realized in earnings (net of tax expense of $2,271 for the three months ended June 30, 2011 and net of tax expense of $2,271 and $1 for the six months ended June 30, 2011 and 2010, respectively)	(3,407)	-	(3,407)	(1)
Income tax expense related to unrealized gains	(9,934)	(5,699)	(10,259)	(11,238)
Net change in unrealized gains	11,494	8,550	11,983	16,855
Held to maturity securities:				
Unrealized (losses) gains related to factors other than credit (net of tax benefit of $35 and $30 for the three and six months ended June 30, 2011, respectively, and tax expense of $69 for the six months ended June 30, 2010)	(53)	-	(45)	103
Reclassification adjustment for impairments realized in net income (net of tax benefit of $10 for the three months ended June 30, 2011, and net of tax benefit of $20 and $116 for the six months ended June 30, 2011 and 2010, respectively)	15	-	30	173
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $10 and $34 for the three months ended June 30, 2011 and 2010, respectively, and net of tax benefit of $27 and $74 for the six months ended June 30, 2011 and 2010, respectively)	15	50	41	112
Net change in unrealized losses related to factors other than credit	(23)	50	26	388
Other comprehensive income, net of tax	11,471	8,600	12,009	17,243
Comprehensive income	$ 29,256	$ 12,063	$ 43,261	$ 29,220

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Six months ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 31,252	$ 11,977
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	16,389	7,196
Gain on sale of investment securities, net	(5,678)	(1)
Other-than-temporary impairment on investment securities held to maturity	72	289
Loss on sale of non-covered other real estate owned	1,160	1,156
Gain on sale of covered other real estate owned	(898)	(1,519)
Valuation adjustment on non-covered other real estate owned	5,518	1,721
Valuation adjustment on covered other real estate owned	1,921	5
Provision for non-covered loan and lease losses	30,489	71,873
Provision for covered loan and lease losses	11,023	-
Bargain purchase gain on acquisition	-	(6,437)
Change in FDIC indemnification asset	2,646	(873)
Depreciation, amortization and accretion	6,218	7,186
Increase in mortgage servicing rights	(2,407)	(2,008)
Change in mortgage servicing rights carried at fair value	511	1,800
Change in junior subordinated debentures carried at fair value	1,078	(6,076)
Stock-based compensation	1,987	1,425
Net decrease in trading account assets	502	530
Gain on sale of loans	(1,819)	(3,441)
Origination of loans held for sale	(290,058)	(248,744)
Proceeds from sales of loans held for sale	307,087	245,788
Excess tax benefits from the exercise of stock options	(4)	(56)
Change in other assets and liabilities:		
Net decrease in other assets	5,954	15,369
Net increase in other liabilities	4,759	27,810
Net cash provided by operating activities	127,680	124,970
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(690,720)	(197,709)
Purchases of investment securities held to maturity	(1,573)	-
Proceeds from investment securities available for sale	441,721	133,573
Proceeds from investment securities held to maturity	757	883
Redemption of restricted equity securities	1,636	92
Net non-covered loan and lease (originations) paydowns	(136,582)	169,418
Net covered loan and lease paydowns	63,417	49,379
Proceeds from sales of loans	6,777	21,009
Proceeds from disposals of furniture and equipment	180	1,096
Purchases of premises and equipment	(16,877)	(33,687)
Net proceeds from FDIC indemnification asset	48,850	6,764
Proceeds from sales of non-covered other real estate owned	17,026	13,931

Proceeds from sales of covered other real estate owned	7,355	2,832
Proceeds from sale of acquired insurance portfolio	-	5,150
Cash acquired in merger, net of cash consideration paid	-	179,046
Net cash (used) provided by investing activities	(258,033)	351,777

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)

	Six months ended June 30, 2011	Six months ended June 30, 2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposit liabilities	(286,867)	(29,686)
Net increase (decrease) in securities sold under agreements to repurchase	47,130	(465)
Repayment of term debt	(5,000)	(138,719)
Redemption of preferred stock	-	(214,181)
Proceeds from issuance of preferred stock	-	198,289
Net proceeds from issuance of common stock	-	89,786
Redemption of warrants	-	(4,500)
Dividends paid on preferred stock	-	(3,682)
Dividends paid on common stock	(11,506)	(9,137)
Excess tax benefits from stock based compensation	4	56
Proceeds from stock options exercised	309	918
Retirement of common stock	(1,960)	(259)
Net cash used by financing activities	(257,890)	(111,580)
Net (decrease) increase in cash and cash equivalents	(388,243)	365,167
Cash and cash equivalents, beginning of period	1,004,125	605,413
Cash and cash equivalents, end of period	$ 615,882	$ 970,580
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 41,302	$ 46,373
Income taxes	$ 6,850	$ 150
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$ 11,983	$ 16,855
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$ 26	$ 388
Cash dividend declared on common and preferred stock and payable after period-end	$ 5,754	$ 5,743
Transfer of non-covered loans to non-covered other real estate owned	$ 25,322	$ 17,895
Transfer of covered loans to covered other real estate owned	$ 8,668	$ 2,669
Transfer from FDIC indemnification asset to due from FDIC and other	$ 26,839	$ 23,037
Transfer of covered loans to non-covered loans	$ 4,114	$ -
Conversion of preferred stock to common stock		$ 198,289
Acquisitions:		
Assets acquired	$ -	$ 1,512,048
Liabilities assumed	$ -	$ 1,505,611

See notes to condensed consolidated financial statements

9

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

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. In preparing these financial statements, the Company has evaluated events and transactions subsequent to June 30, 2011 for potential recognition or disclosure. 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 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 $9.8 million and $24.5 million, non-interest expense of $4.8 million and $9.4 million, and earnings of $1.4 million and $5.4 million, net of tax, for the three and six months ended June 30, 2011, and added combined revenue of $10.4 million and $22.8 million, non-interest expense of $6.6 million and $11.3 million, and earnings of $2.5 million and $7.6 million, net of tax, for the three and six months ended June 30, 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 $52,000 and $102,000 for the three and six months ended June 30, 2011, respectively, and $1.6 million and $3.3 million for the three and six months ended June 30, 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, 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 $2.8 million and $9.4 million, non-interest expense of $2.6 million and $6.1 million, and loss of $532,000 and $627,000, net of tax, for the three and six months ended, June 30, 2011 and revenue of $529,000, non-interest expense of $582,000, and loss of $34,000, net of tax, for the three and six months ended, June 30, 2010, respectively. Nevada Security s results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $12,000 and $23,000 for the three and six months ended June 30, 2011, respectively, and $402,000 for the three and six months ended June 30, 2010, respectively, 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 loans and other real estate owned that are subject to the loss-sharing agreements 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.

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.

