

UMPQUA HOLDINGS CORP

Form 10-Q

November 06, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended: September 30, 2007**

**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)

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  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 and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  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: 59,941,599 shares outstanding as of October 31, 2007

**UMPQUA HOLDINGS CORPORATION**  
**FORM 10-Q**  
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**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)

|   | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|---|-----------------------------------|----------------------------------|
| <b>ASSETS</b>                                     |                                   |                                  |
| Cash and due from banks                           | \$ 148,434                        | \$ 169,769                       |
| Temporary investments                             | 46,787                            | 165,879                          |
| Total cash and cash equivalents                   | 195,221                           | 335,648                          |
| Investment securities                             |                                   |                                  |
| Trading   | 4,144                             | 4,204                            |
| Available for sale, at fair value                 | 911,883                           | 715,187                          |
| Held to maturity, at amortized cost               | 7,116                             | 8,762                            |
| Loans held for sale                               | 19,964                            | 16,053                           |
| Loans and leases                                  | 6,079,435                         | 5,361,862                        |
| Allowance for loan and lease losses               | (88,278)                          | (60,090)                         |
| Net loans and leases                              | 5,991,157                         | 5,301,772                        |
| Restricted equity securities                      | 15,297                            | 15,255                           |
| Premises and equipment, net                       | 107,189                           | 101,830                          |
| Goodwill and other intangible assets, net         | 767,210                           | 679,493                          |
| Mortgage servicing rights, net                    | 9,474                             | 9,952                            |
| Other assets                                      | 197,156                           | 156,080                          |
| Total assets                                      | \$ 8,225,811                      | \$ 7,344,236                     |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>        |                                   |                                  |
| Deposits  |                                   |                                  |
| Noninterest bearing                               | \$ 1,294,334                      | \$ 1,222,107                     |
| Interest bearing                                  | 5,223,883                         | 4,618,187                        |
| Total deposits                                    | 6,518,217                         | 5,840,294                        |
| Securities sold under agreements to repurchase    | 52,883                            | 47,985                           |
| Federal funds purchased                           | 20,000                            |                                  |
| Term debt   | 75,010                            | 9,513                            |
| Junior subordinated debentures, at fair value     | 131,984                           |                                  |
| Junior subordinated debentures, at amortized cost | 104,947                           | 203,688                          |
| Other liabilities                                 | 89,580                            | 86,545                           |
| Total liabilities                                 | 6,992,621                         | 6,188,025                        |

**COMMITMENTS AND CONTINGENCIES (NOTE 5)****SHAREHOLDERS EQUITY**

Preferred stock, no par value, 2,000,000 shares authorized; none issued and outstanding

Common stock, no par value, 100,000,000 shares authorized; issued and outstanding: 59,864,335 in 2007 and 58,080,171 in 2006

Retained earnings

Accumulated other comprehensive loss

Total shareholders equity

Total liabilities and shareholders equity

987,543 930,867

253,487 234,783

(7,840) (9,439)

1,233,190 1,156,211

\$ 8,225,811 \$ 7,344,236

See notes to condensed consolidated financial statements

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**UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(in thousands, except per share amounts)

|  | <b>Three months ended</b> |                | <b>Nine months ended</b> |                |
|--|---------------------------|----------------|--------------------------|----------------|
|  | <b>September 30,</b>      |                | <b>September 30,</b>     |                |
|  | <b>2007</b>               | <b>2006</b>    | <b>2007</b>              | <b>2006</b>    |
| <b>INTEREST INCOME</b>   |                           |                |                          |                |
| Interest and fees on loans   | \$ 116,111                | \$ 106,320     | \$ 331,889               | \$ 265,444     |
| Interest and dividends on investment securities  |                           |                |                          |                |
| Taxable  | 9,137                     | 6,797          | 25,376                   | 20,201         |
| Exempt from federal income tax   | 1,588                     | 1,142          | 4,151                    | 2,740          |
| Dividends  | 96                        | 105            | 249                      | 205            |
| Interest on temporary investments  | 929                       | 374            | 2,439                    | 837            |
| <b>Total interest income</b>   | <b>127,861</b>            | <b>114,738</b> | <b>364,104</b>           | <b>289,427</b> |
| <b>INTEREST EXPENSE</b>  |                           |                |                          |                |
| Interest on deposits   | 48,138                    | 34,121         | 133,750                  | 81,112         |
| Interest on securities sold under agreements to repurchase and federal funds purchased | 530                       | 2,155          | 1,757                    | 6,346          |
| Interest on term debt  | 874                       | 692            | 1,767                    | 2,775          |
| Interest on junior subordinated debentures   | 4,444                     | 3,971          | 12,329                   | 10,359         |
| <b>Total interest expense</b>  | <b>53,986</b>             | <b>40,939</b>  | <b>149,603</b>           | <b>100,592</b> |
| Net interest income  | 73,875                    | 73,799         | 214,501                  | 188,835        |
| <b>PROVISION FOR LOAN AND LEASE LOSSES</b>   | <b>20,420</b>             | <b>2,352</b>   | <b>23,916</b>            | <b>2,427</b>   |
| Net interest income after provision for loan and lease losses                          | 53,455                    | 71,447         | 190,585                  | 186,408        |
| <b>NON-INTEREST INCOME</b>   |                           |                |                          |                |
| Service charges on deposit accounts  | 8,448                     | 7,606          | 23,648                   | 19,540         |
| Brokerage commissions and fees   | 2,498                     | 2,506          | 7,594                    | 7,408          |
| Mortgage banking revenue, net  | 1,366                     | 1,445          | 5,772                    | 5,792          |
| Net loss on sale of investment securities  | (13)                      |                | (10)                     | (1)            |
| Other income   | 6,244                     | 1,919          | 11,434                   | 6,745          |
| <b>Total non-interest income</b>   | <b>18,543</b>             | <b>13,476</b>  | <b>48,438</b>            | <b>39,484</b>  |
| <b>NON-INTEREST EXPENSE</b>  |                           |                |                          |                |
| Salaries and employee benefits   | 28,005                    | 26,387         | 85,172                   | 71,525         |
| Net occupancy and equipment  | 9,166                     | 8,540          | 26,774                   | 22,907         |
| Communications   | 1,807                     | 1,744          | 5,293                    | 4,689          |
| Marketing  | 1,982                     | 1,780          | 4,405                    | 4,596          |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Services   | 4,864     | 4,199     | 14,066    | 11,016    |
| Supplies   | 984       | 925       | 2,572     | 2,276     |
| Intangible amortization                                  | 1,767     | 1,195     | 4,400     | 2,533     |
| Merger related expenses                                  | 263       | 2,451     | 3,200     | 4,358     |
| Other expenses   | 4,055     | 3,465     | 10,968    | 9,009     |
| Total non-interest expense                               | 52,893    | 50,686    | 156,850   | 132,909   |
| Income before income taxes                               | 19,105    | 34,237    | 82,173    | 92,983    |
| Provision for income taxes                               | 5,928     | 11,381    | 28,421    | 33,069    |
| Net income   | \$ 13,177 | \$ 22,856 | \$ 53,752 | \$ 59,914 |
| Basic earnings per share                                 | \$ 0.22   | \$ 0.40   | \$ 0.90   | \$ 1.19   |
| Diluted earnings per share                               | \$ 0.22   | \$ 0.39   | \$ 0.89   | \$ 1.17   |
| See notes to condensed consolidated financial statements |           |           |           |           |

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**UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**  
**(UNAUDITED)**

(in thousands, except shares)

|   | <b>Common Stock</b> |               | <b>Retained</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> |              |
|---|---------------------|---------------|-----------------|---|--------------|
|   | <b>Shares</b>       | <b>Amount</b> | <b>Earnings</b> | <b>(Loss)</b>   | <b>Total</b> |
| <b>BALANCE AT JANUARY 1, 2006</b>                                   | 44,556,269          | \$ 564,579    | \$ 183,591      | \$ (9,909)  | \$ 738,261   |
| Net income  |                     |               | 84,447          |   | 84,447       |
| Other comprehensive income, net of tax:                             |                     |               |                 |   |              |
| Unrealized gains on securities arising during the year              |                     |               |                 | 470   | 470          |
| Comprehensive income  |                     |               |                 |   | \$ 84,917    |
| Stock-based compensation  |                     | 1,932         |                 |   | 1,932        |
| Stock repurchased and retired                                       | (6,142)             | (179)         |                 |   | (179)        |
| Issuances of common stock under stock plans and related tax benefit | 784,715             | 10,814        |                 |   | 10,814       |
| Stock issued in connection with acquisition                         | 12,745,329          | 353,721       |                 |   | 353,721      |
| Cash dividends (\$0.60 per share)                                   |                     |               | (33,255)        |   | (33,255)     |
| Balance at December 31, 2006  | 58,080,171          | \$ 930,867    | \$ 234,783      | \$ (9,439)  | \$ 1,156,211 |
| <b>BALANCE AT JANUARY 1, 2007</b>                                   | 58,080,171          | \$ 930,867    | \$ 234,783      | \$ (9,439)  | \$ 1,156,211 |
| Adoption of fair value option junior subordinated debentures        |                     |               | (2,064)         |   | (2,064)      |
| Net income  |                     |               | 53,752          |   | 53,752       |
| Other comprehensive income, net of tax:                             |                     |               |                 |   |              |
| Unrealized gains on securities arising during the period            |                     |               |                 | 1,599   | 1,599        |
| Comprehensive income  |                     |               |                 |   | \$ 55,351    |
| Stock-based compensation  |                     | 2,596         |                 |   | 2,596        |
| Stock repurchased and retired                                       | (4,048,387)         | (96,075)      |                 |   | (96,075)     |
| Issuances of common stock under stock plans and related tax benefit | 668,978             | 8,043         |                 |   | 8,043        |
|   | 5,163,573           | 142,112       |                 |   | 142,112      |



|   |            |            |            |            |  |              |
|---|------------|------------|------------|------------|--|--------------|
| Stock issued in connection with acquisition |            |            |            |            |  |              |
| Cash dividends (\$0.55 per share)           |            |            | (32,984)   |            |  | (32,984)     |
| Balance at September 30, 2007               | 59,864,335 | \$ 987,543 | \$ 253,487 | \$ (7,840) |  | \$ 1,233,190 |

See notes to condensed consolidated financial statements

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**UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

(in thousands)

|   | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Net income  | \$ 13,177                 | \$ 22,856   | \$ 53,752                | \$ 59,914   |
| Unrealized gains arising during the period on investment securities available for sale  | 12,425                    | 16,008      | 2,665                    | 1,617       |
| Reclassification adjustment for losses realized in net income, (net of tax benefit of \$5,000 and \$4,000 for the three and nine months ended September 30, 2007, respectively) | 8                         |             | 6                        | 1           |
| Income tax expense related to unrealized gains/losses on investment securities, available for sale  | (4,978)                   | (6,403)     | (1,072)                  | (648)       |
| Net unrealized gains on investment securities available for sale  | 7,455                     | 9,605       | 1,599                    | 970         |
| Comprehensive income  | \$ 20,632                 | \$ 32,461   | \$ 55,351                | \$ 60,884   |

See notes to condensed consolidated financial statements

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**UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(in thousands)

|   | <b>Nine months ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2007</b>              | <b>2006</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                          |             |
| Net income  | \$ 53,752                | \$ 59,914   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |             |
| Restricted equity securities stock dividends                                      | (180)                    | (205)       |
| Amortization of investment premiums, net  | 152                      | 907         |
| Loss on sale of investment securities available-for-sale                          | 10                       | 1           |
| Provision for loan and lease losses   | 23,916                   | 2,427       |
| Depreciation, amortization and accretion  | 9,295                    | 8,503       |
| Change in fair value of mortgage servicing rights                                 | 977                      |             |
| Change in fair value of junior subordinated debentures                            | (4,531)                  |             |
| Stock-based compensation  | 2,596                    | 1,563       |
| Net decrease (increase) in trading account assets                                 | 60                       | (36)        |
| Origination of loans held for sale  | (200,179)                | (194,856)   |
| Proceeds from sales of loans held for sale  | 196,521                  | 186,873     |
| Increase in mortgage servicing rights   | (499)                    | (1,337)     |
| Excess tax benefits from the exercise of stock options                            | (243)                    | (855)       |
| Net (increase) decrease in other assets   | (17,021)                 | 23,665      |
| Net decrease in other liabilities   | (7,914)                  | (2,068)     |
| Net cash provided by operating activities   | 56,712                   | 84,496      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                          |             |
| Purchases of investment securities available-for-sale                             | (219,303)                |             |
| Sales and maturities of investment securities available-for-sale                  | 110,517                  | 56,303      |
| Maturities of investment securities held-to-maturity                              | 1,628                    | 2,237       |
| Redemption of restricted equity securities  | 5,525                    | 9,242       |
| Net loan and lease originations   | (300,243)                | (457,625)   |
| Proceeds from sales of loans  | 18,442                   | 19,129      |
| Proceeds from disposals of furniture and equipment                                | 4,314                    | 193         |
| Purchases of premises and equipment   | (6,997)                  | (8,196)     |
| Sales of real estate owned  |                          | 93          |
| Cash acquired in merger, net of cash consideration paid                           | 78,729                   | 36,950      |
| Net cash used by investing activities   | (307,388)                | (341,674)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                          |             |
| Net increase in deposit liabilities   | 215,245                  | 348,851     |
| Net increase (decrease) in Federal funds purchased                                | 20,000                   | (55,000)    |
| Net increase in securities sold under agreements to repurchase                    | 4,898                    | 6,606       |

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|  |            |            |
|--|------------|------------|
| Term debt borrowings   |            | 600,000    |
| Proceeds from the issuance of junior subordinated debentures | 60,000     |            |
| Repayment of junior subordinated debentures                  | (36,084)   |            |
| Repayment of term debt                                       | (33,637)   | (605,087)  |
| Dividends paid on common stock                               | (32,055)   | (17,664)   |
| Excess tax benefits from the exercise of stock options       | 243        | 855        |
| Proceeds from stock options exercised                        | 7,714      | 8,936      |
| Retirement of common stock                                   | (96,075)   | (39)       |
| Net cash provided by financing activities                    | 110,249    | 287,458    |
| Net (decrease) increase in cash and cash equivalents         | (140,427)  | 30,280     |
| Cash and cash equivalents, beginning of period               | 335,648    | 161,754    |
| Cash and cash equivalents, end of period                     | \$ 195,221 | \$ 192,034 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

|  |            |           |
|--|------------|-----------|
| Cash paid during the period for:                         |            |           |
| Interest   | \$ 148,143 | \$ 95,172 |
| Income taxes   | \$ 37,931  | \$ 38,808 |
| See notes to condensed consolidated financial statements |            |           |

**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 Strand, Atkinson, Williams & York, Inc. (Strand). 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 2006 Annual Report filed on Form 10-K. There have been no significant changes to these policies, except due to adoption of Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140*, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, SFAS No. 157, *Fair Value Measurements*, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, and FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48). The changes to accounting policies under these standards are described in detail in Notes 3, 4, 7 and 10. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2006 Annual Report filed on Form 10-K.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

**Note 2 Business Combinations**

On April 26, 2007, the Company acquired all of the outstanding common stock of North Bay Bancorp (North Bay) and its principal operating subsidiary, The Vintage Bank, along with its Solano Bank division. The results of North Bay's operations have been included in the consolidated financial statements since that date. This acquisition added North Bay's network of 10 Northern California branches, including locations in the Napa area and in the communities of St. Helena, American Canyon, Vacaville, Benicia, Vallejo and Fairfield, to our network of Northern California, Oregon and Washington locations. This merger was consistent with the Company's community banking expansion strategy and provided further opportunity to enter growth markets in Northern California.

