UMPQUA HOLDINGS CORP
Form 10-K
February 19, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2009

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

For the transition period from to .

Commission File Number: 000-25597

UMPQUA HOLDINGS CORPORATION

(Exact name of Registrant as specified in its charter)

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

ONE SW COLUMBIA STREET, SUITE 1200, PORTLAND, OREGON 97258

(Address of principal executive offices) (zip code)

(503) 727-4100

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Depositary Shares, representing interests in Series B Common Stock Equivalent, a series of Preferred Stock	The NASDAQ Stock Market, LLC

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

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

Large Accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2009, based on the closing price on that date of $7.76 per share, and 59,222,425 shares outstanding was $459,566,018.

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

The number of shares of the Registrant s common stock (no par value) outstanding as of January 31, 2010 was 86,808,891.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2010 Annual Meeting of Shareholders of Umpqua Holdings Corporation are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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PART I

ITEM 1. BUSINESS.

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as anticipates, expects, believes, estimates and intends and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds, use of proceeds, availability of acquisition and growth opportunities, dividends, adequacy of our allowance for loan and lease losses and provision for loan and lease losses, our commercial real estate portfolio and subsequent chargeoffs. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties that could cause our financial performance to differ materially from our goals, plans, expectations and projections expressed in forward-looking statements include those set forth in our filings with the SEC, Item 1A of this Annual Report on Form 10-K, and the following factors that might cause actual results to differ materially form those presented:

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

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

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

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

For a more detailed discussion of some of the risk factors, see the section entitled Risk Factors below. We do not intend to update any factors or to publicly announce revisions to any of our forward-looking statements. You should consider any forward looking statements in light of this explanation, and we caution you about relying on forward-looking statements.

Umpqua Holdings Corporation

Introduction

Umpqua Holdings Corporation (referred to in this report as we, our, Umpqua, and the Company), an Oregon corporation, was formed as a bank holding company in March 1999. At that time, we acquired 100% of the outstanding shares of South Umpqua Bank, an Oregon state-chartered bank formed in 1953. We became a financial holding company in March 2000 under the provisions of the Gramm-Leach-Bliley Act. Umpqua has two principal operating subsidiaries, Umpqua Bank (the Bank) and Umpqua Investments, Inc. (Umpqua Investments). Prior to July 2009, Umpqua Investments was known as Strand, Atkinson, Williams and York, Inc. (Strand).

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

General Background

Prior to 2004, the Company s footprint included the Portland metropolitan and Willamette Valley areas of Oregon along the I-5 corridor, southern Oregon, and the Oregon coast. During the third quarter of 2004, we completed the acquisition of Humboldt Bancorp, which at the time of acquisition had total assets of approximately $1.5 billion and 27 branches located throughout Northern California. On June 2, 2006, we completed the acquisition of Western Sierra Bancorp and its principal operating subsidiaries, Western Sierra Bank, Central California Bank, Lake Community Bank and Auburn Community Bank. At the time of the acquisition, Western Sierra Bancorp had total assets of approximately $1.5 billion and 31 branches located throughout Northern California. On April 26, 2007, we completed the acquisition of North Bay Bancorp and its principal operating subsidiary, The Vintage Bank, along with its Solano Bank division. At the time of the acquisition, North Bay Bancorp had total assets of approximately $727.6 million and 10 Northern California branches located in the Napa area and in the communities of St. Helena, American Canyon, Vacaville, Benicia, Vallejo and Fairfield. On January 16, 2009, the Washington Department of Financial Institutions closed the Bank of Clark County, Vancouver, Washington, and appointed the Federal Deposit Insurance Corporation (FDIC) as its receiver. The FDIC entered into a purchase and assumption agreement with Umpqua Bank to assume certain assets and the insured non-brokered deposit balances, representing two branches, at no premium. On January 22, 2010, the Washington Department of Financial Institutions closed EvergreenBank, Seattle, Washington. Umpqua Bank entered into a whole bank purchase and assumption agreement with the FDIC to assume all of the deposits of EvergreenBank and purchase essentially all of the assets. The FDIC and Umpqua Bank entered into a loss-share transaction on $374.8 million of EvergreenBank s assets. Umpqua Bank will share in the losses on the asset pools covered under the loss-share agreement. EvergreenBank s seven Seattle metropolitan area branches opened as Umpqua Bank stores on January 25, 2010.

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

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

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

Business Strategy

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

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

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

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

Use Technology to Expand Customer Base. Although our strategy continues to emphasize superior personal service, we plan to expand user-friendly, technology-based systems to attract customers that may prefer to interact with their financial institution electronically. We offer technology-based services including remote deposit capture, online banking, bill pay and treasury services, mobile banking (March 2010), voice response banking, automatic payroll deposit programs, advanced function ATMs, interactive product kiosks, and a robust internet web site. We believe the availability of both traditional bank services and electronic banking services enhances our ability to attract a broader range of customers.

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

Pursue FDIC-assisted transactions. A part of our near-term strategy is to pursue certain failing banks that the FDIC makes available for bid, and that meet our strategic objectives. Failed bank transactions are attractive opportunities because we can acquire loans subject to a loss share agreement with the FDIC that limits our downside risk on the purchased loan portfolio and, apart from our assumption of deposit liabilities, we have significant discretion as to the non-deposit liabilities that we assume. Assets purchased from the FDIC are marked to their fair value and in many cases there is little or no addition to goodwill arising from an FDIC-assisted transaction. We have completed two FDIC-assisted transactions since January 1, 2009.

Marketing and Sales

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

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

Retail Store Concept. As a financial services provider, we believe that the store environment is critical to successfully market and sell products and services. Retailers traditionally have displayed merchandise within their stores in a manner designed to encourage customers to purchase their products. Purchases are made on the spur of the moment due to the products availability and attractiveness. Umpqua Bank believes this same concept can be applied to financial institutions and accordingly displays financial services and products through tactile merchandising within our stores. Unlike many financial institutions whose strategy is to discourage customers from visiting their facilities in favor of ATMs or other forms of electronic banking, we encourage customers to visit our stores, where they are greeted by well-trained sales associates and encouraged to browse and to make impulse purchases. Our Next Generation store model includes features like wireless laptop computers customers can use, opening rooms with fresh fruit and refrigerated beverages and innovative products packaging like MainStreet for businesses a package that includes relationship pricing for deposit and loan products, access to LocalSpace our social network for small businesses, and invitation to Business Therapy seminars. The stores host a variety of after-hours events, from poetry readings to seminars on how to build an art collection. In 2007, to bring financial services to our customers in a cost-effective way, we introduced Neighborhood Stores. We build these stores in established neighborhoods and design them to be neighborhood hubs. These stand-alone full-service stores are smaller size and emphasize advanced technology. To strengthen brand recognition, all Neighborhood Stores are similar in appearance. Umpqua s Innovation Lab is a one-of-a-kind location, showcasing emerging and existing technologies that foster community and redefine what consumers can expect from a banking experience. As a testing ground for new initiatives, the Lab will change regularly to feature new technology, products, services and community events.

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

Products and Services

We offer a full array of financial products to meet the banking needs of our market area and targeted customers. To ensure the ongoing viability of our product offerings, we regularly examine the desirability and profitability of existing and potential new products. To make it easy for new prospective customers to bank with us and access our products, we offer a Switch Kit, which allows a customer to open a primary checking account with Umpqua Bank in less than ten minutes. Other avenues through which customers can access our products include our web site equipped with an e-switchkit which includes automated billpay switch, internet banking through umpqua.online , mobile banking (coming in March of 2010), and our 24-hour telephone voice response system.

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

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

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

Retail Brokerage Services. Umpqua Investments provides a full range of brokerage services including equity and fixed income products, mutual funds, annuities, options, retirement planning and money management services. Additionally, Umpqua Investments offers life insurance policies. At December 31, 2009, Umpqua Investments had 52 Series 7-licensed financial advisors serving clients at three stand-alone retail brokerage offices and Investment Opportunity Centers located in many Bank stores.

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

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

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

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

Market Area and Competition

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

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

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

Many of our stores are located in markets that have historically experienced growth below statewide averages and the economy of Oregon is particularly sensitive to changes in the demand for forest and high technology products. With the completion of the Humboldt, Western Sierra and North Bay acquisitions, the Bank s market area expanded to include most of Northern California. Like Oregon, some California stores are located in communities with growth rates that lag historically behind the state average. During the past several years, the States of Oregon, California and Washington have experienced economic difficulties. To the extent the fiscal condition of state and local governments does not improve, there could be an adverse effect on business conditions in the affected state that would negatively impact the prospects for the Bank s operations located there.

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

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The following table presents the Bank s market share percentage for total deposits as of June 30, 2009, in each county where we have operations. The table also indicates the ranking by deposit size in each market, excluding EvergreenBank acquired in January 2010. See Note 28 of the *Notes to the Consolidated Financial Statement* in Item 8 below. All information in the table was obtained from SNL Financial of Charlottesville, Virginia, which compiles deposit data published by the FDIC as of June 30, 2009 and updates the information for any bank mergers completed subsequent to the reporting date.

Oregon

County	Market Share	Market Rank	Number of Stores
Benton	6.3%	7	1
Clackamas	3.1%	7	5
Coos	36.3%	1	5
Curry	24.6%	2	1
Deschutes	3.8%	9	5
Douglas	58.0%	1	10
Jackson	13.5%	2	9
Josephine	15.6%	2	5
Lane	17.3%	1	9
Lincoln	11.7%	3	2
Linn	11.4%	4	3
Marion	6.5%	7	3
Multnomah	2.2%	7	11
Washington	3.3%	9	3

California

County	Market Share	Market Rank	Number of Stores
Amador	4.5%	7	1
Butte	2.7%	8	2
Calaveras	22.0%	2	4
Colusa	31.9%	1	2
Contra Costa	0.2%	25	1
El Dorado	6.4%	4	5
Glenn	24.5%	3	2
Humboldt	25.0%	1	7
Lake	13.2%	3	2
Mendocino	2.4%	7	1
Napa	10.3%	3	7
Placer	8.0%	3	9
Sacramento	0.4%	17	6
San Joaquin	0.4%	19	1
Shasta	2.3%	8	1
Solano	4.1%	9	4
Stanislaus	0.6%	16	2
Sutter	13.6%	3	2
Tehama	16.0%	3	2
Trinity	27.5%	2	1
Tuolumne	13.1%	4	5
Yolo	2.3%	11	1
Yuba	22.5%	3	2

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Washington

County	Market Share	Market Rank	Number of Stores
Clark	7.1%	7	5
King	0.1%	44	2

Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2009, real estate construction/development, real estate mortgage, commercial real estate, commercial/industrial, and consumer/other loans represented approximately 10%, 12%, 58%, 19% and 1%, respectively, of the total loan and lease portfolio.

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

Allowance for Loan and Lease Losses (ALLL) Methodology

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

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

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

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of December 31, 2009, the unallocated allowance amount represented 9% of the allowance.

Management believes that the ALLL was adequate as of December 31, 2009. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 81% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios, and have led to an increase in non-performing loans and the allowance for loan and lease losses. A continued deterioration in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

Employees

As of December 31, 2009, we had a total of 1,857 full-time equivalent employees. None of the employees are subject to a collective bargaining agreement and management believes its relations with employees to be good. Umpqua Bank was named #23 on *Fortune* magazine s 2010 list of 100 Best Companies to Work For , #34 on the 2009 list, #13 on the 2008 list and #34 on the 2007 list. Information regarding employment agreements with our executive officers is contained in Item 11 below, which item is incorporated by reference to our proxy statement for the 2010 annual meeting of shareholders.

Government Policies

The operations of our subsidiaries are affected by state and federal legislative changes and by policies of various regulatory authorities. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, and capital adequacy and liquidity constraints imposed by federal and state regulatory agencies. Congress enacted the *Emergency Economic Stabilization Act of 2008* (EESA), which granted significant authority to the U.S. Department of the Treasury (the Treasury) to invest in financial institutions, guarantee debt, buy troubled assets and take other action designed to stabilize financial markets. In November 2008, the Company closed a transaction under the Capital Purchase Program (CPP) in which the Company issued 214,181 shares of cumulative preferred stock to the Treasury and issued a warrant to purchase 2,221,795 (reduced in 2009 to 1,110,898) shares of common stock at $14.46 per share in exchange for $214,181,000. Agreements executed in connection with the CPP transaction place restrictions on compensation payable to senior executive officers and provide that the Company may not declare dividends that exceed $0.19 per common share per quarter without Treasury s prior written consent. Federal and state governments have been actively responding to the financial market crisis that unfolded in 2008 and legislative and regulatory initiatives are expected to continue for the foreseeable future. In connection with the company s public offering in February 2010, Umpqua repurchased the preferred stock from the Treasury. See Note 28 of the *Notes to the Consolidated Financial Statement* in Item 8 below.

Supervision and Regulation

General. We are extensively regulated under federal and state law. These laws and regulations are generally intended to protect depositors and customers, not shareholders. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. Any change in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and by the policies of various regulatory authorities. We cannot accurately predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, or new federal or state legislation may have in the future. Umpqua is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission. As a listed company on NASDAQ, Umpqua is subject to NASDAQ rules for listed companies.

Holding Company Regulation. We are a registered financial holding company under the Gramm-Leach-Bliley Act of 1999 (the GLB Act), and are subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the Federal Reserve). As a financial holding company, we are examined by and file reports with the Federal Reserve. The Federal

Reserve expects a bank holding company to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank.

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

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

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. A less than Satisfactory rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination in December 2007, the Bank s CRA rating was Satisfactory.

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

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

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

Federal Deposit Insurance. The Federal Deposit Insurance Reform Act of 2005 (Reform Act), enacted in February 2006, increased the deposit insurance limit for certain retirement plan deposit accounts from $100,000 to $250,000. The basic insurance limit for other deposits, including individuals, joint account holders, businesses, government entities, and trusts, remained at $100,000. The Reform Act also provided for the merger of the two deposit insurance funds administered by the FDIC, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), into the Deposit Insurance Fund (DIF). The FDIC effectuated the merger of the BIF and the SAIF into the DIF as of March 31, 2006. As a result of the merger of the funds, the BIF and the SAIF were abolished.

On October 3, 2008, the EESA temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The basic deposit insurance limit would have returned to $100,000 after December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in the standard maximum deposit insurance amount to $250,000 per depositor through December 31, 2013. The standard maximum deposit insurance amount would return to $100,000 on January 1, 2014.

On November 21, 2008, the FDIC approved the final ruling establishing the Transaction Account Guarantee Program (TAGP) as part of the Temporary Liquidity Guarantee Program (TLGP). Under this program, effective immediately and through December 31, 2009, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. This unlimited coverage also extends to NOW (interest bearing deposit accounts) earning an interest rate no greater than .50% and all IOLTAs (lawyers trust accounts). Coverage under the TAGP, funded through insurance premiums paid by participating financial institutions, is in addition to and separate from the additional coverage announced under EESA. On August 26, 2009, the FDIC extended the TAGP portion of the TLGP for an additional six months, through June 30, 2010. Umpqua has elected to participate in the TAGP program through the extended period.

The amount of FDIC assessments paid by each member institution is based on its relative risk of default as measured by regulatory capital levels, regulatory examination ratings and other factors. The Reform Act created a new system and assessment rate schedule to calculate an institution s assessment. The new base assessment rates per the Reform Act range from $0.02 to $0.40 per $100 of deposits annually. The FDIC may increase or decrease the assessment rate schedule five basis points (annualized) higher or lower than the base rates in order to manage the DIF to prescribed statutory target levels. For 2007 the effective assessment amounts were $0.03 above the base rate amounts. Assessment rates for well managed, well capitalized institutions ranged from $0.05 to $0.07 per $100 of deposits annually. The Bank s assessment rate for 2008 fell within this range. In 2007, the FDIC issued one-time assessment credits that could be used to offset this expense. The Bank s credit was fully utilized in 2007 and covered the majority of that year s assessment. The Bank did not have any remaining credit to offset assessments in 2008.

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

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

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

The agreements that we executed with the Treasury in connection with the CPP transaction provide that the Company may not pay dividends on, repurchase, or redeem any other class of stock unless we are current in the payment of all dividends on the preferred stock issued to Treasury. Furthermore, the agreement provides that we may not pay quarterly cash dividends on the Company s common stock in excess of $0.19 per share without Treasury s prior written consent, for as long as the preferred stock is outstanding. In connection with the company s public offering in February 2010, Umpqua repurchased the preferred stock. See Note 28 of the *Notes to the Consolidated Financial Statement* in Item 8 below.

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

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

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

FDICIA requires federal banking regulators to take prompt corrective action with respect to a capital-deficient institution, including requiring a capital restoration plan and restricting certain growth activities of the institution. Umpqua could be required to guarantee any such capital restoration plan required of the Bank if the Bank became undercapitalized. Pursuant to FDICIA, regulations were adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Under the regulations, the Bank is considered well capitalized as of December 31, 2009.

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

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

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

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

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

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

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

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

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

Legislation enacted by Congress in 1995 permits interstate banking and branching, which allows banks to expand nationwide through acquisition, consolidation or merger. Under this law, an adequately capitalized bank holding company may acquire banks in any state or merge banks across state lines if permitted by state law. Further, banks may establish and operate branches in any state subject to the restrictions of applicable state law. Under Oregon law, an out-of-state bank or bank holding company may merge with or acquire an Oregon state chartered bank or bank holding company if the Oregon bank, or in the case of a bank holding company, the subsidiary bank, has been in existence for a minimum of three years, and the law of the state in which the acquiring bank is located permits such merger. Branches may not be acquired or opened separately, but once an out-of-state bank has acquired branches in Oregon, either through a merger with or acquisition of substantially all the assets of an Oregon bank, the acquirer may open additional branches. The Bank now has the ability to open additional de novo branches in the states of Oregon, California and Washington.

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Umpqua Holdings Corporation

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

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

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

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

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

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

- prohibition on personal loans by Umpqua to its directors and executive officers except loans made by the Bank in accordance with federal banking regulations;
- independence requirements for Board audit committee members and our auditors;
- certification of Exchange Act reports by the chief executive officer, chief financial officer and principal accounting officer;
- disclosure of off-balance sheet transactions;
- expedited reporting of stock transactions by insiders; and
- increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act also requires:

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

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

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

- the Capital Purchase Program allocated $250 billion to Treasury to purchase senior preferred shares and warrants to purchase commons stock from approved financial institutions;
- the Troubled Asset Purchase Program allocated $250 billion to Treasury to purchase troubled assets from financial institutions, with Treasury to also receive securities issued by participating institutions;

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- the Temporary Liquidity Guaranty Program (TLGP) authorized the FDIC to insure newly issued senior unsecured debt and insure the total balance in non-interest bearing transactional deposit accounts of those institutions who elect to participate;

- the Commercial Paper and Money Market Investor Funding Facilities authorized the Federal Reserve Bank of New York to purchase rated commercial paper from U.S. companies and to purchase money market instruments from U.S. money market mutual funds.

The Company is participating in the Capital Purchase Program and the Transaction Account Guarantee Program under the TLGP.

Umpqua Holdings Corporation

ITEM 1A. RISK FACTORS.

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

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

The capital and credit markets have been experiencing unprecedented volatility and disruption for more than twenty four months. Dramatic declines in the housing market over the past twenty four months, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We expect to face increased regulation of our industry, including as a result of the Emergency Economic Stabilization Act of 2008 (the EESA) and the American Recovery and Reinvestment Act of 2009 (the ARRA). Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

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

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

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

- There may be downward pressure on our stock price.

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

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

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

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

The Bank, like other lenders, is subject to credit risk, which is the risk of losing principal or interest due to borrowers failure to repay loans in accordance with their terms. Underwriting and documentation controls do not always work properly. A downturn in the economy or the real estate market in our market areas or a rapid increase in interest rates could have a negative effect on collateral values and borrowers ability to repay. To the extent loans are not paid timely by borrowers, the loans are placed on non-accrual status, thereby reducing interest income. Further, under these circumstances, an additional provision for loan and lease losses or unfunded commitments may be required. See Management s Discussion and Analysis of Financial Condition and Results of Operations Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments , Provision for Loan and Lease Losses and Asset Quality and Non-Performing Assets .