Table of Contents

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 $36.5 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 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. 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 $2.0 million of real estate and furniture and equipment for Nevada Security. The Bank had the option to purchase one store location as part of the Nevada Security acquisition and purchased it in the second 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 June 30, 2011 and December 31, 2010:

12

Table of Contents

June 30, 2011

(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 117,392	$ 1,561	$ -	$ 118,953
Obligations of states and political subdivisions	213,053	10,072	(227)	222,898
Residential mortgage-backed securities and collateralized mortgage obligations	2,782,517	54,657	(3,745)	2,833,429
Other debt securities	152	-	(2)	150
Investments in mutual funds and other equity securities	1,959	71	-	2,030
	$ 3,115,073	$ 66,361	$ (3,974)	$ 3,177,460
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 1,945	$ 3	$ -	$ 1,948
Residential mortgage-backed securities and collateralized mortgage obligations	3,608	202	(25)	3,785
	$ 5,553	$ 205	$ (25)	$ 5,733

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 June 30, 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.

Table of Contents

(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:						
Obligations of states and political subdivisions	$ 10,716	$ 210	$ 1,831	$ 17	$ 12,547	$ 227
Residential mortgage-backed securities and collateralized mortgage obligations	709,167	3,727	4,476	18	713,643	3,745
Other debt securities	-	-	150	2	150	2
Total temporarily impaired securities	$ 719,883	$ 3,937	$ 6,457	$ 37	$ 726,340	$ 3,974
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 345	$ 25	$ 345	$ 25
Total temporarily impaired securities	$ -	$ -	$ 345	$ 25	$ 345	$ 25

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 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 June 30, 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 June 30, 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 impairment related to factors other than credit 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.

Table of Contents

The following tables present the OTTI losses for the three and six months ended June 30, 2011 and 2010:

(in thousands)

	Three months ended June 30, 2011	Three months ended June 30, 2010
Total other-than-temporary impairment losses	$ 110	$ -
Portion of other-than-temporary impairment losses recognized in other comprehensive income (1)	(63)	-
Net impairment losses recognized in earnings (2)	$ 47	$ -

	Six months ended June 30, 2011	Six months ended June 30, 2010
Total other-than-temporary impairment losses	$ 110	$ 5
Portion of other-than-temporary impairment losses (recognized in) transferred from other comprehensive income (1)	(38)	284
Net impairment losses recognized in earnings (2)	$ 72	$ 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 June 30, 2011 and 2010:

	2011			2010		
	Range		Weighted	Range		Weighted
	Minimum	Maximum	Average	Minimum	Maximum	Average
Constant prepayment rate	5.0%	20.0%	14.4%	4.0%	25.0%	14.9%
Collateral default rate	5.0%	30.0%	13.2%	8.0%	45.0%	16.8%
Loss severity	30.0%	65.0%	39.0%	20.0%	50.0%	34.6%

The following table presents a roll forward of the credit loss component of held to maturity debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in OCI for the three and six months ended June 30, 2011 and 2010:

Table of Contents

(in thousands)

	Three months ended June 30, 2011	2010
Balance, beginning of period	$ 12,803	$ 12,653
Subsequent OTTI credit losses	47	-
Balance, end of period	$ 12,850	$ 12,653

(in thousands)

	Six months ended June 30, 2011	2010
Balance, beginning of period	$ 12,778	$ 12,364
Subsequent OTTI credit losses	72	289
Balance, end of period	$ 12,850	$ 12,653

The following table presents the maturities of investment securities at June 30, 2011:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$ 17,296	$ 17,379	$ 590	$ 591
Over three months through twelve months	287,207	294,045	85	85
After one year through five years	1,992,369	2,037,495	613	618
After five years through ten years	750,874	761,393	49	50
After ten years	65,368	65,118	4,216	4,389
Other investment securities	1,959	2,030	-	-
	$ 3,115,073	$ 3,177,460	$ 5,553	$ 5,733

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 and six months ended June 30, 2011 and 2010:

(in thousands)

Three months ended June 30, 2011	Three months ended June 30, 2010

	Gains	Losses	Gains	Losses
Obligations of states and political subdivisions	$ 7	$ -	$ -	$ -
Residential mortgage-backed securities and collateralized mortgage obligations	6,475	804	-	-
	$ 6,482	$ 804	$ -	$ -

	Six months ended June 30, 2011		Six months ended June 30, 2010	
	Gains	Losses	Gains	Losses
Obligations of states and political subdivisions	$ 7	$ -	$ 2	$ 1
Residential mortgage-backed securities and collateralized mortgage obligations	6,475	804	-	-
	$ 6,482	$ 804	$ 2	$ 1

The following table presents, as of June 30, 2011, investment securities which were pledged to secure borrowings and public deposits as permitted or required by law:

Table of Contents

(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$ 226,584	$ 237,852
To state and local governments to secure public deposits	599,429	622,425
Other securities pledged	163,987	165,943
Total pledged securities	$ 990,000	$ 1,026,220

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 June 30, 2011 and December 31, 2010:

(in thousands)

	June 30, 2011	December 31, 2010
Commercial real estate		
Term & multifamily	$ 3,532,134	$ 3,483,475
Construction & development	184,707	247,814
Residential development	112,657	147,813
Commercial		
Term	572,402	509,453
LOC & other	788,268	747,419
Residential		
Mortgage	245,034	222,416
Home equity loans & lines	277,453	278,585
Consumer & other	34,584	33,043
Total	5,747,239	5,670,018
Deferred loan fees, net	(11,686)	(11,031)
Total	$ 5,735,553	$ 5,658,987

As of June 30, 2011, loans totaling $3.5 billion were pledged to secure borrowings and available lines of credit.

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

Allowance for Non-Covered 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.

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.

Table of Contents

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 are assigned at origination and 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 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. 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.

Management believes that the ALLL was adequate as of June 30, 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 80% 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 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.

Table of Contents

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.