The aggregate purchase price was \$143.4 million and included 5.2 million common shares valued at \$135.2 million, options to purchase 542,000 shares of common stock valued at \$6.9 million and \$1.1 million of direct merger costs. North Bay shareholders received 1.228 shares of the Company's common stock for each share of North Bay common stock (exchange ratio of 1.228:1). The value of the common shares issued was \$26.18 per share based on the average closing market price of the Company's common stock for the fifteen trading days before the last five trading days before the merger. Outstanding North Bay stock options were converted (using the exchange ratio of 1.228:1) at a weighted average fair value of \$12.78 per option.

The following table summarizes the purchase price allocation, including the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. Additional adjustments to the purchase price allocation may be required, specifically related to other assets, taxes and compensation adjustments.

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(in thousands)

|                                | <b>April 26, 2007</b> |
|--------------------------------|-----------------------|
| <b>Assets Acquired:</b>        |                       |
| Cash and equivalents           | \$ 78,729             |
| Investment securities          | 85,589                |
| Loans, net                     | 437,863               |
| Premises and equipment, net    | 12,940                |
| Intangible assets              | 14,210                |
| Goodwill                       | 78,794                |
| Other assets                   | 19,481                |
| <br>                           |                       |
| Total assets acquired          | \$ 727,606            |
| <br>                           |                       |
| <b>Liabilities Assumed:</b>    |                       |
| Deposits                       | \$ 462,624            |
| Term debt                      | 99,227                |
| Junior subordinated debentures | 10,342                |
| Other liabilities              | 13,301                |
| <br>                           |                       |
| Total liabilities assumed      | 585,494               |
| <br>                           |                       |
| Net Assets Acquired            | \$ 142,112            |

The intangible assets represent the value ascribed to the long-term deposit relationships and merchant services portfolio income stream acquired. These intangible assets are being amortized on an accelerated basis over a weighted average estimated useful life of ten to fifteen years. The intangible assets are estimated not to have a significant residual value. Goodwill represents the excess of the total purchase price paid for North Bay over the fair values of the assets acquired, net of the fair values of liabilities assumed. Goodwill has been assigned to our Community Banking segment. Goodwill is not amortized, but is evaluated for possible impairment at least annually and more frequently if events and circumstances indicate that the asset might be impaired. No impairment losses were recognized in connection with intangible or goodwill assets during the period from acquisition to September 30, 2007. At September 30, 2007, goodwill recorded in connection with the North Bay acquisition was \$77.2 million. The \$1.6 million decrease from April 26, 2007 is primarily due to the recognition of a tax benefit upon exercise of fully vested acquired options.

The following table presents unaudited pro forma results of operations for the nine months ended September 30, 2007, and three and nine months ended September 30, 2006 as if the acquisition of North Bay had occurred on January 1, 2006. Any cost savings realized as a result of the North Bay merger are not reflected in the pro forma consolidated condensed statements of income. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2006:

**Table of Contents****Pro Forma Financial Information    Unaudited**

(in thousands, except per share data)

**Nine Months Ended September 30, 2007**

|                                     | <b>Umpqua</b> | <b>North<br/>Bay (a)</b> | <b>Pro Forma<br/>Adjustments</b> | <b>Pro Forma<br/>Combined</b> |
|-------------------------------------|---------------|--------------------------|----------------------------------|-------------------------------|
| Net interest income                 | \$214,501     | \$8,732                  | \$ 462(b)                        | \$223,695                     |
| Provision for loan and lease losses | 23,916        |                          |                                  | 23,916                        |
| Non-interest income                 | 48,438        | 1,434                    |                                  | 49,872                        |
| Non-interest expense                | 156,850       | 6,985                    | (2,932)(c)                       | 160,903                       |
| Income before income taxes          | 82,173        | 3,181                    | 3,394                            | 88,748                        |
| Provision for income taxes          | 28,421        | 1,054                    | 1,358(d)                         | 30,833                        |
| Net income                          | \$ 53,752     | \$2,127                  | \$ 2,036                         | \$ 57,915                     |
| Earnings per share:                 |               |                          |                                  |                               |
| Basic                               | \$ 0.90       |                          |                                  | \$ 0.93                       |
| Diluted                             | \$ 0.89       |                          |                                  | \$ 0.92                       |
| Average shares outstanding:         |               |                          |                                  |                               |
| Basic                               | 59,790        | 1,772                    | 404(e)                           | 61,966                        |
| Diluted                             | 60,450        | 1,839                    | 419(e)                           | 62,708                        |

(a) North Bay amounts represent results from January 1, 2007 to acquisition date of April 26, 2007.

(b) Consists of additional net accretion of fair value adjustments related to the North Bay acquisition.

(c) Consists of merger related expenses of \$3.2 million at Umpqua, adjusted for

amortization of  
intangible assets  
and premises  
purchase  
accounting  
adjustment  
related to the  
North Bay  
acquisition.

(d) Income tax  
effect of pro  
forma  
adjustments at  
40%.

(e) Additional  
shares issued at  
an exchange  
ratio of 1.228:1.

(in thousands, except per share data)

**Three Months Ended September 30, 2006**

|                                     | <b>Umpqua</b> | <b>North<br/>Bay</b> | <b>Pro Forma<br/>Adjustments</b> | <b>Pro Forma<br/>Combined</b> |
|-------------------------------------|---------------|----------------------|----------------------------------|-------------------------------|
| Net interest income                 | \$73,799      | \$6,956              | \$ 2(a)                          | \$80,757                      |
| Provision for loan and lease losses | 2,352         |                      |                                  | 2,352                         |
| Non-interest income                 | 13,476        | 1,239                |                                  | 14,715                        |
| Non-interest expense                | 50,686        | 5,388                | 600(b)                           | 56,674                        |
| Income before income taxes          | 34,237        | 2,807                | (598)                            | 36,446                        |
| Provision for income taxes          | 11,381        | 931                  | (239) (c)                        | 12,073                        |
| Net income                          | \$22,856      | \$1,876              | \$ (359)                         | \$24,373                      |
| Earnings per share:                 |               |                      |                                  |                               |
| Basic                               | \$ 0.40       |                      |                                  | \$ 0.39                       |
| Diluted                             | \$ 0.39       |                      |                                  | \$ 0.38                       |
| Average shares outstanding:         |               |                      |                                  |                               |
| Basic                               | 57,802        | 4,134                | 943(d)                           | 62,879                        |
| Diluted                             | 58,452        | 4,296                | 979(d)                           | 63,727                        |

(a) Consists of net  
accretion of fair  
value  
adjustments  
related to the  
North Bay  
acquisition.



- (b) Consists of amortization of intangible assets and premises purchase accounting adjustment related to the North Bay acquisition.
- (c) Income tax effect of pro forma adjustments at 40%.
- (d) Additional shares issued at an exchange ratio of 1.228:1.

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(in thousands, except per share data)

**Nine Months Ended September 30, 2006**

|                                     | <b>Umpqua</b> | <b>North<br/>Bay</b> | <b>Pro Forma<br/>Adjustments</b> | <b>Pro Forma<br/>Combined</b> |
|-------------------------------------|---------------|----------------------|----------------------------------|-------------------------------|
| Net interest income                 | \$ 188,835    | \$ 21,651            | \$ (235)(a)                      | \$ 210,251                    |
| Provision for loan and lease losses | 2,427         | 200                  |                                  | 2,627                         |
| Non-interest income                 | 39,484        | 3,479                |                                  | 42,963                        |
| Non-interest expense                | 132,909       | 16,943               | 1,917(b)                         | 151,769                       |
| Income before income taxes          | 92,983        | 7,987                | (2,152)                          | 98,818                        |
| Provision for income taxes          | 33,069        | 2,745                | (861)(c)                         | 34,953                        |
| Net income                          | \$ 59,914     | \$ 5,242             | \$ (1,291)                       | \$ 63,865                     |
| Earnings per share:                 |               |                      |                                  |                               |
| Basic                               | \$ 1.19       |                      |                                  | \$ 1.15                       |
| Diluted                             | \$ 1.17       |                      |                                  | \$ 1.13                       |
| Average shares outstanding:         |               |                      |                                  |                               |
| Basic                               | 50,378        | 4,123                | 940(d)                           | 55,441                        |
| Diluted                             | 51,010        | 4,284                | 977(d)                           | 56,271                        |

(a) Consists of net accretion of fair value adjustments related to the North Bay acquisition.

(b) Consists of amortization of intangible assets and premises purchase accounting adjustment related to the North Bay acquisition.

(c) Income tax effect of pro forma adjustments at 40%.

- (d) Additional shares issued at an exchange ratio of 1.228:1.

The following table summarizes activity in the Company's accrued restructuring charges, recorded in other liabilities, related to the North Bay acquisition from acquisition date of April 26, 2007 to September 30, 2007:

**Accrued Restructuring Charges**

(in thousands)

|                   |          |
|-------------------|----------|
| Beginning balance | \$ 2,796 |
| Utilization:      |          |
| Cash payments     | (1,267)  |
| Ending Balance    | \$ 1,529 |

The Company expects additional merger-related expenses incurred in connection with the North Bay acquisition to be insignificant.

On June 2, 2006, the Company acquired all of the outstanding common stock of Western Sierra Bancorp (Western Sierra) of Cameron Park, California, and its principal operating subsidiaries, Western Sierra Bank, Central California Bank, Lake Community Bank and Auburn Community Bank. The results of Western Sierra's operations have been included in the consolidated financial statements since that date. This acquisition added Western Sierra's complete network of 31 Northern California branches, including locations in the Sacramento, Auburn, Lakeport and Sonora areas, to our network of California, Oregon and Washington locations. This merger was consistent with the Company's community banking expansion strategy and provided further opportunity to enter growth markets in Northern California.

The aggregate purchase price was \$353.7 million and included 12.7 million common shares valued at \$343.0 million, and 723,000 stock options valued at \$10.7 million. Western Sierra shareholders received 1.61 shares of the Company's common stock for each share of Western Sierra common stock (exchange ratio of 1.61:1). The value of the common shares issued was determined as \$26.91 per share based on the average closing market price of the Company's common stock for the two trading days before and after the last trading day before public announcement of the merger. Outstanding Western Sierra stock options were converted (using the exchange ratio of 1.61:1) at a weighted average fair value of \$14.80 per option.

The following table summarizes the purchase price allocation, including the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. Additional adjustments to the purchase price allocation may be required, specifically related to taxes.

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(in thousands)

|                                 | <b>June 2, 2006</b> |
|---------------------------------|---------------------|
| <b>Assets Acquired:</b>         |                     |
| Cash and equivalents            | \$ 36,978           |
| Investment securities           | 76,229              |
| Loans, net                      | 1,009,860           |
| Premises and equipment, net     | 10,109              |
| Core deposit intangible asset   | 27,624              |
| Goodwill                        | 247,799             |
| Other assets                    | 83,519              |
| <br>Total assets acquired       | <br>\$ 1,492,118    |
| <br><b>Liabilities Assumed:</b> |                     |
| Deposits                        | \$ 1,016,053        |
| Term debt                       | 59,030              |
| Junior subordinated debentures  | 38,746              |
| Other liabilities               | 24,540              |
| <br>Total liabilities assumed   | <br>1,138,369       |
| <br>Net Assets Acquired         | <br>\$ 353,749      |

The core deposit intangible asset represents the value ascribed to the long-term deposit relationships acquired. This intangible asset is being amortized on a straight-line basis over a weighted average estimated useful life of ten years. The core deposit intangible asset is estimated not to have a significant residual value. Goodwill represents the excess of the total purchase price paid for Western Sierra over the fair values of the assets acquired, net of the fair values of liabilities assumed. Goodwill has been assigned to our Community Banking segment. Goodwill is not amortized, but is evaluated for possible impairment at least annually and more frequently if events and circumstances indicate that the asset might be impaired. No impairment losses were recognized in connection with core deposit intangible or goodwill assets during the period from acquisition to September 30, 2007. At September 30, 2007, goodwill recorded in connection with the Western Sierra acquisition was \$247.9 million.

The following table presents unaudited pro forma results of operations for the nine months ended September 30, 2006 as if the acquisition of Western Sierra had occurred on January 1, 2006. Any cost savings realized as a result of the Western Sierra merger are not reflected in the pro forma consolidated condensed statements of income. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2006:

**Table of Contents****Pro Forma Financial Information    Unaudited**

(in thousands, except per share data)

**Nine Months Ended September 30, 2006**

|                                     | <b>Umpqua</b> | <b>Western<br/>Sierra<br/>(a)</b> | <b>Pro Forma<br/>Adjustments</b> | <b>Pro<br/>Forma<br/>Combined</b> |
|-------------------------------------|---------------|-----------------------------------|----------------------------------|-----------------------------------|
| Net interest income                 | \$ 188,835    | \$ 25,834                         | \$ (99)(b)                       | \$ 214,570                        |
| Provision for loan and lease losses | 2,427         | 350                               |                                  | 2,777                             |
| Non-interest income                 | 39,484        | 5,040                             |                                  | 44,524                            |
| Non-interest expense                | 132,909       | 18,168                            | (3,270)(c)                       | 147,807                           |
| Income before income taxes          | 92,983        | 12,356                            | 3,171                            | 108,510                           |
| Provision for income taxes          | 33,069        | 4,898                             | 1,268(d)                         | 39,235                            |
| Net income                          | \$ 59,914     | \$ 7,458                          | \$ 1,903                         | \$ 69,275                         |
| Earnings per share:                 |               |                                   |                                  |                                   |
| Basic                               | \$ 1.19       |                                   |                                  | \$ 1.21                           |
| Diluted                             | \$ 1.17       |                                   |                                  | \$ 1.19                           |
| Average shares outstanding:         |               |                                   |                                  |                                   |
| Basic                               | 50,378        | 4,401                             | 2,685(e)                         | 57,464                            |
| Diluted                             | 51,010        | 4,517                             | 2,755(e)                         | 58,282                            |

(a) Western Sierra amounts represent results from January 1, 2006 to acquisition date of June 2, 2006.

(b) Consists of additional net accretion of fair value adjustments related to the Western Sierra acquisition.

(c) Consists of merger related expenses of \$4.4 million, partially offset

by additional  
core deposit  
intangible  
amortization of  
\$1.1 million.

(d) Income tax  
effect of pro  
forma  
adjustments at  
40%.

(e) Additional  
shares issued at  
an exchange  
ratio of 1.61:1.

The following table summarizes activity in the Company's accrued restructuring charges related to the Western Sierra acquisition which are recorded in other liabilities:

**Accrued Restructuring Charges**

(in thousands)

|   | <b>Nine months<br/>ended<br/>September 30,<br/>2007</b> |
|---|---|
| Beginning balance                           | \$ 4,369  |
| Additions:                                  |   |
| Severance, retention and other compensation | 217   |
| Premises                                    | 1,093   |
| Utilization:                                |   |
| Cash payments                               | (2,416)   |
| Ending Balance                              | \$ 3,263  |

These accrued restructuring charges will be utilized by May 2012. No additional merger-related expenses are expected in connection with the Western Sierra or any other acquisition prior to Western Sierra.