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

As of December 31, 2009, approximately 81% of our loan portfolio is secured by real estate, the majority of which is commercial real estate. As a result of increased levels of commercial and consumer delinquencies and declining real estate values, we have experienced increasing levels of net charge-offs and allowances for loan and lease reserves. Continued increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

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

At December 31, 2009, impaired loans of $134.4 million were classified as performing restructured loans. We restructured the loans in response to borrower financial difficulty, and generally provided for a temporary modification of loan repayment terms. Loans are reported as restructured when we grant concessions to a borrower experiencing financial difficulties that we would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity dates or providing a lower interest rate than would be normally available for a transaction of similar risk. In exchange for these concessions, at the time of restructure, we require additional collateral to bring the loan to value to at most 100%. A further decline in the economic conditions in our general market areas or other factors could adversely impact borrowers with restructured loans and cause borrowers to become delinquent or otherwise default or call into question their ability to repay full interest and principal in accordance with the restructured terms, which would result in the restructured loan being reclassified as non-accrual.

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

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

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

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

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

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

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

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

Recent legislative and regulatory initiatives to support the financial services industry have been coupled with numerous restrictions and requirements that could detrimentally affect the Company s business and require us to raise additional capital.

In addition to the U.S. Treasury s Capital Purchase Program (CPP) under the Troubled Asset Relief Program (TARP) announced in the fall of 2008, the U.S. Treasury and the FDIC have taken further steps to support and regulate the financial services industry, that include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances, and increasing insurance on bank deposits. Also, the U.S. Congress, through the EESA and the ARRA, has imposed a number of restrictions and limitations on the operations of financial services firms participating in the federal programs. These programs subject us and other financial institutions who participate in them to additional restrictions, oversight, reporting obligations and costs, which could have an adverse impact on our business, financial condition, results of operations or the price of our common stock. In addition, new proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry and impose restrictions on the ability of firms within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Federal and state legislatures could also adopt laws reducing the amount that borrowers are otherwise contractually required to pay under existing loan contracts or require lenders to extend or restructure certain loans. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

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

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

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

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

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

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

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

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

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

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

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

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

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

A deferred tax asset position comprises $16.9 million of our total assets at December 31, 2009, and we are required to assess the recoverability of this asset on an ongoing basis.

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

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

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

Because of our participation in the Troubled Asset Relief Program, we are subject to several restrictions including restrictions on our ability to declare or pay dividends and repurchase our shares as well as restrictions on compensation paid to our executives.

On November 14, 2008, in exchange for an aggregate purchase price of $214,181,000, we issued and sold to the U.S. Treasury, pursuant to the TARP Capital Purchase Program: (i) 214,181 shares of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value per share and liquidation preference $1,000 per share and (ii) a warrant to purchase up to 2,221,795 shares of our common stock (recently adjusted to 1,110,898 shares), no par value per share. On February 17, 2010, we redeemed the Series A Preferred Shares and we will give notice of our intent to repurchase the Warrant. Until we redeemed the Series A Preferred Shares, our ability to declare or pay dividends on any of our shares was limited and the Treasury s consent was generally required for us to make any stock repurchase. Those restrictions have now lapsed.

In addition, we were subject to TARP rules and standards governing executive compensation in 2009, which generally apply to our five most highly compensated employees, including our Chief Executive Officer. The standards include (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to senior executives; (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive; and (5) bonus and incentive compensation restrictions. In particular, the change to the deductibility limit on executive compensation will likely increase the overall cost of our compensation programs in 2010. Some of these restrictions will affect us for that part of fiscal year 2010 prior to redemption of the preferred shares and we may have some reporting obligations that extend beyond February 2010.

The financial services industry is highly competitive.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive offices of Umpqua are located at One SW Columbia Street in Portland, Oregon in office space that is leased. The main office of Umpqua Investments is located at 200 SW Market Street in Portland, Oregon in office space that is leased. The Bank owns its main office located in Roseburg, Oregon. At December 31, 2009, the Bank conducted Community Banking activities or operated Commercial Banking Centers at 155 locations, in Northern California, Oregon and Washington along the I-5 corridor; in the San Francisco Bay area, Inland Foothills, Napa and Coastal regions in California; in Bend and along the Coast of Oregon; in greater Seattle and Bellevue, Washington, of which 53 are owned and 102 are leased under various agreements. As of December 31, 2009, the Bank also operated 12 facilities for the purpose of administrative and other functions, such as back-office support, of which three are owned and 9 are leased. All facilities are in a good state of repair and appropriately designed for use as banking or administrative office facilities. As of December 31, 2009, Umpqua Investments leased five stand-alone offices from unrelated third parties and also leased space in 9 Bank stores under lease agreements that are based on market rates.

Additional information with respect to owned premises and lease commitments is included in Notes 6 and 18, respectively, of the *Notes to Consolidated Financial Statements* in Item 8 below.

ITEM 3. LEGAL PROCEEDINGS.

On June 19, 2009, in the Circuit Court of the State of Oregon for Multnomah County, Kevin D. Padrick, Trustee of the Summit Accommodators Liquidating Trust, as plaintiff, filed a complaint seeking damages of at least $30 million from Umpqua Bank. Plaintiff alleges that the Bank s provision of banking services to Summit Accommodators, Inc. (Summit), a 1031 exchange accommodator, aided and abetted the principals of Summit to breach their fiduciary duty to Summit. Based on the allegations in the complaint and our understanding of the relevant facts and circumstances, we believe that the claim is without merit and the Company is vigorously defending the claim.

On September 10, 2009, Danae Miller and fifty-seven additional plaintiffs, who are creditors in the Summit bankruptcy, filed a complaint in Multnomah County Circuit Court seeking damages of at least $30 million from Umpqua Bank. Plaintiffs make allegations that are similar to the allegations made by Padrick, i.e. that the Bank s provision of banking services to Summit aided and abetted Summit s breach of fiduciary duty to plaintiffs. Like the Padrick case, we believe that this claim is without merit and the Company is vigorously defending the claim.

No loss accrual has been made for either of these claims in the accompanying audited consolidated financial statements.

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

See Part II, Item 7, *Non-Interest Expense* for a discussion of the Company s involvement in litigation pertaining to Visa, Inc.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS.

No matters were submitted to the shareholders of the Company, through the solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2009.

PART II

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

(a) Our Common Stock is traded on The NASDAQ Global Select Market under the symbol UMPQ. As of December 31, 2009, there were 100,000,000 common shares authorized for issuance. The following table presents the high and low sales prices of our common stock for each period, based on inter-dealer prices that do not include retail mark-ups, mark-downs or commissions, and cash dividends declared for each period:

Quarter Ended	High	Low	Cash Dividend Per Share
December 31, 2009	$ 13.73	$ 9.41	$ 0.05
September 30, 2009	$ 11.84	$ 6.95	$ 0.05
June 30, 2009	$ 12.11	$ 7.58	$ 0.05
March 31, 2009	$ 14.54	$ 6.68	$ 0.05
December 31, 2008	$ 18.40	$ 10.14	$ 0.05
September 30, 2008	$ 23.10	$ 8.57	$ 0.19
June 30, 2008	$ 16.97	$ 11.43	$ 0.19
March 31, 2008	$ 17.06	$ 12.00	$ 0.19

As of December 31, 2009, our common stock was held by approximately 5,000 shareholders of record, a number that does not include beneficial owners who hold shares in street name , or shareholders from previously acquired companies that have not exchanged their stock. At December 31, 2009, a total of 1.8 million stock options, 187,000 shares of restricted stock and 335,000 restricted stock units were outstanding. Additional information about stock options, restricted stock and restricted stock units is included in Note 20 of the *Notes to Consolidated Financial Statements* in Item 8 below and in Item 12 below.

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

In connection with the issuance and sale of preferred stock in the fourth quarter of 2008, the Company entered into a Letter Agreement including the Securities Purchase Agreement Standard Terms (the Agreement) with the U.S. Treasury. The Agreement contained certain limitations on the payment of quarterly cash dividends on the Company s common stock in excess of $0.19 per share, and on the Company s ability to repurchase its common stock. The preferred stock has no maturity date and ranks senior to our common stock with respect to the payment of dividends and distribution of amounts payable upon liquidation, dissolution and winding up of the Company. The preferred has no general voting or participation rights, and no sinking fund requirements. In the event dividends on the preferred stock are not paid full for six dividend periods, whether or not consecutive, the preferred stock holders will have the right to elect two directors. Additional information about the preferred stock is included in Note 20 of the *Notes to Consolidated Financial Statements* in Item 8 below. Following the company s public offering in February 2010, Umpqua redeemed the preferred stock on February 17, 2010 and thereby terminated the restrictions on the payment of common stock dividends under the Agreement. See Note 28 of the Notes to the Consolidated Financial Statement in Item 8 below.

During 2009, Umpqua s Board of Directors declared a quarterly cash dividend of $0.05 per common share per quarter. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy. Such dividends are subject to the restrictions described in the preceding paragraph.

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

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Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that provide for the award of securities or the grant of options to purchase securities to employees and directors of Umpqua, its subsidiaries and its predecessors by merger that were in effect at December 31, 2009.

(shares in thousands)

	Equity Compensation Plan Information		
	(A)	(B)	(C)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights(4)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column(A)
Equity compensation plans approved by security holders			
2003 Stock Incentive Plan(1)	1,194	$ 16.96	489
2007 Long Term Incentive Plan(2)	335		642
Other(3)	607	$ 11.39	
Total	2,136	$ 15.05	1,131
Equity compensation plans not approved by security holders			
Total	2,136	$ 15.05	1,131

(1) At Umpqua s 2007 Annual Meeting, shareholders approved an amendment to the 2003 Stock Incentive Plan. The plan authorized the issuance of two million shares of stock through awards of incentive stock options, nonqualified stock options or restricted stock grants, provided awards of stock options and restricted stock grants under the 2003 Stock Incentive Plan, when added to options outstanding under all other plans, are limited to a maximum 10% of the outstanding shares on a fully diluted basis.

(2) At Umpqua s 2007 Annual Meeting, shareholders approved a 2007 Long Term Incentive Plan. The plan authorized the issuance of one million shares of stock through awards of performance-based restricted stock unit grants to executive officers. Target grants of 111,000 and maximum grants of 194,000 were approved to be issued in 2007, target grants of 105,000 and maximum grants of 183,000 were approved to be issued in 2008, and target grants of 65,000 and maximum grants of 114,000 were approved to be issued in 2009 under this plan. During 2008, 76,000 units forfeited upon the retirement of an executive. During 2009, 23,000 units vested and were released and 57,000 units forfeited upon the retirement of an executive. As of December 31, 2009 112,000 restricted stock units are expected to vest if the current estimate of performance-based targets is satisfied, and would result in 865,000 securities available for future issuance.

(3) Includes other Umpqua stock plans and stock plans assumed through previous mergers. Includes 24,000 shares issued under North Bay Bancorp s stock option plans, having a weighted average exercise price of $17.17. Includes 351,000 shares issued under all other previously acquired companies stock option plans, having a weighted average exercise price of $8.78 per share.

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

(b) Not applicable.

Umpqua Holdings Corporation

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2009:

Period	Total number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(2)	Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan
10/1/09 - 10/31/09	228	$ 10.16		1,542,945
11/1/09 - 11/30/09		$		1,542,945
12/1/09 - 12/31/09	175	$ 11.62		1,542,945
Total for quarter	403	$ 10.79		

(1) Shares repurchased by the Company during the quarter consist of cancellation of 403 restricted shares to pay withholding taxes. There were no shares tendered in connection with option exercises and no shares were repurchased pursuant to the Company s publicly announced corporate stock repurchase plan described in (2) below.

(2) The Company s share repurchase plan, which was approved by the Board and announced in August 2003, originally authorized the repurchase of up to 1.0 million shares. Prior to 2007, the authorization was amended to increase the repurchase limit to 2.5 million shares. On April 19, 2007, the Company announced an expansion of the Board approved common stock repurchase plan, increasing the repurchase limit to 6.0 million shares and extending the plan s expiration date from June 30, 2007 to June 30, 2009. On April 21, 2009, the Company announced that the Board of Directors approved an extension to the expiration date of the common stock repurchase plan from June 30, 2009 to June 30, 2011. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, our capital plan, and are subject to certain limitations resulting from the Company s participation in the TARP Capital Purchase Program, as described in Note 20 in the *Notes to Consolidated Financial Statements* in Item 8 of this report.

During the year ended December 31, 2009, there were no shares tendered in connection with option exercises. During the year ended December 31, 2008, there were 263 shares tendered in connection with option exercises. Restricted shares cancelled to pay withholding taxes totaled 11,257 and 7,936 shares during the years ended December 31, 2009 and 2008, respectively. Restricted stock units cancelled to pay withholding taxes totaled 8,259 during the year ended December 31, 2009. No restricted stock units were cancelled to pay withholding taxes during the year ended December 31, 2008.

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STOCK PERFORMANCE GRAPH

The following chart, which is furnished not filed, compares the yearly percentage changes in the cumulative shareholder return on our common stock during the five fiscal years ended December 31, 2009, with (i) the Total Return Index for Nasdaq Bank Stocks (ii) the Total Return Index for The Nasdaq Stock Market (U.S. Companies) and (iii) the Standard and Poor s 500. This comparison assumes $100.00 was invested on December 31, 2004, in our common stock and the comparison indices, and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. Price information from December 31, 2004 to December 31, 2009, was obtained by using the Nasdaq closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2004	**12/31/2005**	**12/31/2006**	**12/31/2007**	**12/31/2008**	**12/31/2009**
Umpqua Holdings Corporation	$ 100.00	$ 114.60	$ 120.75	$ 65.22	$ 64.23	$ 60.72
Nasdaq Bank Stocks	$ 100.00	$ 95.67	$ 106.20	$ 82.76	$ 62.96	$ 51.31
Nasdaq U.S.	$ 100.00	$ 101.37	$ 111.03	$ 121.92	$ 72.49	$ 104.31
S&P 500	$ 100.00	$ 104.91	$ 121.48	$ 128.16	$ 80.74	$ 102.11

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Umpqua Holdings Corporation

ITEM 6. SELECTED FINANCIAL DATA.

Umpqua Holdings Corporation

Annual Financial Trends

(in thousands, except per share data)

	2009	2008	2007	2006	2005
Interest income	$ 423,732	$ 442,546	$ 488,392	$ 405,941	$ 282,276
Interest expense	103,024	152,239	202,438	143,817	72,994
Net interest income	320,708	290,307	285,954	262,124	209,282
Provision for loan and lease losses	209,124	107,678	41,730	2,552	2,468
Non-interest income	73,516	107,118	64,829	53,525	47,713
Non-interest expense	267,178	215,588	210,804	177,104	146,725
Goodwill impairment	111,952	982			
Merger-related expense	273		3,318	4,773	262
(Loss) income before income taxes	(194,303)	73,177	94,931	131,220	107,540
(Benefit from) provision for income taxes	(40,937)	22,133	31,663	46,773	37,805
Net (loss) income	(153,366)	51,044	63,268	84,447	69,735
Preferred stock dividends	12,866	1,620			
Dividends and undistributed earnings allocated to participating securities	30	154	187	192	85
Net (loss) earnings available to common shareholders	$ (166,262)	$ 49,270	$ 63,081	$ 84,255	$ 69,650
YEAR END					
Assets	$ 9,381,372	$ 8,597,550	$ 8,340,053	$ 7,344,236	$ 5,360,639
Earning assets	8,344,203	7,491,498	7,146,841	6,287,202	4,636,334
Loans and leases	5,999,267	6,131,374	6,055,635	5,361,862	3,921,631
Deposits	7,440,434	6,588,935	6,589,326	5,840,294	4,286,266
Term debt	76,274	206,531	73,927	9,513	3,184
Junior subordinated debentures, at fair value	85,666	92,520	131,686		
Junior subordinated debentures, at amortized cost	103,188	103,655	104,680	203,688	165,725
Common shareholders equity	1,362,182	1,284,830	1,239,938	1,156,211	738,261
Total shareholders equity	1,566,517	1,487,008	1,239,938	1,156,211	738,261
Common shares outstanding	86,786	60,146	59,980	58,080	44,556
AVERAGE					
Assets	$ 8,975,178	$ 8,342,005	$ 7,897,568	$ 6,451,660	$ 5,053,417
Earning assets	7,925,014	7,215,001	6,797,834	5,569,619	4,353,696
Loans and leases(1)	6,103,666	6,118,540	5,822,907	4,803,509	3,613,257
Deposits	7,010,739	6,459,576	6,250,521	5,003,949	4,002,153
Term debt	129,814	194,312	57,479	58,684	31,161
Junior subordinated debentures	190,491	226,349	221,833	187,994	165,981
Common shareholders equity	1,315,953	1,254,730	1,222,628	970,394	711,765
Total shareholders equity	1,519,119	1,281,220	1,222,628	970,394	711,765
Basic common shares outstanding	70,399	60,084	59,828	52,311	44,438
Diluted common shares outstanding	70,399	60,424	60,404	52,990	45,001
PER COMMON SHARE DATA					
Basic (loss) earnings	$ (2.36)	$ 0.82	$ 1.05	$ 1.61	$ 1.57
Diluted (loss) earnings	(2.36)	0.82	1.04	1.59	1.55

Book value	15.70	21.36	20.67	19.91	16.57
Tangible book value(2)	8.33	8.76	7.92	8.21	7.40
Cash dividends declared	0.20	0.62	0.74	0.60	0.32

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(dollars in thousands)

	2009	2008	2007	2006	2005
PERFORMANCE RATIOS					
Return on average assets(3)	-1.85%	0.59%	0.80%	1.31%	1.38%
Return on average common shareholders equity(4)	-12.63%	3.93%	5.16%	8.68%	9.79%
Return on average tangible common shareholders equity(5)	-26.91%	9.99%	13.05%	20.79%	22.88%
Efficiency ratio(6), (7)	95.34%	54.08%	60.62%	57.32%	56.92%
Average common shareholders equity to average assets	14.66%	15.04%	15.48%	15.04%	14.08%
Leverage ratio(8)	12.79%	12.38%	9.24%	10.28%	10.09%
Net interest margin (fully tax equivalent)(9)	4.09%	4.07%	4.24%	4.74%	4.84%
Non-interest revenue to total net revenue(10)	18.65%	26.95%	18.48%	16.96%	18.57%
Dividend payout ratio(11)	-8.47%	75.61%	70.48%	37.27%	20.38%
ASSET QUALITY					
Non-performing loans	$ 199,027	$ 133,366	$ 91,099	$ 9,058	$ 6,440
Non-performing assets	223,593	161,264	98,042	9,058	7,563
Allowance for loan and lease losses	107,657	95,865	84,904	60,090	43,885
Net charge-offs	197,332	96,717	21,994	574	2,812
Non-performing loans to total loans	3.32%	2.18%	1.50%	0.17%	0.16%
Non-performing assets to total assets	2.38%	1.88%	1.18%	0.12%	0.14%
Allowance for loan and lease losses to total loans and leases	1.79%	1.56%	1.40%	1.12%	1.12%
Allowance for credit losses to total loans	1.81%	1.58%	1.42%	1.15%	1.16%
Net charge-offs to average loans and leases	3.23%	1.58%	0.38%	0.01%	0.08%

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

Umpqua Holdings Corporation

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

FORWARD LOOKING STATEMENTS AND RISK FACTORS

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

EXECUTIVE OVERVIEW

Umpqua s 2009 results reflect the continued effects of the U.S. recession, the housing market downturn and declining real estate values. The economic environment has adversely affected our residential development, commercial real estate, commercial construction and commercial loan portfolios, with the following results:

Non-performing assets increased to $223.6 million, or 2.38% of total assets, as of December 31, 2009, compared to $161.3 million, or 1.88% of total assets as of December 31, 2008. Non-performing loans increased to $199.0 million, or 3.32% of total loans, as of December 31, 2009, compared to $133.4 million, or 2.18% of total loans as of December 31, 2008. Non-accrual loans have been written-down to their estimated net realizable values.

