UMPQUA HOLDINGS CORP
Form 10-K
February 27, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2008

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

For the transition period from to .

Commission File Number: 000-25597

UMPQUA HOLDINGS CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

(Address of principal executive offices) (zip code)

(503) 727-4100

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
NONE	
Securities registered pursuant to Section 12(g) of the Act:	Common Stock

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

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

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

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2008, based on the closing price on that date of $12.13 per share, and 60,087,850 shares outstanding was $497,581,588. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded because those persons may be deemed affiliates.

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

The number of shares of the Registrant s common stock (no par value) outstanding as of January 31, 2009 was 60,167,355.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2009 Annual Meeting of Shareholders of Umpqua Holdings Corporation are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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PART I

ITEM 1. BUSINESS.

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as anticipates, expects, believes, estimates and intends and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds, 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 our filings with the SEC, Item 1A of this Annual Report and the following factors that might cause actual results to differ materially from those presented:

The ability to attract new deposits and loans and leases

Demand for financial services in our market areas

Competitive market pricing factors

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

Risks associated with concentrations in real estate related loans

Market interest rate volatility

Stability of funding sources and continued availability of borrowings

Changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth

The ability to recruit and retain 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

The ability to raise capital or incur debt on reasonable terms

Regulatory limits on the Bank s ability to pay dividends to the Company

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

Future legislative or administrative changes to the Capital Purchase Program enacted under EESA.

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. For a more detailed discussion of some of the risk factors, see the section entitled Risk Factors below. We do not intend to update any factors or to publicly announce revisions to any of our forward-looking statements. You should consider any forward looking statements in light of this explanation, and we caution you about relying on forward-looking statements.

Introduction

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

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the Securities and Exchange Commission (SEC). You may obtain these reports, and any amendments, from

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the SEC s website at www.sec.gov. You may obtain copies of these reports, and any amendments, through our website at www.umpquaholdingscorp.com. These reports are available through our website as soon as reasonably practicable after they are filed electronically with the SEC. All of our SEC filings since November 14, 2002 are made available on our website within two days of filing with the SEC.

General Background

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

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

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

Strand is a registered broker-dealer and investment advisor with offices in Portland, Eugene, and Medford, Oregon, and in many Umpqua Bank stores. The firm is one of the oldest investment companies in the Northwest and is active in many community events. 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.

Business Strategy

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

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

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

Through such programs, we believe we can measure the quality of service provided to our customers and maintain employee focus on quality customer service.

Establish Strong Brand Awareness. As a financial services retailer, we devote considerable resources to developing the Umpqua Bank brand. We promote the brand in advertising and merchandise bearing the Bank s logo, such as mugs, tee-shirts, hats, umbrellas and bags of custom roasted coffee beans. The unique look and feel of our stores and our unique product displays help position us as an innovative, customer friendly retailer of financial products and services. We build consumer preference for our products and services through strong brand awareness. During 2005, we secured naming rights to the office tower in Portland, Oregon in which our administrative offices and main branch are now located. This downtown building now displays prominent illuminated signage with the Bank s name and logo.

Use Technology to Expand Customer Base. Although our strategy continues to emphasize superior personal service, we plan to expand user-friendly, technology-based systems to attract customers that may prefer to interact with their financial institution electronically. We offer technology-based services including voice response banking, debit cards, automatic payroll deposit programs, ibank@Umpqua online banking, bill pay and cash management, advanced function ATMs and an internet web site. We believe the availability of both traditional bank services and electronic banking services enhances our ability to attract a broader range of customers.

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

Marketing and Sales

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

Media Advertising. Over the past five years, we have introduced many comprehensive marketing campaigns aimed at strengthening the Umpqua Bank brand and heightening public awareness about our innovative delivery of financial products and services. The bank has been recognized nationally for its use of new media and unique approach. From programs like Umpqua s Discover Local Music Project, Umpqua s ice cream truck, the introduction of LocalSpace, a social networking site for businesses, to campaigns like Umpquatize and the Lemonaire , Umpqua is utilizing non traditional media channels and leveraging mass market media in new ways. In 2005 Umpqua dubbed the term hand-shake marketing to describe the company s fresh approach to localized marketing.

Retail Store Concept. As a financial services provider, we believe that the store environment is critical to successfully market and sell products and services. Retailers traditionally have displayed merchandise within their stores in a manner designed to encourage customers to purchase their products. Purchases are made on the spur of the moment due to the products availability and attractiveness. Umpqua Bank believes this same concept can be applied to financial institutions and accordingly displays financial services and products through tactile merchandising within our stores. Unlike many financial institutions whose strategy is to discourage customers from visiting their facilities in favor of ATMs or other forms of electronic banking, we encourage customers to visit our stores, where they are greeted by well-trained sales associates and encouraged to browse and to make impulse purchases. A recent store design, referred to as the Pearl, includes features like wireless laptop computers customers can use, opening rooms with fresh fruit and refrigerated beverages and innovative products like the Community Interest Account that pays interest to non-profit organizations. The stores host a variety of after-hours events, from poetry readings to seminars on how to build an art collection. In 2006, to bring financial services to our customers in a cost-effective way, we introduced Neighborhood Stores. We build these stores in established neighborhoods and design them to be neighborhood hubs. These stand-alone stores are smaller and emphasize advanced technology. To strengthen brand recognition, all Neighborhood Stores will be nearly identical in appearance. The latest store design, referred to as the Innovation Lab , showcases emerging and existing technologies that foster community and redefine what consumers can expect from a banking experience. As a testing ground for new initiatives, the Lab will change regularly to feature new technology, products, services and community events.

Sales Culture. Although a successful marketing program will attract customers to visit our stores, a sales environment and a well-trained sales team are critical to selling our products and services. We believe that our sales culture has become well established throughout the organization due to our unique facility designs and ongoing training of sales associates on all aspects of sales and service. We train our sales associates at our in-house training facility known as The World s Greatest Bank University and pay commissions for the sale of the Bank s products and services. This sales culture has helped transform us from a traditional community bank to a nationally recognized marketing company focused on selling financial products and services.

Products and Services

We offer a full array of financial products to meet the banking needs of our market area and targeted customers. To ensure the ongoing viability of our product offerings, we regularly examine the desirability and profitability of existing and potential new products. To make it easy for new prospective customers to bank with us and access our products, we offer a Switch Kit, which allows a customer to open a primary checking account with Umpqua Bank in less than ten minutes. Other avenues through which customers can access our products include our web site, internet banking through the ibank@Umpqua program, and our 24-hour telephone voice response system.

Deposit Products. We offer a traditional array of deposit products, including non-interest-bearing checking accounts, interest-bearing checking and savings accounts, money market accounts and certificates of deposit. These accounts earn interest at rates established by management based on competitive market factors and management s desire to increase certain types or maturities of deposit liabilities. We also offer a line of Life Cycle Packages to increase the number of relationships with customers and increase service fee income. These packages comprise several products bundled together to provide added value to the customer and increase the customer s ties to us. We also offer a seniors program to customers over fifty years old, which includes an array of banking services and other amenities, such as purchase discounts, vacation trips and seminars.

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

Retail Brokerage Services. Strand provides a full range of brokerage services including equity and fixed income products, mutual funds, annuities, options, retirement planning and money management services. Additionally, Strand offers life insurance, disability insurance and medical supplement policies. At December 31, 2008, Strand had 31 Series 7-licensed representatives serving clients at three stand-alone retail brokerage offices and Investment Opportunity Centers located in many Bank stores.

Private Client Services. Our Private Client Services division provides integrated banking and investment products and services by coordinating the offerings of the Bank and Strand, focusing principally on serving high value customers. The Prosperity suite of products includes 24-hour access to a private client executive, courier service, preferred rates on deposit and loan products, brokerage accounts and portfolio management.

Commercial and Commercial Real Estate Loans. We offer specialized loans for business and commercial customers, including accounts receivable and inventory financing, equipment loans, real estate construction loans and permanent financing and SBA program financing. Additionally, we offer specially designed loan products for small businesses through our Small Business Lending Center. Commercial real estate lending is a focus of our lending activities and a significant portion of our loan and lease portfolio consists of commercial real estate loans. We provide funding for income-producing real estate, though a substantial share of our commercial real estate loans are for owner-occupied projects of commercial loan customers and for borrowers we have financed for many years.

Residential Real Estate Loans. Real estate loans are available for construction, purchase and refinancing of residential owner-occupied and rental properties. Borrowers can choose from a variety of fixed and adjustable rate options and terms. We sell most residential real estate loans that we originate into the secondary market.

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

Market Area and Competition

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

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

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

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

The current adverse economic conditions, driven by a slowdown in the housing industry, has primarily been focused in our Northern California region and Central Oregon market. A continued downturn in the residential real estate construction and development sector could further negatively impact our operations in these markets, and could widen to impact the other markets we serve.

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The following table presents the Bank s market share percentage for total deposits as of June 30, 2008, in each county where we have operations. The table also indicates the ranking by deposit size in each market. All information in the table was obtained from SNL Financial of Charlottesville, Virginia, which compiles deposit data published by the FDIC as of June 30, 2008 and updates the information for any bank mergers completed subsequent to the reporting date.