**Note 3 Mortgage Servicing Rights**

SFAS No. 156, issued in March 2006, requires all separately recognized servicing assets and liabilities to be initially measured at fair value. In addition, entities are permitted to choose to either subsequently measure servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to and over the period of the estimated net servicing income or loss and assess the rights for impairment. Beginning with the fiscal year in which an entity adopts SFAS No. 156, it may elect to subsequently measure a class of servicing assets and liabilities at fair value. The effect of remeasuring an existing class of servicing assets and liabilities at fair value is to be reported as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. For the Company, this standard became effective on January 1, 2007.

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 subsequent to adoption. As the retrospective application of SFAS No.

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156 is not permitted, there was no change to prior period financial statements. Since there was no difference between the carrying amount and fair value of the mortgage servicing rights ( MSR ) on the date of adoption, there was also no cumulative effect adjustment to retained earnings.

Upon the change from the lower of cost or fair value accounting method to fair value accounting under SFAS No. 156, the calculation of amortization and the assessment of impairment were discontinued and the MSR valuation allowance was written off against the recorded value of the MSR. Those measurements have been replaced by fair value adjustments that encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are each separately reported. Under the fair value method, the MSR, net, 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. Changes in the balance of the MSR were as follows:  
(in thousands)

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Balance, beginning of period <sup>(1)</sup>                  | \$ 9,966                  | \$ 11,550   | \$ 9,952                 | \$ 10,890   |
| Additions for new mortgage servicing rights capitalized      | 156                       | 225         | 499                      | 1,337       |
| Changes in fair value:                                       |                           |             |                          |             |
| Due to changes in model inputs or assumptions <sup>(2)</sup> | (220)                     |             | 675                      |             |
| Other <sup>(3)</sup>   | (428)                     |             | (1,652)                  |             |
| Amortization of servicing rights                             |                           | (292)       |                          | (933)       |
| Impairment charge  |                           | (1,056)     |                          | (867)       |
| Balance, end of period                                       | \$ 9,474                  | \$ 10,427   | \$ 9,474                 | \$ 10,427   |
| Balance of loans serviced for others                         | \$ 877,648                | \$ 978,723  |                          |             |
| MSR as a percentage of serviced loans                        | 1.08%                     | 1.07%       |                          |             |

(1) Represents fair value as of June 30, 2007 and December 31, 2006 and amortized cost as of June 30, 2006 and December 31, 2005, which approximated fair value.

(2) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.

(3)

Represents changes  
due to  
collection/realization  
of expected cash  
flows over time.

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the consolidated statements of income, were \$546,000 and \$1.9 million, respectively, for the three and nine months ended September 30, 2007, as compared to \$652,000 and \$2.0 million for the same periods in 2006.

Retained mortgage servicing rights are measured at fair values as of the date of sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys. Key assumptions used in measuring the fair value of MSR as of September 30, 2007 were as follows:

|                               |        |
|-------------------------------|--------|
| Constant prepayment rate      | 12.17% |
| Discount rate                 | 8.80%  |
| Weighted average life (years) | 5.8    |

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. A significant increase in the discount rate would reduce the value of mortgage servicing rights.

#### **Note 4 Junior Subordinated Debentures**

As of September 30, 2007, the Company had 14 wholly-owned trusts ( Trusts ) that were formed to issue trust preferred securities and related common securities of the Trusts and are not consolidated. The Company formed a new Trust that issued trust preferred



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securities representing an obligation of \$61.9 million, and redeemed existing trust preferred securities representing an obligation of \$25.8 million in the third quarter. One Trust, representing an obligation of approximately \$10.3 million (fair value of approximately \$10.3 million as of the merger date), was assumed in connection with the North Bay merger and subsequently redeemed in June 2007. Four Trusts, representing aggregate total obligations of approximately \$37.1 million (fair value of approximately \$38.7 million as of the merger date), were assumed in connection with the Western Sierra merger. Five Trusts, representing aggregate total obligations of approximately \$58.9 million (fair value of approximately \$68.6 million as of the merger date), were assumed in connection with previous mergers.

Following is information about the Trusts as of September 30, 2007:

**Junior Subordinated Debentures**

(in thousands)

| <b>Trust Name</b>                    | <b>Issue Date</b> | <b>Issued Amount</b> | <b>Carrying Value (1)</b> | <b>Rate (2)</b> | <b>Effective Rate (3)</b> | <b>Maturity Date</b> | <b>Redemption Date</b> |
|--------------------------------------|-------------------|----------------------|---------------------------|-----------------|---------------------------|----------------------|------------------------|
| <b>At Fair Value:</b>                |                   |                      |                           |                 |                           |                      |                        |
| Umpqua Statutory Trust II            | October 2002      | \$ 20,619            | \$ 20,945                 | Floating (4)    | 8.23%                     | October 2032         | October 2007           |
| Umpqua Statutory Trust III           | October 2002      | 30,928               | 31,376                    | Floating (5)    | 8.23%                     | November 2032        | November 2007          |
| Umpqua Statutory Trust IV            | December 2003     | 10,310               | 10,479                    | Floating (6)    | 8.23%                     | January 2034         | January 2009           |
| Umpqua Statutory Trust V             | December 2003     | 10,310               | 10,311                    | Floating (6)    | 8.23%                     | March 2034           | March 2009             |
| Umpqua Master Trust IA               | August 2007       | 41,238               | 38,436                    | Floating (7)    | 8.23%                     | September 2037       | September 2012         |
| Umpqua Master Trust IB               | September 2007    | 20,619               | 20,437                    | Floating (8)    | 8.23%                     | December 2037        | December 2012          |
|                                      |                   | 134,024              | 131,984                   |                 |                           |                      |                        |
| <b>At Amortized Cost:</b>            |                   |                      |                           |                 |                           |                      |                        |
| HB Capital Trust I                   | March 2000        | 5,310                | 6,566                     | 10.875%         | 7.94%                     | March 2030           | March 2010             |
| Humboldt Bancorp Statutory Trust I   | February 2001     | 5,155                | 6,062                     | 10.200%         | 8.03%                     | February 2031        | February 2011          |
| Humboldt Bancorp Statutory Trust II  | December 2001     | 10,310               | 11,606                    | Floating (9)    | 7.75%                     | December 2031        | December 2006          |
| Humboldt Bancorp Statutory Trust III | September 2003    | 27,836               | 31,327                    | 6.75%(10)       | 5.04%                     | September 2033       | September 2008         |
| CIB Capital Trust                    | November 2002     | 10,310               | 11,405                    | Floating (5)    | 7.76%                     | November 2032        | November 2007          |
| Western Sierra Statutory Trust I     | July 2001         | 6,186                | 6,362                     | Floating (11)   | 6.85%                     | July 2031            | July 2006              |
| Western Sierra Statutory Trust II    | December 2001     | 10,310               | 10,603                    | Floating (9)    | 7.15%                     | December 2031        | December 2006          |
|                                      |                   | 10,310               | 10,508                    | Floating (12)   | 6.85%                     |                      |                        |

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| Western Sierra<br>Statutory Trust III | September<br>2003 |           |           |               |       | September<br>2033 | September<br>2008 |
|---------------------------------------|-------------------|-----------|-----------|---------------|-------|-------------------|-------------------|
| Western Sierra<br>Statutory Trust IV  | September<br>2003 | 10,310    | 10,508    | Floating (12) | 6.85% | September<br>2033 | September<br>2008 |
|                                       |                   | 96,037    | 104,947   |               |       |                   |                   |
|                                       | Total             | \$230,061 | \$236,931 |               |       |                   |                   |

(1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with the Humboldt and Western Sierra mergers as well as fair value adjustment pursuant to the adoption of SFAS No. 159 related to trusts recorded at fair value.

(2) Contractual interest rate of junior subordinated debentures.

(3) Effective interest rate as of September 2007, including impact of purchase accounting amortization.

(4) Rate based on LIBOR plus

3.35%, adjusted quarterly.

(5) Rate based on LIBOR plus 3.45%, adjusted quarterly.

(6) Rate based on LIBOR plus 2.85%, adjusted quarterly.

(7) Rate based on LIBOR plus 1.35%, adjusted quarterly.

(8) Rate based on LIBOR plus 2.75%, adjusted quarterly.

(9) Rate based on LIBOR plus 3.60%, adjusted quarterly.

(10) Rate fixed for 5 years from issuance, then adjusted quarterly thereafter based on LIBOR plus 2.95%.

(11) Rate based on LIBOR plus 3.58%, adjusted quarterly.

(12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The \$230.1 million of trust preferred securities issued to the Trusts as of September 30, 2007 (\$203.7 million as of December 31, 2006) are reflected as junior subordinated debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets in the consolidated balance sheets, and totaled \$6.9 million and \$5.8 million at September 30, 2007 and December 31, 2006.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of September 30, 2007, under guidance issued by the Board of Governors of the Federal Reserve System ( Federal Reserve Board ). Effective April 11, 2005, the Federal Reserve Board adopted a rule that permits the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. Under the Federal Reserve Board rule, after a five-year transition period ending March 31, 2009, the aggregate amount of trust preferred securities and certain other restricted core capital elements is limited to 25% of Tier 1 capital, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. At September 30, 2007, the Company's restricted core capital elements were 32% of total core capital, net of

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goodwill. There can be no assurance that the Federal Reserve Board will not further limit the amount of trust preferred securities permitted to be included in Tier 1 capital for regulatory capital purposes.

Effective January 1, 2007, the Company adopted SFAS No. 159 and SFAS No. 157. See Note 10 for additional information on SFAS No. 157. SFAS No. 159 allows companies to measure at fair value most financial assets and liabilities that are currently required to be measured in a different manner, such as at amortized cost. Following the initial fair value measurement date, ongoing unrealized gains and losses on items for which fair value reporting has been elected are reported in earnings at each subsequent reporting date. Under SFAS No. 159, fair value reporting may be elected on an instrument-by-instrument basis, and thus companies may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles ( GAAP ).

Accounting for selected junior subordinated debentures at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe our adoption of the standard will have a positive impact on our ability to manage the market and interest rate risks associated with the junior subordinated debentures, and potentially benefit net interest income, net income and earnings per common share during the remainder of 2007, as well as future periods. The junior subordinated debentures measured at fair value and amortized cost have been presented as separate line items on the balance sheet. We use a discounted cash flow model to determine the fair value of the junior subordinated debentures using market discount rate assumptions.

Umpqua selected the fair value measurement option for certain pre-existing junior subordinated debentures of \$97.9 million (the Umpqua Statutory Trusts) as of the adoption date. 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.

Retained earnings as of January 1, 2007 were reduced by \$2.1 million, net of tax, as a result of the fair value election, as shown below:

(in thousands)

|  | <b>Balance<br/>Sheet</b>     | <b>Net Gain/<br/>(Loss)</b> | <b>Balance<br/>Sheet</b>  |
|--|------------------------------|-----------------------------|---------------------------|
|  | <b>prior to<br/>Adoption</b> | <b>upon<br/>Adoption</b>    | <b>After<br/>Adoption</b> |
| Other assets <sup>(1)</sup>  | \$ 1,934                     | \$ (1,934)                  | \$                        |
| Junior subordinated debentures   | 97,941                       | (2,491)                     | 100,432                   |
| Other liabilities <sup>(2)</sup>   | 984                          | 984                         |                           |
| Pretax cumulative effect of adoption of the fair value option                            |                              | (3,441)                     |                           |
| Increase in deferred tax asset   |                              | 1,377                       |                           |
| Cumulative effect of adoption of the fair value option<br>(charged to retained earnings) |                              | \$ (2,064)                  |                           |

(1) Consists of issuance costs related to junior subordinated debentures for which fair value option was elected.

- (2) Consists of accrued interest related to junior subordinated debentures for which fair value option was elected.

The gains and losses described in the table above will not be recognized in earnings based upon application of SFAS No. 159. Regulatory capital will be reduced by the adjustment to retained earnings. However, the Company's capital exceeds the capital levels required to be classified as well-capitalized, and the reduction in retained earnings resulting from the adoption of SFAS No. 159 will have minimal effect on the Company's current regulatory capital ratios.

On July 19, 2007, the Company announced plans to issue \$130 million of new trust preferred securities over the next four months and to use the proceeds to redeem \$75 million of trust preferred securities related to three Trusts during the third and fourth quarters; to fund previously announced share repurchases; and, for other corporate purposes. Of the \$61.9 million in new trust preferred securities issued in the third quarter, the Company used \$25.8 million of the proceeds to redeem trust preferred securities issued by one Trust and the remainder to repurchase 1.65 million shares of common stock. On October 18, 2007, the Company announced that it intended to put on hold plans to issue additional trust preferred securities for at least another quarter until there is improvement in the credit markets. The Company selected the fair value measurement option for the trust preferred securities issued in the third quarter.

As a result of the fair value measurement election for the above financial instruments, we recorded gains of \$4.1 million and \$4.7 million for the three and nine months ended September 30, 2007 resulting from the change in fair value of the junior subordinated debentures recorded at fair value. These gains were recorded as other non-interest income. Interest expense on junior subordinated debentures is recorded on an accrual basis. The junior subordinated debentures recorded at fair value of \$132.0 million had contractual unpaid principal amounts of \$134.0 million outstanding as of September 30, 2007.

**Table of Contents****Note 5 Commitments and Contingencies**

*Lease Commitments* The Company leases 109 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times upon expiration.

Rent expense for the three and nine months ended September 30, 2007 was \$3.0 million and \$8.9 million, respectively, compared to \$2.7 million and \$6.7 million in the comparable periods in 2006. Rent expense was offset by rent income for the three and nine months ended September 30, 2007 of \$183,000 and \$459,000, respectively, compared to \$143,000 and \$271,000 in the comparable periods in 2006.

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

(in thousands)

|  | <b>As of September 30,<br/>2007</b> |
|--|-------------------------------------|
| Commitments to extend credit                 | \$ 1,498,690                        |
| Commitments to extend overdrafts             | \$ 197,382                          |
| Commitments to originate loans held-for-sale | \$ 35,514                           |
| Forward sales commitments                    | \$ 22,000                           |
| Standby letters of credit                    | \$ 56,009                           |

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

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

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

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2007 and 2006. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the

broker/dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2007, the Bank had commitments to originate mortgage loans held for sale totaling \$35.5 million with a net fair value asset of approximately \$34,000. As of that date, it also had forward sales commitments of \$22.0 million with a net fair value liability of \$52,000. The Bank recorded a loss of \$103,000 and a gain of \$253,000 related to its commitments to originate mortgage loans and related forward sales commitments in the three and nine months ended September 30, 2007, respectively, as compared to a loss of \$152,000 and a gain of \$80,000 in the comparable periods in 2006. Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit



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is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and did not incur any losses in connection with standby letters of credit during the three and nine months ended September 30, 2007 and 2006. At September 30, 2007, approximately \$28.5 million of standby letters of credit expire within one year, and \$27.5 million expire thereafter. Upon issuance, the Company recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The fair value of guarantees associated with standby letters of credit was \$188,000 as of September 30, 2007.