Net charge-offs were $197.3 million in 2009, or 3.23% of average loans and leases, as compared to net charge-offs of $96.7 million, or 1.58% of average loans and leases in 2008. The increase in and write-down of impaired loans in the current year has contributed to the increase in net charge-offs.

Downgrades within the loan portfolio and net charge-offs in 2009 contributed to a $209.1 million provision for loan and lease losses in 2009, as compared to $107.7 million in 2008.

However, the past year was not without some significant accomplishments. During the year, we:

Raised $258.7 million through a public offering by issuing 26,538,461 shares of common stock. After deducting underwriting discounts and commissions and offering expenses, net proceeds to the Company were $245.7 million. The proceeds from the offering qualify as Tier 1 capital and will be used for general corporate purposes, which include capital to support growth and acquisition opportunities and to position us for redemption of our Series A preferred stock issued to the U.S. Treasury under the TARP Capital Purchase Program.

Increased our total risk based capital ratio to 17.2% as of December 31, 2009, compared to 14.6% as of December 31, 2008, primarily due to the successful public stock offering completed in August 2009.

Mortgage banking revenue was $18.7 million in 2009, compared to $2.4 million in 2008. Closed mortgage volume increased 131% in the current year due to a significant increase in purchase and refinancing activity, resulting from historically low mortgage interest rates. Additionally, the prior period s revenue includes a $2.4 million charge on an ineffective mortgage servicing right (MSR) hedge, which was suspended, due to widening spreads and price declines that were not offset by a corresponding gain in the related MSR asset.

Opened a new Commercial Banking Center in Lynnwood, Washington, and Community Banking stores in Portland, Oregon and Vancouver, Washington.

Opened our new International Banking Division in San Francisco, California to serve the financing needs of small and middle-market companies involved in international trade.

Entered into a purchase and assumption agreement with the FDIC on January 16, 2009, to assume at no premium the insured, non-brokered deposit balances, which totaled $183.9 million, and certain other assets, of the Bank of Clark County in Vancouver, Washington, adding two new stores in Vancouver, Washington.

Also during the year:

Net loss per diluted common share was $2.36 in 2009, as compared to net earnings of $0.82 per diluted common share earned in 2008. The decline in net earnings per diluted common share is principally attributed

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to a goodwill impairment charge, increased provision for loan and lease losses, losses incurred on other real estate owned, and interest reversals on loans. Operating loss per diluted common share, defined as earnings available to common shareholders before merger related expenses, net of tax, and goodwill impairment divided by the same diluted share total used in determining diluted earnings per common share, was $0.77 in 2009, as compared to operating income per diluted common share of $0.83 in 2008. Operating income per diluted common share is considered a non-GAAP financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading *Results of Operations Overview* below.

Net interest margin, on a tax equivalent basis, increased to 4.09% in 2009 from 4.07% in 2008. The increase in net interest margin resulted from a decrease in the cost of interest bearing deposits, partially offset by reductions in earning asset yields due primarily to a lower prime rate during the current year as compared to the prior year. Excluding a $4.4 million reversal of interest income on loans in 2009, the tax equivalent net interest margin would have been 4.15%.

We recorded gains of $6.5 million in the income statement representing the change in fair value on our junior subordinated debentures measured at fair value in 2009, compared to gains of $38.9 million in 2008. The change in fair value recognized in the current period primarily resulted from the widening of credit risk adjusted rate spreads above the Company s contractual spreads.

Net loss on investment securities of $1.7 million in 2009 includes other-than-temporary impairment (OTTI) charges of $10.6 million, which primarily relate to non-agency collateralized mortgage obligations. The impairment charge was offset by gains on the sale of securities of $8.9 million.

FDIC assessments increased to $15.8 million in 2009, as compared to $5.2 million 2008. The increase results from an industry-wide increase in assessment rates and a $4.0 million special assessment incurred in the second quarter of 2009 imposed by the FDIC in efforts to rebuild the Deposit Insurance Fund.

Gross loans and leases decreased to $6.0 billion as of December 31, 2009, a decrease of $132.1 million, or 2.2%, as compared to December 31, 2008. This decrease is principally attributable to charge-offs of $200.9 million and transfers to other real estate owned of $50.9 million, offset by net loan originations of $108.7 million during the year.

Total deposits were $7.4 billion as of December 31, 2009, an increase of $851.5 million, or 12.9%, as compared to December 31, 2008. Excluding the deposits acquired through the FDIC-assisted purchase and assumption of the Bank of Clark County, the organic deposit growth rate was 10.4% annualized.

Total consolidated assets were $9.4 billion as of December 31, 2009, compared to $8.6 billion as of December 31, 2008, representing an increase of $783.8 million or 9.1%. The growth in total assets is principally attributable to the increase in deposits and the proceeds received from the public offering of common stock in the third quarter of 2009.

Declared cash dividends of $0.05 per common share for each quarter in 2009. In determining the amount of dividends to be paid, we consider capital preservation, expected asset growth, projected earnings and our overall dividend pay-out ratio.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The SEC defines critical accounting policies as those that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Our significant accounting policies are described in Note 1 in the *Notes to Consolidated Financial Statements* in Item 8 of this report. Not all of these critical accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC s definition.

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Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

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

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

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

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of December 31, 2009, the unallocated allowance amount represented 9% of the allowance.

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

Management believes that the ALLL was adequate as of December 31, 2009. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 81% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios, and have led to an increase in non-performing loans and the allowance for loan and lease losses. A continued deterioration in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

Mortgage Servicing Rights

In accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 860, Transfers and Servicing, the Company determines its classes of servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company elected to measure its residential mortgage servicing assets at fair value and to report changes in fair value through earnings. Fair value adjustments encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are separately reported. Under the fair value method, the MSR is carried in the balance sheet at fair value and the changes in fair value are reported in earnings under the caption mortgage banking revenue in the period in which the change occurs.

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

The expected life of the loan can vary from management s estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management s estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in the model, which we base on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights. Additional information is included in Note 8 of the *Notes to Consolidated Financial Statements*.

Valuation of Goodwill and Intangible Assets

At December 31, 2009, we had $639.6 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstance indicate impairment potentially exists. As a result of the year-end analysis in 2008, management determined that there was a $1.0 million impairment related to the Retail Brokerage reporting segment as of December 31, 2008, which resulted from the Company s evaluation following the departure of certain Umpqua Investments financial advisors. The valuation of the impairment at the Retail Brokerage operating segment was determined using an income approach by discounting cash flows of forecasted earnings. The remaining balance of goodwill and other intangible assets relate to the Community Banking reporting segment. The Company performed a goodwill impairment analysis of the Community Banking reporting segment as of June 30, 2009, due to a further decline in the Company s market capitalization below the book value of equity and continued weakness in the banking industry. The Company engaged an independent valuation consultant to assist us in determining whether our goodwill asset was impaired. The valuation of the reporting unit was determined using discounted cash flows of forecasted earnings, estimated sales price multiples based on recent observable market transactions and market capitalization based on current stock price. The results of the Company s and valuation specialist s step one test indicated that the reporting unit s fair value was less than its carrying value, and therefore the Company performed a step two analysis. In the step two analysis, we calculated the fair value for the reporting unit s assets and liabilities, as well as its unrecognized identifiable intangible assets, such as the core deposit intangible and trade name, in order to determine the implied fair value of goodwill. Fair value adjustments to items on the balance sheet primarily related to investment securities held to maturity, loans, other real estate owned, Visa Class B common stock, deferred taxes, deposits, term debt, and junior subordinated debentures. Based on the results of the step two analysis, the Company determined that the implied fair value of the goodwill was greater than its carrying amount on the Company s balance sheet, and as a result, recognized a goodwill impairment loss of $112.0 million. This write-down of goodwill is a non-cash charge that does not affect the Company s or the Bank s liquidity or operations. In addition, because goodwill is excluded in the calculation of regulatory capital, the Company s well-capitalized capital ratios were not affected by this charge. The Company evaluated the Community Banking reporting segment as of December 31, 2009. In the first step of the goodwill impairment test the Company determined that the fair value of the Community Banking reporting unit exceeded its carrying amount. This determination is consistent with the events occurring after the Company recognized the $112.0 million impairment of goodwill second quarter of 2009. First, the market capitalization and estimated fair value of the Company increased significantly subsequent to the recognition of the impairment charge as the fair value of the Company s stock increased 73% from June 30, 2009 to December 31, 2009. Secondly, the Company s successful public common stock offering in the third quarter of 2009 diluted the carrying value of the reporting unit s book equity on a per share basis, based upon which the fair value of the reporting unit is measured. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption will not result in additional impairment of all, or some portion of, goodwill. Additional information is included in Note 7 of the *Notes to Consolidated Financial Statements*.

Stock-based Compensation

Consistent with the provisions of FASB ASC 718, *Stock Compensation*, a revision to the previously issued guidance on accounting for stock options and other forms of equity-based compensation, we recognize expense for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the Black-Scholes methodology, and ultimately, the expense that will be recognized over the life of the option. Additional information is included in Note 1 of the *Notes to Consolidated Financial Statements*.

Fair Value

FASB ASC 820, *Fair Value Measurements and Disclosures* establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 22 of the *Notes to Consolidated Financial Statements* for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, FASB revised FASB ASC 805, *Business Combinations*. FASB ASC 805 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquired entity and the goodwill acquired. Furthermore, acquisition-related and other costs will now be expensed rather than treated as cost components of the acquisition. FASB ASC 805 also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The revision to this guidance applies prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The adoption of these revisions will increase the costs charged to operations for acquisitions consummated on or after January 1, 2009.

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In December 2007, FASB amended FASB ASC 810, *Consolidation*. This amendment establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The standard also requires additional disclosures that clearly identify and distinguish between the interest of the parent s owners and the interest of the noncontrolling owners of the subsidiary. This statement is effective on January 1, 2009 for the Company, to be applied prospectively. The impact of adoption did not have a material impact on the Company s consolidated financial statements.

In June 2008, FASB amended FASB ASC 260, *Earnings per Share*. This amendment concluded that nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This amendment is effective for fiscal years beginning after December 15, 2008, to be applied retrospectively. Certain of the Company s nonvested restricted stock awards qualify as participating securities as described under this amendment. The adoption of this provision reduced both basic and diluted earnings per common share by $0.01 for the year ended December 31, 2007.

In January 2009, FASB amended FASB ASC 325-40, *Investments Other*. This amendment addressed certain practice issues related to the recognition of interest income and impairment on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets, by making its other-than-temporary impairment (OTTI) assessment guidance consistent with FASB ASC 320, *Investments Debt and Equity Securities*. The amendment removes the reference to the consideration of a market participant s estimates of cash flows and instead requires an assessment of whether it is probable, based on current information and events, that the holder of the security will be unable to collect all amounts due according to the contractual terms. If it is probable that there has been an adverse change in estimated cash flows, an OTTI is deemed to exist, and a corresponding loss shall be recognized in earnings equal to the entire difference between the investment s carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. This amendment became effective for interim and annual reporting periods ending after December 15, 2008, and is applied prospectively. The impact of adoption did not have a material impact on the Company s consolidated financial statements.

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

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

In April 2009, FASB revised FASB ASC 825, *Financial Instruments*, to require fair value disclosures in the notes of an entity s interim financial statements for all financial instruments, whether or not recognized in the statement of financial position. This revision became effective for the interim reporting period ending after June 15, 2009. The adoption of the revised increased interim financial statement disclosures and did not impact on the Company s consolidated financial statements.

In May 2009, FASB amended FASB ASC 855, *Subsequent Events*. The updated guidance established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The revisions should not result in significant changes in the subsequent events that an entity reports, either through recognition or disclosure in its financial statements. It does require disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. We adopted the provisions of this guidance for the interim period ended June 30, 2009, and the impact of adoption did not have a material impact on the Company s consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-17, *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets.* This update codifies SFAS No. 166, *Accounting for Transfers of Financial Assets an Amendment of FASB Statement No. 140*, which was previously issued by FASB in June 2009 but was not included in the original codification. ASU 2009-17 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. This statement is effective for annual reporting periods beginning after November 15, 2009, and for interim periods therein. This standard will primarily impact the Company s accounting and reporting of transfers representing a portion of a financial asset for which the Company has a continuing involvement, generally known as loan participations. In order to recognize the transfer of a portion of a financial asset as a sale, the transferred portion and any portion that continues to be held by the transferor must represent a participating interest, and the transfer of the participating interest must meet the conditions for surrender of control. To qualify as a participating interest (i) the portions of a financial asset must represent a proportionate ownership interest in an entire financial asset, (ii) from the date of transfer, all cash flows received from the entire financial asset must be divided proportionately among the participating interest holders in an amount equal to their share of ownership, (iii) involve no recourse (other than standard representation and warranties) to, or subordination by, any participating interest holder, and (iv) no party has the right to pledge or exchange the entire financial asset. If the participating interest or surrender of control criteria are not met the transfer is not accounted for as a sale and derecognition of the asset is not appropriate. Rather the transaction is accounted for as a secured borrowing arrangement. The impact of certain participations being reported as secured borrowings rather than derecognizing a portion of a financial asset would increase total assets (loans), liabilities (term debt) and their respective interest income and expense. An increase in total assets also increases regulatory risk-weighted assets and could negatively impact our capital ratios. The Company is reviewing our participation agreements to ensure new originations meet the criteria to allow for sale accounting in order to limit the impact upon our financial statements. The terms contained in certain participation and loan sale agreements, however, are outside the control of the Company. These arrangements largely relate to Small Business Administration (SBA) loan sales. These sales agreements contain recourse provisions (generally 90 days) that will initially preclude sale accounting. However, once the recourse provision expires, transfers of portions of financial assets may be reevaluated to determine if they meet the participating interest definition. As a result, we expect to report SBA and potentially certain other transfers of financial assets as secured borrowings which will defer the gain of sale on these transactions, at least until the recourse provision expires, assuming all other sales criteria for each transaction are met. The Company does not believe it has or will have a significant amount of participations subject to recourse provisions or other features that would preclude derecognition of the assets transferred. The Company does not believe the impact of adoption will have a material impact on the Company s consolidated financial statements.

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

In June 2009, FASB codified FASB ASC 105, *Generally Accepted Accounting Principles,* to establish the FASB ASC (the Codification). The Codification is not expected to change U.S. GAAP, but combines all authoritative standards into a comprehensive, topically organized online database. Following this guidance, the Financial Accounting Standards Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASU) to update the Codification. After the launch of the Codification on July 1, 2009 only one level of authoritative U.S. GAAP for non governmental entities will exist, other than guidance issued by the Securities and Exchange Commission. This statement is effective for interim and annual reporting periods ending after September 15, 2009. The adoption of the FASB ASC 105 did not have any impact on the Company s consolidated financial statements, and only affects how the Company s references authoritative accounting guidance going forward.

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

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

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RESULTS OF OPERATIONS OVERVIEW

For the year ended December 31, 2009, net loss available to common shareholders was $166.3 million, or $2.36 per diluted common share, as compared to net earnings available to common shareholders of $49.3 million, or $0.82 per diluted common share for the year ended December 31, 2008. The decrease in net earnings available to common shareholders in 2009 is principally attributable to increased provision for loan and lease losses, decreased non-interest income, increased non-interest expense and increased preferred stock dividends, partially offset by increased net interest income. Non-interest expense in the year ended December 31, 2009 includes a goodwill impairment charge recognized in the second quarter of $112.0 million related to the Community Banking operating segment. We assumed the insured non-brokered deposit balances and certain other assets of the Bank of Clark County on January 16, 2009 and the results of the acquired operations are included in our financial results starting on January 17, 2009.

For the year ended December 31, 2008, net earnings available to common shareholders was $49.3 million, or $0.82 per diluted common share, a decrease of 22% on a per diluted common share basis compared to 2007. The decrease in net earnings available to common shareholders in 2008 is principally attributable to increased provision for loan and lease losses and non-interest expense, partially offset by increased net interest and non-interest income. We completed the acquisition of North Bay Bancorp on April 26, 2007, and the results of the acquired operations are included in our financial results starting on April 27, 2007.

We incur significant expenses related to the completion and integration of mergers. Additionally, we may recognize goodwill impairment losses that have no effect on the Company s or the Bank s cash balances, liquidity, or regulatory capital ratios. Accordingly, we believe that our operating results are best measured on a comparative basis excluding the impact of merger-related expenses, net of tax, and other charges related to business combinations such as goodwill impairment charges. We define *operating income* as earnings available to common shareholders before merger related expenses, net of tax, and goodwill impairment, and we calculate *operating income per diluted share* by dividing operating income by the same diluted share total used in determining diluted earnings per common share (see Note 23 of the *Notes to Consolidated Financial Statements* in Item 8 below). Operating income and operating income per diluted share are considered non-GAAP financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the *Financial Statements and Supplementary Data* in Item 8 below.

The following table presents a reconciliation of operating (loss) income and operating (loss) income per diluted share to net (loss) earnings and net (loss) earnings per diluted common share for years ended December 31, 2009, 2008 and 2007:

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

Years Ended December 31,

(in thousands, except per share data)

	2009	2008	2007
Net (loss) earnings available to common shareholders	$ (166,262)	$ 49,270	$ 63,081
Merger-related expenses, net of tax	164		1,991
Goodwill impairment	111,952	982	
Operating (loss) income	$ (54,146)	$ 50,252	$ 65,072
Per diluted common share:			
Net (loss) earnings available to common shareholders	$ (2.36)	$ 0.82	$ 1.04
Merger-related expenses, net of tax			0.04
Goodwill impairment	1.59	0.01	
Operating (loss) income	$ (0.77)	$ 0.83	$ 1.08

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Umpqua Holdings Corporation

The following table presents the returns on average assets, average common shareholders equity and average tangible common shareholders equity for the years ended December 31, 2009, 2008 and 2007. For each of the years presented, the table includes the calculated ratios based on reported net (loss) earnings available to common shareholders and operating (loss) income as shown in the table above. Our return on average common shareholders equity is negatively impacted as a result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger-related intangible assets, we believe it beneficial to also consider the return on average common tangible shareholders equity. The return on average common tangible shareholders equity is calculated by dividing net (loss) earnings available to common shareholders by average common shareholders common equity less average goodwill and intangible assets, net (excluding MSRs). The return on average tangible common shareholders equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders equity.

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

For the Years Ended December 31,

(dollars in thousands)

	2009	2008	2007
RETURNS ON AVERAGE ASSETS:			
Net (loss) earnings available to common shareholders	-1.85%	0.59%	0.80%
Operating (loss) income	-0.60%	0.60%	0.82%
RETURNS ON AVERAGE COMMON SHAREHOLDERS EQUITY:			
Net (loss) earnings available to common shareholders	-12.63%	3.93%	5.16%
Operating (loss) income	-4.11%	4.01%	5.32%
RETURNS ON AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Net (loss) earnings available to common shareholders	-26.91%	9.99%	13.05%
Operating (loss) income	-8.77%	10.19%	13.46%
CALCULATION OF AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Average common shareholders equity	$ 1,315,953	$ 1,254,730	$ 1,222,628
Less: average goodwill and other intangible assets, net	(698,223)	(761,672)	(739,086)
Average tangible common shareholders equity	$ 617,730	$ 493,058	$ 483,542

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

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The following table provides a reconciliation of ending shareholders equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of December 31, 2009 and December 31, 2008:

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

(dollars in thousands)

	2009	2008
Total shareholders equity	$ 1,566,517	$ 1,487,008
Subtract:		
Preferred Stock	204,335	202,178
Goodwill and other intangible assets, net	639,634	757,833
Tangible common shareholders equity	$ 722,548	$ 526,997
Total assets	$ 9,381,372	$ 8,597,550
Subtract:		
Goodwill and other intangible assets, net	639,634	757,833
Tangible assets	$ 8,741,738	$ 7,839,717
Tangible common equity ratio	8.27%	6.72%

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

NET INTEREST INCOME

Net interest income is the largest source of our operating income. Net interest income for 2009 was $320.7 million, an increase of $30.4 million, or 10% over 2008. Net interest income for 2008 was $290.3 million, an increase of $4.4 million, or 2% over 2007. The negative impact to net interest income of the reversal of interest income on loans during the year was $4.4 million in both 2009 and 2008, and $5.0 million in 2007. The increase in net interest income in 2009 as compared to 2008 is attributable to growth in outstanding average interest earnings assets, primarily investment securities, and a modest increase in net interest margin, partially offset by growth in interest bearing liabilities, primarily time deposits. The increase in net interest income in 2008 as compared to 2007 is attributable to growth in outstanding average interest earnings assets, primarily loans and leases and investment securities, partially offset by both growth in interest bearing liabilities, primarily money-market, time deposits and term debt, and a decrease in net interest margin. In addition to organic growth, the FDIC-assisted purchase and assumption of certain assets and liabilities of the Bank of Clark County, which was completed on January 16, 2009, partially contributed to the increase in interest earning assets and interest bearing liabilities in 2009 over 2008. The deposit liabilities assumed from the Bank of Clark County purchase and assumption transaction totaled $183.9 million as of the assumption date. The North Bay merger, which was completed on April 26, 2007, contributed to the increase in interest earnings assets and interest bearing liabilities during 2007. The fair value of interest earnings assets acquired as a result of the North Bay merger totaled $523.5 million, and interest bearing liabilities totaled $572.2 million.