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

The following tables summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan portfolio segment for the three and six months ended June 30, 2011 and 2010, respectively:

Table of Contents

(in thousands)

	Three Months Ended June 30, 2011					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 63,528	$ 20,798	$ 5,626	$ 856	$ 7,025	$ 97,833
Charge-offs	(12,883)	(3,179)	(2,195)	(354)	-	(18,611)
Recoveries	2,208	695	100	111	-	3,114
Provision	9,129	5,436	1,623	255	(984)	15,459
Balance, end of period	$ 61,982	$ 23,750	$ 5,154	$ 868	$ 6,041	$ 97,795

	Three Months Ended June 30, 2010					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 70,460	$ 20,890	$ 8,235	$ 863	$ 10,336	$ 110,784
Charge-offs	(19,605)	(9,961)	(1,201)	(787)	-	(31,554)
Recoveries	4,312	370	50	185	-	4,917
Provision	13,048	8,548	2,689	587	4,895	29,767
Balance, end of period	$ 68,215	$ 19,847	$ 9,773	$ 848	$ 15,231	$ 113,914

	Six Months Ended June 30, 2011					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 64,405	$ 22,146	$ 5,926	$ 803	$ 8,641	$ 101,921
Charge-offs	(24,314)	(11,355)	(2,929)	(888)	-	(39,486)
Recoveries	3,453	1,091	121	206	-	4,871
Provision	18,438	11,868	2,036	747	(2,600)	30,489
Balance, end of period	$ 61,982	$ 23,750	$ 5,154	$ 868	$ 6,041	$ 97,795

	Six Months Ended June 30, 2010					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 67,281	$ 24,583	$ 5,811	$ 455	$ 9,527	$ 107,657
Charge-offs	(35,535)	(32,865)	(1,837)	(1,076)	-	(71,313)
Recoveries	4,596	649	170	282	-	5,697
Provision	31,873	27,480	5,629	1,187	5,704	71,873
Balance, end of period	$ 68,215	$ 19,847	$ 9,773	$ 848	$ 15,231	$ 113,914

The following table presents the allowance and recorded investment in non-covered loans by portfolio segment and balances individually or collectively evaluated for impairment as of June 30, 2011 and 2010, respectively:

Table of Contents

(in thousands)

	June 30, 2011					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$ 59,277	$ 20,812	$ 5,136	$ 868	$ 6,041	$ 92,134
Individually evaluated for impairment	2,705	2,938	18	-	-	5,661
Total	$ 61,982	$ 23,750	$ 5,154	$ 868	$ 6,041	$ 97,795
Non-covered loans and leases:						
Collectively evaluated for impairment	$ 3,663,034	$ 1,330,749	$ 522,309	$ 34,584		$ 5,550,676
Individually evaluated for impairment	166,464	29,921	178	-		196,563
Total	$ 3,829,498	$ 1,360,670	$ 522,487	$ 34,584		$ 5,747,239

	June 30, 2010					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$ 61,127	$ 19,836	$ 9,548	$ 848	$ 15,231	$ 106,590
Individually evaluated for impairment	7,088	11	225	-		7,324
Total	$ 68,215	$ 19,847	$ 9,773	$ 848	$ 15,231	$ 113,914
Non-covered loans and leases:						
Collectively evaluated for impairment	$ 3,783,102	$ 1,203,558	$ 465,633	$ 34,215		$ 5,486,508
Individually evaluated for impairment	194,373	52,295	4,502	-		251,170
Total	$ 3,977,475	$ 1,255,853	$ 470,135	$ 34,215		$ 5,737,678

(1) The gross non-covered loan and lease balance excludes deferred loans fees of $11.7 million at June 30, 2011 and $11.0 million at June 30, 2010.

Summary of Reserve for Unfunded Commitments Activity

The following tables present a summary of activity in the reserve for unfunded commitments (RUC) and unfunded commitments for the three and six months ended June 30, 2011 and 2010, respectively:

Table of Contents

(in thousands)

	Three Months Ended June 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 76	$ 621	$ 162	$ 52	$ 911
Net change to other expense	(15)	84	7	1	77
Balance, end of period	$ 61	$ 705	$ 169	$ 53	$ 988

	Three Months Ended June 30, 2010				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 47	$ 531	$ 140	$ 47	$ 765
Net change to other expense	(6)	(21)	(4)	-	(31)
Balance, end of period	$ 41	$ 510	$ 136	$ 47	$ 734

	Six Months Ended June 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 33	$ 575	$ 158	$ 52	$ 818
Net change to other expense	28	130	11	1	170
Balance, end of period	$ 61	$ 705	$ 169	$ 53	$ 988

	Six Months Ended June 30, 2010				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 57	$ 484	$ 144	$ 46	$ 731
Net change to other expense	(16)	26	(8)	1	3
Balance, end of period	$ 41	$ 510	$ 136	$ 47	$ 734

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Unfunded commitments:					
June 30, 2011	$ 61,478	$ 674,210	$ 226,790	$ 45,483	$ 1,007,961
June 30, 2010	41,354	501,667	209,643	39,938	792,602

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 and six months ended June 30, 2011 and 2010, respectively:

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Commercial real estate				
Term & multifamily	$ 1,385	$ 969	$ 3,884	$ 10,728
Construction & development	-	-	-	1,175
Residential development	-	1,399	2	5,434
Commercial				
Term	-	3,210	151	3,210
LOC & other	-	-	2,740	462
Total	$ 1,385	$ 5,578	$ 6,777	$ 21,009

Table of Contents

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 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 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.

Loans are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms. All loans determined to be impaired are individually assessed for impairment except for impaired consumer loans which are collectively evaluated for impairment in accordance with ASC 450, *Contingencies*. The specific factors considered in determining that a loan is impaired include borrower financial capacity, current economic, business and market conditions, collection efforts, collateral position and other factors deemed relevant. Generally, impaired loans are placed on non-accrual status and all cash receipts are applied to the principal balance. Continuation of accrual status and recognition of interest income is generally limited to performing restructured loans.

The Company has written down impaired, non-accrual loans as of June 30, 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 June 30, 2011 and December 31, 2010:

Table of Contents

(in thousands)

	June 30, 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	$ 15,154	$ 16,940	$ 555	$ 32,649	$ 53,059	$ 3,446,426	$ 3,532,134
Construction & development	99	-	-	99	8,093	176,515	184,707
Residential development	2,573	-	-	2,573	25,858	84,226	112,657
Commercial							
Term	1,548	957	750	3,255	8,070	561,077	572,402
LOC & other	476	495	5,713	6,684	14,809	766,775	788,268
Residential							
Mortgage	1,357	908	4,467	6,732	-	238,302	245,034
Home equity loans & lines	1,800	1,277	1,123	4,200	-	273,253	277,453
Consumer & other	207	60	529	796	-	33,788	34,584
Total	$ 23,214	$ 20,637	$ 13,137	$ 56,988	$ 109,889	$ 5,580,362	$ 5,747,239
Deferred loan fees, net							(11,686)
Total							$ 5,735,553

	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 June 30, 2011 and December 31, 2010:

Table of Contents

(in thousands)

	June 30, 2011		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	$ 65,617	$ 53,059	$ -
Construction & development	33,793	22,446	-
Residential development	50,608	35,396	-
Commercial			
Term	10,498	8,923	-
LOC & other	46,650	15,087	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
With an allowance recorded:			
Commercial real estate			
Term & multifamily	12,705	12,705	396
Construction & development	13,363	12,343	122
Residential development	30,515	30,515	2,187
Commercial			
Term	198	198	7
LOC & other	5,713	5,713	2,931
Residential			
Mortgage	178	178	18
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
Total:			
Commercial real estate	206,601	166,464	2,705
Commercial	63,059	29,921	2,938
Residential	178	178	18
Consumer & other	-	-	-
Total	$ 269,838	$ 196,563	$ 5,661

Table of Contents

	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 June 30, 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 June 30, 2011 and December 31, 2010, impaired loans of $81.0 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 and one loan included in loans past due 90+ days and accruing represent the only impaired loans accruing interest at June 30, 2011. The restructured loans on accrual status represent the only impaired loans accruing interest at December 31, 2010. 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 June 30, 2011.