At September 30, 2007, the reserve for unfunded commitments, which is included in other liabilities on the consolidated balance sheet, was \$1.2 million. The adequacy of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amounts of commitments, loss experience, and economic conditions. Mortgage loans sold to investors may be sold with servicing rights retained, with only the standard legal representations and warranties regarding recourse to the Bank. Management believes that any liabilities that may result from such recourse provisions are not significant.

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

*Concentrations of Credit Risk* The Company grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington and California. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 80% and 81% of the Company's loan and lease portfolio at September 30, 2007, and December 31, 2006, respectively. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectibility, a substantial decline in the economy in general, or a decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on the repayment of these loans. Personal and business incomes represent the primary source of repayment for a majority of these loans. There has been deterioration in the northern California residential development market which has led to an increase in non-performing loans and provision for loan and lease losses this quarter.

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

**Note 6 Stock-Based Compensation**

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was \$783,000 and \$2.6 million for the three and nine months ended September 30, 2007, respectively, as compared to \$545,000 and \$1.6 million for the same periods in 2006, respectively. The total income tax benefit recognized in the income statement related to stock based compensation was \$313,000 and \$1.0 million for the three and nine months ended September 30, 2007, respectively, as compared to \$218,000 and \$625,000 for the same periods in 2006, respectively.

The following table summarizes information about stock option activity for the nine months ended September 30, 2007:

(in thousands, except per share data)

|                | <b>Nine months ended September 30, 2007</b> |                     |                  |
|----------------|---|---------------------|------------------|
|                |   | <b>Weighted-Avg</b> |                  |
| <b>Options</b> | <b>Weighted-Avg</b>                         |                     | <b>Aggregate</b> |

|                                    | <b>Outstanding</b> | <b>Exercise<br/>Price</b> | <b>Remaining<br/>Contractual<br/>Term (Years)</b> | <b>Intrinsic<br/>Value</b> |
|------------------------------------|--------------------|---------------------------|---|----------------------------|
| Balance, beginning of period       | 1,807              | \$ 14.78                  |   |                            |
| Granted                            | 50                 | \$ 26.12                  |   |                            |
| Acquisitions                       | 542                | \$ 13.39                  |   |                            |
| Exercised                          | (640)              | \$ 12.04                  |   |                            |
| Forfeited/expired                  | (42)               | \$ 21.63                  |   |                            |
| <br>                               |                    |                           |   |                            |
| Balance, end of period             | 1,717              | \$ 15.53                  | 5.21  | \$ 9,789                   |
| <br>                               |                    |                           |   |                            |
| Options exercisable, end of period | 1,309              | \$ 13.27                  | 4.57  | \$ 9,627                   |

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options

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exercised during the three and nine months ended September 30, 2007 was \$1.8 million and \$7.9 million, respectively. This compared to the total intrinsic value of options exercised during the three and nine months September 30, 2006 of \$4.1 million and \$10.4 million, respectively. During the three and nine months ended September 30, 2007, the amount of cash received from the exercise of stock options was \$2.7 million and \$7.7 million, respectively. The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. There were no stock options granted in the three months ended September 30, 2007 and 2006. The following assumptions were used for stock options granted in the nine months ended September 30, 2007 and 2006:

|   | <b>Nine months ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                                | <b>2006</b> |
| Dividend yield  | 3.29%                                      | 2.68%       |
| Expected life (years)                                     | 6.2  | 6.4         |
| Expected volatility                                       | 34%  | 35%         |
| Risk-free rate  | 4.46%                                      | 4.30%       |
| Weighted average grant date fair value of options granted | \$7.49                                     | \$9.18      |

The Company grants restricted stock periodically as a part of the 2003 Plan for the benefit of employees. Restricted shares issued currently vest on an annual basis over five years for all grants issued. The following table summarizes information about non-vested restricted shares as of September 30, 2007 and changes for the nine months ended September 30, 2007:

(in thousands, except per share data)

|                              | <b>Nine months ended September 30,<br/>2007</b> |   |
|------------------------------|---|---|
|                              | <b>Restricted<br/>Shares</b>                    | <b>Weighted<br/>Average Grant<br/>Date Fair<br/>Value</b> |
| Balance, beginning of period | 122   | \$ 26.36  |
| Granted                      | 86  | \$ 27.70  |
| Released                     | (29)  | \$ 24.90  |
| Forfeited/expired            | (15)  | \$ 26.29  |
| Balance, end of period       | 164   | \$ 27.32  |

The total fair value of restricted shares vested during the three and nine months ended September 30, 2007 was \$201,000 and \$718,000. This compared to total fair value of restricted shares vested during the three and nine months ended September 30, 2006 of \$292,000 and \$300,000.

In the second quarter of 2007, the Company awarded a restricted stock unit grant to an executive under an existing plan that vests based on continued service in various increments through June 30, 2011. The Company shall issue certificates for the vested grant units within the seventh month following termination of executive's employment. In addition, a 2007 Long Term Incentive Plan was approved during the second quarter which authorizes the award of restricted stock unit grants, which are subject to performance-based vesting as well as other approved vesting conditions. The restricted stock units granted under the 2007 Long Term Incentive Plan generally cliff vest after three years based on performance and service conditions. The compensation cost related to these restricted stock units was \$183,000 and \$782,000 for the three and nine months ended September 30, 2007. At September 30, 2007, 122,000 restricted stock units with a weighted average grant date fair value of \$25.11 were outstanding; 15,000 restricted stock units at a weighted average grant date fair value of \$26.39 were vested and deferred.

As of September 30, 2007, there was \$2.3 million of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of 2.3 years. As of September 30, 2007, there was \$3.6 million of total unrecognized compensation cost related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 3.6 years. As of September 30, 2007, there was \$2.3 million of total unrecognized compensation cost related to non-vested restricted stock units which is expected to be recognized over a weighted-average period of 2.8 years.

For the three months ended September 30, 2007 and 2006, the Company received income tax benefits of \$647,000 and \$1.6 million, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions in the exercise of incentive stock options and the vesting of restricted shares. For the nine months ended September 30, 2007 and 2006, the Company received income tax benefits of \$3.1 million and \$3.5 million, respectively. In the nine months ended September 30, 2007 and 2006, the cash

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flows from excess tax benefits (tax benefits resulting from tax deductions in excess of the compensation cost recognized) classified as financing cash flows were \$243,000 and \$855,000, respectively. The remaining cash flows from tax benefits were recognized as operating cash flows.

**Note 7 Income Taxes**

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as the Oregon and California state jurisdictions. The Company is no longer subject to U.S. federal or state and local tax examinations by tax authorities for years before 2003. The Internal Revenue Service concluded an examination of the Company's U.S. income tax returns for 2003 and 2004 in the second quarter of 2006. The results of the examination had no significant impact on the financial statements.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized tax benefits. Accrued interest related to unrecognized tax benefits is recognized in tax expense.

**Note 8 Per Share Information**

*Basic earnings per share* is computed by dividing net income by the weighted average number of common shares outstanding during the period. *Diluted earnings per share* is computed in a similar manner, except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method. For all periods presented, stock options, unvested restricted shares and restricted stock units are the only potentially dilutive instruments issued by the Company.

The following is a computation of basic and diluted earnings per share for the three and nine months ended September 30, 2007 and 2006:

**Earnings per Share**

(in thousands, except per share data)

|  | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2007</b>                                 | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
| Basic earnings per share:  |   |             |  |             |
| Weighted average shares outstanding  | 60,490                                      | 57,802      | 59,790                                     | 50,378      |
| Net income   | \$ 13,177                                   | \$ 22,856   | \$ 53,752                                  | \$ 59,914   |
| Basic earnings per share   | \$ 0.22                                     | \$ 0.40     | \$ 0.90                                    | \$ 1.19     |
| Diluted earnings per share:  |   |             |  |             |
| Weighted average shares outstanding  | 60,490                                      | 57,802      | 59,790                                     | 50,378      |
| Net effect of the assumed exercise of stock options and vesting of restricted shares, based on the treasury stock method | 575   | 650         | 660  | 632         |
| Total weighted average shares and common stock equivalents outstanding   | 61,065                                      | 58,452      | 60,450                                     | 51,010      |
| Net income   | \$ 13,177                                   | \$ 22,856   | \$ 53,752                                  | \$ 59,914   |
| Diluted earnings per share   | \$ 0.22                                     | \$ 0.39     | \$ 0.89                                    | \$ 1.17     |

**Note 9 Segment Information**

The Company operates three primary segments: Community Banking, Mortgage Banking and Retail Brokerage. The Community Banking segment's principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of September 30, 2007, the Community Banking segment operated 146 stores located throughout Oregon, Northern California and Washington.

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

The Retail Brokerage segment consists of the operations of Strand, which offers a full range of retail brokerage services and products to its clients who consist primarily of individual investors. The Company accounts for intercompany fees and services between Strand and the Bank at an estimated fair value according to regulatory requirements for services provided. Intercompany items relate primarily to management services and interest on intercompany borrowings.

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

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| (in thousands)                      | <b>Community<br/>Banking</b> | <b>Retail<br/>Brokerage</b> | <b>Mortgage<br/>Banking</b> | <b>Consolidated</b> |
|-------------------------------------|------------------------------|-----------------------------|-----------------------------|---------------------|
| Interest income                     | \$ 124,103                   | \$ 9                        | \$ 3,749                    | \$ 127,861          |
| Interest expense                    | 51,930                       |                             | 2,056                       | 53,986              |
| Net interest income                 | 72,173                       | 9                           | 1,693                       | 73,875              |
| Provision for loan and lease losses | 20,420                       |                             |                             | 20,420              |
| Non-interest income                 | 14,299                       | 2,798                       | 1,446                       | 18,543              |
| Non-interest expense                | 48,089                       | 2,409                       | 2,132                       | 52,630              |
| Merger-related expense              | 263                          |                             |                             | 263                 |
| Income before income taxes          | 17,700                       | 398                         | 1,007                       | 19,105              |
| Provision for income taxes          | 5,381                        | 144                         | 403                         | 5,928               |
| Net income                          | \$ 12,319                    | \$ 254                      | \$ 604                      | \$ 13,177           |

**Nine Months Ended September 30, 2007**

| (in thousands)                      | <b>Community<br/>Banking</b> | <b>Retail<br/>Brokerage</b> | <b>Mortgage<br/>Banking</b> | <b>Consolidated</b> |
|-------------------------------------|------------------------------|-----------------------------|-----------------------------|---------------------|
| Interest income                     | \$ 352,001                   | \$ 41                       | \$ 12,062                   | \$ 364,104          |
| Interest expense                    | 143,191                      |                             | 6,412                       | 149,603             |
| Net interest income                 | 208,810                      | 41                          | 5,650                       | 214,501             |
| Provision for loan and lease losses | 23,916                       |                             |                             | 23,916              |
| Non-interest income                 | 34,264                       | 8,103                       | 6,071                       | 48,438              |
| Non-interest expense                | 139,432                      | 7,429                       | 6,789                       | 153,650             |
| Merger-related expense              | 3,200                        |                             |                             | 3,200               |
| Income before income taxes          | 76,526                       | 715                         | 4,932                       | 82,173              |
| Provision for income taxes          | 26,188                       | 260                         | 1,973                       | 28,421              |
| Net income                          | \$ 50,338                    | \$ 455                      | \$ 2,959                    | \$ 53,752           |

**Three Months Ended September 30, 2006**

| (in thousands)                      | <b>Community<br/>Banking</b> | <b>Retail<br/>Brokerage</b> | <b>Mortgage<br/>Banking</b> | <b>Consolidated</b> |
|-------------------------------------|------------------------------|-----------------------------|-----------------------------|---------------------|
| Interest income                     | \$ 109,731                   | \$ 15                       | \$ 4,992                    | \$ 114,738          |
| Interest expense                    | 37,784                       |                             | 3,155                       | 40,939              |
| Net interest income                 | 71,947                       | 15                          | 1,837                       | 73,799              |
| Provision for loan and lease losses | 2,352                        |                             |                             | 2,352               |

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|                            |           |        |        |           |
|----------------------------|-----------|--------|--------|-----------|
| Non-interest income        | 9,331     | 2,608  | 1,537  | 13,476    |
| Non-interest expense       | 43,091    | 2,447  | 2,697  | 48,235    |
| Merger-related expense     | 2,451     |        |        | 2,451     |
| Income before income taxes | 33,384    | 176    | 677    | 34,237    |
| Provision for income taxes | 11,047    | 63     | 271    | 11,381    |
| Net income                 | \$ 22,337 | \$ 113 | \$ 406 | \$ 22,856 |

| (in thousands)                      | Nine Months September 30, 2006 |                     |                     | Consolidated |
|-------------------------------------|--------------------------------|---------------------|---------------------|--------------|
|                                     | Community<br>Banking           | Retail<br>Brokerage | Mortgage<br>Banking |              |
| Interest income                     | \$280,388                      | \$ 55               | \$8,984             | \$289,427    |
| Interest expense                    | 94,779                         |                     | 5,813               | 100,592      |
| Net interest income                 | 185,609                        | 55                  | 3,171               | 188,835      |
| Provision for loan and lease losses | 2,427                          |                     |                     | 2,427        |
| Non-interest income                 | 25,950                         | 7,702               | 5,832               | 39,484       |
| Non-interest expense                | 114,182                        | 7,493               | 6,876               | 128,551      |
| Merger-related expense              | 4,358                          |                     |                     | 4,358        |
| Income before income taxes          | 90,592                         | 264                 | 2,127               | 92,983       |
| Provision for income taxes          | 32,095                         | 123                 | 851                 | 33,069       |
| Net income                          | \$ 58,497                      | \$ 141              | \$1,276             | \$ 59,914    |



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| (in thousands) | <b>September 30, 2007</b>    |                             |                             | <b>Consolidated</b> |
|----------------|------------------------------|-----------------------------|-----------------------------|---------------------|
|                | <b>Community<br/>Banking</b> | <b>Retail<br/>Brokerage</b> | <b>Mortgage<br/>Banking</b> |                     |
| Total assets   | \$7,992,619                  | \$9,830                     | \$223,362                   | \$8,225,811         |
| Total loans    | \$5,887,239                  | \$                          | \$192,196                   | \$6,079,435         |
| Total deposits | \$6,506,848                  | \$                          | \$ 11,369                   | \$6,518,217         |

| (in thousands) | <b>December 31, 2006</b>     |                             |                             | <b>Consolidated</b> |
|----------------|------------------------------|-----------------------------|-----------------------------|---------------------|
|                | <b>Community<br/>Banking</b> | <b>Retail<br/>Brokerage</b> | <b>Mortgage<br/>Banking</b> |                     |
| Total assets   | \$7,087,227                  | \$7,656                     | \$249,353                   | \$7,344,236         |
| Total loans    | \$5,139,818                  | \$                          | \$222,044                   | \$5,361,862         |
| Total deposits | \$5,834,835                  | \$                          | \$ 5,459                    | \$5,840,294         |

**Note 10 Fair Value Measurement**

SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurement. Upon adoption of SFAS No. 157, there was no cumulative effect adjustment to beginning retained earnings and no impact on the financial statements, other than in conjunction with the adoption of SFAS No. 159, in the three and nine months ended September 30, 2007.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2007, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

(in thousands)

| <b>Description</b>            | <b>Fair Value Measurements<br/>at September 30, 2007, Using</b> |   |  |  |
|-------------------------------|---|---|--|--|
|                               | <b>Fair Value<br/>September<br/>30, 2007</b>                    | <b>Quoted<br/>Prices in<br/>Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| Trading securities            | \$ 4,144  | \$ 4,144  |  |  |
| Available-for-sale securities | 911,883   | 166,682   | 745,201  |  |
| Mortgage Servicing Rights     | 9,474   |   | 9,474  |  |

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|   |           |           |           |    |
|---|-----------|-----------|-----------|----|
| Total assets measured at fair value           | \$925,501 | \$170,826 | \$754,675 | \$ |
| Junior subordinated debentures, at fair value | \$131,984 |           | \$131,984 |    |
| Total liabilities measured at fair value      | \$131,984 | \$        | \$131,984 | \$ |

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

**Securities** - Fair values for investment securities are based on quoted market prices when available or through the use of

alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available.