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

The net interest margin on a fully tax-equivalent basis was 4.07% for 2008, a decrease of 17 basis points as compared to the same period in 2007. The decrease in net interest margin in 2008 resulted from decreases in market index rates, such as prime and the fed funds rates, and interest reversals on loans. The decreased yield on interest earnings assets of 104 basis points in 2008 primarily resulted from reductions in the prime rate. This decline in net interest margin was partially offset by the decrease in our interest expense to earning assets of 87 basis points from the lower costs of interest bearing deposits. The $4.4 million reversal of interest income on loans in 2008 contributed to a 6 basis point decline in the tax equivalent net interest margin for the year.

Our net interest income is affected by changes in the amount and mix of interest earnings assets and interest bearing liabilities, as well as changes in the yields earned on interest earnings assets and rates paid on deposits and borrowed funds. The following table presents condensed average balance sheet information, together with interest income and yields on average interest earnings assets, and interest expense and rates paid on average interest bearing liabilities for the years ended December 31, 2009, 2008 and 2007:

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Average Rates and Balances

(dollars in thousands)

	2009			2008			2007		
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST EARNING ASSETS:									
Loans and leases(1)	$ 6,145,927	$ 355,195	5.78%	$ 6,136,380	$ 393,927	6.42%	$ 5,836,980	$ 443,939	7.61%
Taxable securities	1,386,960	60,217	4.34%	883,987	41,523	4.70%	743,266	35,216	4.74%
Non-taxable securities(2)	198,641	11,522	5.80%	170,277	9,667	5.68%	149,291	8,234	5.52%
Temporary investments and interest bearing deposits	193,486	526	0.27%	24,357	443	1.82%	68,297	3,415	5.00%
Total interest earning assets	7,925,014	427,460	5.39%	7,215,001	445,560	6.18%	6,797,834	490,804	7.22%
Allowance for loan and lease losses	(96,916)			(84,649)			(70,177)		
Other assets	1,147,080			1,211,653			1,169,911		
Total assets	$ 8,975,178			$ 8,342,005			$ 7,897,568		
INTEREST BEARING LIABILITIES:									
Interest bearing checking and savings accounts	$ 3,333,088	$ 32,341	0.97%	$ 3,196,763	$ 55,739	1.74%	$ 3,136,738	$ 93,070	2.97%
Time deposits	2,358,697	56,401	2.39%	2,007,550	73,631	3.67%	1,849,910	87,770	4.74%
Securities sold under agreements to repurchase and federal funds purchased	60,722	680	1.12%	99,366	2,220	2.23%	65,660	2,135	3.25%
Term debt	129,814	4,576	3.53%	194,312	6,994	3.60%	57,479	2,642	4.60%
Junior subordinated debentures	190,491	9,026	4.74%	226,349	13,655	6.03%	221,833	16,821	7.58%
Total interest bearing liabilities	6,072,812	103,024	1.70%	5,724,340	152,239	2.66%	5,331,620	202,438	3.80%
Noninterest bearing deposits	1,318,954			1,255,263			1,263,873		
Other liabilities	64,293			81,182			79,447		
Total liabilities	7,456,059			7,060,785			6,674,940		
Preferred equity	203,166			26,490					
Common equity	1,315,953			1,254,730			1,222,628		
Total shareholders equity	1,519,119			1,281,220			1,222,628		
Total liabilities and shareholders equity	$ 8,975,178			$ 8,342,005			$ 7,897,568		
NET INTEREST INCOME(2)		$ 324,436			$ 293,321			$ 288,366	
NET INTEREST SPREAD			3.69%			3.52%			3.42%
AVERAGE YIELD ON EARNING ASSETS(1),(2)			5.39%			6.18%			7.22%
INTEREST EXPENSE TO EARNING ASSETS			1.30%			2.11%			2.98%
NET INTEREST INCOME TO EARNING ASSETS OR NET			4.09%			4.07%			4.24%

INTEREST MARGIN(1),(2)

(1) Non-accrual loans and mortgage loans held for sale are included in average balances.
(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately \$3.7 million, \$3.0 million and \$2.4 million in the years ended December 31, 2009, 2008 and 2007, respectively.

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Umpqua Holdings Corporation

The following table sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for 2009 compared to 2008 and 2008 compared to 2007. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

Rate/Volume Analysis

(in thousands)

	2009 COMPARED TO 2008 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN			2008 COMPARED TO 2007 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
INTEREST EARNING ASSETS:						
Loans and leases	$ 612	$ (39,344)	$ (38,732)	$ 21,892	$ (71,904)	$ (50,012)
Taxable securities	22,047	(3,353)	18,694	6,612	(305)	6,307
Non-taxable securities(1)	1,641	214	1,855	1,185	248	1,433
Temporary investments and interest bearing deposits	746	(663)	83	(1,494)	(1,478)	(2,972)
Total(1)	25,046	(43,146)	(18,100)	28,195	(73,439)	(45,244)
INTEREST BEARING LIABILITIES:						
Interest bearing checking and savings accounts	2,285	(25,683)	(23,398)	1,748	(39,079)	(37,331)
Time deposits	11,380	(28,610)	(17,230)	7,017	(21,156)	(14,139)
Securities sold under agreements to repurchase and federal funds purchased	(675)	(865)	(1,540)	883	(798)	85
Term debt	(2,277)	(141)	(2,418)	5,039	(687)	4,352
Junior subordinated debentures	(1,966)	(2,663)	(4,629)	336	(3,502)	(3,166)
Total	8,747	(57,962)	(49,215)	15,023	(65,222)	(50,199)
Net increase in net interest income(1)	$ 16,299	$ 14,816	$ 31,115	$ 13,172	$ (8,217)	$ 4,955

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

PROVISION FOR LOAN AND LEASE LOSSES

The provision for loan and lease losses was $209.1 million for 2009, compared to $107.7 million for 2008 and $41.7 million for 2007. As a percentage of average outstanding loans, the provision for loan losses recorded for 2009 was 3.43%, an increase of 167 basis points and 271 basis points from 2008 and 2007, respectively.

The increase in the provision for loan and lease losses in 2009 as compared to 2008 and 2007 is principally attributable to downgrades within the portfolio related primarily to the housing market downturn and its impact on our residential development and other segments of our portfolio, the U.S. recession and declining real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio, and the increase in loans charged-off.

Prior to the second quarter of 2008, the Company established specific reserves within the allowance for loan and leases losses for loan impairments and recognized the charge-off of the impairment reserve when the loan was resolved, sold, or foreclosed and transferred to other real estate owned. Due to declining real estate values in our markets and the deterioration of the U.S. economy in general, it is increasingly likely that impairment reserves on collateral dependent loans, particularly those relating to real estate, will not be recoverable and represent a confirmed loss. As a result, beginning in the second quarter of 2008, the

Company began recognizing the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. This process has effectively accelerated the recognition of charge-offs recognized since the second quarter of 2008. The change in our assessment of the possible recoverability of our collateral dependent impaired loans carrying values has ultimately had no impact on our impairment valuation procedures or the amount of provision for loan and leases losses included within the *Consolidated Statements of Operations*. Therefore, the non-accrual loans of $193.1 million as of December 31, 2009 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

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

NON-INTEREST INCOME

Non-interest income in 2009 was $73.5 million, a decrease of $33.6 million, or 31%, compared to 2008. Non-interest income in 2008 was $107.1 million, an increase of $42.3 million, or 65%, over 2007. The following table presents the key components of non-interest income for years ended December 31, 2009, 2008 and 2007:

Non-Interest Income

Years Ended December 31,

(dollars in thousands)

			2009 compared to 2008				2008 compared to 2007	
	2009	2008	Change Amount	Change Percent	2008	2007	Change Amount	Change Percent
Service charges on deposit accounts	$ 32,957	$ 34,775	$ (1,818)	-5%	$ 34,775	$ 32,126	$ 2,649	8%
Brokerage commissions and fees	7,597	8,948	(1,351)	-15%	8,948	10,038	(1,090)	-11%
Mortgage banking revenue, net	18,688	2,436	16,252	667%	2,436	7,791	(5,355)	-69%
(Loss) gain on investment securities, net	(1,677)	1,349	(3,026)	-224%	1,349	(13)	1,362	NM
Gain on junior subordinated debentures carried at fair value	6,482	38,903	(32,421)	-83%	38,903	4,928	33,975	689%
Proceeds from Visa mandatory partial redemption		12,633	(12,633)	-100%	12,633		12,633	NM
Other income	9,469	8,074	1,395	17%	8,074	9,959	(1,885)	-19%
Total	$ 73,516	$ 107,118	$ (33,602)	-31%	$ 107,118	$ 64,829	$ 42,289	65%

The decrease in deposit service charges in 2009 compared to 2008 is principally attributable to decreased non-sufficient funds and overdraft fee income due to lower average overdraft balances. The increase in deposit service charges in 2008 over 2007 is principally attributable to increased volume of deposit accounts during the year. Brokerage commissions and fees declined as a result of the continuation of stressed conditions in the trading market during 2009, relative to the same periods in 2008 and 2007, and the departure of certain Umpqua Investments financial advisors in the fourth quarter of 2008. However, brokerage commissions and fees in the second half of 2009 increased 43% over the first half of 2009 due to the new leadership s ability to recruit new brokers and grow assets under management.

Mortgage banking revenue in 2009 increased due to a significant increase in purchase and refinancing activity, resulting from historically low mortgage interest rates, as compared 2008. Closed mortgage volume for 2009 was $757.0 million, representing an 131% increase over 2008 production. The current low mortgage interest rate environment contributed to a $3.2 million decline in fair value on the mortgage servicing right (MSR) asset in the current year, compared to a $4.6 million decline in fair value recognized in the same period prior year. Additionally, mortgage banking revenue in the first quarter of 2008 reflects a $2.4 million realized loss on an ineffective MSR hedge, which has been suspended, due to widening spreads and price declines that were not offset by a corresponding gain in the related MSR asset. The decrease in mortgage banking revenue in 2008 compared to 2007 primarily resulted from the difference between the $4.6 million loss and a $756,000 loss on the MSR asset between the respective periods, and the $2.4 million realized loss on an ineffective MSR hedge due to significant market volatility in the first quarter of 2008, partially offset by increased fees on loans sold.

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

The change in fair value of the junior subordinated debentures carried at fair value for all periods presented primarily resulted from the widening of the credit risk adjusted spread over the contractual rate of each junior subordinated debenture measured at fair value. Additional information on the junior subordinated debentures carried at fair value is included in Note 16 of the *Notes to Consolidated Financial Statements* and under the heading *Junior Subordinated Debentures* below.

In the first quarter of 2008 Visa completed an initial public offering and the Company received $12.6 million as part of a subsequent mandatory partial redemption of our Visa Class B shares. As part of this offering, Visa also established a $3.0 billion escrow account to cover settlements, the resolution of pending litigation and related claims (covered litigation). The Company s remaining 468,659 shares of Visa Class B common stock are restricted and may not be transferred until the later of (1) three years from the date of the initial public offering or (2) the period of time necessary to resolve the covered litigation. A conversion ratio of 0.71429 was established for the conversion rate of Class B shares into Class A shares. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus. In December 2008, Visa deposited additional funds into the escrow account to satisfy a settlement with Discover Card related to an antitrust lawsuit. In July 2009, Visa deposited additional funds into the litigation escrow account to provide additional reserves to cover potential losses related to the two remaining litigation cases. The deposit of these funds into the escrow account reduced the conversion ratio applicable to Class B common stock outstanding from 0.71429 per Class A share to 0.5824 per Class A share. As of December 31, 2009, the value of the Class A shares was $87.46 per share. The value of unredeemed Class A equivalent shares owned by the Company was $23.9 million as of December 31, 2009, and has not been reflected in the accompanying financial statements.

Other income increased in 2009 over 2008 as a result of compensatory damages awarded to the Company and increased income on trading assets invested in trust for the benefit of certain executives or former employees of acquired institutions as required by agreements. The increase was partially offset by decreased gains and broker fee income related to Small Business Administration loan sales and proceeds from a legal settlement in the first quarter of 2008. Other income decreased in 2008 over 2007 largely due to decreased gains and broker fee income related to Small Business Administration (SBA) loan sales, and losses related to trading assets.

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NON-INTEREST EXPENSE

Non-interest expense for 2009 was $379.4 million, an increase of $162.8 million or 75% compared to 2008. Non-interest expense for 2008 was $216.6 million, an increase of $2.4 million or 1% compared to 2007. The following table presents the key elements of non-interest expense for the years ended December 31, 2009, 2008 and 2007.

Non-Interest Expense

Years Ended December 31,

(dollars in thousands)

			2009 compared to 2008				2008 compared to 2007	
	2009	2008	Change Amount	Change Percent	2008	2007	Change Amount	Change Percent
Salaries and employee benefits	$ 126,850	$ 114,600	$ 12,250	11%	$ 114,600	$ 112,864	$ 1,736	2%
Net occupancy and equipment	39,673	37,047	2,626	7%	37,047	35,785	1,262	4%
Communications	7,671	7,063	608	9%	7,063	7,202	(139)	-2%
Marketing	4,529	4,573	(44)	-1%	4,573	5,554	(981)	-18%
Services	21,918	18,792	3,126	17%	18,792	18,564	228	1%
Supplies	3,257	2,908	349	12%	2,908	3,627	(719)	-20%
FDIC assessments	15,825	5,182	10,643	205%	5,182	1,223	3,959	324%
Net loss on other real estate owned	23,204	8,313	14,891	179%	8,313	4	8,309	NM
Intangible amortization	6,165	5,857	308	5%	5,857	6,094	(237)	-4%
Goodwill impairment	111,952	982	110,970	NM	982		982	NM
Merger related expenses	273		273	NM		3,318	(3,318)	-100%
Visa litigation		(5,183)	5,183	-100%	(5,183)	5,183	(10,366)	-200%
Other expenses	18,086	16,436	1,650	10%	16,436	14,704	1,732	12%
Total	$ 379,403	$ 216,570	$ 162,833	75%	$ 216,570	$ 214,122	$ 2,448	1%

NM Not meaningful

Management believes there are several categories of non-interest expense which are outside of the control of the Company, including FDIC deposit insurance assessments, net losses on other real estate owned, and Visa related litigation accruals, and infrequently occurring expenses such as goodwill impairments. Excluding the impact of these non-controllable or infrequently occurring items, non-interest expense increased $21.1 million in 2009 over 2008. Of this increase, $6.1 million relates to the increase in variable costs in the Mortgage Division that directly corresponds to the significant increase in mortgage banking revenue as discussed under the heading *Non-Interest Income* above. Excluding the incremental impact of the mortgage division s variable costs, non-interest expense in 2009 over 2008 increased $15.0 million, or 7%, which is less than the 9% growth in total assets during the current year. Excluding these non-controllable or infrequently occurring items, non-interest expense in 2008 over 2007 decreased $436,000 due to the Company s extensive cost control measures that were put in place in reaction to the slowing economy.

Of the $12.3 million increase in total salaries and employee benefits expense in 2009 compared to 2008, approximately $5.3 million is a direct result of increased production in our mortgage banking division, and $1.6 million is a result of reduced loan origination activity related to lower customer demand, resulting in a reduced offset to compensation expense for deferred loan costs. The remainder primarily results from the increase in employees by 157 full-time equivalents in the current year. The increase in total salaries and employee benefits expense in 2008 compared to 2007 is primarily a result of reduced loan origination activity, resulting in a reduced offset to compensation expense for deferred loan costs. Excluding the impact of the reduced deferred loan costs, salaries and employee benefits expense decreased $1.2 million in 2008 compared to 2007 despite the addition of approximately 110 associates from the North Bay acquisition in April 2007. Net occupancy and equipment expense continues to increase primarily as a result of the growth in the number of our Company s locations. The growth in 2009 reflects the two new banking locations obtained through the FDIC-assisted purchase and assumption of the Bank of Clark County in January 2009, the addition of two de novo Community Banking locations, in Portland, Oregon and Vancouver, Washington, and the opening of a new Commercial Banking Center in Lynnwood, Washington. In 2008, we opened a new Commercial Banking Center in San Francisco, California and a Mortgage Office in Stockton, California. Additionally, in 2008, we remodeled thirty-eight stores, primarily locations acquired through acquisitions, to meet Umpqua brand standards and customer expectations throughout the California region. The expense recognized in 2007 reflects ten new banking locations as a result of the North Bay acquisition in April 2007, and the addition of three de novo banking locations. The increase in net occupancy and equipment expense in 2009 also reflects increased maintenance contract and software amortization costs.

Communications, marketing, supplies, and other expenses fluctuated in the current year as a result of normal operations. Services expense increased in 2009 compared to 2008 primarily due to higher legal and other professional fees. The decline in communications, marketing, and supplies expense, as well as the modest increase in services expense, in 2008 compared to 2007 are a result of aggressive cost saving initiatives implemented in late 2007.

FDIC assessments represent premiums payable to the FDIC for deposit insurance and Financing Corporation (FICO) assessments. The Federal Deposit Insurance Reform Act of 2005 (Reform Act) created a new system and rate schedule related to FDIC deposit insurance assessments effective in 2007. As a result, the Company was assessed deposit insurance premiums beginning in 2007; however, most of the premium was offset by a one-time assessment credit that was provided to eligible institutions as part of the Reform Act. The Company s one-time deposit insurance assessment credit was fully exhausted in 2007. The increase in FDIC assessments in 2008 compared to prior years is a result of increased deposit insurance assessments rates and no remaining one-time assessment credits available to offset the current period expense. In December 2008 and again in February 2009, the FDIC adopted rules to further modify the risk-based deposit insurance assessment system that increased the assessment rates in attempts to restore the Deposit Insurance Fund to targeted reserve ratios. The increase in FDIC assessment expense in 2009 compared to 2008 results from the industry-wide increase in assessment rates and a $4.0 million special assessment imposed in the second quarter of 2009 by the FDIC in efforts to rebuild the Deposit Insurance Fund. Additional discussion on FDIC insurance assessments is provided in Item 1 Business above, under the heading *Federal Deposit Insurance*.

The continued slowdown in the housing industry, which has detrimentally affected our residential development portfolio, and declines in the fair value of real estate, that serves as collateral securing real estate related credits, has led to an increase of foreclosures on real estate related properties and movement of the properties into other real estate owned (OREO). Declines in the market values of these properties after foreclosure have resulted in additional losses on the sale of the properties or by valuation adjustments. During 2009, the Company recognized losses on sale of OREO of $11.0 million. The increase in losses on sale of OREO was due to a combination of the continued value compression of real estate properties and our desire to expedite the sale of several properties. Of the total loss on sale of OREO recognized in the 2009, $4.7 million related to two residential development related properties located in Central Oregon. In 2009, the Company recognized valuation adjustments on OREO of $12.2 million. These valuation adjustments related to 26 properties, of which 86% relate to residential development projects. Of the total valuation adjustments recognized year-to-date, 73% related to properties in Oregon and Washington, with $4.7 million specifically related to three residential development projects in Central Oregon and $1.6 million specifically related to one residential development project in Southern Washington region. The remaining 27% related to properties in California, with $1.9 million relating to two residential development projects and $700,000 relating to one commercial real estate property in the greater Sacramento region. During 2008, the Company recognized losses on sale of OREO of $3.2 million and valuation adjustments of $5.1 million. Additional discussion regarding our procedures to determine and recognize valuation adjustments on other real estate owned is provided under the heading *Asset Quality and Non-Performing Assets* below.