The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class for the three months and six months ended June 30, 2011 and 2010:

26

Table of Contents

(in thousands)

	For the three months ended June 30, 2011		For the three months ended June 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$ 54,086	$ -	$ 57,851	$ -
Construction & development	21,063	-	24,668	-
Residential development	37,841	-	31,695	-
Commercial				
Term	8,307	-	10,768	-
LOC & other	17,978	-	42,009	-
Residential				
Mortgage	-	-	-	-
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
With an allowance recorded:				
Commercial real estate				
Term & multifamily	15,733	233	29,731	220
Construction & development	8,905	266	4,264	-
Residential development	32,943	320	60,605	506
Commercial				
Term	202	11	225	12
LOC & other	2,857	-	-	4
Residential				
Mortgage	178	1	4,474	62
Home equity loans & lines	-	-	35	-
Consumer & other	-	-	-	-
Total:				
Commercial real estate	170,571	819	208,814	726
Commercial	29,344	11	53,002	16
Residential	178	1	4,509	62
Consumer & other	-	-	-	-
Total	$ 200,093	$ 831	$ 266,325	$ 804

	For the six months ended June 30, 2011		For the six months ended June 30, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$ 54,725	$ -	$ 60,241	$ -
Construction & development	23,238	-	28,665	-
Residential development	37,762	-	39,438	-
Commercial				
Term	8,678	-	10,673	-
LOC & other	24,724	-	46,905	-
Residential				

Mortgage	-	-	-	-
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
With an allowance recorded:				
Commercial real estate				
Term & multifamily	19,995	424	32,856	451
Construction & development	6,506	338	2,843	-
Residential development	40,165	670	60,053	937
Commercial				
Term	268	23	296	24
LOC & other	2,532	-	200	8
Residential				
Mortgage	1,369	3	4,705	121
Home equity loans & lines	7	-	23	1
Consumer & other	-	-	-	-
Total:				
Commercial real estate	182,391	1,432	224,096	1,388
Commercial	36,202	23	58,074	32
Residential	1,376	3	4,728	122
Consumer & other	-	-	-	-
Total	$ 219,969	$ 1,458	$ 286,898	$ 1,542

27

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:

Minimal Risk A minimal risk loan, risk rated 1, is to a borrower of the highest quality. The borrower has an unquestioned ability to produce consistent profits and service all obligations and can absorb severe market disturbances with little or no difficulty.

Low Risk A low risk loan, risk rated 2, is similar in characteristics to a minimal risk loan. Margins may be smaller or protective elements may be subject to greater fluctuation. The borrower will have a strong demonstrated ability to produce profits, provide ample debt service coverage and to absorb market disturbances.

Modest Risk A modest risk loan, risk rated 3, is a desirable loan with excellent sources of repayment and no currently identifiable risk of collection. The borrower exhibits a very strong capacity to repay the credit in accordance with the repayment agreement. The borrower may be susceptible to economic cycles, but will have reserves to weather these cycles.

Average Risk An average risk loan, risk rated 4, is an attractive loan with sound sources of repayment and no material collection or repayment weakness evident. The borrower has an acceptable capacity to pay in accordance with the agreement. The borrower is susceptible to economic cycles and more efficient competition, but should have modest reserves sufficient to survive all but the most severe downturns or major setbacks.

Acceptable Risk An acceptable risk loan, risk rated 5, is a loan with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement. The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

Watch A watch loan, risk rated 6, is still pass-rated, but represents the lowest level of acceptable risk due to an emerging risk element or declining performance trend. Watch ratings are expected to be temporary, with issues resolved or manifested to the extent that a higher or lower rating would be appropriate. The borrower should have a plausible plan, with reasonable certainty of success, to correct the problems in a short period of time. Borrowers rated Watch are characterized by elements of uncertainty, such as:

- Borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated performance. Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.

- The borrower may have experienced a minor, unexpected covenant violation.

- Companies who may be experiencing tight working capital or have a cash cushion deficiency.

- Loans may also be a Watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if they face industry issues that, when combined with performance factors create uncertainty in their future ability to perform.

- Delinquent payments, increasing and material overdraft activity, request for bulge and/or out-of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.

Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a Watch or worse risk rating.

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 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.

Table of Contents

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 June 30, 2011 and December 31, 2010:

(in thousands)

29

Table of Contents

(in thousands)

	June 30, 2011					
	Pass/ Watch	Special Mention	Substandard	Doubtful/Loss	Impaired	Total
Commercial real estate						
Term & multifamily	$ 3,004,552	$ 317,006	$ 144,812	$ -	$ 65,764	$ 3,532,134
Construction & development	111,702	18,625	19,591	-	34,789	184,707
Residential development	24,704	10,021	12,021	-	65,911	112,657
Commercial						
Term	509,666	29,983	23,632	-	9,121	572,402
LOC & other	690,219	41,091	36,158	-	20,800	788,268
Residential						
Mortgage	238,198	2,369	2,003	2,286	178	245,034
Home equity loans & lines	273,916	2,414	556	567	-	277,453
Consumer & other	33,789	267	36	492	-	34,584
Total	$ 4,886,746	$ 421,776	$ 238,809	$ 3,345	$ 196,563	$ 5,747,239
Deferred loan fees, net						(11,686)
Total						$ 5,735,553

	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 to be 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. We have aggregated the acquired loans into various loan pools based on multiple layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing.

Acquired loans were first segregated between those designated as performing versus those designated as non-performing. In this application, performing and non-performing loans were defined in accordance with the scoping requirements of ASC 310-30, that is the non-performing loans individually exhibited evidence of deteriorated credit quality since origination for which it is probable that we will not be able to collect all contractually required payments receivable. Our Credit Quality and Credit Review teams identified these non-performing credits on a loan-by-loan basis during the due diligence process. Generally, identified non-performing loans tended to be risk rated substandard or worse on the acquired institution s books. Collectively, the non-performing loans would be considered the classic application of ASC 310-30. The remaining performing notes were accounted for under ASC 310-30 by analogy due to the significant fair value discounts associated with the pools resulting from the underwriting standards of the acquired bank (that often contributed to the bank s failure), the concentration of loans for the purpose of, and collateralized by, real estate, and the general economic condition of the regions each acquired bank serviced. We deem analogizing all loans to ASC 310-30 acceptable as a significant component of the fair value discount applied to each loan pool is attributed to estimated credit losses that are anticipated to occur over the life of each respective loan pool.