**Mortgage Servicing Rights** The fair value of mortgage servicing rights is estimated using a discounted cash flow model.

**Junior Subordinated Debentures** The fair value of junior subordinated debentures is estimated using a discounted cash flow model.

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

This Report contains certain forward-looking statements, 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. All statements other than statements of historical fact are forward-looking statements. In addition, the words anticipates, expects, believes, estimates and intends and words or phrases of similar meaning identify forward-looking statements. We make forward-looking statements regarding projected sources of funds, adequacy of our allowance for loan and lease losses and provision for loan and lease losses, and subsequent charge-offs. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of Umpqua. Risks and uncertainties include those set forth in filings with the SEC and the following:

The ability to attract new deposits and loans

Competitive market pricing factors

Deterioration in economic conditions that could result in increased loan and lease losses

Market interest rate volatility

Changes in legal or regulatory requirements

The ability to recruit and retain certain key management and staff

Risks associated with merger integration

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

**General**

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

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.

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.

Strand is a registered broker-dealer and investment advisor with offices in Portland, Eugene, and Medford, Oregon, and in 11 Umpqua Bank stores. Strand offers a full range of investment products and services including: stocks, fixed income securities (municipal, corporate, and government bonds, CDs, and money market instruments), mutual funds, annuities, options, retirement planning, money management services, life insurance, disability insurance and medical supplement policies.

**Executive Overview**

Highlights for the third quarter of 2007 were as follows:

Total gross loans and leases were \$6.1 billion as of September 30, 2007, compared to \$5.4 billion as of December 31, 2006, respectively, an increase of \$717.6 million or 13%. The North Bay acquisition accounted for \$443.0 million of the growth. The annualized organic loan growth rate (excluding growth through acquisition) was 7% as of September 30, 2007.

Total deposits were \$6.5 billion as of September 30, 2007, compared to \$5.8 billion as of December 31, 2006, an increase of \$677.9 million or 12%. The North Bay acquisition accounted for \$462.6 million of the growth. The annualized organic deposit growth rate (excluding growth through acquisition) was 5% as of September 30, 2007.

Total consolidated assets were \$8.2 billion as of September 30, 2007, compared to \$7.3 billion as of December 31, 2006, an increase of \$881.6 million or 12%. The North Bay acquisition accounted for \$727.8 million of the growth.

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Non-performing loans increased \$21.0 million during the quarter related primarily to the residential development portfolio in our northern California operations, contributing to a \$20.4 million provision for loan and lease losses during the quarter.

Net interest margin decreased to 4.20% and 4.33% for the three and nine months ended September 30, 2007, compared to 4.83% and 4.74% for the same periods a year ago. The decrease in net interest margin resulted primarily from increases in short-term market interest rates, reversal of \$1.3 million of interest income during the quarter related to new non-accrual loans and the competitive climate.

Net income per diluted share was \$0.22 and \$0.89 for the three and nine months ended September 30, 2007, as compared to \$0.39 and \$1.17 per diluted share earned in the three and nine months ended September 30, 2006. The interest income reversal due to new non-accrual loans and provision for loan and lease losses contributed to the significant decline in net income per diluted share.

During the third quarter, the Company issued \$61.9 million of new trust preferred securities, with a weighted average adjustable interest rate of 3 month LIBOR plus 182 basis points, and redeemed existing trust preferred securities representing obligations of \$25.8 million.

The Company repurchased 1.6 million shares of stock at a weighted average price of \$21.23 per share during the third quarter under its stock repurchase plan.

Cash dividends declared in the third quarter of 2007 were \$0.19 per share which was an increase of \$0.01 per share compared to the first and second quarter of 2007.

**Summary of Critical Accounting Policies**

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2006 included in the Form 10-K filed with the Securities and Exchange Commission ( SEC ) on March 1, 2007. Not all of these critical accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC 's definition.

*Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments*

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality of the portfolio and the adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating from 1 to 10 that is assessed periodically during the term of the loan through the credit review process. 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, regular review of 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 loans that have been placed on non-accrual status and approves placing loans on impaired status. The ALLL Committee also approves removing loans that are no longer impaired from impairment and non-accrual 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 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 recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses. 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 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

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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 September 30, 2007. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 80% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. There has been deterioration in the northern California residential development market which has led to an increase in non-performing loans and allowance for loan and lease losses this quarter.

*Mortgage Servicing Rights*

Retained mortgage servicing rights are measured by allocating the carrying value of the loans between the assets sold and the interest retained, based on their relative fair values at the date of the sale. Subsequent fair value measurements are determined using a discounted cash flow model. The expected life of the loan can vary from management's estimates due to prepayments by borrowers, especially when interest 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. 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.

Upon adoption of Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 156) on January 1, 2007, the Company has elected to measure its residential mortgage servicing assets at fair value. Upon the change from the lower of cost or fair value accounting method to fair value accounting under SFAS No. 156, the calculation of amortization and the assessment of impairment were discontinued. Additional information is included in Note 3 of the *Notes to Condensed Consolidated Financial Statements*.

*Valuation of Goodwill and Intangible Assets*

At September 30, 2007, we had \$767.2 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangibles 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 a quarterly basis and determined that there was no impairment as of September 30, 2007. The valuation 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. 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.

*Stock-based Compensation*

Effective January 1, 2006, we adopted the provisions of SFAS No. 123R, *Share Based Payment*, a revision to the previously issued guidance on accounting for stock options and other forms of equity-based compensation. SFAS No. 123R requires companies to recognize in the income statement 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 6 of the *Notes to Condensed Consolidated Financial Statements*.

*Fair Value*

Effective January 1, 2007, we adopted SFAS No. 157, *Fair Value Measurements*, which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS No. 157 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



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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 10 of the *Notes to Condensed Consolidated Financial Statements* for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

**RESULTS OF OPERATIONS****OVERVIEW**

For the three months ended September 30, 2007, net income was \$13.2 million, or \$0.22 per diluted share, as compared to \$22.9 million, or \$0.39 per diluted share for the three months ended September 30, 2006. For the nine months ended September 30, 2007, net income was \$53.8 million, or \$0.89 per diluted share, as compared to \$59.9 million, or \$1.17 per diluted share for the nine months ended September 30, 2006. The decrease in net income for the three and nine months ended September 30, 2007 is principally attributable to increased provision for loan and lease losses and operating expenses, partially offset by increased net interest and non-interest income. We completed the acquisitions of North Bay Bancorp and Western Sierra Bancorp on April 26, 2007 and June 2, 2006, respectively, and the results of the acquired operations are only included in our financial results starting on April 27, 2007 and June 3, 2006, respectively.

We incur significant expenses related to the completion and integration of mergers. Accordingly, we believe that our operating results are best measured on a comparative basis excluding the impact of merger-related expenses, net of tax. We define *operating income* as income before merger related expenses, net of tax, and we calculate *operating income per diluted share* by dividing operating income by the same diluted share total used in determining diluted earnings per share (see Note 8 of the *Notes to Condensed Consolidated Financial Statements*). 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 *Condensed Consolidated Financial Statements*. The following table presents a reconciliation of operating income and operating income per diluted share to net income and net income per diluted share for the three and nine months ended September 30, 2007 and 2006:

***Reconciliation of Operating Income to Net Income***

(in thousands, except per share data)

|                                     | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|-------------------------------------|---|-------------|--|-------------|
|                                     | <b>2007</b>                                 | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
| Net income                          | \$ 13,177                                   | \$ 22,856   | \$ 53,752                                  | \$ 59,914   |
| Merger-related expenses, net of tax | 158   | 1,471       | 1,920                                      | 2,615       |
| Operating income                    | \$ 13,335                                   | \$ 24,327   | \$ 55,672                                  | \$ 62,529   |
| <b>Per diluted share:</b>           |   |             |  |             |
| Net income                          | \$ 0.22                                     | \$ 0.39     | \$ 0.89                                    | \$ 1.17     |
| Merger-related expenses, net of tax |   | 0.03        | 0.03                                       | 0.06        |
| Operating income                    | \$ 0.22                                     | \$ 0.42     | \$ 0.92                                    | \$ 1.23     |

The following table presents the returns on average assets, average shareholders' equity and average tangible shareholders' equity for the three and nine months ended September 30, 2007 and 2006. For each of the periods presented, the table includes the calculated ratios based on reported net income and operating income as shown in the Table above. Our return on average shareholders' equity is negatively impacted as the result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial

institutions that do not have merger-related intangible assets, we believe it beneficial to also consider the return on average tangible shareholders' equity. The return on average tangible shareholders' equity is calculated by dividing net income by average shareholders' equity less average intangible assets. The return on average tangible shareholders' equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average shareholders' equity.

**Table of Contents****Returns on Average Assets, Shareholders Equity and Tangible Shareholders Equity**

(dollars in thousands)

|   | Three months ended<br>September 30, |              | Nine months ended<br>September 30, |            |
|---|-------------------------------------|--------------|------------------------------------|------------|
|   | 2007                                | 2006         | 2007                               | 2006       |
| <b>Returns on average assets:</b>                           |                                     |              |                                    |            |
| Net income  | 0.64%                               | 1.27%        | 0.93%                              | 1.29%      |
| Operating income  | 0.65%                               | 1.35%        | 0.96%                              | 1.35%      |
| <b>Returns on average shareholders equity:</b>              |                                     |              |                                    |            |
| Net income  | 4.20%                               | 8.06%        | 5.91%                              | 8.80%      |
| Operating income  | 4.25%                               | 8.58%        | 6.12%                              | 9.18%      |
| <b>Returns on average tangible shareholders equity:</b>     |                                     |              |                                    |            |
| Net income  | 10.92%                              | 20.50%       | 14.79%                             | 20.87%     |
| Operating income  | 11.05%                              | 21.82%       | 15.32%                             | 21.78%     |
| <b>Calculation of average tangible shareholders equity:</b> |                                     |              |                                    |            |
| Average shareholders equity                                 | \$ 1,245,390                        | \$ 1,124,398 | \$ 1,215,730                       | \$ 910,311 |
| Less: average intangible assets                             | (766,591)                           | (681,988)    | (729,979)                          | (526,459)  |
| Average tangible shareholders equity                        | \$ 478,799                          | \$ 442,410   | \$ 485,751                         | \$ 383,852 |

**NET INTEREST INCOME**

Net interest income is the largest source of our operating income. Net interest income for the three months ended September 30, 2007 was \$73.9 million, which was consistent with \$73.8 million over the same period in 2006. Net interest income for the three months ended September 30, 2007 was negatively impacted by a \$1.3 million reversal of interest income on new non-accrual loans during the quarter. Net interest income for the nine months ended September 30, 2007 was \$214.5 million, an increase of \$25.7 million, or 14% over the same period in 2006. The results for the three and nine months ended September 30, 2007 as compared to the same periods in 2006 are attributable to growth in outstanding average interest-earning assets, primarily loans and leases, partially offset by both growth in interest-bearing liabilities, primarily money-market and time deposits, and a decrease in net interest margin. In addition to organic growth, the Western Sierra merger, which was completed on June 2, 2006, and the North Bay merger, which was completed on April 26, 2007, contributed to the increase in interest-earning assets and interest-bearing liabilities in the three and nine months ended September 30, 2007 over the same periods in 2006. The fair value of interest-earning assets acquired as a result of the Western Sierra merger totaled \$1.1 billion, and interest-bearing liabilities totaled \$1.1 billion. The fair value of interest-earning 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-earning assets) on a fully tax-equivalent basis was 4.20% for the three months ended September 30, 2007, a decrease of 63 basis points as compared to the same period in 2006. The net interest margin on a fully tax-equivalent basis was 4.33% for the nine months ended September 30, 2007, a decrease of 41 basis points as compared to the same period in 2006. The decrease in net interest margin over these periods resulted from higher short-term market rates for most of the period and the competitive climate, characterized by increasing deposit costs combined with declining interest earning asset yields. The \$1.3 million reversal of interest income on new non-accrual loans in the third quarter discussed above contributed to an 8 basis point decline in tax equivalent interest earning asset yields and 7 basis point decline in the tax

equivalent net interest margin during the quarter.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds. The following table presents condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2007 and 2006:

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**Table of Contents****Average Rates and Balances (Quarterly)**

(dollars in thousands)

|  | Three months ended<br>September 30, 2007 |                                     |                                  | Three months ended<br>September 30, 2006 |                                     |                                  |
|--|--|-------------------------------------|----------------------------------|--|-------------------------------------|----------------------------------|
|  | Average<br>Balance                       | Interest<br>Income<br>or<br>Expense | Average<br>Yields<br>or<br>Rates | Average<br>Balance                       | Interest<br>Income<br>or<br>Expense | Average<br>Yields<br>or<br>Rates |
| <b>INTEREST-EARNING ASSETS:</b>  |  |                                     |                                  |  |                                     |                                  |
| Loans and leases (1)   | \$ 6,043,121                             | \$ 116,111                          | 7.62%                            | \$ 5,352,986                             | \$ 106,320                          | 7.88%                            |
| Taxable securities   | 765,345                                  | 9,233                               | 4.83%                            | 609,131                                  | 6,902                               | 4.53%                            |
| Non-taxable securities (2)   | 159,998                                  | 2,247                               | 5.62%                            | 107,851                                  | 1,640                               | 6.08%                            |
| Temporary investments (3)  | 71,165                                   | 929                                 | 5.18%                            | 37,225                                   | 374                                 | 3.99%                            |
| Total interest earning assets  | 7,039,629                                | 128,520                             | 7.24%                            | 6,107,193                                | 115,236                             | 7.49%                            |
| Allowance for loan and lease losses  | (69,099)                                 |                                     |                                  | (56,891)                                 |                                     |                                  |
| Other assets   | 1,219,502                                |                                     |                                  | 1,085,186                                |                                     |                                  |
| Total assets   | \$ 8,190,032                             |                                     |                                  | \$ 7,135,488                             |                                     |                                  |
| <b>INTEREST-BEARING LIABILITIES:</b>                                       |  |                                     |                                  |  |                                     |                                  |
| Interest-bearing checking and savings accounts                             | \$ 3,271,992                             | \$ 25,145                           | 3.05%                            | \$ 2,737,802                             | \$ 17,693                           | 2.56%                            |
| Time deposits  | 1,899,131                                | 22,993                              | 4.80%                            | 1,510,526                                | 16,428                              | 4.31%                            |
| Securities sold under agreements to repurchase and federal funds purchased | 64,130                                   | 530                                 | 3.28%                            | 192,098                                  | 2,155                               | 4.45%                            |
| Term debt  | 75,045                                   | 874                                 | 4.62%                            | 57,043                                   | 692                                 | 4.81%                            |
| Junior subordinated debentures   | 232,289                                  | 4,444                               | 7.59%                            | 204,113                                  | 3,971                               | 7.72%                            |
| Total interest-bearing liabilities   | 5,542,587                                | 53,986                              | 3.86%                            | 4,701,582                                | 40,939                              | 3.45%                            |
| Non-interest-bearing deposits  | 1,319,280                                |                                     |                                  | 1,235,838                                |                                     |                                  |
| Other liabilities  | 82,775                                   |                                     |                                  | 73,670                                   |                                     |                                  |
| Total liabilities  | 6,944,642                                |                                     |                                  | 6,011,090                                |                                     |                                  |
| Shareholders' equity   | 1,245,390                                |                                     |                                  | 1,124,398                                |                                     |                                  |
| Total liabilities and shareholders' equity                                 | \$ 8,190,032                             |                                     |                                  | \$ 7,135,488                             |                                     |                                  |

|  |           |           |
|--|-----------|-----------|
| <b>NET INTEREST INCOME (2)</b>   | \$ 74,534 | \$ 74,297 |
| <b>NET INTEREST SPREAD</b>   | 3.38%     | 4.04%     |
| <b>AVERAGE YIELD ON EARNING ASSETS (1), (2)</b>                              | 7.24%     | 7.49%     |
| <b>INTEREST EXPENSE TO EARNING ASSETS</b>                                    | 3.04%     | 2.66%     |
| <b>NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)</b> | 4.20%     | 4.83%     |

(1) Non-accrual loans and mortgage loans held for sale are included in the average balance.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately \$659,000 and \$498,000 for the three months ended September 30, 2007 and 2006, respectively.

