UMPQUA HOLDINGS CORP
Form 10-Q
May 05, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

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

Commission File Number: **001-34624**

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

One SW Columbia Street, Suite 1200

Portland, Oregon 97258

(Address of Principal Executive Offices)(Zip Code)

(503) 727-4100

(Registrant s Telephone Number, Including Area Code)

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

x Yes ¨ No

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

x Yes ¨ No

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

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

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

¨ Yes x No

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

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

Table of Contents

UMPQUA HOLDINGS CORPORATION

FORM 10-Q

Table of Contents

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

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

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

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

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)

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

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

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

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

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(in thousands, except shares)

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

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)

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

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

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

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

8

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)

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

See notes to condensed consolidated financial statements

9

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Summary of Significant Accounting Policies

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

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

Note 2 Business Combinations

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

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

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

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

Table of Contents

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

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

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

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

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

(in thousands)

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

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

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

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

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

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

Table of Contents

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

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

(in thousands)

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

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

Note 3 Investment Securities

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

Table of Contents

March 31, 2011

(in thousands)

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

December 31, 2010

(in thousands)

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

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

Table of Contents

March 31, 2011

(in thousands)

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

December 31, 2010

(in thousands)

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

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

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

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

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

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

(in thousands)

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

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

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

	2011			2010		
	Range		Weighted	Range		Weighted
	Minimum	Maximum	Average	Minimum	Maximum	Average
Constant prepayment rate	5.0%	20.0%	14.9%	4.0%	25.0%	14.8%
Collateral default rate	5.0%	15.0%	10.6%	8.0%	45.0%	16.8%
Loss severity	25.0%	55.0%	37.9%	20.0%	50.0%	34.7%

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

Table of Contents

(in thousands)

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

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

(in thousands)

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

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

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

(in thousands)

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

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

(in thousands)

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

Note 4 Non-covered Loans and Leases

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

Table of Contents

(in thousands)

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

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

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

The Bank has a management Allowance for Loan and Lease Losses (ALLL) Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank s Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

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

Formula Allowance

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. The Company s risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the formula allowance.

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

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

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

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

Specific Allowance

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we

Table of Contents

use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a Specific Allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the formula allowance so as not to double-count the loss exposure. Prior to the second quarter of 2008, we would recognize the charge-off of the impairment reserve of a collateral depending non-accrual loan when the loan was resolved, sold, or foreclosed/transferred to OREO. Starting in the second quarter of 2008, we accelerated the charge-off of the impairment reserve to the period in which it arises. Therefore the non-accrual impaired loans as of period end have already been partially charged off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

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

Unallocated Allowance

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 10% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed quarterly with consideration of factors including, but not limited to:

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

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

The reserve for unfunded commitments (RUC) is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management s evaluation of numerous factors. For each portfolio segment, these factors include:

The quality of the current loan portfolio;

The trend in the loan portfolio s risk ratings;

Current economic conditions;

Loan concentrations;

Loan growth rates;

Past-due and non-performing trends;

Evaluation of specific loss estimates for all significant problem loans;

Historical short (one year), medium (three year), and long-term charge-off rates,

Recovery experience;

Peer comparison loss rates.

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

Management believes that the ALLL was adequate as of March 31, 2011. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 82% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively

Table of Contents

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

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

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

(in thousands)

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

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

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

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

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

Table of Contents

Summary of Reserve for Unfunded Commitments Activity

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

(in thousands)

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

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

Non-covered loans sold

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

(In thousands)

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

Asset Quality and Non-Performing Loans

We manage asset quality and control credit risk through diversification of the non-covered loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank s Credit Quality Group is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. Reviews of non-performing, past due non-covered loans and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers, the value of the applicable collateral, loan loss experience, estimated loan losses, growth in the loan portfolio, prevailing economic conditions and other factors.

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

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

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

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

Non-Covered Non-Accrual Loans and Loans Past Due

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

Table of Contents

(in thousands)

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

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

Non-covered Impaired Loans

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

Table of Contents

(in thousands)

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

23

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

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

At March 31, 2011 and December 31, 2010, impaired loans of $67.5 million and $84.4 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered for accrual status, the loan s collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligations to lend additional funds on the restructured loans as of March 31, 2011.

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

Table of Contents

	March 31, 2011		March 31, 2010	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$ 55,558	$ -	$ 68,125	$ -
Construction & development	23,634	-	31,898	-
Residential development	38,945	-	33,616	