Table of Contents

Once notes were separated based on their expected future performance, they were further segregated based on specific loan types (purpose/collateral) and then their principal cash flow and interest rate characteristics. The most significant loan type categories utilized (in no particular order) were commercial residential development, commercial construction, farmland, 1^{st} lien single family mortgages, 2^{nd} lien single family loans, single family revolving lines of credit, multifamily mortgages, owner occupied commercial real estate, non-owner occupied commercial real estate, commercial loans, commercial lines of credit, consumer installment loans, and consumer lines of credit. Next, groups of loans were segregated based on repayment characteristics, specifically whether the notes principal balances were amortizing or interest-only. Lastly, loans were separated by various interest rate characteristics, such as whether the interest rate was fixed or variable. For those loans whose interest rates were variable, they were also segregated by their underlying indices (e.g. PRIME, Federal Home Loan Bank, or constant maturity treasury) and whether or not there were interest rate floors.

The following table presents the number of pools, number of loans and acquired unpaid principal balance, by performing (analogized 310-30), non-performing (classic 310-30) and in total, separately for each institution acquired in 2010.

(dollars in millions)

	Evergreen	Rainier Pacific	Nevada Security
Performing loans (Analogized ASC 310-30):			
Number of Pools	15	19	19
Number of Loans	1,263	3,647	402
Acquired Unpaid Principal Balance	$ 247.9	$ 516.9	$ 224.2
Non-performing loans (Classic ASC 310-30):			
Number of Pools	8	10	9
Number of Loans	127	39	106
Acquired Unpaid Principal Balance	$ 120.6	$ 44.5	$ 103.4
Total Portfolio:			
Number of Pools	23	29	28
Number of Loans	1,390	3,686	508
Acquired Unpaid Principal Balance	$ 368.5	$ 561.4	$ 327.6

The fair value of each loan pool was computed by discounting the expected cash flows at their estimated market discount rate. Cash flows expected to be collected at acquisition date were estimated by applying certain key assumptions to each loan pool, such as credit loss rates, prepayment speeds, and resolution terms related to non-performing loans, against the contractual cash flows of the underlying loans. Credit loss estimates for each pool were determined by considering factors such as, underlying collateral types, collateral locations, estimated collateral values, and credit quality indicators such as risk ratings. Market discount rates were determined using a buildup approach which included assumptions with respect to funding cost and funding mix, a market participant s required rate of return on equity capital, servicing costs and a liquidity premium.

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

Table of Contents

(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

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference. On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the accretable yield . The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

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

(in thousands)

	Evergreen January 22, 2010	Rainier February 26, 2010	Nevada Security June 18, 2010	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 covered loan portfolio also includes revolving lines of credit with funded and unfunded commitments. Funds advanced at the time of acquisition are included in the loan pools and are accounted for under ASC 310-30. Any additional advances on these loans subsequent to the acquisition date may or may not be covered depending on the nature of the disbursement and the terms of each respective loss-sharing agreement, and 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. To the extent there is experienced or projected credit deterioration on the acquired loan pools subsequent to amounts estimated at the previous remeasurement date, this deterioration will be measured, and a provision for credit losses will be charged to earnings. Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to acquisition date in a manner consistent with the allowance for non-covered loan and lease losses. These provisions will be mostly offset by an increase to the FDIC indemnification asset, which is recognized in non-interest income.

Covered Loans

The following table presents the major types of covered loans as of June 30, 2011 and December 31, 2010:

(in thousands)

	June 30, 2011			
	Evergreen	**Rainier**	**Nevada Security**	**Total**
Commercial real estate				
Term & multifamily	$ 107,772	$ 276,358	$ 131,819	$ 515,949
Construction & development	12,398	690	6,730	19,818
Residential development	7,055	171	8,721	15,947
Commercial				
Term	15,406	8,913	12,932	37,251
LOC & other	9,655	12,623	6,202	28,480
Residential				
Mortgage	8,079	31,120	1,869	41,068
Home equity loans & lines	5,278	22,925	3,251	31,454
Consumer & other	2,293	6,416	-	8,709
Total	$ 167,936	$ 359,216	$ 171,524	$ 698,676

Table of Contents

	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 June 30, 2011 was $242.1 million, $447.5 million and $283.2 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 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 the changes in the accretable yield for the three and six months ended June 30, 2011 and 2010 for each respective acquired loan portfolio:

Table of Contents

	Three months ended June 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 75,081	$ 155,285	$ 69,301	$ 299,667
Accretion to interest income	(7,904)	(8,396)	(5,926)	(22,226)
Disposals	(4,181)	(2,803)	(1,403)	(8,387)
Reclassifications (to)/from nonaccretable difference	4,473	(89)	6,622	11,006
Balance, end of period	$ 67,469	$ 143,997	$ 68,594	$ 280,060

	Three months ended June 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 118,119	$ 233,678	$ -	$ 351,797
Additions resulting from acquisitions	-	-	65,606	65,606
Accretion to interest income	(3,528)	(8,575)	(553)	(12,656)
Disposals	(2,234)	(1,931)	(90)	(4,255)
Reclassifications (to)/from nonaccretable difference	(28,422)	(17,490)	86	(45,826)
Balance, end of period	$ 83,935	$ 205,682	$ 65,049	$ 354,666

	Six months ended June 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 90,771	$ 172,615	$ 73,515	$ 336,901
Accretion to interest income	(15,613)	(17,111)	(11,049)	(43,773)
Disposals	(6,973)	(9,447)	(2,807)	(19,227)
Reclassifications (to)/from nonaccretable difference	(716)	(2,060)	8,935	6,159
Balance, end of period	$ 67,469	$ 143,997	$ 68,594	$ 280,060

	Six months ended June 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ -	$ -	$ -	$ -
Additions resulting from acquisitions	121,592	237,858	65,606	425,056
Accretion to interest income	(6,759)	(11,599)	(553)	(18,911)
Disposals	(2,825)	(3,388)	(90)	(6,303)
Reclassifications (to)/from nonaccretable difference	(28,073)	(17,189)	86	(45,176)
Balance, end of period	$ 83,935	$ 205,682	$ 65,049	$ 354,666

Allowance for Covered Loan and Lease Losses

The following table summarizes activity related to the allowance for covered loan and lease losses by covered loan portfolio segment for the three and six months ended June 30, 2011, respectively:

Table of Contents

(in thousands)

	Three Months Ended June 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 5,068	$ 1,800	$ 962	$ 413	$ 8,243
Charge-offs	(742)	(184)	(194)	(659)	(1,779)
Recoveries	-	-	-	-	-
Provision	1,388	1,016	425	926	3,755
Balance, end of period	$ 5,714	$ 2,632	$ 1,193	$ 680	$ 10,219

	Six Months Ended June 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 2,465	$ 176	$ 56	$ 24	$ 2,721
Charge-offs	(1,895)	(244)	(823)	(563)	(3,525)
Recoveries	-	-	-	-	-
Provision	5,144	2,700	1,960	1,219	11,023
Balance, end of period	$ 5,714	$ 2,632	$ 1,193	$ 680	$ 10,219

The following table presents the allowance and recorded investment in by covered loan portfolio segment as of June 30, 2011:

(in thousands)

	June 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for covered loans and leases:					
Loans acquired with deteriorated credit quality (1)	$ 5,303	$ 2,019	$ 1,163	$ 657	$ 9,142
Collectively evaluated for impairment (2)	411	613	30	23	1,077
Total	$ 5,714	$ 2,632	$ 1,193	$ 680	$ 10,219
Covered loans and leases:					
Loans acquired with deteriorated credit quality (1)	$ 549,771	$ 42,352	$ 68,291	$ 6,555	$ 666,969
Collectively evaluated for impairment (2)	$ 1,943	$ 23,379	$ 4,231	$ 2,154	31,707
Total	$ 551,714	$ 65,731	$ 72,522	$ 8,709	$ 698,676

(1) In accordance with ASC 310-30, the valuation allowance is netted against the carrying value of the covered loan and lease balance.
(2) The allowance on covered loan and lease losses includes an allowance on covered loan advances on acquired loans subsequent to acquisition.

The valuation allowance on covered loans was reduced by recaptured provision of $1.0 million and $1.1 million respectively, for the three and six months ended June 30, 2011.

There was no valuation allowance on covered loans and no allowance on covered loan advances on acquired loans subsequent to acquisition at June 30, 2010.

Covered Credit Quality Indicators

Covered loans risk rated in a manner consistent with non-covered loans. 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 10 risk rating groupings are described fully in Note 5. The below table includes both loans acquired with deteriorated credit quality accounted for under ASC 310-30 and covered loan advances on acquired loans subsequent to acquisition.

The following table summarizes our internal risk rating grouping by covered loans, net class as of June 30, 2011 and December 31, 2010:

Table of Contents

(in thousands)

	June 30, 2011				
	Pass/ Watch	Special Mention	Substandard	Doubtful/Loss	Total
Commercial real estate					
Term & multifamily	$ 419,493	$ 38,176	$ 47,689	$ 10,591	$ 515,949
Construction & development	3,060	2,919	8,489	5,350	19,818
Residential development	1,646	-	9,012	5,289	15,947
Commercial					
Term	24,285	1,970	8,385	2,611	37,251
LOC & other	19,506	1,953	6,720	301	28,480
Residential					
Mortgage	41,051	-	17	-	41,068
Home equity loans & lines	31,393	-	61	-	31,454
Consumer & other	8,709	-	-	-	8,709
Total	$ 549,143	$ 45,018	$ 80,373	$ 24,142	$ 698,676

	December 31, 2010				
	Pass/ Watch	Special Mention	Substandard	Doubtful/Loss	Total
Commercial real estate					
Term & multifamily	$ 485,238	$ 32,150	$ 44,833	$ 7,421	$ 569,642
Construction & development	6,155	3,799	7,640	4,841	22,435
Residential development	6,625	1,322	12,907	3,852	24,706
Commercial					
Term	31,760	2,119	7,087	1,634	42,600
LOC & other	22,960	4,246	7,183	838	35,227
Residential					
Mortgage	44,524	-	300	-	44,824
Home equity loans & lines	34,998	-	627	-	35,625
Consumer & other	10,827	-	12	-	10,839
Total	$ 643,087	$ 43,636	$ 80,589	$ 18,586	$ 785,898

Covered Other Real Estate Owned

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

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

The following table summarizes the activity related to the covered OREO for the three and six months ended June 30, 2011 and 2010:

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Balance, beginning of period	$ 27,689	$ 8,995	$ 29,863	$ -
Acquisition	-	17,938	-	26,939
Additions to covered OREO	5,632	2,560	8,668	2,669
Dispositions of covered OREO	(2,503)	(1,198)	(6,457)	(1,313)
Valuation adjustments in the period	(665)	(5)	(1,921)	(5)
Balance, end of period	$ 30,153	$ 28,290	$ 30,153	$ 28,290

Table of Contents

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 shared recoveries.

The following table summarizes the activity related to the FDIC indemnification asset for the three and six months ended June 30, 2011 and 2010:

(in thousands)

	Three months ended June 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 40,379	$ 37,875	$ 53,618	$ 131,872
Change in FDIC indemnification asset	(2,895)	(811)	(1,845)	(5,551)
Transfers to due from FDIC and other	(1,366)	(1,065)	(6,962)	(9,393)
Balance, end of period	$ 36,118	$ 35,999	$ 44,811	116,928

	Three months ended June 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 71,696	$ 70,259	$ -	$ 141,955
Acquisitions	-	-	99,160	99,160
Change in FDIC indemnification asset	539	(360)	84	263
Transfers to due from FDIC and other	(167)	(15,301)	(556)	(16,024)
Balance, end of period	$ 72,068	$ 54,598	$ 98,688	$ 225,354

	Six months ended June 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 40,606	$ 43,726	$ 62,081	$ 146,413
Change in FDIC indemnification asset	1,850	(4,921)	425	(2,646)
Transfers to due from FDIC and other	(6,338)	(2,806)	(17,695)	(26,839)
Balance, end of period	$ 36,118	$ 35,999	$ 44,811	116,928

	Six months ended June 30, 2010			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ -	$ -	$ -	$ -
Acquisitions	71,755	76,603	99,160	247,518
Change in FDIC indemnification asset	939	(150)	84	873
Transfers to due from FDIC and other	(626)	(21,855)	(556)	(23,037)
Balance, end of period	$ 72,068	$ 54,598	$ 98,688	$ 225,354

Note 7 Mortgage Servicing Rights

The following table presents the changes in the Company s mortgage servicing rights (MSR) for the three and six months ended June 30, 2011 and 2010:

37

Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Balance, beginning of period	$ 15,605	$ 13,628	$ 14,454	$ 12,625
Additions for new mortgage servicing rights capitalized	1,073	938	2,407	2,008
Acquired mortgage servicing rights	-	-	-	62
Changes in fair value:				
Due to changes in model inputs or assumptions(1)	(103)	284	25	129
Other(2)	(225)	(1,955)	(536)	(1,929)
Balance, end of period	$ 16,350	$ 12,895	$ 16,350	$ 12,895

(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 June 30, 2011 and December 31, 2010 was as follows:

(dollars in thousands)

	June 30, 2011	December 31, 2010
Balance of loans serviced for others	$ 1,751,700	$ 1,603,414
MSR as a percentage of serviced loans	0.93%	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 and $2.3 million for the three and six months ended June 30, 2011, as compared to $933,000 and $1.8 million for the three and six months ended June 30, 2010.