(3)

Temporary investments include federal funds sold and interest-bearing deposits at other banks.

**Table of Contents****Average Rates and Balances (Year-to-Date)**

(dollars in thousands)

|   | Nine months ended<br>September 30, 2007 |                                     |                                  | Nine months ended<br>September 30, 2006 |                                     |                                  |
|---|---|-------------------------------------|----------------------------------|---|-------------------------------------|----------------------------------|
|   | Average<br>Balance                      | Interest<br>Income<br>or<br>Expense | Average<br>Yields<br>or<br>Rates | Average<br>Balance                      | Interest<br>Income<br>or<br>Expense | Average<br>Yields<br>or<br>Rates |
| <b>INTEREST-EARNING ASSETS:</b>                   |   |                                     |                                  |   |                                     |                                  |
| Loans and leases (1)                              | \$ 5,747,358                            | \$ 331,889                          | 7.72%                            | \$ 4,637,525                            | \$ 265,444                          | 7.65%                            |
| Taxable securities                                | 723,977                                 | 25,625                              | 4.72%                            | 604,448                                 | 20,406                              | 4.50%                            |
| Non-taxable securities (2)                        | 142,443                                 | 5,869                               | 5.49%                            | 91,027                                  | 3,938                               | 5.77%                            |
| Temporary investments (3)                         | 62,680                                  | 2,439                               | 5.20%                            | 27,360                                  | 837                                 | 4.09%                            |
| Total interest earning assets                     | 6,676,458                               | 365,822                             | 7.33%                            | 5,360,360                               | 290,625                             | 7.25%                            |
| Allowance for loan and lease losses               | (64,951)                                |                                     |                                  | (50,161)                                |                                     |                                  |
| Other assets                                      | 1,154,324                               |                                     |                                  | 888,669                                 |                                     |                                  |
| Total assets                                      | \$ 7,765,831                            |                                     |                                  | \$ 6,198,868                            |                                     |                                  |
| <b>INTEREST-BEARING LIABILITIES:</b>              |   |                                     |                                  |   |                                     |                                  |
| Interest-bearing checking and savings accounts    | \$ 3,061,157                            | \$ 91,911                           | 4.01%                            | \$ 2,374,863                            | \$ 42,240                           | 2.38%                            |
| Time deposits                                     | 1,823,618                               | 41,839                              | 3.07%                            | 1,308,552                               | 38,872                              | 3.97%                            |
| Federal funds purchased and repurchase agreements | 69,069                                  | 1,757                               | 3.40%                            | 200,789                                 | 6,346                               | 4.23%                            |
| Term debt   | 51,592                                  | 1,767                               | 4.58%                            | 74,724                                  | 2,775                               | 4.97%                            |
| Junior subordinated debentures                    | 216,816                                 | 12,329                              | 7.60%                            | 182,583                                 | 10,359                              | 7.59%                            |
| Total interest-bearing liabilities                | 5,222,252                               | 149,603                             | 3.83%                            | 4,141,511                               | 100,592                             | 3.25%                            |
| Non-interest-bearing deposits                     | 1,250,188                               |                                     |                                  | 1,085,161                               |                                     |                                  |
| Other liabilities                                 | 77,661                                  |                                     |                                  | 61,885                                  |                                     |                                  |
| Total liabilities                                 | 6,550,101                               |                                     |                                  | 5,288,557                               |                                     |                                  |
| Shareholders' equity                              | 1,215,730                               |                                     |                                  | 910,311                                 |                                     |                                  |
| Total liabilities and shareholders' equity        | \$ 7,765,831                            |                                     |                                  | \$ 6,198,868                            |                                     |                                  |



|  |            |            |
|--|------------|------------|
| <b>NET INTEREST INCOME (2)</b>   | \$ 216,219 | \$ 190,033 |
| <b>NET INTEREST SPREAD</b>   | 3.50%      | 4.00%      |
| <b>AVERAGE YIELD ON EARNING ASSETS (1), (2)</b>                              | 7.33%      | 7.25%      |
| <b>INTEREST EXPENSE TO EARNING ASSETS</b>                                    | 3.00%      | 2.51%      |
| <b>NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)</b> | 4.33%      | 4.74%      |

(1) Non-accrual loans and mortgage loans held for sale are included in the average balance.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately \$1.7 million and \$1.2 million for the nine months ended September 30, 2007 and 2006, respectively.

(3) Temporary investments include federal

funds sold and  
interest-bearing  
deposits at other  
banks.

The following table sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for the three and nine months ended September 30, 2007 as compared to the same period in 2006. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

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**Table of Contents****Rate/Volume Analysis (Quarterly)**

(in thousands)

|  | <b>Three months ended September 30,<br/>2007 compared to 2006</b>                   |             |              |
|--|---|-------------|--------------|
|  | <b>Increase (decrease) in interest<br/>income<br/>and expense due to changes in</b> |             |              |
|  | <b>Volume</b>   | <b>Rate</b> | <b>Total</b> |
| <b>INTEREST-EARNING ASSETS:</b>                |   |             |              |
| Loans and leases                               | \$ 13,350   | \$ (3,559)  | \$ 9,791     |
| Taxable securities                             | 1,862   | 469         | 2,331        |
| Non-taxable securities (1)                     | 740   | (133)       | 607          |
| Temporary investments                          | 418   | 137         | 555          |
| Total (1)                                      | 16,370  | (3,086)     | 13,284       |
| <b>INTEREST-BEARING LIABILITIES:</b>           |   |             |              |
| Interest-bearing checking and savings accounts | 3,784   | 3,668       | 7,452        |
| Time deposits                                  | 4,559   | 2,006       | 6,565        |
| Repurchase agreements and federal funds        | (1,165)   | (460)       | (1,625)      |
| Term debt                                      | 211   | (29)        | 182          |
| Junior subordinated debentures                 | 540   | (67)        | 473          |
| Total  | 7,929   | 5,118       | 13,047       |
| Net increase in net interest income (1)        | \$ 8,441  | \$ (8,204)  | \$ 237       |

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

**Rate/Volume Analysis (Year-to-Date)**

(in thousands)

|                                 | <b>Nine months ended September 30,<br/>2007 compared to 2006</b>                |             |              |
|---------------------------------|---|-------------|--------------|
|                                 | <b>Increase (decrease) in interest income<br/>and expense due to changes in</b> |             |              |
|                                 | <b>Volume</b>   | <b>Rate</b> | <b>Total</b> |
| <b>INTEREST-EARNING ASSETS:</b> |   |             |              |
| Loans and leases                | \$ 64,069   | \$ 2,376    | \$ 66,445    |
| Taxable securities              | 4,193   | 1,026       | 5,219        |

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|  |           |             |           |
|--|-----------|-------------|-----------|
| Non-taxable securities (1)                     | 2,126     | (195)       | 1,931     |
| Temporary investments                          | 1,323     | 279         | 1,602     |
| Total (1)                                      | 71,711    | 3,486       | 75,197    |
| <b>INTEREST-BEARING LIABILITIES:</b>           |           |             |           |
| Interest-bearing checking and savings accounts | 14,691    | 34,980      | 49,671    |
| Time deposits                                  | 13,094    | (10,127)    | 2,967     |
| Repurchase agreements and federal funds        | (3,537)   | (1,052)     | (4,589)   |
| Term debt                                      | (805)     | (203)       | (1,008)   |
| Junior subordinated debentures                 | 1,947     | 23          | 1,970     |
| Total  | 25,390    | 23,621      | 49,011    |
| Net increase in net interest income (1)        | \$ 46,321 | \$ (20,135) | \$ 26,186 |

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

**Table of Contents****PROVISION FOR LOAN AND LEASE LOSSES**

The provision for loan and lease losses was \$20.4 million and \$23.9 million for the three and nine months ended September 30, 2007, compared to \$2.4 million for the same periods in 2006. As an annualized percentage of average outstanding loans, the provision for loan losses recorded for the three and nine months ended September 30, 2007 was 1.34% and 0.56% as compared to 0.17% and 0.07% in the same periods in 2006.

The increase in the provision for loan and lease losses in the three and nine months ended September 30, 2007 as compared to the same periods in 2006 is principally attributable to an increase in non-performing loans and leases related primarily to deterioration in the northern California residential development market and growth in the loan and lease portfolio. Within the allowance for credit losses, the Company has identified \$16.2 million of impairment reserve related to \$67.4 million of non-accrual loans, which are specifically measured for impairment. The net increase in impairment reserve, combined with downgrades within the portfolio related primarily to residential development, led to the \$20.4 million and \$23.9 million provision for loan and leases losses during the three and nine months ended September 30, 2007. The third quarter provision for loan losses is expected to cover subsequent charge-offs on these non-performing loans.

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 the three months ended September 30, 2007 was \$18.5 million, an increase of \$5.1 million, or 38%, as compared to the same period in 2006. Non-interest income in the nine months ended September 30, 2007 was \$48.4 million, an increase of \$9.0 million, or 23%, as compared to the same period in 2006. The following table presents the key components of non-interest income for the three and nine months ended September 30, 2007 and 2006:

***Non-Interest Income***

(in thousands)

|   | Three months ended<br>September 30, |           |                  |                   | Nine months ended<br>September 30, |           |                  |                   |
|---|-------------------------------------|-----------|------------------|-------------------|------------------------------------|-----------|------------------|-------------------|
|   | 2007                                | 2006      | Change<br>Amount | Change<br>Percent | 2007                               | 2006      | Change<br>Amount | Change<br>Percent |
| Service charges on deposit accounts       | \$ 8,448                            | \$ 7,606  | \$ 842           | 11%               | \$ 23,648                          | \$ 19,540 | \$ 4,108         | 21%               |
| Brokerage commissions and fees            | 2,498                               | 2,506     | (8)              | 0%                | 7,594                              | 7,408     | 186              | 3%                |
| Mortgage banking revenue, net             | 1,366                               | 1,445     | (79)             | -5%               | 5,772                              | 5,792     | (20)             | 0%                |
| Net loss on sale of investment securities | (13)                                |           | (13)             | NM                | (10)                               | (1)       | (9)              | NM                |
| Other income                              | 6,244                               | 1,919     | 4,325            | 225%              | 11,434                             | 6,745     | 4,689            | 70%               |
| Total                                     | \$ 18,543                           | \$ 13,476 | \$ 5,067         | 38%               | \$ 48,438                          | \$ 39,484 | \$ 8,954         | 23%               |

NM Not meaningful

The increase in deposit service charges in 2007 over the same period in 2006 is principally attributable to increased volume of deposit accounts. Brokerage commission and fees was relatively unchanged as compared to the same periods in 2006. Mortgage banking revenue was comparable to the same periods in 2006 despite the slowdown in the

mortgage market. The increase in other income over the same periods in 2006 was primarily related to gains of \$4.1 million and \$4.7 million in the three and nine months ended September 30, 2007, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value as a result of the fair value measurement election. Additional information regarding the fair value election for the junior subordinated debentures is included in Note 4 of the *Notes to Condensed Consolidated Financial Statements*.

**NON-INTEREST EXPENSE**

Non-interest expense for the three months ended September 30, 2007 was \$52.9 million, an increase of \$2.2 million or 4% compared to the three months ended September 30, 2006. Non-interest expense for the nine months ended September 30, 2007 was \$156.9 million, an increase of \$23.9 million or 18% compared to the nine months ended September 30, 2006. The following table presents the key elements of non-interest expense for the three and nine months ended September 30, 2007 and 2006.

**Table of Contents****Non-Interest Expense**

(in thousands)

|                                   | Three months ended<br>September 30, |                  |                  |                   | Nine months ended<br>September 30, |                   |                  |                   |
|-----------------------------------|-------------------------------------|------------------|------------------|-------------------|------------------------------------|-------------------|------------------|-------------------|
|                                   | 2007                                | 2006             | Change<br>Amount | Change<br>Percent | 2007                               | 2006              | Change<br>Amount | Change<br>Percent |
| Salaries and<br>employee benefits | \$ 28,005                           | \$ 26,387        | \$ 1,618         | 6%                | \$ 85,172                          | \$ 71,525         | \$ 13,647        | 19%               |
| Net occupancy and<br>equipment    | 9,166                               | 8,540            | 626              | 7%                | 26,774                             | 22,907            | 3,867            | 17%               |
| Communications                    | 1,807                               | 1,744            | 63               | 4%                | 5,293                              | 4,689             | 604              | 13%               |
| Marketing                         | 1,982                               | 1,780            | 202              | 11%               | 4,405                              | 4,596             | (191)            | -4%               |
| Services                          | 4,864                               | 4,199            | 665              | 16%               | 14,066                             | 11,016            | 3,050            | 28%               |
| Supplies                          | 984                                 | 925              | 59               | 6%                | 2,572                              | 2,276             | 296              | 13%               |
| Intangible<br>amortization        | 1,767                               | 1,195            | 572              | 48%               | 4,400                              | 2,533             | 1,867            | 74%               |
| Merger-related<br>expenses        | 263                                 | 2,451            | (2,188)          | -89%              | 3,200                              | 4,358             | (1,158)          | -27%              |
| Other                             | 4,055                               | 3,465            | 590              | 17%               | 10,968                             | 9,009             | 1,959            | 22%               |
| <b>Total</b>                      | <b>\$ 52,893</b>                    | <b>\$ 50,686</b> | <b>\$ 2,207</b>  | <b>4%</b>         | <b>\$ 156,850</b>                  | <b>\$ 132,909</b> | <b>\$ 23,941</b> | <b>18%</b>        |

Salaries and employee benefits have increased due to increased incentives, benefit costs, additional staff at new stores, and primarily the addition of approximately 250 associates in June 2006 due to the Western Sierra acquisition and approximately 110 associates in April 2007 due to the North Bay acquisition. Net occupancy and equipment increased reflecting 10 new banking locations as a result of the North Bay acquisition in April 2007, 31 new banking locations as a result of the Western Sierra acquisition in June 2006 and the addition of 7 de novo branches in 2006. The increase in services expense was primarily due to increased escrow accounting fees and higher consulting fees. The increase in intangible amortization is due to the increase in core deposit and other intangibles as a result of the Western Sierra and North Bay acquisitions. We also 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 decrease in merger-related expenses in the three and nine months ended September 30, 2007 is due to the difference in timing and size of the Western Sierra and North Bay mergers.