Oregon

County	Market Share	Market Rank	Number of Stores
Benton	7.3%	6	1
Clackamas	2.8%	8	5
Coos	35.7%	1	5
Curry	14.4%	3	1
Deschutes	3.1%	10	5
Douglas	57.8%	1	10
Jackson	12.4%	3	9
Josephine	15.5%	1	5
Lane	17.7%	1	9
Lincoln	10.8%	3	2
Linn	11.9%	4	3
Marion	5.9%	7	3
Multnomah	2.3%	7	11
Washington	3.9%	9	3

California

County	Market Share	Market Rank	Number of Stores
Amador	4.4%	7	1
Butte	2.4%	8	3
Calaveras	21.2%	2	4
Colusa	32.0%	1	2
Contra Costa	0.2%	24	1
El Dorado	8.8%	4	5
Glenn	26.7%	3	2
Humboldt	25.0%	1	7
Lake	12.1%	4	2
Mendocino	2.4%	8	1
Napa	10.7%	3	7
Placer	8.4%	3	9
Sacramento	0.6%	19	6
San Joaquin	0.4%	20	1
Shasta	2.4%	8	1
Solano	4.6%	8	4
Stanislaus	0.5%	18	2
Sutter	13.0%	4	2
Tehama	15.7%	3	2
Trinity	28.5%	2	1
Tuolumne	11.3%	3	5
Yolo	2.1%	11	1
Yuba	22.9%	3	2

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Washington

County	Market Share	Market Rank	Number of Stores
Clark	3.5%	8	3
King	0.1%	46	2

Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2008, real estate construction/development, real estate mortgage, commercial real estate, commercial/industrial, and consumer/other loans represented approximately 15%, 11%, 53%, 20% and 1%, respectively, of the total loan and lease portfolio.

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

Allowance for Loan and Lease Losses (ALLL) Methodology

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

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

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

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of December 31, 2008, the unallocated allowance amount represented 9% of the allowance.

Management believes that the ALLL was adequate as of December 31, 2008. 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.

Employees

As of December 31, 2008, we had a total of 1,700 full-time equivalent employees. None of the employees are subject to a collective bargaining agreement and management believes its relations with employees to be good. Umpqua Bank was named #34 on *Fortune* magazine s 2009 list of 100 Best Companies to Work For , #13 on the 2008 list and #34 on the 2007 list. Information regarding employment agreements with our executive officers is contained in Item 11 below, which item is incorporated by reference to our proxy statement for the 2009 annual meeting of shareholders.

Government Policies

The operations of our subsidiaries are affected by state and federal legislative changes and by policies of various regulatory authorities. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, and capital adequacy and liquidity constraints imposed by federal and state regulatory agencies. Congress enacted the *Emergency Economic Stabilization Act of 2008* (EESA), which granted significant authority to the U.S. Department of the Treasury (the Treasury) to invest in financial institutions, guarantee debt, buy troubled assets and take other action designed to stabilize financial markets. In November 2008, the Company closed a transaction under the Capital Purchase Program (CPP) in which the Company issued 214,181 shares of cumulative preferred stock to the Treasury and issued a warrant to purchase 2,221,795 shares of common stock at $14.46 per share in exchange for $214,181,000. Agreements executed in connection with the CPP transaction place restrictions on compensation payable to senior executive officers and provide that the Company may not declare dividends that exceed $0.19 per common share per quarter without Treasury s prior written consent. Federal and state governments have been actively legislating responses to the financial market crisis that unfolded in 2008 and those legislative and regulatory activities are expected to continue for the foreseeable future. As this report is written, federal legislation and regulations have been proposed that would change the terms of our CPP transaction.

Supervision and Regulation

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

Holding Company Regulation. We are a registered financial holding company under the Gramm-Leach-Bliley Act of 1999 (the GLB Act), and are subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the Federal Reserve). As a financial holding company, we are examined by and file reports with the Federal Reserve. The Federal Reserve expects a bank holding company to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank.

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

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

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

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

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

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

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

On October 3, 2008, the EESA temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The basic deposit insurance limit will return to $100,000 after December 31, 2009.

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

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

In December of 2008, the FDIC adopted a rule that would further amend the system for risk-based assessments and change assessment rates in attempts to restore targeted reserve ratios in the DIF. Effective January 1, 2009, the risk-based assessment rates will be uniformly raised seven basis points (annualized). Furthermore, the FDIC has proposed additional modifications to the assessment system by requiring riskier institutions pay a larger share of the assessment. Characteristics of riskier institutions may include institutions with a significant reliance on secured liabilities or brokered deposits, particularly when combined with rapid asset growth. The proposal would also provide incentives for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. These changes would be effective beginning April 1, 2009.

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

Dividends. Under the Oregon Bank Act and the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), the Bank is subject to restrictions on the payment of cash dividends to its parent company. Dividends paid by the Bank provide substantially all of Umpqua s (as a stand-alone parent company) cash flow. A bank may not pay cash dividends if that payment would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. In addition, under the Oregon Bank Act, the amount of the dividend may not be greater than net unreserved retained earnings, after first deducting to the extent not already charged against earnings or reflected in a reserve, all bad debts, which are debts on which interest is unpaid and past due at least six months; all other assets charged-off as required by the Oregon Director or state or federal examiner; and all accrued expenses, interest and taxes. In addition, state and federal regulatory authorities are authorized to prohibit banks and holding companies from paying dividends that would constitute an unsafe or unsound banking practice.

The agreements that we executed with the Treasury in connection with the CPP transaction provide that the Company may not pay dividends on, repurchase, or redeem any other class of stock unless we are current in the payment of all dividends on the preferred stock issued to Treasury. Furthermore, the agreement provides that we may not pay quarterly cash dividends on the Company s common stock in excess of $0.19 per share without Treasury s prior written consent, for as long as the preferred stock is outstanding.

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

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

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

FDICIA requires federal banking regulators to take prompt corrective action with respect to a capital-deficient institution, including requiring a capital restoration plan and restricting certain growth activities of the institution. Umpqua could be required to guarantee any such capital restoration plan required of the Bank if the Bank became undercapitalized. Pursuant to FDICIA, regulations were adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Under the regulations, the Bank is considered well capitalized as of December 31, 2008.

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

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

Broker-Dealer and Related Regulatory Supervision. Strand is a member of the National Association of Securities Dealers and is subject to the regulatory supervision of the Financial Industry Regulatory Authority. Areas subject to this regulatory review include compliance with trading rules, financial reporting, investment suitability for clients, and compliance with stock exchange rules and regulations.

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

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

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

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Umpqua Holdings Corporation

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

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

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

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

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

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

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

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

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

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

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

The Sarbanes-Oxley Act also requires:

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

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

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

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

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

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

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

ITEM 1A. RISK FACTORS.

The following summarizes certain risks that management believes are specific to our business. This should not be viewed as including all risks that face the Company.

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

Approximately 79% of our loan portfolio is secured by real estate, the majority of which is commercial real estate. As a result increased levels of commercial and consumer delinquencies and declining real estate values, we have experienced increasing levels of net charge-offs and allowances for loan and lease reserves. Continued increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

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

Our earnings are largely derived from net interest income, which is interest income and fees earned on loans and investments, less interest paid on deposits and other borrowings. Interest rates are highly sensitive to many factors that are beyond the control of our management, including general economic conditions and the policies of various governmental and regulatory authorities. As interest rates change, net interest income is affected. With fixed rate assets (such as fixed rate loans and most investment securities) and liabilities (such as certificates of deposit), the effect on net interest income depends on the cash flows associated with the maturity of the asset or liability. Asset/liability management policies may not be successfully implemented and from time to time our risk position is not balanced. An unanticipated rapid decrease or increase in interest rates could have an adverse effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore on the level of net interest income. For instance, any rapid increase in interest rates in the future could result in interest expense increasing faster than interest income because of fixed rate loans and longer-term investments. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth than previously experienced. See Quantitative and Qualitative Disclosures about Market Risk in Item 7A of this report.

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

The widening of the credit risk adjusted rate spreads on potential new issuances above our contractual spreads and recent reductions in three month LIBOR rates have contributed to positive fair value adjustments in our junior subordinated debentures carried at fair value. Conversely, contractions in future credit risk adjusted rate spreads on potential new issuances relative to the December 31, 2008 market rate spread that was utilized to measure the fair value of our junior subordinated debentures, or future increases to the three month LIBOR, will result in negative fair value adjustments.

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

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

- We expect to face increased regulation of our industry, including as a result of the EESA. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

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

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

- We will be required to pay significantly higher Federal Deposit Insurance Corporation premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

- There may be downward pressure on our stock price.

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

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

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

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

The Bank, like other lenders, is subject to credit risk, which is the risk of losing principal or interest due to borrowers failure to repay loans in accordance with their terms. Underwriting and documentation controls do not always work properly. A downturn in the economy or the real estate market in our market areas or a rapid increase in interest rates could have a negative effect on collateral values and borrowers ability to repay. To the extent loans are not paid timely by borrowers, the loans are placed on non-accrual status, thereby reducing interest income. Further, under these circumstances, an additional provision for loan and lease losses or unfunded commitments may be required. See Management s Discussion and Analysis of Financial Condition and Results of Operations Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments , Provision for Loan and Lease Losses and Asset Quality and Non-Performing Assets in Item 7 of this report.

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

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. However, if market conditions worsen significantly from those that we currently anticipate, or other unexpected events occur, we may in the future need to raise additional capital to maintain such levels and/or to support our growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations and pursue our growth strategy could be materially impaired.

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

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

Our wholesale funding sources may prove insufficient to replace deposits at maturity and support our future growth.

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

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

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

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

Various statutory provisions restrict the amount of dividends the Bank can pay to us without regulatory approval. The Bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet the adequately capitalized level in accordance with regulatory capital requirements. It is also possible that, depending upon the financial condition of the Bank and other factors, regulatory authorities could assert that payment of dividends or other payments, including payments to us, is an unsafe or unsound practice. Under Oregon law, the Bank may not pay dividends in excess of unreserved retained earnings, deducting therefrom, to the extent not already charged against earnings or reflected in a reserve, the following: (1) all bad debts, which are debts on which interest is past due and unpaid for at least six months, unless the debt is fully secured and in the process of collection; (2) all other assets charged-off as required by the Director of the Department of Consumer and Business Services or a state or federal examiner; and (3) all accrued expenses, interest and taxes of the institution.

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

Recently, the Company s common stock has been trading at a price below its book value, including goodwill and other intangible assets. The valuation of goodwill is determined using discounted cash flows of forecasted earnings, estimated sales price based on recent observable market transactions and market capitalization based on current stock price. If impairment was deemed to exist, a write down of the asset would occur with a charge to earnings. See section titled Goodwill and Other Intangible Assets in Item 7 of this report.