Key assumptions used in measuring the fair value of MSR as of June 30, 2011 and December 31, 2010 were as follows:

	June 30, 2011	December 31, 2010
Constant prepayment rate	17.84%	18.54%
Discount rate	8.59%	8.62%
Weighted average life (years)	4.8	4.5

Note 8 Non-covered Other Real Estate Owned

The following table presents the changes in non-covered other real estate owned (OREO) for the three and six months ended June 30, 2011 and 2010:

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Balance, beginning of period	$ 34,512	$ 18,872	$ 32,791	$ 24,566
Additions to OREO	15,419	11,888	25,322	17,895
Dispositions of OREO	(12,134)	(4,293)	(18,186)	(15,087)
Valuation adjustments in the period	(3,388)	(814)	(5,518)	(1,721)

Balance, end of period	$ 34,409	$ 25,653	$ 34,409	$ 25,653

Note 9 Junior Subordinated Debentures

The following is information about the Company s wholly-owned trusts (Trusts) as of June 30, 2011:

Table of Contents

(dollars in thousands)

Trust Name	Issue Date	Issued and Outstanding Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date	Redemption Date
AT FAIR VALUE:							
Umpqua Statutory Trust II	October 2002	$ 20,619	$ 13,999	Floating (4)	11.62%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	21,235	Floating (5)	11.62%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	6,551	Floating (6)	11.64%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	6,540	Floating (6)	11.64%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	20,733	Floating (7)	11.69%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	12,708	Floating (8)	11.65%	December 2037	December 2012
		134,024	81,766				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,357	10.875%	8.20%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	5,916	10.200%	8.23%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,405	Floating (9)	3.00%	December 2031	December 2006
Humboldt Bancorp Statutory Trust III	September 2003	27,836	30,670	Floating (10)	2.48%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,241	Floating (5)	3.01%	November 2032	November 2007
Western Sierra Statutory Trust I	July 2001	6,186	6,186	Floating (11)	3.85%	July 2031	July 2006
Western Sierra Statutory Trust II	December 2001	10,310	10,310	Floating (9)	3.85%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,310	Floating (12)	3.18%	September 2033	September 2008
Western Sierra Statutory Trust IV	September 2003	10,310	10,310	Floating (12)	3.18%	September 2033	September 2008
		96,037	102,705				
	Total	$ 230,061	$ 184,471				

(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 June 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 Trusts 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 June 30, 2011 and December 31, 2010.

On January 1, 2007, the Company selected the fair value measurement option for certain pre-existing junior subordinated debentures (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 are 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.

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.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Condensed Consolidated Balance Sheets. 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 is expected to 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.

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 Company monitors activity in the trust preferred and related markets, to the extent available, changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Additionally, the Company utilizes an external valuation firm to validate the reasonableness of the Company s assessment of inputs that ultimately determines the estimated fair value of these liabilities. The Company has determined that the underlying inputs and assumptions have not materially changed since that last available third-party valuation.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at 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 similar 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. For the three and six months ended June 30, 2011 and 2010, we recorded a loss of $547,000 and $1.1 million and no gain and a gain of $6.1 million, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. 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.

As noted above, the Dodd-Frank Act limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. As 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 June 30, 2011, the Company s restricted core capital elements were 18% of total core capital, net of goodwill and any associated deferred tax liability.

Note 10 Commitments and Contingencies

Lease Commitments The Company leases 136 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 had the option to purchase one of the leased facilities, which was purchased in the second quarter of 2011.

Rent expense for the three and six months ended June 30, 2011 was $4.0 million and $8.2 million, respectively, compared to $3.8 million and $7.3 million, respectively, in the comparable periods in 2010. Rent expense was offset by rent income for the three and six months ended June 30, 2011 of $200,000 and $472,000, respectively, compared to $327,000 and $475,000, respectively, in the comparable periods in 2010.

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:

Table of Contents

(in thousands)

		As of June 30, 2011
Commitments to extend credit	$	1,199,041
Commitments to extend overdrafts	$	239,788
Forward sales commitments	$	106,000
Standby letters of credit	$	59,501
Commitments to originate loans held for sale	$	67,591

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

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

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and did not incur any losses in connection with standby letters of credit during the three and six months ended June 30, 2011 and 2010. At June 30, 2011, approximately $32.3 million of standby letters of credit expire within one year, and $27.2 million expire thereafter. Upon issuance, the Company recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $256,000 as of June 30, 2011.

At June 30, 2011 and December 31, 2010, the reserve for unfunded commitments, which is included in other liabilities on the *Condensed Consolidated Balance Sheets*, was $988,000 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 related to these repurchases. Management believes that any liabilities that may result from such recourse provisions are not significant.

Legal Proceedings - The Bank owns 468,659 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4881 per Class A share. As of June 30, 2011, the value of the Class A shares was $84.26 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Company was $19.3 million as of June 30, 2011, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa Member Banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

In 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 80% of the Company s non-covered loan and lease portfolio at June 30, 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.

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 and six months ended June 30, 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 June 30, 2011, the Bank had commitments to originate mortgage loans held for sale totaling $67.6 million and forward sales commitments of $106.0 million.

The Company s mortgage banking 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.

Effective in the second quarter of 2011, the Bank began executing interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of June 30, 2011, the Bank had 12 interest rate swaps with an aggregate notional amount of $86.3 million related to this program. During the three months ended June 30, 2011, the Bank recognized a net gain of $85,000 related to changes in the fair value of these swaps.

In connection with the interest rate swap program with commercial customers, the Bank has agreements with its derivative counterparties that contain a provision where if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligations.

The Bank also has agreements with its derivative counterparties that contain a provision where if the Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations under the agreements. Similarly, the Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as if Bank were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels.

As of June 30, 2011 the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $1.4 million. The Bank has minimum collateral posting thresholds with certain of its derivative counterparties, and has been required to post collateral against its obligations under these agreements of $1.3 million as of June 30, 2011. If the Bank had breached any of these provisions at June 30, 2011, it could have been required to settle its obligations under the agreements at the termination value.