**INCOME TAXES**

Our consolidated effective tax rate as a percentage of pre-tax income for the three and nine months ended September 30, 2007 was 31.0% and 34.6%, compared to 33.2% and 35.6% for the three and nine months ended September 30, 2006. 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 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.

**FINANCIAL CONDITION****INVESTMENT SECURITIES**

Trading securities consist of securities held in inventory by Strand for sale to its clients and securities invested in trust for former employees of acquired institutions as required by agreements. Trading securities were \$4.1 million at September 30, 2007, as compared to \$4.2 million at December 31, 2006.

Investment securities available for sale were \$911.9 million as of September 30, 2007, as compared to \$715.2 million at December 31, 2006. This increase is principally attributable to the North Bay acquisition (\$85.6 million of investment securities as of the acquisition date) and purchases of \$219.3 million of investment securities, partially

offset by sales and maturities of \$110.5 million of investment securities available for sale and an increase in fair value of investment securities available for sale of \$2.7 million.

Investment securities held to maturity were \$7.1 million as of September 30, 2007, as compared to \$8.8 million at December 31, 2006. This decrease is principally attributable to sales and maturities of investment securities held to maturity.

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of September 30, 2007 and December 31, 2006:



**Table of Contents****Investment Securities Composition**

(in thousands)

|  | <b>Investment Securities Available for Sale</b> |             |                          |             |
|--|---|-------------|--------------------------|-------------|
|  | <b>September 30, 2007</b>                       |             | <b>December 31, 2006</b> |             |
|  | <b>Fair Value</b>                               | <b>%</b>    | <b>Fair Value</b>        | <b>%</b>    |
| U.S. Treasury and agencies   | \$ 166,682                                      | 18%         | \$ 193,134               | 27%         |
| Mortgage-backed securities and collateralized mortgage obligations | 533,048   | 59%         | 362,882                  | 51%         |
| Obligations of states and political subdivisions                   | 161,757   | 18%         | 110,219                  | 15%         |
| Other debt securities  | 970   | 0%          | 973                      | 0%          |
| Investments in mutual funds and other equity securities            | 49,426  | 5%          | 47,979                   | 7%          |
| <b>Total</b>   | <b>\$911,883</b>                                | <b>100%</b> | <b>\$715,187</b>         | <b>100%</b> |

|  | <b>Investment Securities Held to Maturity</b> |             |                          |             |
|--|---|-------------|--------------------------|-------------|
|  | <b>September 30, 2007</b>                     |             | <b>December 31, 2006</b> |             |
|  | <b>Amortized Cost</b>                         | <b>%</b>    | <b>Amortized Cost</b>    | <b>%</b>    |
| Obligations of states and political subdivisions                   | \$6,499                                       | 92%         | \$8,015                  | 92%         |
| Mortgage-backed securities and collateralized mortgage obligations | 242   | 3%          | 372                      | 4%          |
| Other investment securities  | 375   | 5%          | 375                      | 4%          |
| <b>Total</b>   | <b>\$7,116</b>                                | <b>100%</b> | <b>\$8,762</b>           | <b>100%</b> |

**LOANS AND LEASES**

Total loans and leases outstanding at September 30, 2007 were \$6.1 billion, an increase of \$717.6 million as compared to year-end 2006. The growth in loans was due to the North Bay acquisition (\$443.0 million of loans as of the acquisition date) and organic loan growth of \$274.6 million, or 7% annualized, primarily in the Oregon/Washington region. The following tables present the concentration distribution of our loan portfolio and our loan portfolio by region at September 30, 2007 and December 31, 2006:

**Loan Concentrations**

(in thousands)

|                                    | <b>September 30, 2007</b> |                   | <b>December 31, 2006</b> |                   |
|------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                                    | <b>Amount</b>             | <b>Percentage</b> | <b>Amount</b>            | <b>Percentage</b> |
| Construction and development       | \$ 1,113,842              | 18.3%             | \$ 1,189,090             | 22.2%             |
| Farmland                           | 116,116                   | 1.9%              | 77,283                   | 1.4%              |
| Home equity credit lines           | 201,959                   | 3.3%              | 152,962                  | 2.9%              |
| Single family first lien mortgage  | 210,070                   | 3.5%              | 178,159                  | 3.3%              |
| Single family second lien mortgage | 28,345                    | 0.5%              | 30,554                   | 0.6%              |
| Multifamily                        | 152,668                   | 2.5%              | 162,040                  | 3.0%              |
| Commercial real estate             | 3,033,464                 | 49.9%             | 2,572,186                | 48.0%             |
| <b>Total real estate secured</b>   | <b>4,856,464</b>          | <b>79.9%</b>      | <b>4,362,274</b>         | <b>81.4%</b>      |
| Commercial and industrial          | 1,068,513                 | 17.6%             | 874,264                  | 16.3%             |

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|                         |             |        |             |        |
|-------------------------|-------------|--------|-------------|--------|
| Agricultural production | 69,134      | 1.1%   | 50,653      | 0.9%   |
| Consumer                | 37,562      | 0.6%   | 42,417      | 0.8%   |
| Leases                  | 37,095      | 0.6%   | 22,870      | 0.4%   |
| Other                   | 22,085      | 0.4%   | 20,845      | 0.4%   |
| Deferred loan fees, net | (11,418)    | -0.2%  | (11,461)    | -0.2%  |
| Total loans             | \$6,079,435 | 100.0% | \$5,361,862 | 100.0% |

**Table of Contents****Loans by Region**

(in thousands)

|                   | September 30, 2007 |      | December 31, 2006 |      |
|-------------------|--------------------|------|-------------------|------|
|                   | Amount             | Mix  | Amount            | Mix  |
| Oregon/Washington | \$3,452,645        | 57%  | \$3,168,596       | 59%  |
| California        | 2,626,790          | 43%  | 2,193,266         | 41%  |
| Total Loans       | \$6,079,435        | 100% | \$5,361,862       | 100% |

**ASSET QUALITY AND NON-PERFORMING ASSETS**

Non-performing loans, which include non-accrual loans and accruing loans past due over 90 days, totaled \$68.9 million, or 1.13% of total loans, at September 30, 2007, as compared to \$9.1 million, or 0.17% of total loans, at December 31, 2006. Non-performing assets, which include non-performing loans and foreclosed real estate ( other real estate owned ), totaled \$79.2 million, or 0.96% of total assets, as of September 30, 2007, as compared to \$9.1 million, or 0.12% of total assets, as of December 31, 2006. The increase in non-performing assets in the three and nine months ended September 30, 2007 related primarily to deterioration in the northern California residential development market.

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 in accordance with SFAS No. 114, *Accounting by Creditors for the Impairment of a Loan*, are considered for non-accrual status. These loans 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. 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 September 30, 2007 totaled \$10.3 million and consisted of two properties. Subsequent to September 30, 2007, the Company sold \$10.0 million of other real estate owned with no loss recognized.

The following table summarizes our non-performing assets as of September 30, 2007 and December 31, 2006.

**Non-Performing Assets**

(dollars in thousands)

|   | September<br>30,<br>2007 | December<br>31,<br>2006 |
|---|--------------------------|-------------------------|
| Loans on nonaccrual status                  | \$ 67,419                | \$ 8,629                |
| Loans past due 90 days or more and accruing | 1,488                    | 429                     |
| Total non-performing loans                  | 68,907                   | 9,058                   |
| Other real estate owned                     | 10,310                   |                         |
| Total non-performing assets                 | \$ 79,217                | \$ 9,058                |
| Allowance for loan losses                   | \$ 88,278                | \$ 60,090               |
| Reserve for unfunded commitments            | 1,246                    | 1,313                   |
| Allowance for credit losses                 | \$ 89,524                | \$ 61,403               |

Asset quality ratios:

|   |       |       |
|---|-------|-------|
| Non-performing assets to total assets                     | 0.96% | 0.12% |
| Non-performing loans to total loans                       | 1.13% | 0.17% |
| Allowance for loan losses to total loans                  | 1.45% | 1.12% |
| Allowance for credit losses to total loans                | 1.47% | 1.15% |
| Allowance for credit losses to total non-performing loans | 130%  | 678%  |

The following table summarizes our non-performing assets by region as of September 30, 2007.

**Table of Contents****Non-Performing Assets by Region**

(dollars in thousands)

|   | <b>Oregon/<br/>Washington</b> | <b>California</b> | <b>Total</b> |
|---|-------------------------------|-------------------|--------------|
| Loans on nonaccrual status                  | \$ 17,914                     | \$ 49,505         | \$ 67,419    |
| Loans past due 90 days or more and accruing | 153                           | 1,335             | 1,488        |
| Total non-performing loans                  | 18,067                        | 50,840            | 68,907       |
| Other real estate owned                     | 10,000                        | 310               | 10,310       |
| Total non-performing assets                 | \$ 28,067                     | \$ 51,150         | \$ 79,217    |

At September 30, 2007, there were no loans classified as restructured as compared to \$8.0 million at December 31, 2006. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. Substantially all of the restructured loans as of December 31, 2006 were classified as impaired. None of the restructured loans were classified as non-accrual loans as of December 31, 2006.

A 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.

**ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED COMMITMENTS**

The allowance for loan and lease losses ( ALLL ) totaled \$88.3 million at September 30, 2007, an increase from the \$60.1 million at December 31, 2006. The following table shows the activity in the ALLL for the three and nine months ending September 30, 2007 and 2006:

**Allowance for Loan and Lease Losses**

(in thousands)

|   | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Balance, beginning of period              | \$ 68,723                 | \$ 58,516   | \$ 60,090                | \$ 43,885   |
| Acquisitions                              |                           | 184         | 5,078                    | 14,227      |
| Provision for loan and lease losses       | 20,420                    | 2,352       | 23,916                   | 2,427       |
| Loans charged-off                         | (1,414)                   | (1,027)     | (2,997)                  | (2,587)     |
| Charge-off recoveries                     | 549                       | 450         | 2,191                    | 2,523       |
| Net charge-offs                           | (865)                     | (577)       | (806)                    | (64)        |
| Total allowance for loan and lease losses | 88,278                    | 60,475      | 88,278                   | 60,475      |
| Reserve for unfunded commitments          | 1,246                     | 2,021       | 1,246                    | 2,021       |
| Allowance for credit losses               | \$ 89,524                 | \$ 62,496   | \$ 89,524                | \$ 62,496   |

As a percentage of average loans and leases (annualized):

|                 |       |       |       |       |
|-----------------|-------|-------|-------|-------|
| Net charge-offs | 0.06% | 0.04% | 0.02% | 0.00% |
|-----------------|-------|-------|-------|-------|

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|                                     |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|
| Provision for loan and lease losses | 1.34% | 0.17% | 0.56% | 0.07% |
|-------------------------------------|-------|-------|-------|-------|

The increase in the allowance for loan and lease losses as of September 30, 2007 is principally attributable to an increase in provision for loan and lease losses during the three and nine months ended September 30, 2007 as compared to the same periods in 2006. Additional discussion on the increase in provision for loan and lease losses is provided under the heading *Provision for Loan and Lease Losses* above.

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

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**Table of Contents****Summary of Reserve for Unfunded Commitments Activity**

(in thousands)

|   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2007                                | 2006     | 2007                               | 2006     |
| Balance, beginning of period                      | \$ 1,273                            | \$ 2,145 | \$ 1,313                           | \$ 1,601 |
| Acquisitions                                      |                                     |          | 134                                | 382      |
| Net (decrease) increase charged to other expenses | (27)                                | (124)    | (201)                              | 38       |
| Balance, end of period                            | \$ 1,246                            | \$ 2,021 | \$ 1,246                           | \$ 2,021 |

We believe that the ALLL and RUC at September 30, 2007 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.

**MORTGAGE SERVICING RIGHTS**

The following table presents the key elements of our mortgage servicing rights asset:

**Summary of Mortgage Servicing Rights**

(in thousands)

|  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |           |
|--|-------------------------------------|------------|------------------------------------|-----------|
|  | 2007                                | 2006       | 2007                               | 2006      |
| Balance, beginning of period <sup>(1)</sup>                  | \$ 9,966                            | \$ 11,550  | \$ 9,952                           | \$ 10,890 |
| Additions for new mortgage servicing rights capitalized      | 156                                 | 225        | 499                                | 1,337     |
| Changes in fair value:                                       |                                     |            |                                    |           |
| Due to changes in model inputs or assumptions <sup>(2)</sup> | (220)                               |            | 675                                |           |
| Other <sup>(3)</sup>   | (428)                               |            | (1,652)                            |           |
| Amortization of servicing rights                             |                                     | (292)      |                                    | (933)     |
| Impairment charge  |                                     | (1,056)    |                                    | (867)     |
| Balance, end of period                                       | \$ 9,474                            | \$ 10,427  | \$ 9,474                           | \$ 10,427 |
| Balance of loans serviced for others                         | \$ 877,648                          | \$ 978,723 |                                    |           |
| MSR as a percentage of serviced loans                        | 1.08%                               | 1.07%      |                                    |           |

(1) Represents fair value as of June 30, 2007 and December 31, 2006 and amortized cost as of June 30, 2006 and December 31, 2005,

which approximated fair value.

- (2) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.

- (3) Represents changes due to collection/realization of expected cash flows over time.

As of September 30, 2007, we serviced residential mortgage loans for others with an aggregate outstanding principal balance of \$877.6 million for which servicing assets have been recorded. Prior to the adoption of SFAS No.156 on January 1, 2007, the servicing asset recorded at the time of sale was amortized over the term of, and in proportion to, net servicing revenues. Subsequent to adoption, the mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue.

We plan to start hedging the fair value change of the MSR portfolio starting in the fourth quarter of 2007 with a goal of minimizing the volatility to earnings in the future.

#### **GOODWILL AND CORE DEPOSIT INTANGIBLE ASSETS**

At September 30, 2007, we had goodwill and other intangible assets of \$723.8 million and \$43.4 million, respectively, as compared to \$645.9 million and \$33.6 million, respectively, at year-end 2006. This increase in goodwill is primarily a result of the North Bay acquisition. The goodwill recorded in connection with the North Bay acquisition represented the excess of the purchase price over the



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estimated fair value of the net assets acquired. A portion of the purchase price was allocated to the value of North Bay's core deposits, which included all deposits except certificates of deposit and merchant servicing portfolio. The value of the core deposits was determined by a third party based on an analysis of the cost differential between the core deposits and alternative funding sources.