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

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

There can be no assurance that recently enacted legislation authorizing the U.S. government to inject capital into financial institutions and purchase assets from financial institutions will help stabilize the U.S. financial system.

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA). The legislation was enacted in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Pursuant to EESA, the U.S. Treasury has the authority to, among other things, invest in preferred stock of financial institutions and purchase mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. There can be no assurance, however, as to the actual impact that EESA will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of EESA and any subsequent legislation to stabilize the financial markets and a continued worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

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

On November 14, 2008, in exchange for an aggregate purchase price of $214,181,000, we issued and sold to the Treasury, pursuant to the TARP Capital Purchase Program, the following (i) 214,181 shares of the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, no par value per share and liquidation preference $1,000 per share and (ii) a warrant to purchase up to 2,221,795 shares of our common stock, no par value per share. Pursuant to the terms of the Securities Purchase Agreement, our ability to declare or pay dividends on any of our shares is limited. Specifically, we are unable to declare dividend payments on common, junior preferred or pari passu preferred shares if we are in arrears on the dividends on the Fixed Rate Cumulative Perpetual Preferred Stock. Further, we are not permitted to increase dividends on our common stock above the amount of the last quarterly cash dividend per share declared prior to October 14, 2008 without the Treasury s approval until the third anniversary of the investment unless all of the Fixed Rate Cumulative Perpetual Preferred Stock has been redeemed or transferred. In addition, our ability to repurchase our shares is restricted. The Treasury s consent generally is required for us to make any stock repurchase until the third anniversary of the investment by the Treasury unless all of the Fixed Rate Cumulative Perpetual Preferred Stock has been redeemed or transferred. Further, common, junior preferred or pari passu preferred shares may not be repurchased if we are in arrears on the Fixed Rate Cumulative Perpetual Preferred Stock dividends.

In addition, pursuant to the terms of the Securities Purchase Agreement, we adopted the Treasury s standards for executive compensation and corporate governance for the period during which the Treasury holds the equity issued pursuant to the Securities Purchase Agreement, including the common stock which may be issued pursuant to the warrant. These standards generally apply to our Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers. The standards include (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) prohibition on making golden parachute payments to senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. [In particular, the change to the deductibility limit on executive compensation will likely increase the overall cost of our compensation programs in future periods. Since the warrant has a ten year term, we could potentially be subject to the executive compensation and corporate governance restrictions for a ten year time period.]

Federal and state governments could pass legislation responsive to current credit conditions.

We could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank s borrowers are otherwise contractually required to pay under existing loan contracts. Also, we could experience higher credit losses because of federal or state legislation or regulatory action that limits the Bank s ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

The financial services industry is highly competitive.

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

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

Strand s retail brokerage operations present special risks not borne by community banks that focus exclusively on community banking. For example, the brokerage industry is subject to fluctuations in the stock market that may have a significant adverse impact on transaction fees, customer activity and investment portfolio gains and losses. Likewise, additional or modified regulations may adversely affect Strand s operations. Strand is also dependent on a small number of established brokers, whose departure could result in the loss of a significant number of customer accounts. A significant decline in fees and commissions or trading losses suffered in the investment portfolio could adversely affect Strand s income and potentially require the contribution of additional capital to support its operations. Strand is subject to claim arbitration risk arising from customers who claim their investments were not suitable or that their portfolios were too actively traded. These risks increase when the market, as a whole, declines. The risks associated with retail brokerage may not be supported by the income generated by those operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations Non-interest Income in Item 7 of this report.

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

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

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

The market for some of the investment securities held in our portfolio has become extremely volatile over the past twelve months. Volatile market conditions may detrimentally affect the value of these securities, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that the declines in market value associated with these disruptions will not result in other-than-temporary or permanent impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

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

Changes in interest rates greatly affect the mortgage banking business. One of the principal risks in this area is prepayment of mortgages and the consequent detrimental effect on the value of mortgage servicing rights (MSR). We may employ hedging strategies to mitigate this risk but if the hedging decisions and strategies are not successful, our net income could be adversely affected. See Management s Discussion and Analysis of Financial Condition and Results of Operations Mortgage Servicing Rights in Item 7 of this report.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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Umpqua Holdings Corporation

ITEM 2. PROPERTIES.

The executive offices of Umpqua are located at One SW Columbia Street in Portland, Oregon in office space that is leased. The main office of Strand is located at 200 SW Market Street in Portland, Oregon in office space that is leased. The Bank owns its main office located in Roseburg, Oregon. At December 31, 2008, the Bank conducted Community Banking activities at 148 locations, including 4 limited service facilities, in Northern California, Oregon and Washington along the I-5 corridor; in Bend, Oregon; along the Northern California and Oregon Coasts; and in Bellevue, Washington, of which 53 are owned and 95 are leased under various agreements. As of December 31, 2008, the Bank also operated 15 facilities for the purpose of administrative and other functions, such as back-office support or non-deposit taking Commercial Banking Centers, of which three are owned and 12 are leased. All facilities are in a good state of repair and appropriately designed for use as banking or administrative office facilities. As of December 31, 2008, Strand leased three stand-alone offices from unrelated third parties and also leased space in 11 Bank stores under lease agreements that are based on market rates.

Additional information with respect to owned premises and lease commitments is included in Notes 6 and 17, respectively, of the *Notes to Consolidated Financial Statements* in Item 8 below.

ITEM 3. 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 active or pending litigation the unfavorable outcome of which would result in a material adverse change to our financial condition, results of operations or cash flows.

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

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

No matters were submitted to the shareholders of the Company, through the solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2008.

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PART II

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

(a) Our Common Stock is traded on the NASDAQ Global Select Market under the symbol UMPQ. As of December 31, 2008, there were 100,000,000 common shares authorized for issuance. The following table presents the high and low sales prices of our common stock for each period, based on inter-dealer prices that do not include retail mark-ups, mark-downs or commissions, and cash dividends declared for each period:

Quarter Ended	High	Low	Cash Dividend Per Share
December 31, 2008	$ 18.40	$ 10.14	$ 0.05
September 30, 2008	$ 23.10	$ 8.57	$ 0.19
June 30, 2008	$ 16.97	$ 11.43	$ 0.19
March 31, 2008	$ 17.06	$ 12.00	$ 0.19
December 31, 2007	$ 20.95	$ 14.15	$ 0.19
September 30, 2007	$ 24.80	$ 18.52	$ 0.19
June 30, 2007	$ 27.00	$ 23.27	$ 0.18
March 31, 2007	$ 30.00	$ 25.39	$ 0.18

As of January 31, 2009, our common stock was held by approximately 5,100 shareholders of record, a number that does not include beneficial owners who hold shares in street name , or shareholders from previously acquired companies that have not exchanged their stock. At December 31, 2008, a total of 1.8 million stock options, 216,000 shares of restricted stock and 301,000 restricted stock units were outstanding. Additional information about stock options, restricted stock and restricted stock units is included in Note 20 of the *Notes to Consolidated Financial Statements* in Item 8 below and in Item 12 below.

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

In connection with the issuance and sale of preferred stock in the fourth quarter of 2008, the Company entered into a Letter Agreement including the Securities Purchase Agreement Standard Terms (the Agreement) with the U.S. Treasury. The Agreement contains certain limitations on the payment of quarterly cash dividends on the Company s common stock in excess of $0.19 per share, and on the Company s ability to repurchase its common stock. The preferred stock has no maturity date and ranks senior to our common stock with respect to the payment of dividends and distribution of amounts payable upon liquidation, dissolution and winding up of the Company. The preferred has no general voting or participation rights, and no sinking fund requirements. In the event dividends on the preferred stock are not paid full for six dividend periods, whether or not consecutive, the preferred stock holders will have the right to elect two directors. Additional information about the preferred stock is included in Note 19 of the *Notes to Consolidated Financial Statements* in Item 8 below.

During the first, second and third quarters of 2008, Umpqua s Board of Directors declared a quarterly cash dividend of $0.19 per share. For the fourth quarter of 2008, the Board declared a quarterly cash dividend of $0.05. This decrease was made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy. Such dividends are subject to the restrictions described in the preceding paragraph.

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

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Umpqua Holdings Corporation

Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that provide for the award of securities or the grant of options to purchase securities to employees and directors of Umpqua, its subsidiaries and its predecessors by merger that were in effect at December 31, 2008.

(shares in thousands)

	Equity Compensation Plan Information		
Plan category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted average exercise price of outstanding options, warrants and rights(4)	(C) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column(A)
Equity compensation plans approved by security holders			
2003 Stock Incentive Plan(1)	1,065	$ 18.92	635
2007 Long Term Incentive Plan(2)	301		699
Other(3)	792	$ 11.43	
Total	2,158	$ 15.66	1,334
Equity compensation plans not approved by security holders			
Total	2,158	$ 15.66	1,334

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

(2) At Umpqua s 2007 Annual Meeting, shareholders approved a 2007 Long Term Incentive Plan. The plan authorized the issuance of one million shares of stock through awards of performance-based restricted stock unit grants to executive officers. Target grants of 111,000 and maximum grants of 194,000 were approved to be issued in 2007 and target grants of 105,000 and maximum grants of 183,000 were approved to be issued in 2008 under this plan. During 2008, 76,000 units forfeited upon the retirement of an executive. As of December 31, 2008 172,000 restricted stock units are expected to vest if the current estimate of performance-based targets is satisfied, and would result in 828,000 securities available for future issuance.

(3) Includes other Umpqua stock plans and stock plans assumed through previous mergers. Includes 24,000 shares issued under North Bay Bancorp s stock option plans, having a weighted average exercise price of $17.17. Includes 86,000 shares issued under Western Sierra Bancorp s stock option plans, having a weighted average exercise price of $16.24. Includes 362,000 shares issued under all other previously acquired companies stock option plans, having a weighted average exercise price of $7.46 per share.

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

(b) Not applicable.