The increase in intangible amortization in 2009 as compared to 2008 results from an $804,000 impairment recognized in the fourth quarter related to the merchant servicing portfolio obtained through the North Bay acquisition, partially offset by the run-off of intangible assets that are being amortized on an accelerated basis. The decrease in intangible amortization in 2008 as compared to 2007 is due to the run-off of intangible assets that are being amortized on an accelerated basis. The goodwill

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impairment charge incurred in 2009 relates to the Community Banking operating segment. This charge primarily resulted from a decline in the fair value of the Community Banking reporting unit, which corresponded to the decline in the Company s market capitalization and the banking industry in general, and its effect on the implied fair value of the goodwill. The goodwill impairment charge incurred in 2008 related to the Retail Brokerage reporting segment, which resulted from the Company s evaluation following the departure of certain Umpqua Investments financial advisors. Discussion related to the goodwill impairment charge is provided in Note 7 of the *Notes to Consolidated Financial Statements* and under the heading *Goodwill and Other Intangible Assets* below.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. Classification of expenses as merger-related is done in accordance with the provisions of a Board-approved policy. The following table presents the merger-related expenses by major category for the years ended December 31, 2009 and 2007. The Company incurred no merger-related expenses in 2008. The merger-related expenses incurred in 2009 relate to the FDIC-assisted purchase and assumption of certain assets and liabilities of the Bank of Clark County. The merger-related expenses incurred in 2007 primarily related to the North Bay acquisition. We do not expect to incur any additional merger-related expenses in connection with the Bank of Clark County, North Bay or any other previous merger.

Merger-Related Expense

Years Ended December 31,

(in thousands)

	2009	2007
Professional fees	$ 143	$ 982
Compensation and relocation	39	1,077
Communications	61	478
Premises and equipment	2	188
Other	28	593
Total	$ 273	$ 3,318

In November 2007, Visa Inc. announced that it had reached a settlement with American Express related to an antitrust lawsuit. Umpqua Bank and other Visa member banks are obligated to fund the settlement and share in losses resulting from this litigation. We recorded a liability and corresponding expense of approximately $3.9 million pre-tax, for our proportionate share of that settlement. In addition, Visa notified us that it had established a contingency reserve related to unsettled litigation with Discover Card. In connection with this contingency, we recorded a liability and corresponding expense of $1.2 million pre-tax, for our proportionate share of that contingent liability. We are not a party to the Visa litigation and our liability arises solely from the Bank s membership interest in Visa, Inc.

In connection with Visa establishing a $3.0 billion litigation escrow account from the proceeds of an initial public offering, the Company reversed the $5.2 million reserve in the first quarter of 2008, reflected as a reduction of other non-interest expense. We were required to recognize an estimate of Visa s pending litigation settlements in the fourth quarter of 2007 based on our ownership position prior to the initial public offering by Visa. With the escrow litigation account funded for the estimated liability for covered litigation as of the end of the first quarter 2008, we were able to reverse the accrual. In October 2008, Visa announced that it had reached a settlement with Discover Card related to an antitrust lawsuit. Umpqua Bank and other Visa member banks are obligated to fund the settlement and share in losses resulting from this litigation that are not already provided for in the escrow account. Visa notified the Company that it had established an additional reserve related to the settlement with Discover Card that has not already been funded into the escrow account. In connection with this settlement, the Company recorded, in the third quarter of 2008, a liability and corresponding expense of $2.1 million pre-tax, for its proportionate share of that liability. The Company is not a party to the Visa litigation and its liability arises solely from the Bank s membership interest in Visa. In December 2008, this liability and expense were reversed when Visa deposited additional funds into the escrow account to cover the remaining amount of the settlement.

Other non-interest expense increased in 2009 over 2008 primarily as a result of expenses related to problem loans, other real estate owned, and settlement fees related to the retail brokerage subsidiary. Other non-interest expense increased in 2008 over 2007 primarily as a result of expenses related to other real estate owned and deposit administration fees.

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2009 was 21.0%, compared to 30.2% for 2008 and 33.4% for 2007. The effective tax rates were below the federal statutory rate of 35% and the apportioned state rate of 5% (net of the federal tax benefit) principally because of the non-deductible impairment loss on goodwill (for 2009), non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities, tax credits arising from low income housing investments, Business Energy tax credits and exemptions related to loans and hiring in designated enterprise zones. The income tax benefit from income taxes in 2009 is a result of the operating loss recognized in the period.

Additional information on income taxes is provided in Note 11 of the *Notes to Consolidated Financial Statements* in Item 8 below.

FINANCIAL CONDITION

INVESTMENT SECURITIES

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

Trading securities consist of securities held in inventory by Umpqua Investments for sale to its clients and securities invested in trust for the benefit of former employees of acquired institutions as required by agreements. Trading securities were $2.3 million at December 31, 2009, as compared to $2.0 million at December 31, 2008. This increase is principally attributable to increases in the fair market value of investments securities invested for the benefit of former employees and contributions made to supplemental retirement plans for the benefit of certain executives, partially offset by a decrease in Umpqua Investments inventory of trading securities and a decrease in trading assets invested for the benefit of former employees as a result of scheduled distributions.

Investment securities available for sale increased $556.9 million to $1.8 billion as of December 31, 2009, as compared to December 31, 2008. This increase is principally attributable to purchases of $1.0 billion of investment securities available for sale, $4.2 million of investment securities available for sale assumed from the Bank of Clark County, and an increase in fair value of investments securities available for sale of $23.9 million, offset by the proceeds from the sales and maturities of $464.4 million of investment securities available for sale (of which $8.8 million represents net gains on sale) and amortization of net purchase price premiums of $9.3 million.

Investment securities held to maturity were $6.1 million as of December 31, 2009, as compared to $15.8 million at December 31, 2008. This decrease is principally attributable to paydowns and maturities of investment securities held to maturity of $2.3 million and other-than-temporary impairment (OTTI) charges of $8.0 million (of which $5.3 million represents the credit loss component recognized as a charge to earnings and $2.7 million representing the loss related to all other factors recognized in other comprehensive income), partially offset by the accretion of net purchase price discounts of $130,000 and the accretion of the non-credit related losses in other comprehensive income of $300,000.

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

Summary of Investment Securities

As of December 31,

(in thousands)

	December 31, 2009	2008	2007
AVAILABLE FOR SALE:			
U.S. Treasury and agencies	$ 11,794	$ 31,226	$ 158,432
Obligations of states and political subdivisions	211,825	179,585	169,994
Residential mortgage-backed securities and collateralized mortgage obligations	1,569,849	1,025,295	672,344
Other debt securities	159	634	967
Investments in mutual funds and other equity securities	1,989	1,972	49,019
	$ 1,795,616	$ 1,238,712	$ 1,050,756
HELD TO MATURITY:			
Obligations of states and political subdivisions	$ 3,216	$ 4,166	$ 5,403
Residential mortgage-backed securities and collateralized mortgage obligations	2,845	11,496	227
Other investment securities		150	375
	$ 6,061	$ 15,812	$ 6,005

The following table presents information regarding the amortized cost, fair value, average yield and maturity structure of the investment portfolio at December 31, 2009.

Investment Securities Composition*

December 31, 2009

(dollars in thousands)

	Amortized Cost	Fair Value	Average Yield
U.S. TREASURY AND AGENCIES			
One year or less	$ 11,017	$ 11,216	3.04%
One to five years	353	357	2.71%
Five to ten years	218	221	3.68%
	11,588	11,794	3.04%
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS			
One year or less	15,433	15,581	3.90%
One to five years	71,922	74,912	3.71%
Five to ten years	111,117	114,352	4.03%
Over ten years	10,293	10,207	4.22%
	208,765	215,052	3.92%

OTHER DEBT SECURITIES			
Over ten years	145	159	32.50%
Serial maturities	1,535,994	1,572,758	6.18%
Other investment securities	1,959	1,989	3.90%
Total securities	$ 1,758,451	$ 1,801,752	5.89%

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

The mortgage-related securities in Serial maturities in the table above include both pooled mortgage-backed issues and high-quality collaterized mortgage obligation structures, with an average duration of 2.9 years. These mortgage-related securities provide yield spread to U.S. Treasury or agency securities; however, the cash flows arising from them can be volatile due to refinancing of the underlying mortgage loans.

The equity security in Other investment securities in the table above at December 31, 2009 principally represents an investment in a Community Reinvestment Act investment fund comprised largely of mortgage-related securities, although funds may also invest in municipal bonds, money market accounts or asset-backed securities.

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

Prior to the second quarter of 2009, the Company would assess an OTTI or permanent impairment based on the nature of the decline and whether the Company has the ability and intent to hold the investments until a market price recovery. If the Company determined a security to be other-than-temporarily or permanently impaired, the full amount of impairment would be recognized through earnings in its entirety. New guidance related to the recognition and presentation of OTTI of debt securities became effective in the second quarter of 2009. Rather than asserting whether a Company has the ability and intent to hold an investment until a market price recovery, a Company must consider whether they intend to sell a security or if it is likely that they would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is reevaluated accordingly to the procedures described above.

Prior to the Company s adoption of the new guidance related to the recognition and presentation of OTTI of debt securities which became effective in the second quarter of 2009, the Company recorded a $2.1 million OTTI charge in the three months ended March 31, 2009. This charge related to three non-agency collateralized mortgage obligations carried as held to maturity for which the default rates and loss severities of the underlying collateral and credit coverage ratios of the security indicated that it was probable that credit losses were expected to occur. In 2008, the Company recorded $4.2 million in OTTI. Charges of $3.8 million related to seven non-agency collateralized mortgage obligations carried as held to maturity for which the default rates and loss severities of the underlying collateral and credit coverage ratios of the security indicated that it was probable that credit losses were expected to occur. These securities were valued by third party pricing services using matrix or model pricing methodologies, and were corroborated by broker indicative bids. The remaining non-agency securities within mortgage-backed securities and collateralized mortgage obligations carried as held to maturity were specifically evaluated for OTTI, and the default rates and loss severities of the underlying collateral indicated that credit losses are not expected to occur. Upon adoption of the new OTTI guidance in the second quarter of 2009, the Company analyzed these securities as well as other securities where OTTI had been previously recognized, and determined that as of the adoption date such losses were credit related. As such, there was no cumulative effect adjustment to the opening balance of retained earnings or a corresponding adjustment to accumulated OCI.

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The following table presents the OTTI losses for the years ended December 31, 2009 and 2008. There were no similar charges recorded in 2007.

(in thousands)

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

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

The OTTI recognized on investment securities held to maturity primarily relates to 29 non-agency collateralized mortgage obligations for all periods presented. Each of these securities holds various levels of credit subordination. The underlying mortgage loans of these securities were originated from 2003 through 2007. At origination, the weighted average loan-to-value of the underlying mortgages was 69%; the underlying borrowers had weighted average FICO scores of 731, and 59% were limited documentation loans. These securities were valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimated the cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management s estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows were then discounted at the interest rate used to recognize interest income on each security. We reviewed the actual collateral performance of these securities as of December 31, 2009 and noted no significant further deterioration of the underlying mortgages that would significantly impact the inputs or cash flow projections we utilized since the last date these securities were evaluated for impairment. 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 December 31, 2009:

	Range		Weighted
	Minimum	Maximum	Average
Constant prepayment rate	4.0%	25.0%	14.8%
Collateral default rate	8.0%	45.0%	16.7%
Loss severity	20.0%	40.0%	31.4%

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

Gross unrealized losses in the available for sale investment portfolio was $3.8 million at December 31, 2009. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $3.6 million and unrealized losses on obligations of states and political subdivisions of $204,000. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral. Additional information about the investment securities portfolio is provided in Note 4 of the *Notes to Consolidated Financial Statements* in Item 8 below.

RESTRICTED EQUITY SECURITIES

Restricted equity securities were $15.2 million at December 31, 2009 and $16.5 million at December 31, 2008. Of the $15.2 million at December 31, 2009, $11.9 million and $2.5 million represent the Bank s investment in the Federal Home Loan Banks (FHLB) of Seattle and San Francisco, respectively. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par. The remaining restricted equity securities represent investments in Pacific Coast Bankers Bancshares stock.

Although as of September 30, 2009, the FHLB of Seattle met all of its regulatory requirements (including the risk-based capital requirement), on November 6, 2009, the Finance Agency reaffirmed the FHLB of Seattle capital classification as undercapitalized. The Finance Agency also indicated that it would not change the capital classification to adequately capitalized until the Finance Agency believes the FHLB of Seattle has demonstrated sustained performance in line with an approved capital restoration plan.

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

Under Federal Housing Finance Agency regulations, a FHLB that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock in excess of what is required for members current loans. Moody s Investors Service (Moody s) current assessment of the FHLB s portfolios indicates that the true economic losses embedded in these securities are significantly less than the accounting impairments would suggest and are manageable given the FHLB s capital levels. According to Moody s, the large difference between the expected economic losses and the mark-to-market impairment losses for accounting purposes is attributed to market illiquidity, de-leveraging and stress in the credit market in general. The FHLBs have access to the U.S. Government-Sponsored Enterprise Credit Facility, a secured lending facility that serves as a liquidity backstop, substantially reducing the likelihood that the FHLBs would need to sell securities to raise liquidity and, thereby, cause the realization of large economic losses. In addition, the Federal Reserve has begun to purchase direct debt obligations of Freddie Mac, Fannie Mae and the FHLBs. Moody s has stated that their Aaa senior debt rating and Prime-1 short-term debt rating for the FHLB system are likely to remain unchanged based on expectations that the FHLBs have a very high degree of government support. Moody s rating of the FHLB of Seattle as Aaa with stable outlook was reaffirmed in May 2009, and Standard and Poors rating of AA+ was reaffirmed in August 2009. Based on the above, the Company has determined there is not an other-than-temporary impairment on the FHLB stock investment as of December 31, 2009.

LOANS AND LEASES

Total loans and leases outstanding at December 31, 2009 were $6.0 billion, a decrease of $132.1 million, or 2.2%, from year-end 2008. This decrease is principally attributable to charge-offs of $200.9 million and transfers to other real estate owned of $50.9 million, offset by net loan originations of $108.7 million during the year.

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

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The following table presents the composition of the loan portfolio as of December 31 for each of the last five years. The classification of loan balances presented is reported in accordance with the regulatory reporting requirements.

Loan Portfolio Composition

As of December 31,

(dollars in thousands)

		2009		2008		2007		2006		2005
Type of Loan	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Real estate secured loans:										
Construction	$ 618,476	10.3%	$ 931,090	15.2%	$ 1,202,173	19.9%	$ 1,189,090	22.2%	$ 638,555	16.3%
Mortgage	726,658	12.1%	661,723	10.8%	582,771	9.6%	523,715	9.8%	427,877	10.9%
Commercial and agricultural	3,482,687	58.1%	3,236,645	52.8%	3,012,743	49.7%	2,649,468	49.4%	2,019,623	51.5%
Total real estate loans	4,827,821	80.5%	4,829,458	78.8%	4,797,687	79.2%	4,362,273	81.4%	3,086,055	78.7%
Commercial and agricultural	1,090,275	18.1%	1,211,167	19.7%	1,169,939	19.3%	924,917	17.2%	753,131	19.3%
Leases	34,528	0.6%	40,155	0.7%	40,207	0.7%	22,870	0.4%	17,385	0.4%
Installment and other	58,044	1.0%	62,044	1.0%	59,091	1.0%	63,262	1.2%	76,128	1.9%
Deferred loan fees, net	(11,401)	-0.2%	(11,450)	-0.2%	(11,289)	-0.2%	(11,460)	-0.2%	(11,068)	-0.3%
Total loans	$ 5,999,267	100.0%	$ 6,131,374	100.0%	$ 6,055,635	100.0%	$ 5,361,862	100.0%	$ 3,921,631	100.0%

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

Loan Concentrations

As of December 31,

(dollars in thousands)

		2009		2008
	Amount	Percentage	Amount	Percentage
Construction and land development	$ 618,476	10.3%	$ 931,090	15.2%
Farmland	110,106	1.9%	93,533	1.5%
Home equity credit lines	267,963	4.5%	266,107	4.4%
Single family first lien mortgage	236,362	3.9%	204,076	3.3%
Single family second lien mortgage	23,609	0.4%	26,946	0.4%
Multifamily	198,724	3.3%	164,594	2.7%
Commercial real estate	3,372,581	56.2%	3,143,112	51.3%
Total real estate secured	4,827,821	80.5%	4,829,458	78.8%
Commercial and industrial	1,016,803	16.9%	1,139,441	18.5%

Agricultural production	73,472	1.2%	71,726	1.2%
Consumer	35,212	0.6%	36,316	0.6%
Leases	34,528	0.6%	40,155	0.7%
Other	22,832	0.4%	25,728	0.4%
Deferred loan fees, net	(11,401)	-0.2%	(11,450)	-0.2%
Total loans	$ 5,999,267	100.0%	$ 6,131,374	100.0%

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Commercial, agricultural and construction loans are the most sensitive to interest rate changes. The following table presents the maturity distribution of our commercial, agricultural and construction loan portfolios and the sensitivity of these loans to changes in interest rates as of December 31, 2009:

Maturities and Sensitivities of Loans to Changes in Interest Rates

(in thousands)

	By Maturity				Loans Over One Year by Rate Sensitivity	
	One Year or Less	One Through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial and agricultural	$ 615,555	$ 338,924	$ 135,796	$ 1,090,275	$ 354,196	$ 120,524
Real estate construction	460,728	100,561	57,187	618,476	96,986	60,762
	$1,076,283	$ 439,485	$ 192,983	$ 1,708,751	$ 451,182	$ 181,286

In order to assist with understanding the concentrations and risks associated with our portfolio, we are providing several additional tables to provide details of the most significant classes of the Company s loan portfolio. The classification of loan balances are presented in accordance with how management monitors and manages the risks of the loan portfolio, including how the Company applies its allowance for loan and lease losses methodology. This classification of loan balances does not directly correspond to tables presented above, which are reported in accordance with regulatory reporting definitions.

The following table presents a distribution of the term commercial real estate portfolio by type and region as of December 31, 2009 and December 31, 2008. In 2008 we did not utilize a separate Retail commercial real estate collateral coding, and these balances were primarily included in the Commercial building collateral type.