We amortize core deposit intangible assets on an accelerated or straight-line basis over an estimated ten-year life. Substantially all of the goodwill is associated with our community banking operations. We evaluate goodwill for possible impairment on a quarterly basis and there were no impairments recorded for the three and nine months ended September 30, 2007 and 2006.

**DEPOSITS**

Total deposits were \$6.5 billion at September 30, 2007, an increase of \$677.9 million as compared to year-end 2006. The growth in deposits was principally due to the North Bay acquisition (\$462.6 million of deposits as of the acquisition date). Organic deposit growth during the nine months ended September 30, 2007 was \$215.3 million (5% annualized organic growth), primarily in the Oregon/Washington region. Management attributes this growth 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.

The following table presents the deposit balances by major category as of September 30, 2007 and December 31, 2006:

**Deposits**

(in thousands)

|                            | September 30, 2007 |            | December 31, 2006 |            |
|----------------------------|--------------------|------------|-------------------|------------|
|                            | Amount             | Percentage | Amount            | Percentage |
| Non-interest bearing       | \$ 1,294,334       | 20%        | \$ 1,222,107      | 21%        |
| Interest bearing demand    | 783,558            | 12%        | 725,127           | 12%        |
| Savings and money market   | 2,525,873          | 39%        | 2,133,497         | 37%        |
| Time, \$100,000 or greater | 1,064,189          | 16%        | 898,617           | 15%        |
| Time, less than \$100,000  | 850,263            | 13%        | 860,946           | 15%        |
| Total                      | \$ 6,518,217       | 100%       | \$ 5,840,294      | 100%       |

The following table presents the deposit balances by region as of September 30, 2007 and December 31, 2006:

**Deposits by Region**

(in thousands)

|                                      | September 30, 2007 |      | December 31, 2006 |      |
|--------------------------------------|--------------------|------|-------------------|------|
|                                      | Amount             | Mix  | Amount            | Mix  |
| <b>Deposits by region:</b>           |                    |      |                   |      |
| Oregon/Washington                    | \$3,700,826        | 57%  | \$3,500,965       | 60%  |
| California                           | 2,817,391          | 43%  | 2,339,329         | 40%  |
| Total Deposits                       | \$6,518,217        | 100% | \$5,840,294       | 100% |
| <b>Core deposits: <sup>(1)</sup></b> |                    |      |                   |      |
| Oregon/Washington                    | \$3,183,550        | 58%  | \$3,030,449       | 61%  |
| California                           | 2,270,478          | 42%  | 1,911,228         | 39%  |
| Total Core deposits                  | \$5,454,028        | 100% | \$4,941,677       | 100% |

|                     |     |     |
|---------------------|-----|-----|
| % of total deposits | 84% | 85% |
|---------------------|-----|-----|

- (1) Core deposits are defined as total deposits less time deposits greater than \$100,000.

#### **BORROWINGS**

At September 30, 2007, the Bank had outstanding \$52.9 million of securities sold under agreements to repurchase and \$20.0 million of federal funds purchased. The Bank had outstanding term debt of \$75.0 million at September 30, 2007. Advances from the Federal Home Loan Bank ( FHLB ) amounted to \$74.1 million of the total and are secured by investment securities and residential mortgage loans. The FHLB advances outstanding at September 30, 2007 had fixed interest rates ranging from 3.25% to 7.44% and \$1.0 million, or 1%, mature prior to December 31, 2007, while another \$42.0 million, or 57%, mature prior to December 31, 2008. Management expects continued use of FHLB advances as a source of short and long-term funding.

**Table of Contents****JUNIOR SUBORDINATED DEBENTURES**

We had junior subordinated debentures with carrying values of \$236.9 million and \$203.7 million, respectively, at September 30, 2007 and December 31, 2006. Umpqua early adopted SFAS No. 159 and selected the fair value measurement option for certain junior subordinated debentures not acquired through acquisitions and new junior subordinated debentures issued in 2007.

At September 30, 2007, approximately \$191.8 million, or 83% of the total issued amount, had interest rates that are adjustable on a quarterly basis based on a spread over LIBOR. Increases in short-term market interest rates during 2006 have resulted in increased interest expense for junior subordinated debentures. Although any additional 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.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of September 30, 2007, 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 adoption of SFAS No. 159, is included in Note 4 of the *Notes to Condensed Consolidated Financial Statements*.

**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. 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 \$1.6 billion at September 30, 2007. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling \$240.0 million at September 30, 2007. Availability of 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 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 the three and nine months ended September 30, 2007, the Bank paid the Company \$12.0 million and \$32.0 million in dividends to fund regular operations. The Bank also paid the Company \$60.0 million in special dividends to fund share repurchases during the second quarter. 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 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 September 30, 2007, the Company did not have any borrowing arrangements of its own.

As disclosed in the *Consolidated Statements of Cash Flows*, net cash provided by operating activities was \$56.7 million during the nine months ended September 30, 2007. The principal source of cash provided by operating activities was net income. Net cash of \$307.4 million used in investing activities consisted principally of \$281.8 million of net loan growth and purchases of investment securities available for sale of \$219.3 million, partially offset by sales and maturities of investment securities of \$112.1 million and cash acquired in the North Bay merger, net of cash consideration paid, of \$78.7 million. The \$110.2 million of cash provided by financing activities primarily consisted of \$215.2 million of net deposit increases, \$60.0 million in proceeds on issuance of junior subordinated debentures, and \$24.9 million increase in securities sold under agreements to repurchase and Federal funds purchased, partially offset by \$96.1 million in stock repurchases, \$69.7 million in repayment of term debt and junior subordinated debentures and \$32.1 million in dividend payments.

Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2007, increases in market interest rates have resulted in increased competition for bank deposits. It is possible that our deposit growth for 2007 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 5 of the *Notes to Condensed Consolidated Financial Statements*.

**Table of Contents****CONCENTRATIONS OF CREDIT RISK**

Information regarding Concentrations of Credit Risk is included in Note 5 of the *Notes to Condensed Consolidated Financial Statements*.

**CAPITAL RESOURCES**

Shareholders' equity at September 30, 2007 was \$1.2 billion, an increase of \$77.0 million, or 7%, from December 31, 2006. The increase in shareholders' equity during the nine months ended September 30, 2007 was principally due to the issuance of shares in connection with the North Bay acquisition valued at \$142.1 million, shares issued in connection with stock plans and related tax benefit of \$8.0 million, and retention of \$20.8 million, or approximately 39%, of net income for the nine month period, partially offset by stock repurchases of \$96.1 million.

The following table shows Umpqua Holdings' consolidated and Umpqua Bank capital adequacy ratios, as calculated under regulatory guidelines, compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a well-capitalized institution at September 30, 2007 and December 31, 2006:

(dollars in thousands)

|  | Actual    |        | For Capital Adequacy purposes |       | To be Well Capitalized |        |
|--|-----------|--------|-------------------------------|-------|------------------------|--------|
|  | Amount    | Ratio  | Amount                        | Ratio | Amount                 | Ratio  |
| As of September 30, 2007:                |           |        |                               |       |                        |        |
| Total Capital (to Risk Weighted Assets)  |           |        |                               |       |                        |        |
| Consolidated                             | \$767,649 | 10.83% | \$567,054                     | 8.00% | \$708,817              | 10.00% |
| Umpqua Bank                              | \$756,643 | 10.70% | \$565,714                     | 8.00% | \$707,143              | 10.00% |
| Tier I Capital (to Risk Weighted Assets) |           |        |                               |       |                        |        |
| Consolidated                             | \$694,368 | 9.80%  | \$283,416                     | 4.00% | \$425,123              | 6.00%  |
| Umpqua Bank                              | \$683,362 | 9.66%  | \$282,966                     | 4.00% | \$424,448              | 6.00%  |
| Tier I Capital (to Average Assets)       |           |        |                               |       |                        |        |
| Consolidated                             | \$694,368 | 9.35%  | \$297,056                     | 4.00% | \$371,320              | 5.00%  |
| Umpqua Bank                              | \$683,362 | 9.21%  | \$296,791                     | 4.00% | \$370,989              | 5.00%  |
| As of December 31, 2006:                 |           |        |                               |       |                        |        |
| Total Capital (to Risk Weighted Assets)  |           |        |                               |       |                        |        |
| Consolidated                             | \$733,239 | 11.63% | \$504,378                     | 8.00% | \$630,472              | 10.00% |
| Umpqua Bank                              | \$715,593 | 11.37% | \$503,496                     | 8.00% | \$629,369              | 10.00% |
| Tier I Capital (to Risk Weighted Assets) |           |        |                               |       |                        |        |
| Consolidated                             | \$671,836 | 10.66% | \$252,096                     | 4.00% | \$378,144              | 6.00%  |
| Umpqua Bank                              | \$654,190 | 10.39% | \$251,854                     | 4.00% | \$377,781              | 6.00%  |
| Tier I Capital (to Average Assets)       |           |        |                               |       |                        |        |
| Consolidated                             | \$671,836 | 10.28% | \$261,415                     | 4.00% | \$326,769              | 5.00%  |

Umpqua Bank                      \$654,190              10.02%              \$261,154              4.00%              \$326,442              5.00%

The following table presents cash dividends declared and dividend payout ratios (dividends declared per share divided by basic earnings per share) for the three and nine months ended September 30, 2007 and 2006:

*Cash Dividends and Payout Ratios*

|                             | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|-----------------------------|---------------------------|-------------|--------------------------|-------------|
|                             | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                             | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Dividend declared per share | \$0.19                    | \$0.18      | \$0.55                   | \$0.42      |
| Dividend payout ratio       | 86%                       | 45%         | 61%                      | 35%         |

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On April 19, 2007, the Company announced an expansion of the Board of Directors 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. As of September 30, 2007, a total of 1.5 million shares remained available for repurchase. Shares repurchased in open market transactions during the third quarter of 2007 were 1,648,426. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings and our capital plan. 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.

On July 19, 2007, the Company announced plans to issue \$130 million of new trust preferred securities over the next four months and to use the proceeds to redeem \$75 million of trust preferred securities related to three Trusts during the third and fourth quarters; to fund previously announced share repurchases; and, for other corporate purposes. Of the \$61.9 million in new trust preferred securities issued in the third quarter, the Company used \$25.8 million of the proceeds to redeem trust preferred securities issued by one Trust and the remainder to repurchase 1.65 million shares of common stock. On October 18, 2007, the Company announced that it intended to put on hold plans to issue additional trust preferred securities for at least another quarter until there is improvement in the credit markets.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our assessment of market risk as of September 30, 2007 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 4. Controls and Procedures**

Our management, including our Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer, has concluded that our disclosure controls and procedures are effective in timely alerting them to information relating to us that is required to be included in our periodic SEC filings. The disclosure controls and procedures were last evaluated by management as of September 30, 2007.

There have been no changes in our internal controls or in other factors that have materially affected or are likely to materially affect our internal controls over financial reporting subsequent to the date of the evaluation.

**Table of Contents****Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

Because of the nature of our business, we are involved in legal proceedings in the regular course of business. At this time, we do not believe that there is pending litigation the unfavorable outcome of which would result in a material adverse change to our financial condition, results of operations or cash flows.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors as of September 30, 2007 from those presented in our Annual Report on Form 10-K for the year ended December 31, 2006, except as noted in the Forward Looking Statements discussion under Part I, Item 2 of this report.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) Not Applicable

(b) Not Applicable

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended September 30, 2007:

| <b>Period</b>     | <b>Total number<br/>of Shares<br/>Purchased (1)</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plan<br/>(2)</b> | <b>Maximum<br/>Number<br/>of Remaining<br/>Shares that<br/>May<br/>be Purchased at<br/>Period End<br/>under<br/>the Plan</b> |
|-------------------|---|---|--|--|
| 7/1/07 - 7/31/07  | 8,750   | \$ 20.30  |  | 3,191,371  |
| 8/1/07 - 8/31/07  | 1,656,595   | \$ 21.24  | 1,648,426  | 1,542,945  |
| 9/1/07 - 9/30/07  | 775   | 20.01   |  | 1,542,945  |
| Total for quarter | 1,666,120   | \$ 21.23  | 1,648,426  |  |

(1) Shares repurchased by the Company during the quarter consist of 1,648,426 shares repurchased pursuant to the Company's publicly announced corporate stock repurchase plan described in (2) below, cancellation of 1,059 restricted shares to pay withholding taxes and 16,635 shares tendered in connection with option exercises.

(2) The repurchase plan, which was approved by the Board and announced in August 2003, originally authorized the repurchase of up to 1.0 million shares. The authorization was amended to increase the repurchase limit initially to 1.5 million shares and subsequently to 2.5 million shares. On April 19, 2007, the Company announced an expansion of the repurchase plan by increasing the repurchase limit to 6.0 million shares and extending the plan's expiration date to June 30, 2009.

**Item 3. Defaults Upon Senior Securities**

Not Applicable

**Item 4. Submissions of Matters to a Vote of Security Holders**

(a) Not Applicable

(b) Not Applicable

(c) Not Applicable



(d) Not Applicable

**Item 5. Other Information**

(a) Not Applicable

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(b) Not Applicable

**Item 6. Exhibits**

The exhibits filed as part of this Report and exhibits incorporated herein by reference to other documents are listed in the Exhibit Index to this Report, which follows the signature page.

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**SIGNATURES**

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UMPQUA HOLDINGS CORPORATION  
(Registrant)

Dated November 6, 2007

/s/ Raymond P. Davis

Raymond P. Davis  
President and  
Chief Executive Officer

Dated November 6, 2007

/s/ Ronald L. Farnsworth

Ronald L. Farnsworth  
Senior Vice President/Finance and  
Principal Financial Officer

Dated November 6, 2007

/s/ Neal T. McLaughlin

Neal T. McLaughlin  
Senior Vice President/Controller and  
Principal Accounting Officer

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**EXHIBIT INDEX**

Exhibit

- 3.1 (a) Restated Articles of Incorporation
- 3.2 (b) Bylaws, as amended
- 4.1 (c) Specimen Stock Certificate
- 4.2 (d) Amended and Restated Trust Agreement dated August 9, 2007
- 4.3 (e) Indenture, dated August 9, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
- 4.4 (f) Guarantee Agreement, dated August 9, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
- 4.5 (g) Series B Guarantee Agreement, dated September 6, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
- 4.6 (h) Series B Supplement pursuant to Amended and Restated Trust Agreement dated August 9, 2007
- 31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.3 Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  
- (a) Incorporated by reference to Exhibit 3.1 to Form 10-Q filed August 7, 2006
- (b) Incorporated by reference to Exhibit 3.2 to Form 10-Q filed May 8, 2007
- (c) Incorporated by reference to the Registration Statement on Form S-8 (No. 333-77259)

filed April 28,  
1999

- (d) Incorporated by reference to Exhibit 4.1 to Form 8-K filed August 10, 2007
- (e) Incorporated by reference to Exhibit 4.2 to Form 8-K filed August 10, 2007
- (f) Incorporated by reference to Exhibit 4.3 to Form 8-K filed August 10, 2007
- (g) Incorporated by reference to Exhibit 4.3 to Form 8-K filed September 7, 2007
- (h) Incorporated by reference to Exhibit 4.4 to Form 8-K filed September 7, 2007