Table of Contents

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 June 30, 2011 and December 31, 2010:

(in thousands)

Derivatives not designated as hedging instrument	Balance Sheet Location	Asset Derivatives June 30, 2011	Asset Derivatives December 31, 2010	Liability Derivatives June 30, 2011	Liability Derivatives December 31, 2010
Interest rate lock commitments	Other assets/Other liabilities	$ 319	$ 306	$ 91	$ 170
Interest rate forward sales commitments	Other assets/Other liabilities	272	754	124	191
Interest rate swaps	Other assets/Other liabilities	1,388	-	1,303	-
Total		$ 1,979	$ 1,060	$ 1,518	$ 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 and six months ended June 30, 2011 and 2010:

(in thousands)

Derivatives not designated as hedging instrument	Income Statement Location	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Interest rate lock commitments	Mortgage banking revenue	$ (18)	$ 1,040	$ 92	$ 1,207
Interest rate forward sales commitments	Mortgage banking revenue	(2,180)	(3,517)	(1,983)	(4,349)
Interest rate swaps	Other income	85	-	85	-
Total		$ (2,113)	$ (2,477)	$ (1,806)	$ (3,142)

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 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.

Table of Contents

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was $868,000 and $2.0 million for the three and six months ended June 30, 2011, respectively, as compared to $799,000 and $1.4 million for the three and six months ended June 30, 2010, respectively. The total income tax benefit recognized related to stock-based compensation was $347,000 and $795,000 for the three and six months ended June 30, 2011, respectively, as compared to $320,000 and $570,000 for the comparable periods in 2010, respectively.

On June 17, 2011, the Company s Compensation Committee modified restricted stock awards and option grants that were issued to fourteen executive officers on January 31, 2011, as follows:

- Added performance vesting conditions linking total shareholder return, compared to the return of a regional bank stock total return index;

- Awards will cliff vest after three years instead of time vest over a four year period, but only to the extent that the performance conditions are met; and

- The modified grants will vest in whole or in part only if total shareholder return achieves specified targets, subject to prorated vesting upon death, disability, qualifying retirement, termination for good reason or a change of control.

As a result of the modification, there was no incremental compensation cost.

The following table summarizes information about stock option activity for the six months ended June 30, 2011:

(in thousands, except per share data)

	Six months ended June 30, 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	(40)	$ 7.67		
Forfeited/expired	(87)	$ 15.62		
Balance, end of period	2,177	$ 14.50	6.00	$ 1,692
Options exercisable, end of period	1,284	$ 16.36	4.22	$ 1,288

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three and six months ended June 30, 2011 was $32,000 and $147,000, respectively. This compared to the total intrinsic value of options exercised during the three and six months ended June 30, 2010 of $93,000 and $382,000, respectively. During the three and six months ended June 30, 2011, the amount of cash received from the exercise of stock options was $97,000 and $309,000, respectively, as compared to $153,000 and $917,000 for the same periods in 2010, 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 six months ended June 30, 2011 and 2010:

	Six months ended June 30, 2011	Six months ended June 30, 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. That award is now fully vested. 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 six months ended June 30, 2011:

Table of Contents

(in thousands, except per share data)

	Six months ended June 30, 2011	
	Restricted Shares Outstanding	Weighted Average Grant Date Fair Value
Balance, beginning of period	401	$ 15.29
Granted	279	$ 11.02
Released	(68)	$ 18.57
Forfeited/expired	(13)	$ 13.31
Balance, end of period	599	$ 12.98

The total fair value of restricted shares vested and released during the three and six months ended June 30, 2011 was $114,000 and $765,000, respectively. This compares to the total fair value of restricted shares vested and released during the three and six months ended June 30, 2010 of $51,000 and $538,000, 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 six months ended June 30, 2011:

(in thousands, except per share data)

	Six months ended June 30, 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

No restricted stock units were vested and released during the three months ended June 30, 2010. The total fair value of restricted stock units vested and released during the six months ended June 30, 2011 was $677,000. This compares to the total fair value of restricted stock units vested and released during the three and six months ended June 30, 2010 of none and $213,000, respectively.

As of June 30, 2011, there was $3.2 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 2.9 years. As of June 30, 2011, there was $4.6 million of total unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 3.0 years. As of June 30, 2011, there was $1.0 million of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 1.6 years, assuming expected performance conditions are met.

For the three and six months ended June 30, 2011, the Company received income tax benefits of $58,000 and $633,000, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. For the three and six months ended June 30, 2010, the Company received income tax benefits of $54,000 and $380,000, respectively. In the six months ended June 30, 2011, the Company had net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) of $251,000, compared to net tax deficiencies of $205,000 for the six months ended June 30, 2010. 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.

Table of Contents

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 June 30, 2011. If recognized, the unrecognized tax benefit would reduce the 2011 annual effective tax rate by 0.4%. During the first six months 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 June 30, 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 and six months ended June 30, 2011 and 2010:

Table of Contents

(in thousands, except per share data)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
NUMERATORS:				
Net income	$ 17,785	$ 3,463	$ 31,252	$ 11,977
Less:				
Preferred stock dividends	-	-	-	12,192
Dividends and undistributed earnings allocated to participating securities (1)	86	16	148	31
Net earnings (loss) available to common shareholders	$ 17,699	$ 3,447	$ 31,104	$ (246)
DENOMINATORS:				
Weighted average number of common shares outstanding - basic	114,611	110,135	114,593	101,205
Effect of potentially dilutive common shares (2)	174	220	203	230
Preferred convertible stock	-	4,378	-	-
Weighted average number of common shares outstanding - diluted	114,785	114,733	114,796	101,435
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	$ 0.15	$ 0.03	$ 0.27	$ -
Diluted	$ 0.15	$ 0.03	$ 0.27	$ -

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

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three and six months ended June 30, 2011 and 2010.

(in thousands)

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Stock options	1,859	1,287	1,833	1,233
CPP warrant	-	-	-	552
Non-participating, nonvested restricted shares	-	10	-	11
Restricted stock units	-	-	-	-
	1,859	1,297	1,833	1,796

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 June 30, 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.

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

47

Table of Contents

Segment Information

(in thousands)

	Three Months Ended June 30, 2011			
	Community Banking	Wealth Management	Mortgage Banking	Consolidated
Interest income	$ 121,953	$ 3,304	$ 3,160	$ 128,417
Interest expense	18,019	465	572	19,056
Net interest income	103,934	2,839	2,588	109,361
Provision for non-covered loan and lease losses	15,459	-	-	15,459
Provision for covered loan and lease losses	3,755	-	-	3,755
Non-interest income	11,092	3,671	4,864	19,627
Non-interest expense	74,952	3,941	4,314	83,207
Income before income taxes	20,860	2,569	3,138	26,567
Provision for income taxes	6,381	1,146	1,255	8,782