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Commercial Real Estate Portfolio by Type and Region

(in thousands)

	December 31, 2009							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2008
Non-owner occupied								
Commercial building	$ 110,805	$ 4,367	$ 37,924	$ 15,820	$ 106,502	$ 101,516	$ 376,934	$ 881,094
Medical office	80,514	1,104	15,711	4,210	16,473	13,562	131,574	115,409
Professional office	176,920	8,649	54,413	26,213	106,395	65,559	438,149	430,936
Storage	20,747	352	18,698		17,477	39,876	97,150	102,354
Multi-family	60,579	249	10,251	1,428	5,630	20,173	98,310	112,093
Resort	2,064		5,081				7,145	7,338
Retail	223,272	3,528	33,101	11,178	165,667	73,723	510,469	
Residential	32,030	352	13,002	6,056	10,219	18,677	80,336	67,826
Farmland & agricultural	5,976	223	638		204	29,000	36,041	40,229
Apartments	61,395		9,925		11,330	22,601	105,251	74,874
Assisted living	106,607		67,486		2,933	8,725	185,751	143,824
Hotel & motel	50,782		1,023	11,112	18,066	18,653	99,636	102,922
Industrial	29,656	3,584	7,751		36,983	23,565	101,539	105,947
RV park	31,158	675	15,490		821	5,963	54,107	52,654
Warehouse	11,416		237		1,198	1,717	14,568	26,345
Other	31,851	1,055	3,668	3,522	3,746	5,599	49,441	62,238
Total non-owner occupied	$ 1,035,772	$ 24,138	$ 294,399	$ 79,539	$ 503,644	$ 448,909	$ 2,386,401	$ 2,326,083
Owner occupied								
Commercial building	$ 163,314	$ 2,639	$ 31,417	$ 12,388	$ 61,729	$ 108,766	$ 380,253	$ 483,244
Medical office	64,699	3,319	17,553	2,218	1,646	25,977	115,412	64,360
Professional office	49,118	2,830	12,479	3,324	21,489	17,174	106,414	104,268
Storage	15,061	149		663	148	5,087	21,108	16,962
Multi-family	869		60		158		1,087	2,536
Resort	5,736				3,131	1,067	9,934	7,475
Retail	59,651	2,939	12,402	4,055	31,954	57,872	168,873	
Residential	6,974		2,632		1,401	2,814	13,821	11,777
Farmland & agricultural	10,906		822			44,904	56,632	40,437
Apartments	202		741		51		994	823
Assisted living	27,656		146		6,964	15,619	50,385	49,228
Hotel & motel	12,226		192	716		24,330	37,464	24,551
Industrial	53,607	1,409	13,958	1,562	9,480	39,030	119,046	103,887
RV park	144		2,544		161	1,239	4,088	4,171
Warehouse	10,885		410		1,145	6,921	19,361	11,610
Other	28,417	1,513			276	1,625	31,831	6,384
Total owner occupied	$ 509,465	$ 14,798	$ 95,356	$ 24,926	$ 139,733	$ 352,425	$ 1,136,703	$ 931,713
Total commercial real estate	$ 1,545,237	$ 38,936	$ 389,755	$ 104,465	$ 643,377	$ 801,334	$ 3,523,104	$ 3,257,796

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	December 31, 2008						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total non-owner occupied	$ 1,000,098	$ 33,298	$ 297,387	$ 58,078	$ 499,006	$ 438,216	$ 2,326,083
Total owner occupied	375,942	13,606	97,514	20,425	127,158	297,068	931,713
Total commercial real estate	$ 1,376,040	$ 46,904	$ 394,901	$ 78,503	$ 626,164	$ 735,284	$ 3,257,796

The following table presents a distribution of the term commercial real estate portfolio by type and year of origination as of December 31, 2009:

Commercial Real Estate Portfolio by Type and Year of Origination

(in thousands)

	December 31, 2009					
	Prior to 2000	2000 - 2004	2005 - 2006	2007 - 2008	2009	Total
Non-owner occupied						
Commercial building	$ 14,211	$ 90,648	$ 63,746	$ 144,016	$ 64,313	$ 376,934
Medical office	627	48,475	17,947	47,143	17,382	131,574
Professional office	13,804	168,057	140,227	83,757	32,304	438,149
Storage	1,940	49,505	26,866	18,487	352	97,150
Multi-family	3,709	27,098	19,122	42,829	5,552	98,310
Resort	737	5,715		693		7,145
Retail	10,439	178,260	158,973	148,617	14,180	510,469
Residential	1,328	10,029	27,581	27,379	14,019	80,336
Farmland & agricultural	856	8,217	12,328	6,899	7,741	36,041
Apartments	838	25,494	23,169	23,176	32,574	105,251
Assisted living	7,356	55,791	92,412	16,164	14,028	185,751
Hotel & motel	12,537	43,180	20,097	22,990	832	99,636
Industrial	3,298	42,813	40,341	14,450	637	101,539
RV park	3,127	17,656	16,553	11,071	5,700	54,107
Warehouse	1,131	8,989	3,828	620		14,568
Other	659	10,332	14,962	20,764	2,724	49,441
Total non-owner occupied	$ 76,597	$ 790,259	$ 678,152	$ 629,055	$ 212,338	$ 2,386,401
Owner occupied						
Commercial building	$ 10,711	$ 82,631	$ 91,642	$ 124,725	$ 70,544	$ 380,253
Medical office	2,284	22,428	13,099	27,246	50,355	115,412
Professional office	4,184	34,752	28,700	33,004	5,774	106,414
Storage	547	5,312	5,437	9,164	648	21,108
Multi-family	179	908				1,087
Resort	415	6,412	139		2,968	9,934
Retail	6,024	39,775	61,738	56,705	4,631	168,873
Residential	128	5,226	4,331	2,336	1,800	13,821
Farmland & agricultural	1,499	10,066	15,010	19,343	10,714	56,632
Apartments	51			943		994
Assisted living	4,975	7,831	21,212	14,200	2,167	50,385
Hotel & motel	3,927	15,956	5,765	1,592	10,224	37,464
Industrial	2,929	46,104	36,049	13,852	20,112	119,046
RV park	877	1,074		1,993	144	4,088
Warehouse	114	9,410	2,666	2,409	4,762	19,361
Other		1,877	21,260	7,911	783	31,831

Total owner occupied	$	38,844	$	289,762	$	307,048	$	315,423	$	185,626	$	1,136,703
Total commercial real estate	$	115,441	$	1,080,021	$	985,200	$	944,478	$	397,964	$	3,523,104

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The following table presents a distribution of the term commercial real estate portfolio by type and year of maturity as of December 31, 2009:

Commercial Real Estate Portfolio by Type and Year of Maturity

(in thousands)

							December 31, 2009
	2010	2011	2012 - 2013	2014 - 2015	2016 - 2020	2021 & Later	Total
Non-owner occupied							
Commercial building	$ 17,630	$ 19,250	$ 61,651	$ 59,837	$ 202,742	$ 15,824	$ 376,934
Medical office	1,280	955	5,181	34,265	79,066	10,827	131,574
Professional office	32,221	7,338	89,564	101,780	194,867	12,379	438,149
Storage	1,317	2,125	14,182	21,593	54,559	3,374	97,150
Multi-family	4,100	2,144	11,275	22,792	53,327	4,672	98,310
Resort			692	871	1,193	4,389	7,145
Retail	28,368	21,276	65,163	158,049	232,364	5,249	510,469
Residential	23,840	10,661	8,952	10,548	21,662	4,673	80,336
Farmland & agricultural	10,171	349	2,948	4,843	15,159	2,571	36,041
Apartments	6,033	1,683	5,789	15,872	73,174	2,700	105,251
Assisted living	22,847	24,084	20,919	33,489	82,137	2,275	185,751
Hotel & motel	4,830	6,034	18,065	35,732	30,271	4,704	99,636
Industrial	2,780	3,856	16,434	24,948	47,290	6,231	101,539
RV park	1,308	846	6,712	14,685	28,894	1,662	54,107
Warehouse	420	125	6,862	2,795	4,366		14,568
Other	16,114	4,463	9,158	6,942	9,098	3,666	49,441
Total non-owner occupied	$ 173,259	$ 105,189	$ 343,547	$ 549,041	$ 1,130,169	$ 85,196	$ 2,386,401
Owner occupied							
Commercial building	$ 12,932	$ 4,284	$ 35,356	$ 56,324	$ 224,348	$ 47,009	$ 380,253
Medical office		78	6,873	10,821	74,471	23,169	115,412
Professional office	2,908	1,000	18,857	24,581	52,664	6,404	106,414
Storage	1,480	149	2,621	1,370	14,794	694	21,108
Multi-family	25		638	244	180		1,087
Resort			108	3,955	5,871		9,934
Retail	1,545	5,078	19,517	32,809	99,310	10,614	168,873
Residential	2,407	230	2,681	3,169	3,655	1,679	13,821
Farmland & agricultural	1,128	3,677	2,585	11,961	34,678	2,603	56,632
Apartments				51	943		994
Assisted living	175		4,932	18,576	24,500	2,202	50,385
Hotel & motel	1,744	9	8,657	6,846	11,038	9,170	37,464
Industrial	3,520	3,788	16,441	23,826	52,617	18,854	119,046
RV park	165		777	571	2,414	161	4,088
Warehouse	1,149	338	1,618	9,128	7,024	104	19,361
Other	1,768	715	169	762	3,238	25,179	31,831
Total owner occupied	$ 30,946	$ 19,346	$ 121,830	$ 204,994	$ 611,745	$ 147,842	$ 1,136,703
Total commercial real estate	$ 204,205	$ 124,535	$ 465,377	$ 754,035	$ 1,741,914	$ 233,038	$ 3,523,104

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Umpqua Holdings Corporation

The following table presents a distribution of the commercial real estate construction portfolio by type and region as of December 31, 2009 and December 31, 2008. In 2008, we did not utilize a separate Retail commercial real estate collateral coding, and these balances were largely included in the Commercial building collateral type.

Commercial Real Estate Construction Portfolio by Type and Region

(in thousands)

	December 31, 2009							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2008
Non-owner occupied								
Commercial building	$ 19,726	$	$ 3,023	$ 9,434	$ 31,565	$ 2,250	$ 65,998	$ 118,127
Medical office	15,429		264			400	16,093	12,426
Professional office	16,472				15,180	3,500	35,152	39,121
Storage	6,100				1,711	3,094	10,905	16,237
Multi-family	1,339				6,184		7,523	5,798
Retail	15,801				6,456	1,212	23,469	
Residential	29,314	1,778	5,128	4,630	39,188	11,167	91,205	91,703
Apartments	13,621						13,621	12,453
Assisted living	16,196				209		16,405	27,631
Hotel & motel						4,070	4,070	84
Industrial					1,515	18	1,533	7,936
Other	249					3,000	3,249	32,401
Total non-owner occupied	$ 134,247	$ 1,778	$ 8,415	$ 14,064	$ 102,008	$ 28,711	$ 289,223	$ 363,917
Owner occupied								
Commercial building	$ 14,342	$	$ 171	$	$ 10,421	$ 10,498	$ 35,432	$ 55,102
Medical office	14,472		403		3,511	463	18,849	48,616
Professional office								4,432
Storage	995						995	995
Multi-family								
Retail						4,041	4,041	
Residential	4,981				3,675	619	9,275	10,638
Apartments	860						860	
Assisted living	7,472						7,472	6,344
Hotel & motel								
Industrial	415		118				533	3,371
Other								
Total owner occupied	$ 43,537	$	$ 692	$	$ 17,607	$ 15,621	$ 77,457	$ 129,498
Total commercial construction	$ 177,784	$ 1,778	$ 9,107	$ 14,064	$ 119,615	$ 44,332	$ 366,680	$ 493,415

	December 31, 2008						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total non-owner occupied	$ 170,477	$ 7,814	$ 10,260	$ 11,922	$ 130,156	$ 33,288	$ 363,917
Total owner occupied	68,688		2,350		34,849	23,611	129,498
Total commercial real estate	$ 239,165	$ 7,814	$ 12,610	$ 11,922	$ 165,005	$ 56,899	$ 493,415

The following table presents a distribution of the commercial loan portfolio by type and region as of December 31, 2009 and December 31, 2008.

Commercial Loan Portfolio by Type and Region

(in thousands)

	December 31, 2009							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2008
Commercial line of credit	$ 171,342	$ 3,050	$ 30,394	$ 28,005	$ 151,609	$ 80,017	$ 464,417	$ 589,902
Asset-based line of credit	82,518	160	580	6,501	3,918	53,697	147,374	118,112
Term loans	168,579	4,138	28,647	8,970	42,804	126,295	379,433	407,974
Agricultural	29,696		786		287	53,461	84,230	80,910
Municipal	15,680		20,778		73,640	9,798	119,896	113,956
SBA						60,936	60,936	58,461
Small business lending	45,560			4,097	48,526		98,183	91,594
Total commercial	$ 513,375	$ 7,348	$ 81,185	$ 47,573	$ 320,784	$ 384,204	$ 1,354,469	$ 1,460,909

	December 31, 2008						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total commercial	$ 603,820	$ 27,484	$ 104,113	$ 84,315	$ 256,400	$ 384,777	$ 1,460,909

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

ASSET QUALITY AND NON-PERFORMING ASSETS

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

Non-performing loans, which include non-accrual loans and accruing loans past due over 90 days, totaled $199.0 million or 3.32% of total loans as of December 31, 2009, as compared to $133.4 million, or 2.18% of total loans, at December 31, 2008. Non-performing assets, which include non-performing loans and foreclosed real estate (other real estate owned), totaled $223.6 million, or 2.38% of total assets as of December 31, 2009, compared with $161.3 million, or 1.88% of total assets as of December 31, 2008. The increase in non-performing assets in 2009 attributable to the effects of the U.S. recession, the housing market downturn and declining real estate values on our loan portfolio.

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

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.

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess whether a lower price reflects the market value of the property and would enable us to sell the property. In addition, we update appraisals on other real estate owned property six to nine months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on a) updated appraisals received during the period, or b) management s authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan moving to other real estate owned. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan or market value of the property less expected selling costs. Other real estate owned at December 31, 2009 totaled $24.6 million and consisted of 47 properties. At December 31, 2009, one property with a carrying value of $1.3 million is subject to a sales contract, but is accounted for under the deposit method and continues to be reported as other real estate owned.

Loans are reported as restructured when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan s carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

The Company has written down impaired, non-accrual loans as of December 31, 2009 to their estimated net realizable value, based on disposition value, and expects resolution with no additional material loss, absent further decline in market prices. The following table summarizes our non-performing assets as of December 31 for each of the last five years.

Non-Performing Assets

As of December 31,

(dollars in thousands)

	2009	2008	2007	2006	2005
Loans on non-accrual status	$ 193,118	$ 127,914	$ 81,317	$ 8,629	$ 5,953
Loans past due 90 days or more and accruing	5,909	5,452	9,782	429	487
Total non-performing loans	199,027	133,366	91,099	9,058	6,440
Other real estate owned	24,566	27,898	6,943		1,123
Total non-performing assets	$ 223,593	$ 161,264	$ 98,042	$ 9,058	$ 7,563
Restructured loans(1)	$ 134,439	$ 23,540	$	$ 7,986	$ 8,077
Allowance for loan and lease losses	$ 107,657	$ 95,865	$ 84,904	$ 60,090	$ 43,885
Reserve for unfunded commitments	731	983	1,182	1,313	1,601
Allowance for credit losses	$ 108,388	$ 96,848	$ 86,086	$ 61,403	$ 45,486
Asset quality ratios:					
Non-performing assets to total assets	2.38%	1.88%	1.18%	0.12%	0.14%
Non-performing loans to total loans	3.32%	2.18%	1.50%	0.17%	0.16%
Allowance for loan and lease losses to total loans	1.79%	1.56%	1.40%	1.12%	1.12%
Allowance for credit losses to total loans	1.81%	1.58%	1.42%	1.15%	1.16%
Allowance for credit losses to total non-performing loans	54%	73%	94%	678%	706%

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

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Umpqua Holdings Corporation

The following tables summarize our non-performing assets by loan type and region as of December 31, 2009 and December 31, 2008:

Non-Performing Assets by Type and Region

(in thousands)

							December 31, 2009
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Loans on non-accrual status							
Residential development	$ 4,090	$ 2,729	$ 4,950	$	$ 23,391	$ 10,324	$ 45,484
Commercial construction	10,061	987		2,700	18,602	4,308	36,658
Commercial real estate	16,101	4,043	5,029	1,566	20,821	14,819	62,379
Commercial	31,329	3,591	481	9,963	328	2,905	48,597
Other							
Total loans on non-accrual status	61,581	11,350	10,460	14,229	63,142	32,356	193,118
Loans past due 90 days or more and accruing							
Residential development							
Commercial construction							
Commercial real estate				247			247
Commercial				1,000	266		1,266
Other	4,222				174		4,396
Total loans past due 90 days or more and accruing	4,222			1,247	440		5,909
Total non-performing loans	65,803	11,350	10,460	15,476	63,582	32,356	199,027
Other real estate owned							
Residential development	2,772	4,643	1,064	4,885	1,987	144	15,495
Commercial construction	359	392		426	3,595		4,772
Commercial real estate	430		514				944
Commercial	303	982				151	1,436
Other	1,919						1,919
Total other real estate owned	5,783	6,017	1,578	5,311	5,582	295	24,566
Total non-performing assets	$ 71,586	$ 17,367	$ 12,038	$ 20,787	$ 69,164	$ 32,651	$ 223,593

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							December 31, 2008
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Loans on non-accrual status							
Residential development	$ 18,720	$ 15,846	$ 4,583	$ 648	$ 33,374	$ 14,041	$ 87,212
Commercial construction					16,889	367	17,256
Commercial real estate	3,743	543	1,525	307	3,709	4,687	14,514
Commercial	2,287	5,402	77			1,166	8,932
Other							
Total loans on non-accrual status	24,750	21,791	6,185	955	53,972	20,261	127,914
Loans past due 90 days or more and accruing							
Residential development			1,894				1,894
Commercial construction							
Commercial real estate							
Commercial	195					114	309
Other	2,308			2	939		3,249
Total loans past due 90 days or more and accruing	2,503		1,894	2	939	114	5,452
Total non-performing loans	27,253	21,791	8,079	957	54,911	20,375	133,366
Other real estate owned							
Residential development	1,418	13,076	1,352	1,525	6,284	254	23,909
Commercial construction	520						520
Commercial real estate				381	1,700		2,081
Commercial						293	293
Other	585				510		1,095
Total other real estate owned	2,523	13,076	1,352	1,906	8,494	547	27,898
Total non-performing assets	$ 29,776	$ 34,867	$ 9,431	$ 2,863	$ 63,405	$ 20,922	$ 161,264

As of December 31, 2009, non-performing assets of $223.6 million have been written down by 41%, or $154.9 million, from their original balance of $378.5 million.

Umpqua Holdings Corporation

The following table summarizes our loans past due 30-89 days by loan type and by region as of December 31, 2009 and December 31, 2008. Loans past due 30-89 days have decreased 30% between the two periods.