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(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2008:

Period	Total number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(2)	Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan
10/1/08 - 10/31/08	211	$ 13.63		1,542,945
11/1/08 - 11/30/08		$		1,542,945
12/1/08 - 12/31/08	121	$ 10.86		1,542,945
Total for quarter	332	$ 12.62		

(1) Shares repurchased by the Company during the quarter consist of cancellation of 332 restricted shares to pay withholding taxes. There were no shares tendered in connection with option exercises and no shares were repurchased pursuant to the Company s publicly announced corporate stock repurchase plan described in (2) below.

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

The Company repurchased no shares under the repurchase plan in 2008 as compared to 4.0 million shares in 2007. The 2003 Stock Incentive Plan and other stock plans we administer provide for the payment of the option exercise price or withholding taxes by tendering previously owned or recently vested shares. During the years ended December 31, 2008 and 2007, 263 and 42,762 shares were tendered in connection with option exercises, respectively. Restricted shares cancelled to pay withholding taxes totaled approximately 7,936 and 3,830 shares during the years ended December 31, 2008 and 2007, respectively.

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Umpqua Holdings Corporation

STOCK PERFORMANCE GRAPH

The following chart, which is furnished not filed, compares the yearly percentage changes in the cumulative shareholder return on our common stock during the five fiscal years ended December 31, 2008, with (i) the Total Return Index for Nasdaq Bank Stocks (ii) the Total Return Index for The Nasdaq Stock Market (U.S. Companies) and (iii) the Standard and Poor s 500. This comparison assumes $100.00 was invested on December 31, 2003, in our common stock and the comparison indices, and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. Price information from December 31, 2003 to December 31, 2008, was obtained by using the Nasdaq closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2003	**12/31/2004**	**12/31/2005**	**12/31/2006**	**12/31/2007**	**12/31/2008**
Umpqua Holdings Corporation	$ 100.00	$ 122.47	$ 140.36	$ 147.89	$ 79.88	$ 78.67
Nasdaq Bank Stocks	$ 100.00	$ 110.99	$ 106.18	$ 117.87	$ 91.85	$ 69.88
Nasdaq U.S.	$ 100.00	$ 108.59	$ 110.08	$ 120.56	$ 132.39	$ 78.72
S&P 500	$ 100.00	$ 110.88	$ 116.33	$ 134.70	$ 142.10	$ 89.53

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ITEM 6. SELECTED FINANCIAL DATA.

Umpqua Holdings Corporation

Annual Financial Trends

(in thousands, except per share data)

	2008	2007	2006	2005	2004
Interest income	$ 442,546	$ 488,392	$ 405,941	$ 282,276	$ 198,058
Interest expense	152,239	202,438	143,817	72,994	40,371
Net interest income	290,307	285,954	262,124	209,282	157,687
Provision for loan and lease losses	107,678	41,730	2,552	2,468	7,321
Non-interest income	98,805	64,825	53,597	47,782	41,373
Non-interest expense	207,275	210,800	177,176	146,794	119,582
Goodwill impairment	982				
Merger-related expense		3,318	4,773	262	5,597
Income before income taxes	73,177	94,931	131,220	107,540	66,560
Provision for income taxes and discontinued operations	22,133	31,663	46,773	37,805	23,270
Income from continuing operations	51,044	63,268	84,447	69,735	43,290
Income from discontinued operations, net of tax					3,876
Net income	51,044	63,268	84,447	69,735	47,166
Preferred stock dividends	1,620				
Net income available to common shareholders	$ 49,424	$ 63,268	$ 84,447	$ 69,735	$ 47,166
YEAR END					
Assets	$ 8,597,550	$ 8,340,053	$ 7,344,236	$ 5,360,639	$ 4,873,035
Earning assets	7,483,343	7,146,841	6,287,202	4,636,334	4,215,927
Loans and leases	6,131,374	6,055,635	5,361,862	3,921,631	3,467,904
Deposits	6,588,935	6,589,326	5,840,294	4,286,266	3,799,107
Term debt	206,531	73,927	9,513	3,184	88,451
Junior subordinated debentures, at fair value	92,520	131,686			
Junior subordinated debentures, at amortized cost	103,655	104,680	203,688	165,725	166,256
Common shareholders equity	1,284,830	1,239,938	1,156,211	738,261	687,613
Total shareholders equity	1,487,008	1,239,938	1,156,211	738,261	687,613
Common shares outstanding	60,146	59,980	58,080	44,556	44,211
AVERAGE					
Assets	$ 8,342,005	$ 7,897,568	$ 6,451,660	$ 5,053,417	$ 3,919,985
Earning assets	7,215,001	6,797,834	5,569,619	4,353,696	3,392,475
Loans and leases	6,118,540	5,822,907	4,803,509	3,613,257	2,679,576
Deposits	6,459,576	6,250,521	5,003,949	4,002,153	3,090,497
Term debt	194,312	57,479	58,684	31,161	101,321
Junior subordinated debentures	226,349	221,833	187,994	165,981	130,644
Common shareholders equity	1,254,730	1,222,628	970,394	711,765	490,724
Total shareholders equity	1,281,220	1,222,628	970,394	711,765	490,724
Basic common shares outstanding	60,084	59,828	52,311	44,438	35,804
Diluted common shares outstanding	60,433	60,428	53,050	45,011	36,345
PER COMMON SHARE DATA					
Basic earnings	$ 0.82	$ 1.06	$ 1.61	$ 1.57	$ 1.32

Diluted earnings	0.82	1.05	1.59	1.55	1.30
Basic earnings continuing operations	0.82	1.06	1.61	1.57	1.21
Diluted earnings continuing operations	0.82	1.05	1.59	1.55	1.19
Book value	21.36	20.67	19.91	16.57	15.55
Tangible book value(1)	8.76	7.92	8.21	7.40	6.31
Cash dividends declared	0.62	0.74	0.60	0.32	0.22

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Umpqua Holdings Corporation

(dollars in thousands)

	2008	2007	2006	2005	2004
PERFORMANCE RATIOS					
Return on average assets(2)	0.59%	0.80%	1.31%	1.38%	1.20%
Return on average common shareholders equity(3)	3.94%	5.17%	8.70%	9.80%	9.61%
Return on average tangible common shareholders equity(4)	10.02%	13.08%	20.84%	22.91%	22.27%
Efficiency ratio(5)	53.11%	60.62%	57.33%	56.93%	60.58%
Efficiency ratio Bank(5),(6)	55.32%	56.55%	51.97%	52.47%	53.51%
Average common shareholders equity to average assets	15.04%	15.48%	15.04%	14.08%	12.52%
Leverage ratio(7)	12.38%	9.24%	10.28%	10.09%	9.55%
Net interest margin (fully tax equivalent)(8)	4.07%	4.24%	4.74%	4.84%	4.68%
Non-interest revenue to total net revenue	25.39%	18.48%	16.98%	18.59%	20.78%
Dividend payout ratio(9)	75.61%	69.81%	37.27%	20.38%	16.67%
ASSET QUALITY					
Non-performing loans	$ 133,366	$ 91,099	$ 9,058	$ 6,440	$ 22,573
Non-performing assets	161,264	98,042	9,058	7,563	23,552
Allowance for loan and lease losses	95,865	84,904	60,090	43,885	44,229
Net charge-offs	96,717	21,994	574	2,812	4,485
Non-performing loans to total loans	2.18%	1.50%	0.17%	0.16%	0.65%
Non-performing assets to total assets	1.88%	1.18%	0.12%	0.14%	0.48%
Allowance for loan and lease losses to total loans and leases	1.56%	1.40%	1.12%	1.12%	1.28%
Allowance for credit losses to total loans	1.58%	1.42%	1.15%	1.16%	1.31%
Net charge-offs to average loans and leases	1.58%	0.38%	0.01%	0.08%	0.17%

(1) Average common shareholders equity less average intangible assets divided by shares outstanding at the end of the year.
(2) Net income available to common shareholders divided by average assets.
(3) Net income available to common shareholders divided by average common shareholders equity.
(4) Net income available to common shareholders divided by average common shareholders equity less average intangible assets.
(5) Non-interest expense divided by the sum of net interest income (fully tax equivalent) and non-interest income.
(6) Excludes merger-related expenses and goodwill impairment.
(7) Tier 1 capital divided by leverage assets. Leverage assets are defined as quarterly average total assets, net of goodwill, intangibles and certain other items as required by the Federal Reserve.
(8) Net interest margin (fully tax equivalent) is calculated by dividing net interest income (fully tax equivalent) by average interest-earning assets.
(9) Dividends declared per common share divided by basic earnings per common share.

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

FORWARD LOOKING STATEMENTS AND RISK FACTORS

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

EXECUTIVE OVERVIEW

Umpqua s 2008 results reflect the effects of the U.S. recession and the significant impact of the housing market downturn. Primarily affecting our Northern California and Central Oregon residential development portfolios, the impact of the economic slowdown resulted in:

Non-performing assets increased to $161.3 million, or 1.88% of total assets, as of December 31, 2008, compared to $98.0 million, or 1.18% of total assets as of December 31, 2007. Non-performing loans increased to $133.4 million, or 2.18% of total loans, as of December 31, 2008, compared to $91.1 million, or 1.50% of total loans as of December 31, 2007. Impaired collateral dependent loans have been written-down to their estimated net realizable values as of December 31, 2008.

Net charge-offs were $96.7 million in 2008, or 1.58% of average loans and leases, as compared to net charge-offs of $22.0 million, or 0.38% of average loans and leases in 2007. The write-down of impaired loans in the current year has contributed to the increase in net charge-offs.

Downgrades within the loan portfolio and increases in non-performing loans and net charge-offs in 2008 contributed to a $107.7 million provision for loan and lease losses in 2008, as compared to $41.7 million in 2007.

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

Increased our total risk based capital ratio to 14.6% as of December 31, 2008, compared to 10.9% as of December 31, 2007.

Issued $214.2 million of new trust preferred securities and a warrant to purchase up to 2.2 million shares of the Company s common stock to the U.S. Treasury under the Capital Purchase Program. The preferred stock bears a stated interest rate of 5% for five years and 9% thereafter, and currently represents a relatively low cost of capital to enhance the capital position of the Bank. This capital will help fund new loan programs and ensure credit is made available to qualifying borrowers. The government s investment in the Company recognizes the strength and stability of Umpqua and our good standing as a strong and healthy financial institution.

As a result of the Visa Inc. (Visa) initial public offering, we received $12.6 million in proceeds from a mandatory partial redemption of our restricted Class B common stock. Additionally, in 2008 we reversed our fourth quarter 2007 Visa related litigation reserve of $5.2 million. The value of unredeemed Class A equivalent shares owned by the Company was $15.5 million as of December 31, 2008, and has not been reflected in the accompanying financial statements.

We recorded gains of $38.9 million in the income statement representing the change in fair value on our junior subordinated debentures measured at fair value in 2008, compared to gains of $4.9 million in 2007. The change in fair value recognized in the current period resulted from the widening of credit risk adjusted spreads on potential new issuances and recent reductions in three month LIBOR rates.

We opened a new Commercial Banking Center in San Francisco, California and a Mortgage Office in Stockton, California. Additionally, we have remodeled thirty-eight stores to meet Umpqua brand standards and customer expectations throughout the California region. These efforts primarily relate to locations acquired through recent acquisitions.

Also during the year:

- Earnings per diluted common share was $0.82 in 2008, as compared to $1.05 per diluted share earned in 2007. The decline in net income per diluted common share is principally attributed to an increased provision for loan and lease losses, losses incurred on other real estate owned, and interest reversals on loans, resulting from the housing market downturn.

- Net interest margin, on a tax equivalent basis, decreased to 4.07% in 2008 from 4.24% in 2007. The decrease in net interest margin resulted from reductions in earning asset yields due primarily to the decline in the prime rate in the current year, offset by a decrease in the cost of interest bearing deposits. Excluding a $4.4 million reversal of interest income on loans in 2008, the tax equivalent net interest margin would have been 4.13%.

- Mortgage banking revenue was $2.4 million in 2008, compared to $7.8 million in 2007. The 2008 results include a $4.6 million loss on the fair value of the mortgage servicing right (MSR) asset, primarily resulting from lower mortgage interest rates, and a $2.4 million loss on an ineffective MSR hedge due to widening spreads and price declines that were not offset by a corresponding gain in the related MSR asset.

- Net gain on investment securities of $1.3 million in 2008 includes an other-than-temporary impairment (OTTI) charge of $4.2 million, which primarily relates to non-agency collateralized mortgage obligations where the default rates and loss severities of the underlying collateral indicate credit losses are expected to occur.

- Gross loans and leases increased to $6.1 billion as of December 31, 2008, an increase of $75.7 million, or 1.3%, as compared to December 31, 2007. The growth rate is indicative of the Company s controlled loan growth strategy employed in the current year in response to the current economic climate.

- Total consolidated assets were $8.6 billion as of December 31, 2008, compared to $8.3 billion as of December 31, 2007, representing an increase of $257.5 million or 3%. The growth in total assets is principally due to the proceeds obtained from the U.S. Treasury under the Capital Purchase Plan, which bolsters the Company s capital position and enhances our ability to ensure credit is made available to qualifying borrowers.

- Declared cash dividends of $0.19 per share in the first, second and third quarters of 2008, and $0.05 per share in the fourth quarter of 2008. The decision to reduce our quarterly dividend was a result of several contributing factors, such as capital preservation, expected growth rates, projected earnings and our overall dividend pay-out ratio.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

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

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

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

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

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

Management believes that the ALLL was adequate as of December 31, 2008. 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 79% 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. Over the last two years, there has been deterioration in the residential development market which has led to an increase in non-performing loans and the allowance for loan and lease losses. A continued deterioration in this market or deterioration in other segments of our loan portfolio may lead to additional charges to the provision for loan and lease losses.

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. 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.

Prior to the adoption of SFAS No. 156, MSR were capitalized at their allocated carrying value and amortized in proportion to, and over the period of, estimated future net servicing income in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* The carrying value of MSR was evaluated for possible impairment on a quarterly basis in accordance with SFAS No. 140. If an impairment condition existed for a particular valuation tranche, a valuation allowance was established for the excess of amortized cost over the estimated fair value through a charge to mortgage servicing fee revenue. If, in subsequent periods, the estimated fair value was determined to be in excess of the amortized cost net of the related valuation allowance, the valuation allowance was reduced through a credit to mortgage servicing revenue.

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.

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

Valuation of Goodwill and Intangible Assets

At December 31, 2008, we had $757.8 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on a quarterly basis. As a result of this analysis, management determined that there was a $1.0 million impairment related to the Retail Brokerage reporting segment as of December 31, 2008, which resulted from the Company s evaluation following the departure of certain Strand financial advisors. The valuation of the impairment at the Retail Brokerage operating segment was determined using an income approach by discounting cash flows of forecasted earnings. The remaining balance of goodwill and other intangible assets relates to the Community Banking reporting segment. The Company engaged an independent valuation specialist to assist us in determining whether and to what extent our goodwill asset was impaired. The valuation of the reporting unit was determined using discounted cash flows of forecasted earnings, estimated sales price multiples based on recent observable market transactions and market capitalization based on current stock price. The step one impairment test indicated that the reporting unit s fair value was less than its carrying value. Based on the results of the step two impairment test, management determined that the implied fair value of the goodwill was greater than its carrying amount on the Company s balance sheet and no goodwill impairment existed as of December 31, 2008 in the Community Banking segment. 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. Additional information is included in Note 8 of the *Notes to Consolidated Financial Statements*.

Stock-based Compensation

Consistent with 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, we 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 1 of the *Notes to 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 fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 22 of the *Notes to Consolidated Financial Statements* for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, FASB issued SFAS No. 141 (revised), *Business Combinations*. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquired entity and the goodwill acquired. Furthermore, acquisition-related and other costs will now be expensed rather than treated as cost components of the acquisition. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We do not expect the adoption of SFAS No. 141R will have a material impact on our consolidated financial statements as related to business combinations consummated prior to January 1, 2009. We expect the adoption of SFAS No. 141R will increase the costs charged to operations for acquisitions consummated on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment to ARD No 51.* SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The standard also requires additional disclosures that clearly identify and distinguish between the interest of the parent s owners and the interest of the noncontrolling owners of the subsidiary. This statement is effective on January 1, 2009 for the Company, to be applied prospectively. We do not expect the adoption of SFAS No. 160 will have a material impact on the Company s consolidated financial statements.

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In March 2008, FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133.* SFAS No. 161 expands the disclosure requirements in SFAS No. 133 about an entity s derivative instruments and hedging activities. This includes enhanced disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Provisions of this statement are to be applied prospectively, and comparative disclosures for earlier periods are encouraged. We have adopted the provisions of SFAS 161 for the year ended December 31, 2008, and the impact was not material to our consolidated financial statements.

In May 2008, FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. Under SFAS 162, the U.S. GAAP hierarchy will now reside in the accounting literature established by the FASB. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements in conformity with U.S. GAAP for nongovenmental entities. This statement is effective 60 days after the U.S. Securities and Exchange Commission approves the Public Company Accounting Oversight Board s amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* We do not expect the adoption of SFAS No 162 will have a material impact on the Company s consolidated financial statements.

In June 2008, FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. FSP EITF 03-6-1 concludes that nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This statement is effective for fiscal years beginning after December 15, 2008, to be applied retrospectively. Certain of the Company s nonvested restricted stock awards qualify as participating securities as described under this pronouncement. The adoption of FSP EITF 03-6-1 will reduce both basic and diluted earnings per common share by $0.01 for the year ended December 31, 2007.

In October 2008, FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* FSP No. 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The FSP does not change existing generally accepted accounting principles. This FSP was effective immediately upon issuance, including prior periods for which financial statements have not been issued. The impact of adoption did not have a material impact on the Company s consolidated financial statements.

On January 12, 2009, FASB issued FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20.* FSP EITF 99-20-1 addresses certain practice issues in EITF No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, by making its other-than-temporary impairment assessment guidance consistent with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. FSP EITF 99-20-1 removes the reference to the consideration of a market participant s estimates of cash flows in EITF 99-20, and instead requires an assessment of whether it is probable, based on current information and events, that the holder of the security will be unable to collect all amounts due according to the contractual terms. If it is probable that there has been an adverse change in estimated cash flows, an other-than-temporary impairment is deemed to exist, and a corresponding loss shall be recognized in earnings equal to the entire difference between the investment s carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. This FSP is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. The impact of adoption did not have a material impact on the Company s consolidated financial statements.

RESULTS OF OPERATIONS OVERVIEW

For the year ended December 31, 2008, net income available to common shareholders was $49.4 million, or $0.82 per diluted share, a decrease of 22% on a per diluted share basis compared to 2007. The decrease in net income available to common shareholders in 2008 is principally attributable to increased provision for loan and lease losses, partially offset by increased net interest and non-interest income, and decreased non-interest expense. We completed the acquisition of North Bay Bancorp on April 26, 2007, and the results of the acquired operations are only included in our financial results starting on April 27, 2007.

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For the year ended December 31, 2007, net income available to common shareholders was $63.3 million, or $1.05 per diluted share, a decrease of 34% on a per diluted share basis compared to 2006. The decrease in net income available to common shareholders in 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 acquisition of Western Sierra Bancorp on June 2, 2006, and the results of the acquired operations are only included in our financial results starting on June 3, 2006.