Loans Past Due 30-89 Days by Type and Region

(in thousands)

							December 31, 2009
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Residential development	$ 7,500	$ 1,041	$	$	$ 283	$ 126	$ 8,950
Commercial construction	442			683		110	1,235
Commercial real estate	4,160	695	287	3,819	2,629	7,055	18,645
Commercial	1,553	529			772	5,531	8,385
Other	3,171				1,072		4,243
Total	$ 16,826	$ 2,265	$ 287	$ 4,502	$ 4,756	$ 12,822	$ 41,458

							December 31, 2008
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Residential development	$ 1,486	$ 3,374	$ 5,860	$	$ 15,324	$ 3,428	$ 29,472
Commercial construction				629			629
Commercial real estate	3,987	1,750	312	384	1,240	9,209	16,882
Commercial	401	2,992		206	402	4,295	8,296
Other	3,386				473		3,859
Total	$ 9,260	$ 8,116	$ 6,172	$ 1,219	$ 17,439	$ 16,932	$ 59,138

Our residential development loan portfolio, a subset of the construction and development category, has been adversely impacted by the housing market downturn. As a result, the Company has focused its efforts to reduce our exposure to this segment. The following table presents a geographic distribution of the residential development portfolio during 2009 by quarter:

Residential Development Loans

(dollars in thousands)

	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	Change Since December 31, 2008
Northwest Oregon	$ 134,506	$ 120,460	$ 120,076	$ 93,745	$ 88,762	-34%
Central Oregon	31,186	20,951	15,493	13,753	9,059	-71%
Southern Oregon	33,850	29,738	26,561	21,852	19,006	-44%
Washington	27,531	26,514	24,744	17,690	8,616	-69%
Greater Sacramento	109,181	92,744	84,522	80,107	74,993	-31%
Northern California	47,905	38,266	29,894	31,336	25,373	-47%
Total	$ 384,159	$ 328,673	$ 301,290	$ 258,483	$ 225,809	-41%

Percentage of total loan portfolio	6%	5%	5%	4%	4%
Quarterly change amount		$ (55,486)	$ (27,383)	$ (42,807)	$ (32,674)
Quarterly change percentage		-14%	-8%	-14%	-13%
Year-to-date change amount		$ (55,486)	$ (82,869)	$ (125,676)	$ (158,350)
Year-to-date change percentage		-14%	-22%	-33%	-41%

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The largest single loan type of non-performing assets throughout the year was residential development loans. At December 31, 2008, $87.2 million, or 68%, of the total $127.9 million of non-accrual loans were residential development loans. By the end of 2009, we reduced our balance of non-accrual residential development loans to $45.5 million, or 23% of total non-accrual loans, representing a 48% decrease. During the same period, we reduced our balance of residential development related OREO properties by 35%. The following table presents a geographic distribution of the non-performing residential development loans during 2009 by quarter:

Residential Development Non-Performing Loans

(dollars in thousands)

	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	Change Since December 31, 2008
Northwest Oregon	$ 18,720	$ 8,689	$ 6,985	$ 6,815	$ 4,090	-78%
Central Oregon	15,846	12,415	6,118	4,860	2,729	-83%
Southern Oregon	6,477	8,246	7,254	3,951	4,950	-24%
Washington	648	216	4,720	4,720		-100%
Greater Sacramento	33,374	37,264	25,673	21,821	23,391	-30%
Northern California	14,041	13,271	10,601	8,648	10,324	-26%
Total	$ 89,106	$ 80,101	$ 61,351	$ 50,815	$ 45,484	-49%
Percentage of non-performing loans	67%	63%	54%	39%	23%	
Quarterly change amount		$ (9,005)	$ (18,750)	$ (10,536)	$ (5,331)	
Quarterly change percentage		-10%	-23%	-17%	-10%	
Year-to-date change amount		$ (9,005)	$ (27,755)	$ (38,291)	$ (43,622)	
Year-to-date change percentage		-10%	-31%	-43%	-49%	

The following table presents the remaining performing residential development loans by size and geographic distribution as of December 31, 2009:

Residential Development Performing Loans

(dollars in thousands)

	$250k and less	$250k to $1 million	$1 million to $3 million	$3 million to $5 million	$5 million to $10 million	$10 million and greater	Total
Northwest Oregon	$ 4,674	$ 8,770	$ 22,307	$ 17,480	$ 16,635	$ 14,806	$ 84,672
Central Oregon	514	2,115	3,701				6,330
Southern Oregon	1,209	7,330	5,517				14,056
Washington		632	4,792	3,192			8,616
Greater Sacramento	3,605	6,487	4,628	4,867	11,455	20,560	51,602
Northern California	1,640	3,792	9,617				15,049
Total	$ 11,642	$ 29,126	$ 50,562	$ 25,539	$ 28,090	$ 35,366	$ 180,325

Commercial real estate, commercial and commercial construction represents 31%, 25% and 18%, respectively, of the remaining non-performing loans as of December 31, 2009, compared to 11%, 7% and 13%, respectively, as of December 31, 2008. Commercial real estate non-performing loans were $62.6 million at December 31, 2009, compared to $14.5 million at December 31, 2008. Commercial non-performing loans were $49.9 million at December 31, 2009, compared to $9.2 million at December 31, 2008. Commercial construction non-performing loans were $36.7 million at December 31, 2009, compared to $17.3 million at December 31, 2008. Of these non-performing loan balances as of December 31, 2009, 61% are directly affected by the housing market downturn or the real estate bubble, or indirectly impacted from the contraction of real estate dependent businesses. The remaining non-performing loans in these segments primarily reflect the impact of the U.S. recession on certain businesses.

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

At December 31, 2009 and December 31, 2008, impaired loans of $134.4 million and $23.5 million were classified as performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The performing restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered performing and on accrual status, the loan s collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company has obligations to lend $455,000 of additional funds on the restructured loans as of December 31, 2009, which primarily relates to one residential development related credit.

The following tables summarize our performing restructured loans by loan type and region as of December 31, 2009 and December 31, 2008:

Restructured Loans by Type and Region

(in thousands)

	December 31, 2009						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Residential development	$ 26,994	$	$ 306	$ 7,985	$ 33,103	$	$ 68,388
Commercial construction							
Commercial real estate	18,349		5,790		9,742	7,866	41,747
Commercial	715				279	18,628	19,622
Other	4,634				48		4,682
Total	$ 50,692	$	$ 6,096	$ 7,985	$ 43,172	$ 26,494	$ 134,439

	December 31, 2008						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Residential development	$	$	$	$	$ 20,135	$ 1,417	$ 21,552
Commercial construction							
Commercial real estate						1,046	1,046
Commercial	422				360	160	942
Other							
Total	$ 422	$	$	$	$ 20,495	$ 2,623	$ 23,540

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The following table presents a distribution of our performing restructured loans by year of maturity, according to the restructured terms, as of December 31, 2009:

(in thousands)

Year	Amount
2010	$ 96,717
2011	12,621
2012	2,359
2013	5,129
2014	1,676
Thereafter	15,937
Total	$ 134,439

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

ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED COMMITMENTS

The allowance for loan and lease losses (ALLL) totaled $107.7 million and $95.9 million at December 31, 2009 and 2008, respectively. The increase in the allowance for loan and lease losses as of December 31, 2009 as compared to prior year is principally attributable to an increase in provision for loan and lease losses in excess of charge-offs.

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

Allowance for loan and lease losses Composition

As of December 31,

(in thousands)

	2009	2008	2007	2006	2005
Real estate	$ 72,941	$ 63,685	$ 60,840	$ 44,179	$ 30,137
Commercial	24,583	23,104	19,513	14,161	11,230
Loans to individuals and overdrafts	606	484	504	603	669
Unallocated	9,527	8,592	4,047	1,147	1,849
Allowance for loan and lease losses	$ 107,657	$ 95,865	$ 84,904	$ 60,090	$ 43,885

The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the allowance for loan and lease losses, and acknowledges the inherent imprecision of all loss prediction models. As of December 31, 2009, the unallocated allowance amount represented 9% of the allowance for loan and lease losses, consistent with the level at December 31, 2008. The level in unallocated ALLL in the current year reflects management s evaluation of the existing general business and economic conditions, and declining credit quality and collateral values of real estate in our markets. The ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge-offs may occur.

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Umpqua Holdings Corporation

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

Activity in the Allowance for loan and lease losses

Years Ended December 31,

(dollars in thousands)

	2009	2008	2007	2006	2005
Balance at beginning of year	$ 95,865	$ 84,904	$ 60,090	$ 43,885	$ 44,229
Loans charged off:					
Real estate	(142,322)	(89,218)	(21,340)	(734)	(132)
Commercial	(56,136)	(9,958)	(2,030)	(2,135)	(6,538)
Consumer and other	(2,409)	(1,876)	(1,360)	(1,336)	(1,082)
Total loans charged off	(200,867)	(101,052)	(24,730)	(4,205)	(7,752)
Recoveries:					
Real Estate	1,559	2,676	1,250	897	32
Commercial	1,450	1,018	785	1,916	4,344
Consumer and other	526	641	701	818	564
Total recoveries	3,535	4,335	2,736	3,631	4,940
Net charge-offs	(197,332)	(96,717)	(21,994)	(574)	(2,812)
Addition incident to mergers			5,078	14,227	
Provision charged to operations	209,124	107,678	41,730	2,552	2,468
Balance at end of year	$ 107,657	$ 95,865	$ 84,904	$ 60,090	$ 43,885
Ratio of net charge-offs to average loans	3.23%	1.58%	0.38%	0.01%	0.08%
Ratio of provision to average loans	3.43%	1.76%	0.72%	0.05%	0.07%
Recoveries as a percentage of charge-offs	1.76%	4.29%	11.06%	86.35%	63.73%

The increase in the ALLL as of December 31, 2009 is primarily a result of the increase in the provision for loan and lease losses in 2009. The increase in the provision for loan and lease losses is a result of several factors. 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, resulting in downgrades within the portfolio, an increase in non-performing loans, and an increase in loans charged-off during the year. Downgrades within the portfolio have increased our classified credit balances resulting in a higher risk rating-based component of the allowance for loan and lease losses.

All impaired loans are individually evaluated for impairment. If the measurement of each impaired loans value is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. This can be accomplished by charging-off the impaired portion of the loan or establishing a specific component within the allowance for loan and lease losses. If in management s assessment the sources of repayment will not result in a reasonable probability that the carrying value of a loan can be recovered, the amount of a loan s specific impairment is charged-off against the allowance for loan and lease losses. Prior to the second quarter of 2008, the Company established specific reserves within the allowance for loan and leases losses for loan impairments and recognized the charge-off of the impairment reserve when the loan was resolved, sold, or foreclosed and transferred to other real estate owned. Due to declining real estate values in our markets and the deterioration of the U.S. economy in general, it is increasingly likely that impairment reserves on collateral dependent loans, particularly those relating to real estate, will not be recoverable and represent a confirmed loss. As a result, beginning in the second quarter of 2008, the Company began recognizing the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. This process has effectively accelerated the recognition of charge-offs recognized since the second quarter of 2008. The change in our

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assessment of the possible recoverability of our collateral dependent impaired loans carrying values has ultimately had no impact on our impairment valuation procedures or the amount of provision for loan and leases losses included within the *Consolidated Statements of Operations*. 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.

At December 31, 2009, the recorded investment in loans classified as impaired totaled $328.0 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $2.7 million. The valuation allowance on impaired loans represents the impairment reserves on performing restructured loans. At December 31, 2008, the total recorded investment in impaired loans was $151.5 million, with no corresponding valuation allowance.

The majority of loan charge-offs in the current year relate to real estate related credits. In the current year we experienced increased charge-offs related to our residential development, commercial real estate, commercial construction and commercial portfolios. These charge-offs were largely driven by the deteriorating economic conditions coupled with falling real estate values in our markets. The majority of all charge-offs taken in the current year relate to borrowers that were directly affected by the housing market downturn or indirectly impacted from the contraction of real estate dependent businesses

The following table presents a summary of activity in the reserve for unfunded commitments (RUC):

Summary of Reserve for Unfunded Commitments Activity

Years Ended December 31,

(in thousands)

	2009	2008	2007
Balance, beginning of year	$ 983	$ 1,182	$ 1,313
Acquisition			134
Net decrease credited to other expenses	(252)	(199)	(265)
Balance, end of year	$ 731	$ 983	$ 1,182

We believe that the ALLL and RUC at December 31, 2009 are sufficient to absorb losses inherent in the loan portfolio and credit commitments outstanding as of that date, respectively, based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan growth, and a detailed review of the quality of the loan portfolio, involves uncertainty and judgment. Therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. 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.

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MORTGAGE SERVICING RIGHTS

The following table presents the key elements of our mortgage servicing rights asset as of December 31, 2009, 2008 and 2007:

Summary of Mortgage Servicing Rights

Years Ended December 31,

(dollars in thousands)

	2009	2008	2007
Balance, beginning of year	$ 8,205	$ 10,088	$ 9,952
Additions for new mortgage servicing rights capitalized	7,570	2,694	892
Changes in fair value:			
Due to changes in model inputs or assumptions(1)	(3,469)	(1,270)	595
Other(2)	319	(3,307)	(1,351)
Balance, end of year	$12,625	$ 8,205	$ 10,088
Balance of loans serviced for others	$ 1,277,832	$ 955,494	$ 870,680
MSR as a percentage of serviced loans	0.99%	0.86%	1.16%

(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.

Mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue. The value of mortgage servicing rights is impacted by market rates for mortgage loans. Historically low market rates can cause prepayments to increase as a result of refinancing activity. To the extent loans are prepaid sooner than estimated at the time servicing assets are originally recorded, it is possible that certain mortgage servicing rights assets may decrease in value. Generally, the fair value of our mortgage servicing rights will increase as market rates for mortgage loans rise and decrease if market rates fall.

In the fourth quarter of 2007, the Company began using derivative instruments to hedge the risk of changes in the fair value of MSR due to changes in interest rates. Starting in late February 2008 and continuing into March 2008, the bond markets experienced extraordinary volatility. This volatility resulted in widening spreads and price declines on the derivative instruments that were not offset by corresponding gains in the MSR asset. As a result, a $2.4 million charge was recognized within mortgage banking revenue in the first quarter of 2008. In March, the Company suspended the MSR hedge, given the continued volatility. Additional information about the Company s mortgage servicing rights is provided in Note 8 of the *Notes to Consolidated Financial Statements* in Item 8 below.

GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2009, we had recognized goodwill of $610.0 million, as compared to $722.0 million at December 31, 2008. The goodwill recorded in connection with acquisitions represents the excess of the purchase price over the estimated fair value of the net assets acquired. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management evaluates intangible assets with indefinite lives on an annual basis as of December 31. Additionally, we perform impairment evaluations on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition.

The goodwill impairment test involves a two-step process. The first step compares the fair value of a reporting unit (e.g. Retail Brokerage and Community Banking) to its carrying value. If the reporting unit s fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step the Company calculates the implied fair value of the reporting unit s goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company s assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment. No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit s net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess.

Substantially all of the Company s goodwill is associated with our community banking operations. Due to a further decline in the Company s market capitalization below book value of equity and continued weakness in the banking industry, the Company performed a goodwill impairment evaluation of the Community Banking operating segment as of June 30, 2009. The Company engaged an independent valuation consultant to assist us in determining whether and to what extent our goodwill asset was impaired. We utilized a variety of valuation techniques to analyze and measure the estimated fair value of reporting units under both the income and market valuation approach. Under the income approach, the fair value of the reporting unit is determined by projecting future earnings for five years, utilizing a terminal value based on expected future growth rates, and applying a discount rate reflective of current market conditions. The estimation of forecasted earnings uses management s best estimate of economic and market conditions over the projected periods and considers estimated growth rates in loans and deposits and future expected changes in net interest margins. Various market-based valuation approaches are utilized and include applying market price to earnings, core deposit premium, and tangible book value multiples as observed from relevant, comparable peer companies of the reporting unit. We also valued the reporting unit by applying an estimated control premium to the market capitalization. Weightings are assigned to each of the aforementioned model results, judgmentally allocated based on the observability and reliability of the inputs, to arrive at a final fair value estimate of the reporting unit. The results of the Company s and valuation specialist s step one impairment test indicated that the reporting unit s fair value was less than its carrying value. As a result, the Company performed a step two analysis.

The external valuation specialist assisted management s analysis under step two of the goodwill impairment test. Under this approach, we calculated the fair value for the reporting unit s assets and liabilities, as well as its unrecognized identifiable intangible assets, such as the core deposit intangible and trade name. Fair value adjustments to items on the balance sheet primarily related to investment securities held to maturity, loans, other real estate owned, Visa Class B common stock, deferred taxes, deposits, term debt, and junior subordinated debentures carried at amortized cost. The external valuation specialist assisted management to estimate the fair value of our unrecognized identifiable assets, such as the core deposit intangible and trade name.

The most significant fair value adjustment made in this analysis was to adjust the carrying value of the Company s loans receivable portfolio to fair value. The fair value of the Company s loan receivable portfolio at June 30, 2009 was estimated in a manner similar to methodology utilized as part of the December 31, 2008 goodwill impairment evaluation. As part of the December 31, 2008 loan valuation, the loan portfolio was stratified into sixty-eight loan pools that shared common characteristics, namely loan type, payment terms, and whether the loans were performing or non-performing. Each loan pool was discounted at a rate that considers current market interest rates, credit risk, and assumed liquidity premiums required based upon the nature of the underlying pool. Due to the disruption in the financial markets experienced during 2008 and continuing through 2009, the liquidity premium reflects the reduction in demand in the secondary markets for all grades of non-conforming credit, including those that are performing. Liquidity premiums for individual loan categories generally ranged from 4.6% for performing loans to 30% for construction and non-performing loans. At December 31, 2008, the fair value of the overall loan portfolio was calculated to be at a 9% discount relative to its book value. The composition of the loan portfolio at June 30, 2009, including loan type and performance indicators, was substantially similar to the loan portfolio at December 31, 2008. At June 30, 2009, the fair value of the loan portfolio was estimated to be at a 12% discount relative to its carrying value.

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The additional discount is primarily attributed to the additional liquidity premium required as of the measurement date associated with the Company s concentration of commercial real estate loans.

Other significant fair value adjustments utilized in this goodwill impairment analysis included the value of the core deposit intangible asset which was calculated as 0.53% of core deposits, and includes all deposits except certificates of deposit. The carrying value of other real estate owned was discounted by 25%, representing a liquidity adjustment given the current market conditions. The fair value of our trade name, which represents the competitive advantage associated with our brand recognition and ability to attract and retain relationships, was estimated to be $19.3 million. The fair value of our junior subordinated debentures carried at amortized cost was determined in a manner and utilized inputs, primarily the credit risk adjusted spread, consistent with our methodology for determining the fair value of junior subordinated debentures recorded at fair value. Information relating to our methodologies for estimating the fair value of financial instruments that were adjusted to fair value as part of this analysis, including the Visa Class B common stock, deposits, term debt, and junior subordinated debentures, is included in Note 22 of the *Notes to Consolidated Financial Statements*.

Based on the results of the step two analysis, the Company determined that the implied fair value of the goodwill was less than its carrying amount on the Company s balance sheet, and as a result, we recognized a goodwill impairment loss of $112.0 million in the second quarter of 2009. This write-down of goodwill is a non-cash charge that does not affect the Company s or the Bank s liquidity or operations. In addition, because goodwill is excluded in the calculation of regulatory capital, the Company s well-capitalized regulatory capital ratios are not affected by this charge.

The Company also conducted its annual evaluation of goodwill for impairment as of December 31, 2009. In the first step of the goodwill impairment test the Company determined that the fair value of the Community Banking reporting unit exceeded its carrying amount. This determination is consistent with the events occurring after the Company recognized the $112.0 million impairment of goodwill second quarter of 2009. First, the market capitalization and estimated fair value of the Company increased significantly subsequent to the recognition of the impairment charge as the fair value of the Company s stock increased 73% from June 30, 2009 to December 31, 2009. Secondly, the Company s successful public common stock offering in the third quarter of 2009 diluted the carrying value of the reporting book equity on a per share basis, against which the fair value of the reporting unit is measured. The significant assumptions and methodology utilized to test for goodwill impairment as of December 31, 2009 were consistent with the impairment evaluations performed throughout the year.

If the Company s common stock price declines further or continues to trade below book value per common share, or should general economic conditions deteriorate further or remain depressed for a prolonged period of time, particularly in the financial industry, the Company may be required to recognize additional impairment of all, or some portion of, its goodwill. It is possible that changes in circumstances, existing at the measurement date or at other times in the future, or changes in the numerous estimates associated with management s judgments, assumptions and estimates made in assessing the fair value of our goodwill, such as valuation multiples, discount rates, or projected earnings, could result in an impairment charge in future periods. Additional impairment charges, if any, may be material to the Company s results of operations and financial position. However, any potential future impairment charge will have no effect on the Company s or the Bank s cash balances, liquidity, or regulatory capital ratios.

The inputs management utilizes to estimate the fair value of a reporting unit in step one of the goodwill impairment test, and estimating the fair values of the underlying assets and liabilities of a reporting unit in the second step of the goodwill impairment test, require management to make significant judgments, assumptions and estimates where observable market may not readily exist. Such inputs include, but are not limited to, trading multiples from comparable transactions, control premiums, the value that may arise from synergies and other benefits that would accrue from control over an entity, and the appropriate rates to discount projected cash flows. Additionally, there may be limited current market inputs to value certain assets or liabilities, particularly loans and junior subordinated debentures. These valuation inputs are considered to be Level 3 inputs.

Management will continue to monitor the relationship of the Company s market capitalization to both its book value and tangible book value, which management attributes to both financial services industry-wide and Company specific factors, and to evaluate the carrying value of goodwill and other intangible assets.

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As a result of the December 31, 2008 goodwill impairment evaluation related to the Retail Brokerage reporting segment, management determined that there was a $1.0 million impairment following the departure of certain Umpqua Investments financial advisors. The valuation of the impairment at the Retail Brokerage operating segment was determined using an income approach by discounting cash flows of forecasted earnings. The key assumptions used to estimate the fair value of each reporting unit include earnings forecasts for five years, a terminal value based on expected future growth rates, and a discount rate reflective of current market conditions. The Company evaluated the Retail Brokerage reporting segment s goodwill for impairment as of December 31, 2009. The first step of the goodwill impairment test indicated that the reporting unit s fair value exceeded its carrying value. As of December 31, 2009, the ending carrying value of the Retail Brokerage segment s goodwill was $2.7 million.