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

The following table presents a reconciliation of operating income and operating income per diluted share to net income and net income per diluted share for years ended December 31, 2008, 2007 and 2006:

Reconciliation of Operating Income to Net Income Available to Common Shareholders

Years Ended December 31,

(in thousands, except per share data)

	2008	2007	2006
Net income available to common shareholders	$ 49,424	$ 63,268	$ 84,447
Merger-related expenses, net of tax		1,991	2,864
Goodwill impairment	982		
Operating income	$ 50,406	$ 65,259	$ 87,311
Per diluted share:			
Net income	$ 0.82	$ 1.05	$ 1.59
Merger-related expenses, net of tax, and goodwill impairment	0.01	0.03	0.06
Operating income	$ 0.83	$ 1.08	$ 1.65

The following table presents the returns on average assets, average common shareholders equity and average tangible common shareholders equity for the years ended December 31, 2008, 2007 and 2006. For each of the years presented, the table includes the calculated ratios based on reported net income available to common shareholders and operating income as shown in the table above. Our return on average common shareholders equity is negatively impacted as a result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger-related intangible assets, we believe it beneficial to also consider the return on average common tangible shareholders equity. The return on average common tangible shareholders equity is calculated by dividing net income available to common shareholders by average common shareholders equity less average intangible assets. The return on average tangible common shareholders equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders equity.

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

For the Years Ended December 31,

(dollars in thousands)

	2008	2007	2006
RETURNS ON AVERAGE ASSETS:			
Net income available to common shareholders	0.59%	0.80%	1.31%
Operating income	0.60%	0.83%	1.35%
RETURNS ON AVERAGE COMMON SHAREHOLDERS EQUITY:			
Net income available to common shareholders	3.94%	5.17%	8.70%
Operating income	4.02%	5.34%	9.00%
RETURNS ON AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Net income available to common shareholders	10.02%	13.08%	20.84%
Operating income	10.22%	13.50%	21.55%
CALCULATION OF AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Average common shareholders equity	$ 1,254,730	$ 1,222,628	$ 970,394
Less: average intangible assets	(761,672)	(739,086)	(565,167)
Average tangible common shareholders equity	$ 493,058	$ 483,542	$ 405,227

NET INTEREST INCOME

Net interest income is the largest source of our operating income. Net interest income for 2008 was $290.3 million, an increase of $4.4 million, or 2% over 2007. Net interest income for 2007 was $286.0 million, an increase of $23.8 million, or 9% over 2006. Net interest income for 2008 was negatively impacted by the $4.4 million reversal of interest income on loans during the year. Net interest income for 2007 was negatively impacted by the $5.0 million reversal of interest income on loans during the year. The increase in net interest income in 2008 as compared to 2007 and 2007 as compared to 2006 is attributable to growth in outstanding average interest-earning assets, primarily loans and leases and investment securities, partially offset by both growth in interest-bearing liabilities, primarily money-market, time deposits and term debt, and a decrease in net interest margin. In addition to organic growth, the North Bay merger, which was completed on April 26, 2007, contributed to the increase in interest-earning assets and interest-bearing liabilities in 2007 over 2006. 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 4.07% for 2008, a decrease of 17 basis points as compared to the same period in 2007. The decrease in net interest margin in 2008 resulted from decreases in market index rates, such as prime and the fed funds rates, and interest reversals on loans. The decreased yield on interest-earning assets of 104 basis points in 2008 primarily resulted from reductions in the prime rate. This decline in net interest margin was partially offset by the decrease in our interest expense to earning assets of 87 basis points from the lower costs of interest bearing deposits. The $4.4 million reversal of interest income on loans in 2008 contributed to a 6 basis point decline in the tax equivalent net interest margin for the year.

The net interest margin on a fully tax-equivalent basis was 4.24% for 2007, a decrease of 50 basis points as compared to the same period in 2006. The decrease in net interest margin in 2007 resulted from volatility in short-term market rates and the competitive climate (characterized by increasing deposit costs combined with declining interest earning asset yields), as well as interest reversals on new nonaccrual loans. The $5.0 million reversal of interest income on loans in 2007 contributed to an 8 basis point decline in the tax equivalent net interest margin for 2007.

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 years ended December 31, 2008, 2007 and 2006:

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Average Rates and Balances

(dollars in thousands)

	2008			2007			2006		
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:									
Loans and leases(1)	$ 6,136,380	$ 393,927	6.42%	$ 5,836,980	$ 443,939	7.61%	$ 4,818,884	$ 372,201	7.72%
Taxable securities	883,987	41,523	4.70%	743,266	35,216	4.74%	607,267	27,655	4.55%
Non-taxable securities(2)	170,277	9,667	5.68%	149,291	8,234	5.52%	97,723	5,559	5.69%
Temporary investments(3)	24,357	443	1.82%	68,297	3,415	5.00%	45,745	2,203	4.82%
Total interest earning assets	7,215,001	445,560	6.18%	6,797,834	490,804	7.22%	5,569,619	407,618	7.32%
Allowance for loan and lease losses	(84,649)			(70,177)			(52,801)		
Other assets	1,211,653			1,169,911			934,842		
Total assets	$ 8,342,005			$ 7,897,568			$ 6,451,660		
INTEREST-BEARING LIABILITIES:									
Interest-bearing checking and savings accounts	$ 3,196,763	$ 55,739	1.74%	$ 3,136,738	$ 93,070	2.97%	$ 2,483,155	$ 62,254	2.51%
Time deposits	2,007,550	73,631	3.67%	1,849,910	87,770	4.74%	1,399,623	57,627	4.12%
Securities sold under agreements to repurchase and federal funds purchased	99,366	2,220	2.23%	65,660	2,135	3.25%	166,831	6,829	4.09%
Term debt	194,312	6,994	3.60%	57,479	2,642	4.60%	58,684	2,892	4.93%
Junior subordinated debentures	226,349	13,655	6.03%	221,833	16,821	7.58%	187,994	14,215	7.56%
Total interest-bearing liabilities	5,724,340	152,239	2.66%	5,331,620	202,438	3.80%	4,296,287	143,817	3.35%
Non-interest-bearing deposits	1,255,263			1,263,873			1,121,171		
Other liabilities	81,182			79,447			63,808		
Total liabilities	7,060,785			6,674,940			5,481,266		
Preferred equity	26,490								
Common equity	1,254,730			1,222,628			970,394		
Total shareholders equity	1,281,220			1,222,628			970,394		
Total liabilities and shareholders equity	$ 8,342,005			$ 7,897,568			$ 6,451,660		
NET INTEREST INCOME(2)		$ 293,321			$ 288,366			$ 263,801	
NET INTEREST SPREAD			3.52%			3.42%			3.97%
AVERAGE YIELD ON EARNING ASSETS(1),(2)			6.18%			7.22%			7.32%
			2.11%			2.98%			2.58%

INTEREST EXPENSE TO EARNING ASSETS			
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN(1),(2)	4.07%	4.24%	4.74%

(1) Non-accrual loans and mortgage loans held for sale are included in average balances.
(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $3.0 million, $2.4 million and $1.7 million in the years ended December 31, 2008, 2007 and 2006, respectively.
(3) Temporary investments include federal funds sold and interest-bearing deposits at other banks.

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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 2008 compared to 2007 and 2007 compared to 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.

Rate/Volume Analysis

(in thousands)

	2008 COMPARED TO 2007 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN			2007 COMPARED TO 2006 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
INTEREST-EARNING ASSETS:						
Loans and leases	$ 21,892	$ (71,904)	$ (50,012)	$ 77,514	$ (5,776)	$ 71,738
Taxable securities	6,612	(305)	6,307	6,406	1,155	7,561
Non-taxable securities(1)	1,185	248	1,433	2,849	(174)	2,675
Temporary investments	(1,494)	(1,478)	(2,972)	1,125	87	1,212
Total(1)	28,195	(73,439)	(45,244)	87,894	(4,708)	83,186
INTEREST-BEARING LIABILITIES:						
Interest-bearing checking and savings accounts	1,748	(39,079)	(37,331)	18,157	12,659	30,816
Time deposits	7,017	(21,156)	(14,139)	20,457	9,686	30,143
Securities sold under agreements to repurchase and federal funds purchased	883	(798)	85	(3,506)	(1,188)	(4,694)
Term debt	5,039	(687)	4,352	(58)	(192)	(250)
Junior subordinated debentures	336	(3,502)	(3,166)	2,566	40	2,606
Total	15,023	(65,222)	(50,199)	37,616	21,005	58,621
Net increase in net interest income(1)	$ 13,172	$ (8,217)	$ 4,955	$ 50,278	$ (25,713)	$ 24,565

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

PROVISION FOR LOAN AND LEASE LOSSES

The provision for loan and lease losses was $107.7 million for 2008, compared to $41.7 million for 2007 and $2.6 million for 2006. As a percentage of average outstanding loans, the provision for loan losses recorded for 2008 was 1.76%, an increase of 104 basis points and 171 basis points from 2007 and 2006, respectively.

The increase in the provision for loan and lease losses in 2008 as compared to 2007 and 2006 is principally attributable to an increase in non-performing loans and leases and downgrades within the portfolio related primarily to the housing market downturn and its impact on our residential development portfolio, growth in the loan and lease portfolio, and the increase in loans charged-off.

Prior to the second quarter of 2008, the Company recognized the charge-off of an impairment reserve when the loan was resolved, sold, or foreclosed and transferred to other real estate owned. Due to declining real estate values in our markets, it is increasingly likely that an impairment reserve on collateral dependent real estate loans represents a confirmed loss. As a result, in the second quarter of 2008, the Company began recognizing the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans of $127.9 million as of December 31, 2008 have already been written-down to their estimated fair value, less estimated costs to sale, and are expected to be resolved over the

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coming quarters with no additional material loss. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

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

NON-INTEREST INCOME

Non-interest income in 2008 was $98.8 million, an increase of $34.0 million, or 52%, over 2007. Non-interest income in 2007 was $64.8 million, an increase of $11.2 million, or 21%, over 2006. The following table presents the key components of non-interest income for years ended December 31, 2008, 2007 and 2006:

Non-Interest Income

Years Ended December 31,

(dollars in thousands)

			2008 compared to 2007				2007 compared to 2006	
	2008	2007	Change Amount	Change Percent	2007	2006	Change Amount	Change Percent
Service charges on deposit accounts	$ 34,775	$ 32,126	$ 2,649	8%	$ 32,126	$ 26,975	$ 5,151	19%
Brokerage commissions and fees	8,948	10,038	(1,090)	-11%	10,038	9,649	389	4%
Mortgage banking revenue, net	2,436	7,791	(5,355)	-69%	7,791	7,560	231	3%
Net gain (loss) on investment securities	1,349	(13)	1,362	NM	(13)	(21)	8	-38%
Net (loss) gain on other real estate owned	(8,313)	(4)	(8,309)	NM	(4)	72	(76)	-106%
Gain on junior subordinated debentures carried at fair value	38,903	4,928	33,975	689%	4,928		4,928	NM
Proceeds from Visa mandatory partial redemption	12,633		12,633	NM				NM
Other income	8,074	9,959	(1,885)	-19%	9,959	9,362	597	6%
Total	$ 98,805	$ 64,825	$ 33,980	52%	$ 64,825	$ 53,597	$ 11,228	21%

NM Not meaningful

The increase in deposit service charges in 2008 over 2007 is principally attributable to increased volume of deposit accounts during the year. Brokerage commissions and fees declined as a result of deteriorating conditions in the trading market during 2008 and the departure of certain Strand investment advisors, as compared to 2007. The decrease in mortgage banking revenue in 2008 compared to 2007 primarily resulted from the difference between the $4.6 million loss and $756,000 loss on the MSR asset between the respective periods, and the $2.4 million realized loss on an ineffective MSR hedge due to significant market volatility in the first quarter of 2008, partially offset by increased fees on loans sold. In 2008, the Company realized a $5.5 million gain on sale of investment securities as part of a repositioning of the investment portfolio to reduce the weighted average life in response to the current economic outlook, and other factors. This gain was offset by a $4.2 million OTTI charge recognized during 2008. Additional discussion on the OTTI charges are provided under the heading *Investment Securities* below. The slowdown in the housing industry in 2008, which has affected our residential development portfolio, has led to an increase of foreclosures into other real estate owned on residential development related properties. Declines in the market values of these properties after foreclosure have resulted in additional losses on the sale of the properties or by valuation adjustments. During 2008, the Company recognized losses on sale of other real estate owned of $3.2 million and valuation adjustments of $5.1 million. The gain on junior subordinated debentures carried at fair value in 2008 resulted from the continued widening of credit spreads for potential new issuances over the contractual spread of each junior subordinated debenture measured at fair value, and reductions in the current three month LIBOR rate relative to the prior year. Additional information on the junior subordinated debentures carried at fair value is included in Note 15 of the *Notes to Condensed Consolidated Financial Statements*. Other income decreased in 2008 over 2007 largely due to decreased gains and broker fee income related to Small Business Administration (SBA) loan sales, and losses related to trading assets.

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In the first quarter of 2008, Visa completed restructuring transactions in preparation for an initial public offering of its Class A stock. As part of those transactions, Umpqua Bank s membership interest was exchanged for 764,036 shares of Class B common stock in Visa. In March 2008, Visa completed its initial public offering. Following the initial public offering, the Company received $12.6 million proceeds as a mandatory partial redemption of 295,377 shares, reducing the Company s holdings from 764,036 shares to 468,659 shares of Class B common stock. A conversion ratio of 0.71429 was established for the conversion rate of Class B shares into Class A shares. Using the proceeds from this offering, Visa also established a $3.0 billion escrow account to cover settlements, the resolution of pending litigation and related claims (covered litigation). In December 2008, Visa deposited additional funds into the escrow account to cover a shortfall in the escrow account caused by a new settlement. The deposit of funds into the escrow account further reduced the conversion ratio applicable to Class B common stock outstanding from 0.71429 per Class A share to 0.6296 per Class A share.

The Company s remaining 468,659 shares of Visa Class B common stock are restricted and may not be transferred until the later of (1) three years from the date of the initial public offering or (2) the period of time necessary to resolve the covered litigation. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares, use the proceeds to settle litigation, and further reduce the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus. As of December 31, 2008, the value of the Class A shares was $52.45 per share. The value of unredeemed Class A equivalent shares owned by the Company was $15.5 million as of December 31, 2008, and has not been reflected in the accompanying financial statements.

The increase in deposit service charges in 2007 over 2006 is principally attributable to the increased volume of deposit accounts. The increase in brokerage commissions and fees in 2007 over 2006 resulted from management s efforts to recruit new brokers, increase the weighting of managed fee sources and increase efficiencies in back room operations. The gain on junior subordinated debentures carried at fair value in 2007 resulted from the widening of credit spreads for comparable new issuances over the contractual spread of each junior subordinated debenture measured at fair value. Additional information on the junior subordinated debentures carried at fair value is included in Note 15 of the *Notes to Condensed Consolidated Financial Statements.* Other income increased in 2007 over 2006 primarily due to a $909,000 gain on sale of excess property.

NON-INTEREST EXPENSE

Non-interest expense for 2008 was $208.3 million, a decrease of $5.9 million or 3% compared to 2007. Non-interest expense for 2007 was $214.1 million, an increase of $32.2 million or 18% compared to 2006. The following table presents the key elements of non-interest expense for the years ended December 31, 2008, 2007 and 2006.

Non-Interest Expense

Years Ended December 31,

(dollars in thousands)

			2008 compared to 2007				2007 compared to 2006	
	2008	2007	Change Amount	Change Percent	2007	2006	Change Amount	Change Percent
Salaries and employee benefits	$ 114,600	$ 112,864	$ 1,736	2%	$ 112,864	$ 98,840	$ 14,024	14%
Net occupancy and equipment	37,047	35,785	1,262	4%	35,785	31,752	4,033	13%
Communications	7,063	7,202	(139)	-2%	7,202	6,352	850	13%
Marketing	4,573	5,554	(981)	-18%	5,554	5,760	(206)	-4%
Services	18,792	18,564	228	1%	18,564	15,951	2,613	16%
Supplies	2,908	3,627	(719)	-20%	3,627	2,994	633	21%
FDIC assessments	5,182	1,223	3,959	324%	1,223	630	593	94%
Intangible amortization	5,857	6,094	(237)	-4%	6,094	3,728	2,366	63%
Goodwill Impairment	982		982	NM				NM
Merger related expenses		3,318	(3,318)	-100%	3,318	4,773	(1,455)	-30%
Visa litigation	(5,183)	5,183	(10,366)	-200%	5,183		5,183	NM
Other expenses	16,436	14,704	1,732	12%	14,704	11,169	3,535	32%
Total	$ 208,257	$ 214,118	$ (5,861)	-3%	$ 214,118	$ 181,949	$ 32,169	18%

NM Not meaningful

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Excluding the impact of FDIC assessments and Visa related litigation accruals, non-interest expense in 2008 over 2007 was relatively flat and is attributable to the Company s extensive cost control measures that were put in place in 2007 in reaction to the slowing economy. Excluding similar FDIC assessments and Visa related litigation accruals in 2007, the increase in non-interest expense in 2007 over 2006 is primarily attributable to the inclusion of additional expenses from California operations as a result of the North Bay and Western Sierra acquisitions.

The increase in total salaries and employee benefits expense in the current year is primarily a result of reduced loan origination activity, resulting in a reduced offset to compensation expense for deferred loan costs. Excluding the impact of the reduced deferred loan costs, salaries and employee benefits expense decreased $1.2 million in 2008 compared to 2007 despite the addition of approximately 110 associates from the North Bay acquisition in April 2007. The increase in salaries and employee benefits expense in 2007 compared to 2006 is a result of the North Bay acquisition and the addition of approximately 250 associates in June 2006 due to the Western Sierra acquisition. Net occupancy and equipment also continues to increase reflecting 10 new banking locations as a result of the North Bay acquisition in April 2007, 31 new banking locations as a result of Western Sierra acquisition in June 2006 and the addition of three de novo branches in 2007 and seven in 2006. The decline in communications, marketing, and supplies expense, as well as the modest increase in services expense, are a result of aggressive cost saving initiatives implemented in late 2007. Other non-interest expense increased in 2008 primarily as a result of expenses related to other real estate owned and deposit administration fees.

FDIC assessments represent premiums payable to the FDIC for deposit insurance and Financing Corporation (FICO) assessments. In 2006, no deposit insurance premiums were assessed. The Federal Deposit Insurance Reform Act of 2005 (Reform Act) created a new system and rate schedule related to FDIC deposit insurance assessments effective in 2007. As a result, the Company was assessed deposit insurance premiums beginning in 2007; however, most of the premium was offset by a one-time assessment credit that was provided to eligible institutions as part of the Reform Act. The one-time deposit insurance assessment credit was fully exhausted in 2007. The increase in FDIC assessments in 2008 compared to prior years is a result of increased deposit insurance assessments rates and no remaining one-time assessment credits available to offset the current period expense. In October of 2008, the FDIC proposed a rule that would further amend the system for risk-based deposit insurance assessments and change assessment rates in attempts to restore the Deposit Insurance Fund to targeted reserve ratios. If passed, this ruling will increase the FDIC insurance assessment rates applicable in 2009. Additional discussion on FDIC insurance assessments is provided in Item 1 *Business* above, under the heading *Federal Deposit Insurance.*

The decrease in intangible amortization in 2008 as compared to the prior years is due to the run-off of intangible assets that are being amortized on an accelerated basis. The goodwill impairment charge incurred in 2008 related to the Retail Brokerage reporting segment, which resulted from the Company s evaluation following the departure of certain Strand financial advisors. Additional discussion on the impairment charge is provided under the heading *Goodwill & Other Intangible Assets* below. 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 2008 over 2007 and 2007 over 2006 is due to the difference in timing and size of the Western Sierra and North Bay mergers.

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Umpqua Holdings Corporation

The Company incurred no merger-related expenses in 2008. The following table presents the merger-related expenses by major category for the years ended December 31, 2007 and 2006. The merger-related expenses incurred in 2007 primarily related to the North Bay acquisition. The merger-related expenses incurred in 2006 primarily related to the Western Sierra acquisition. We do not expect to incur any additional merger-related expenses in connection with the North Bay, Western Sierra or any other previous merger.