At December 31, 2009, we had other intangible assets of $29.6 million, as compared to $35.8 million at December 31, 2008. As part of a business acquisition, a portion of the purchase price is allocated to the other value of intangible assets such as the merchant servicing portfolio or core deposits, which includes all deposits except certificates of deposit. The value of these other intangible assets were determined by a third party based on the net present value of future cash flows for the merchant servicing portfolio and an analysis of the cost differential between the core deposits and alternative funding sources for the core deposit intangible. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. In the fourth quarter of 2009, the Company recognized an $804,000 impairment related to the merchant servicing portfolio obtained through the North Bay acquisition. The remaining decrease in other intangible assets resulted from scheduled amortization. No other impairment losses were recognized in connection with other intangible assets since their initial recognition.

Additional information regarding our accounting for goodwill and other intangible assets is included in Notes 1, 2 and 7 of the *Notes to Consolidated Financial Statements* in Item 8 below.

DEPOSITS

Total deposits were $7.4 billion at December 31, 2009, an increase of $851.5 million, or 12.9%, as compared to year-end 2008. Excluding the deposits acquired through the FDIC-assisted purchase and assumption of the Bank of Clark County, the organic deposit growth rate was 10.4%. Of the total change in deposit balances during the current year, deposits from consumers and businesses increased $909.7 million, partially offset by a decline in deposits from public entities of $58.2 million. Despite the increased competitive pressures to build deposits in light of the current recessionary economic climate, management attributes the ability to maintain our overall deposit base and grow certain lines of business to ongoing business development and marketing efforts in our service markets. Information on average deposit balances and average rates paid is included under the *Net Interest Income* section of this report. Additional information regarding interest bearing deposits is included in Note 12 of the *Notes to Consolidated Financial Statements* in Item 8 below.

The following table presents the deposit balances by major category as of December 31:

Deposits

As of December 31,

(dollars in thousands)

	2009		2008	
	Amount	Percentage	Amount	Percentage
Noninterest bearing	$ 1,398,332	19%	$ 1,254,079	19%
Interest bearing demand	872,184	12%	752,931	11%
Savings and money market	2,813,805	37%	2,335,158	36%
Time, $100,000 or greater	1,603,410	22%	1,311,207	20%
Time, less than $100,000	752,703	10%	935,560	14%
Total	$ 7,440,434	100%	$ 6,588,935	100%

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The following table presents the scheduled maturities of time deposits of $100,000 and greater as of December 31, 2009:

Maturities of Time Deposits of $100,000 and Greater

(in thousands)	
Three months or less	$ 560,056
Over three months through six months	374,227
Over six months through twelve months	535,794
Over twelve months	133,333
Time, $100,000 and over	$ 1,603,410

On January 16, 2009, the Washington Department of Financial Institutions closed the Bank of Clark County, Vancouver, Washington, and appointed the Federal Deposit Insurance Corporation (FDIC) as its receiver. The FDIC entered into a purchase and assumption agreement with Umpqua Bank to assume certain assets and the insured non-brokered deposit balances, which totaled $183.9 million, at no premium. Additional information regarding this transaction is included in Note 2 of the *Notes to Consolidated Financial Statements*.

The Company has an agreement with Promontory Interfinancial Network LLC (Promontory) that makes it possible to provide FDIC deposit insurance to balances in excess of current deposit insurance limits. Promontory s Certificate of Deposit Account Registry Service (CDARS) uses a deposit-matching program to exchange Bank deposits in excess of the current deposit insurance limits for excess balances at other participating banks, on a dollar-for-dollar basis, that would be fully insured at the Bank. This product is designed to enhance our ability to attract and retain customers and increase deposits, by providing additional FDIC coverage to customers. CDARS deposits can be reciprocal or one-way. All of the Bank s CDARS deposits are reciprocal. At December 31, 2009 and December 31, 2008, the Company s CDARS balances totaled $290.3 million and $345.6 million, respectively. Of these totals, at December 31, 2009 and December 31, 2008, $245.6 million and $78.9 million, respectively, represented time deposits equal to or greater than $100,000 but were fully insured under current deposit insurance limits.

BORROWINGS

At December 31, 2009, the Bank had outstanding $45.2 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. Additional information regarding securities sold under agreements to repurchase and federal funds purchased is provided in Notes 13 and 14 of *Notes to Consolidated Financial Statements* in Item 8 below.

At December 31, 2009, the Bank had outstanding term debt of $76.3 million primarily with the Federal Home Loan Bank (FHLB). Term debt outstanding as of December 31, 2009 decreased $130.3 million since December 31, 2008 primarily as a result of the repayment of FHLB borrowings. The overall decrease in borrowings is largely attributable to the enhanced liquidity and growth in deposits in the current year. Advances from the FHLB amounted to $75.8 million of the total term debt and are secured by investment securities and residential mortgage loans. Of the $75.8 million, $75.0 million of the FHLB advances outstanding at December 31, 2009 had a fixed interest rate of 3.35%, and the remaining balances had fixed interest rates ranging from 6.08% to 7.44%. Of the total term debt outstanding, $75.0 million, or 99%, mature prior to December 31, 2010, and the remaining mature after December 31, 2011. Management expects continued use of FHLB advances as a source of short and long-term funding. Additional information regarding term debt is provided in Note 15 of *Notes to Consolidated Financial Statements* in Item 8 below.

JUNIOR SUBORDINATED DEBENTURES

We had junior subordinated debentures with carrying values of $188.9 million and $196.2 million, respectively, at December 31, 2009 and 2008.

At December 31, 2009, approximately $219.6 million, or 95% of the total issued amount, had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR. Interest expense for junior subordinated debentures decreased in 2009 as compared to 2008 and in 2008 as compared to 2007, primarily resulting from decreases in short-term market interest rates and LIBOR. Although increases in short-term market interest rates will increase the interest expense for junior subordinated debentures, we believe that other attributes of our balance sheet will serve to mitigate the impact to net interest income on a consolidated basis.

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

Prior to the second quarter of 2009, we estimated the fair value of junior subordinated debentures using an internal discounted cash flow model. The future cash flows of these instruments were extended to the next available redemption date or maturity date as appropriate based upon the spreads of recent issuances or quotes from brokers for comparable bank holding companies, as available, compared to the contractual spread of each junior subordinated debenture measured at fair value. The significant inputs utilized in the estimation of fair value of these instruments is the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating both the inherent risk of the obligation and the Company s entity-specific credit risk. 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. For additional assurance, we obtained valuations from a third party pricing service to validate the results of our model.

Prior to the third quarter of 2008, we utilized a credit risk adjusted spread that was based upon recent issuances or quotes from brokers for comparable bank holding companies as of the date of valuation, and we considered this to be a Level 2 input. Due to the increasing credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of credit risk adjusted market spreads, we classified this as a Level 3 fair value measure in the third quarter of 2008.

In the second quarter of 2009, due to continued inactivity in the junior subordinated debenture and related markets, and clarified guidance relating to the determination of fair value when the volume and level of activity for an asset or liability have significantly decreased or where transactions are not orderly, management utilized a third-party pricing service to estimate the fair value of these liabilities. The pricing service utilizes an income approach valuation technique, specifically an option-adjusted spread (OAS) valuation model. This OAS model values the cash flows over multiple interest rate scenarios and discounts these cash flows using a credit risk adjustment spread over the three month LIBOR swap curve. The OAS model currently being utilized is more sophisticated and computationally intensive than the model previously used; however, the models react similarly to changes in the underlying inputs and the results are considered comparable. With the assistance of a third-party pricing service, we determined that a credit risk adjusted spread of 675 basis points is representative of the nonperformance risk premium a market participant would require under current market conditions as of December 31, 2009. Generally, an increase in the credit risk adjusted spread and/or a decrease in the swap curve will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the swap curve will result in negative fair value adjustments.

We recorded gains of $6.5 million, $38.9 million and $4.9 million for the years ended December 31, 2009, 2008 and 2007, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. The change in fair value of the junior subordinated debentures carried at fair value during these periods primarily result from the widening of the credit risk adjusted spread. Management believes that the credit risk adjusted spread being utilized is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company s junior subordinated debentures at fair value as of December 31, 2009, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments. In management s estimation, the change in fair value of the junior subordinated debentures during the periods represent changes in the market s nonperformance risk expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk.

Additional information regarding junior subordinated debentures measured at fair value is included in Note 22 of the *Notes to Consolidated Financial Statements* in Item 8 below.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2009, under guidance issued by the Board of Governors of the Federal Reserve System. Additional information regarding the terms of the junior subordinated debentures, including maturity/redemption dates, interest rates and the fair value election, is included in Note 16 of the *Notes to Consolidated Financial Statements* in Item 8 below.

LIQUIDITY AND CASH FLOW

The principal objective of our liquidity management program is to maintain the Bank s ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs.

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state s risk assessment of depository institutions. Changes in the pledging requirements for uninsured public deposits may require pledging additional collateral to secure these deposits, drawing on other sources of funds to finance the purchase of assets that would be available to be pledged to satisfy a pledging requirement, or could lead to the withdrawal of certain public deposits from the Bank. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities under agreements to repurchase, borrow on a secured basis from the FHLB or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling $2.0 billion at December 31, 2009 subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $100.0 million at December 31, 2009. Availability of the lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict the consecutive day usage.

The Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Company s revenues are obtained from dividends declared and paid by the Bank. In 2009, the Bank paid the Company $18.0 million in dividends to fund regular operations. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to shareholders, when approved, and meet its ongoing cash obligations, which consist principally of debt service on the $230.1 million (issued amount) of outstanding junior subordinated debentures. As of December 31, 2009, the Company did not have any borrowing arrangements of its own.

Additional discussion related to liquidity related risks given the current economic climate is provided in Item 1A *Risk Factors* above.

As disclosed in the *Consolidated Statements of Cash Flows* in Item 8 of this report, net cash provided by operating activities was $93.2 million during 2009. The difference between cash provided by operating activities and net loss largely consisted of non-cash items including a $209.1 million provision for loan and lease losses and a goodwill impairment charge of $112.0 million. Net cash of $449.2 million used in investing activities consisted principally of $1.0 billion of purchases of investment securities available for sale, net loan growth of $108.7 million and $11.2 million of purchases of premises and equipment, partially offset by proceeds from investment securities of $464.4 million, cash acquired in the Bank of Clark County merger of $178.9 million and proceeds from the sale of other real estate owned of $26.2 million. The $756.7 million of cash provided by financing activities primarily consisted of $667.6 million increase in net deposits and $245.7 in net proceeds from the issuance of common stock, partially offset by $130.2 million repayment of term debt, $13.4 million of dividends paid on common stock and $10.7 million of dividends paid on preferred stock.

Although we expect the Bank s and the Company s liquidity positions to remain satisfactory during 2010, there is significant competition for bank deposits. It is possible that our deposit growth for 2010 may not be maintained at previous levels due to increased pricing pressure or, in order to generate deposit growth, our pricing may need to be adjusted in a manner that results in increased interest expense on deposits.

OFF-BALANCE-SHEET ARRANGEMENTS

Information regarding Off-Balance-Sheet Arrangements is included in Note 18 and Note 19 of the *Notes to Consolidated Financial Statements in Item 8 below.*

The following table presents a summary of significant contractual obligations extending beyond one year as of December 31, 2009 and maturing as indicated:

Future Contractual Obligations

As of December 31, 2009

(in thousands)

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Deposits(1)	$ 7,228,864	$ 173,819	$ 35,906	$ 1,845	$ 7,440,434
Term debt	75,000		715	505	76,220
Junior subordinated debentures(2)				230,061	230,061
Operating leases	12,221	22,100	16,021	24,525	74,867
Other long-term liabilities(3)	3,579	3,874	3,274	36,160	46,887
Total contractual obligations	$ 7,319,664	$ 199,793	$ 55,916	$ 293,096	$ 7,868,469

(1) Deposits with indeterminate maturities, such as demand, savings and money market accounts, are reflected as obligations due in less that one year.
(2) Represents the issued amount of all junior subordinated debentures.
(3) Includes maximum payments related to employee benefit plans, assuming all future vesting conditions are met. Additional information about employee benefit plans is provided in Note 17 of the *Notes to Consolidated Financial Statements* in Item 8 below.

The table above does not include interest payments or purchase accounting adjustments related to deposits, term debt or junior subordinated debentures.

As of December 31, 2009, the Company has a liability for unrecognized tax benefits relating to California tax incentives and temporary differences in the amount of $2.6 million, which includes accrued interest of $365,000. As the Company is not able to estimate the period in which this liability will be paid in the future, this amount is not included in the future contractual obligations table above.

CONCENTRATIONS OF CREDIT RISK

Information regarding Concentrations of Credit Risk is included in Notes 3, 5, and 18 of the *Notes to Consolidated Financial Statements.*

CAPITAL RESOURCES

Shareholders equity at December 31, 2009 was $1.6 billion, an increase of $79.5 million, or 5%, from December 31, 2008. The increase in shareholders equity during 2009 was principally due to the $245.7 million in net proceeds from the Company s public stock offering in August 2009, the net change in unrealized gains on investment securities available for sale of $9.2 million (net of tax), increases related to stock-based compensation of $2.2 million and the net change in unrealized loss on investment securities held to maturity of $1.7 million (net of tax), partially offset by a net loss of $153.4 million, common stock dividends of $14.7 million, and preferred stock dividends of $10.7 million.

The Federal Reserve Board has in place guidelines for risk-based capital requirements applicable to U.S. banks and bank/financial holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulation, associated with various categories of assets, both on and off-balance sheet. Under the guidelines, capital strength is measured in two tiers, which are used in conjunction with risk-adjusted assets to determine the risk-based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier I capital. Our consolidated Tier I capital, which consists of shareholders equity and qualifying trust-preferred securities, less other comprehensive income, goodwill, other intangible assets, disallowed servicing assets and disallowed deferred tax assets, totaled $1.1 billion at December 31, 2009. Tier II capital components include all, or a portion of, the allowance for loan and lease losses and the portion of trust preferred securities in excess of Tier I statutory limits. The total of Tier I capital plus Tier II capital components is referred to as Total Risk-Based Capital, and was $1.2 billion at December 31, 2009. The percentage ratios, as calculated under the guidelines, were 15.91% and 17.16% for Tier I and Total Risk-Based Capital, respectively, at December 31, 2009. The Tier 1 and Total Risk-Based Capital ratios at December 31, 2008 were 13.37% and 14.62%, respectively.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as period-end shareholders equity and qualifying trust preferred securities, less other comprehensive income, goodwill and deposit-based intangibles, divided by average assets as adjusted for goodwill and other intangible assets. Although a minimum leverage ratio of 4% is required for the highest-rated financial holding companies that are not undertaking significant expansion programs, the Federal Reserve Board may require a financial holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and financial holding companies. Our consolidated leverage ratios at December 31, 2009 and 2008 were 12.79%, and 12.38%, respectively. As of December 31, 2009, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s regulatory capital category.

During the year ended December 31, 2009, the Company contributed $80.0 million to the Bank to strengthen its capital position. At December 31, 2009, all three of the capital ratios of the Bank exceeded the minimum ratios required by federal regulation. Management monitors these ratios on a regular basis to ensure that the Bank remains within regulatory guidelines. Further information regarding the actual and required capital ratios is provided in Note 21 of the *Notes to Consolidated Financial Statements* in Item 8 below.

On November 14, 2008, we issued 214,181 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, with an aggregate liquidation preference of $214.2 million, or $1,000 per share, to the United States Department of the Treasury (U.S. Treasury) pursuant to the TARP Capital Purchase Program (CPP). The preferred stock will bear cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter, in each case, applied to the $1,000 per share liquidation preference, but will only be paid when, as and if declared by the Company s Board of Directors out of funds legally available therefor. Dividend payments are payable quarterly in arrears on the 15th day of February, May, August and November of each year.

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In connection with the issuance and sale of the preferred stock , the Company entered into a Letter Agreement including the Securities Purchase Agreement Standard Terms (the Agreement) with the U.S. Treasury. The Agreement contains certain limitations on the payment of quarterly cash dividends on the Company s common stock in excess of $0.19 per share, and on the Company s ability to repurchase its common stock. The preferred stock has no maturity date and ranks senior to our common stock with respect to the payment of dividends and distribution of amounts payable upon liquidation, dissolution and winding up of the Company. The preferred stock has no general voting or participation rights, and no sinking fund requirements. In the event dividends on the preferred stock are not paid full for six dividend periods, whether or not consecutive, the preferred stock holders will have the right to elect two directors. Additional information about preferred stock is included in Note 20 of the *Notes to Consolidated Financial Statements* in Item 8 below.

On August 13, 2009, the Company raised $258.7 million through a public offering by issuing 26,538,461 shares of the Company s common stock, including 3,461,538 shares pursuant to the underwriters over-allotment option, at a share price of $9.75 per share. The net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were $245.7 million. The net proceeds from the offering qualify as Tier 1 capital and will be used for general corporate purposes, which include capital to support growth and acquisition opportunities and to position the Company for redemption of preferred stock and warrants issued to the U.S. Treasury under the CPP. In connection with the public offering, the number of shares of common stock underlying the warrant held by the U.S. Treasury was reduced by 50%, to 1,110,898 shares. In connection with the company s public offering in February 2010, Umpqua repurchased the preferred stock. See Note 28 of the *Notes to the Consolidated Financial Statement* in Item 8 below.

During 2009, Umpqua s Board of Directors declared a quarterly cash dividend of $0.05 per common share per quarter. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy. The payment of cash dividends is subject to regulatory limitations as described under the *Supervision and Regulation* section of Part I of this report.

There is no assurance that future cash dividends on common shares will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the years ended December 31, 2009, 2008 and 2007:

Cash Dividends and Payout Ratios per Common Share

	2009	2008	2007
Dividend declared per common share	$ 0.20	$ 0.62	$ 0.74
Dividend payout ratio	-8%	76%	70%

On April 21, 2009, the Company announced that the Board of Directors approved an extension to the expiration date of the common stock repurchase plan from June 30, 2009 to June 30, 2011. As of December 31, 2009, a total of 1.5 million shares remained available for repurchase. There were no shares repurchased in open market transactions during the fourth quarter of 2009. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, our capital plan, and are subject to certain limitations resulting from the Company s participation in the CPP. In addition, our stock plans provide that option and award holders may pay for the exercise price and tax withholdings in part or whole by tendering previously held shares.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The absolute level and volatility of interest rates can have a significant impact on our profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest income to changing interest rates to achieve our overall financial objectives. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges. Net interest income and the fair value of financial instruments are greatly influenced by changes in the level of interest rates. We manage exposure to fluctuations in interest rates through policies that are established by the Asset/Liability Management Committee (ALCO). The ALCO meets monthly and has responsibility for developing asset/liability management policy, formulating and implementing strategies to improve balance sheet positioning and earnings and reviewing interest rate sensitivity. The Board of Directors Loan and Investment Committee provides oversight of the asset/liability management process, reviews the results of the interest rate risk analyses prepared for the ALCO and approves the asset/liability policy on an annual basis.

Management utilizes an interest rate simulation model to estimate the sensitivity of net interest income to changes in market interest rates. Such estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments. Interest rate sensitivity is a function of the repricing characteristics of our interest earnings assets and interest bearing liabilities. These repricing characteristics are the time frames within which the interest bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the impact of interest rate changes on net interest income. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities at a point in time that are subject to repricing at various time horizons: immediate to three months, four to twelve months, one to five years, over five years, and on a cumulative basis. The differences are known as interest sensitivity gaps. The table below sets forth interest sensitivity gaps for these different intervals as of December 31, 2009.

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Interest Sensitivity Gap

(dollars in thousands)

				By Repricing Interval	Non-Rate-	
	0-3 Months	4-12 Months	1-5 Years	Over 5 Years	Sensitive	Total
ASSETS						
Interest bearing deposits	$ 491,462	$	$	$	$	$ 491,462
Temporary Investments	598					598
Trading account assets	2,273					2,273
Securities available for sale	258,188	570,273	795,469	113,966	57,720	1,795,616
Securities held to maturity	2,492	1,355	2,210	1	3	6,061
Loans and loans held for sale	2,055,446	1,023,790	2,692,027	280,053	(18,334)	6,032,982
Non-interest earning assets					1,052,380	1,052,380
Total assets	2,810,459	1,595,418	3,489,706	394,020	1,091,769	$ 9,381,372
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest bearing demand deposits	872,184					$ 872,184
Savings and money-market deposits	2,813,805					2,813,805