Merger-Related Expense

Years Ended December 31,

(in thousands)

	2007	2006
Professional fees	$ 982	$ 1,082
Compensation and relocation	1,077	778
Communications	478	854
Premises and equipment	188	375
Other	593	1,684
Total	$ 3,318	$ 4,773

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

In connection with the completion of Visa s initial public offering in the first quarter of 2008, Visa utilized a portion of the proceeds to establish a $3.0 billion litigation escrow account. With the escrow litigation account funded for the estimated liability for covered litigation as of the end of the first quarter, the Company reversed the $5.2 million reserve.

In October 2008, Visa announced that it had reached a settlement with Discover Card related to an antitrust lawsuit. Umpqua Bank and other Visa member banks are obligated to fund the settlement and share in losses resulting from this litigation that are not already provided for in the escrow account. Visa notified the Company that it had established an additional reserve related to the settlement with Discover Card that had not already been funded into the escrow account. In connection with this settlement, the Company recorded, in the third quarter of 2008, a liability and corresponding expense of $2.1 million pre-tax, for its proportionate share of that liability. In December 2008, this liability and expense was reversed when Visa deposited additional funds into the escrow account to cover the remaining amount of the settlement. The deposit of funds into the escrow account further reduced the conversion ratio applicable to Class B common stock outstanding from 0.71429 per Class A share to 0.6296 per Class A share.

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2008 was 30.2%, compared to 33.4% for 2007 and 35.6% for 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.

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Additional information on income taxes is provided in Note 10 of the *Notes to Consolidated Financial Statements* in Item 8 below.

FINANCIAL CONDITION

INVESTMENT SECURITIES

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

Trading securities consist of securities held in inventory by Strand for sale to its clients and securities invested in trust for the benefit of former employees of acquired institutions as required by agreements. Trading securities were $2.0 million at December 31, 2008, as compared to $2.8 million at December 31, 2007. This decrease is principally attributable to a decrease trading assets invested for the benefit of former employees, due to distributions and decreases in the fair market value of investment securities therein, partially offset by an increase in Strand s inventory of trading securities.

Investment securities available for sale were $1.2 billion as of December 31, 2008, as compared to $1.1 billion at December 31, 2007. This increase is principally attributable to purchases of $811.9 million of investment securities available for sale and an increase in fair value of investment securities available for sale of $34.0 million, offset by the proceeds from the sales and maturities of $635.9 million of investment securities available for sale (of which $5.5 million represents net gains on sale), the transfer of $20.1 million of investment securities available for sale at par (fair value of $12.6 million on transfer date) to investment securities held to maturity, and amortization of net purchase price premiums of $1.9 million.

Investment securities held to maturity were $15.8 million as of December 31, 2008, as compared to $6.0 million at December 31, 2007. This increase is principally attributable to the transfer of $12.6 million of investment securities available for sale to investment securities held to maturity, offset by paydowns and maturities of investment securities held to maturity of $1.7 million and OTTI charges of $1.2 million.

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

Summary of Investment Securities

As of December 31,

(in thousands)

	December 31, 2008	2007	2006
AVAILABLE-FOR-SALE:			
U.S. Treasury and agencies	$ 31,226	$ 158,432	$ 193,134
Mortgage-backed securities and collateralized mortgage obligations	1,025,295	672,344	362,882
Obligations of states and political subdivisions	179,585	169,994	110,219
Other debt securities	634	967	973
Investments in mutual funds and other equity securities	1,972	49,019	47,979
	$ 1,238,712	$ 1,050,756	$ 715,187
HELD-TO-MATURITY:			
Obligations of states and political subdivisions	$ 4,166	$ 5,403	$ 8,015
Mortgage-backed securities and collateralized mortgage obligations	11,496	227	372
Other investment securities	150	375	375
	$ 15,812	$ 6,005	$ 8,762

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Umpqua Holdings Corporation

The following table presents information regarding the amortized cost, fair value, average yield and maturity structure of the investment portfolio at December 31, 2008.

Investment Securities Composition*

December 31, 2008

(dollars in thousands)

	Amortized Cost	Fair Value	Average Yield
U.S. TREASURY AND AGENCIES			
One year or less	$ 20,114	$ 20,168	2.47%
One to five years	10,498	10,813	3.22%
Five to ten years	219	245	3.68%
	30,831	31,226	2.74%
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS			
One year or less	14,544	14,588	4.09%
One to five years	53,841	55,047	3.71%
Five to ten years	77,981	80,436	3.97%
Over ten years	34,766	33,613	4.05%
	181,132	183,684	3.92%
OTHER DEBT SECURITIES			
Over ten years	884	634	10.72%
Serial maturities	1,011,651	1,029,425	5.37%
Other investment securities	2,109	2,122	4.30%
Total securities	$ 1,226,607	$ 1,247,091	5.09%

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

The mortgage-related securities in Serial Maturities in the table above include both pooled mortgage-backed issues and high-quality collaterized mortgage obligation structures, with an average duration of 4.9 years. These mortgage-related securities provide yield spread to U.S. Treasury or agency securities; however, the cash flows arising from them can be volatile due to refinancing of the underlying mortgage loans.

The equity security in Other Investment Securities in the table above at December 31, 2008 principally represents an investment in a Community Reinvestment Act investment fund comprised largely of mortgage-related securities, although funds may also invest in municipal bonds, money market accounts or asset-backed securities.

During the third quarter of 2008, the Bank initiated a redemption-in-kind of shares owned in an intermediate mortgage fund, and received its proportionate share of the underlying securities within the fund. As of the date of the redemption, the book value of the fund was $28.6 million with a market value of $20.7 million, resulting in a $7.9 million unrealized loss. The composition of fund s book value included 70% of non-agency mortgage-backed securities and collateralized mortgage obligations, 24% of agency mortgage-backed securities and collateralized mortgage obligations, 2% of U.S. Treasuries and 4% in cash equivalents. Of the $7.9 million unrealized loss, 94% related to the non-agency mortgage-backed securities and collateralized mortgage obligations, and the remainder related to the agency mortgage-backed securities and collateralized mortgage obligations. The transaction was accounted for as a nonmonetary exchange under SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB *Opinion No. 29*. The carrying value of the equity interest in the mortgage fund was allocated to the individual securities. No gain or loss was realized as a result of the redemption.

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As part of this redemption in kind, the Company assessed the classification of the underlying securities acquired and elected to classify $12.6 million in non-agency mortgage-backed securities and collateralized mortgage obligations at fair value as investment securities held to maturity. The Company considers the held to maturity classification to be more appropriate because it has the ability and the intent to hold these securities to maturity. The book value of the securities was recorded at fair value as of the date of the transfer, resulting in a discount to par. This discount is being accreted to interest income over the remaining terms of the securities. The related unrealized pretax loss of $7.5 million included in other comprehensive income as of the date of the transfer remains in other comprehensive income and is being amortized as a yield adjustment through earnings over the remaining term of the securities, and will offset the accretion of the discount. No gain or loss was recognized at the time of the classification.

We review investment securities on an ongoing basis for the presence of other-than-temporary (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, our ability and intent to hold investments until a recovery of fair value, which may be maturity, and other factors.

In 2008, the Company recorded a $4.2 million OTTI charge within net gain (loss) of investment securities. Charges of $3.8 million related to seven non-agency collateralized mortgage obligations carried as held to maturity and where the default rates and loss severities of the underlying collateral indicate credit losses are expected to occur. These securities were valued by third party pricing services using matrix or model pricing methodologies, and were corroborated by broker indicative bids. The remaining non-agency securities within mortgage-backed securities and collateralized mortgage obligations carried as held to maturity were specifically evaluated for OTTI, and the default rates and loss severities of the underlying collateral indicated that credit losses are not expected to occur. In addition, the Company recorded an OTTI charge of $139,000 related to a collateralized debt obligation that holds trust preferred securities in investments available for sale where default and deferrals on the underlying debt indicate credit losses are expected to occur within the security. An additional $225,000 charge was recognized in the quarter for preferred stock carried as an investment held to maturity. These securities were valued by third party pricing services using matrix or model pricing methodologies. There were no similar charges recorded in 2007 or 2006.

Gross unrealized loss in the available for sale investment portfolio was $3.2 million at December 31, 2008. This consisted primarily of unrealized loss on mortgage backed securities and collateralized mortgage obligations of $1.6 million, unrealized loss on obligations of states and political subdivisions of $1.3 million, and unrealized loss on other debt securities of $250,000. It is expected that these securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates or other market conditions and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired. Additional information about the investment securities portfolio is provided in Note 4 of the *Notes to Consolidated Financial Statements* in Item 8 below.

LOANS AND LEASES

Total loans and leases outstanding at December 31, 2008 were $6.1 billion, an increase of $75.7 million, or 1%, from year-end 2007. The growth rate is indicative of the controlled loan growth strategy employed in the current year in response to the current economic climate.

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

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Umpqua Holdings Corporation

The following table presents the composition of the loan portfolio as of December 31 for each of the last five years:

Loan Portfolio Composition

As of December 31,

(dollars in thousands)

	2008		2007		2006		2005		2004	
Type of Loan	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Real estate secured loans:										
Construction	$ 931,090	15.2%	$ 1,202,173	19.9%	$ 1,189,090	22.2%	$ 638,555	16.3%	$ 481,836	13.9%
Mortgage	661,723	10.8%	582,771	9.6%	523,715	9.8%	427,877	10.9%	445,976	12.9%
Commercial and agricultural	3,236,645	52.8%	3,012,743	49.7%	2,649,468	49.4%	2,019,623	51.5%	1,700,634	49.0%
Total real estate loans	4,829,458	78.8%	4,797,687	79.2%	4,362,273	81.4%	3,086,055	78.7%	2,628,446	75.8%
Commercial and agricultural	1,211,167	19.7%	1,169,939	19.3%	924,917	17.2%	753,131	19.3%	733,876	21.2%
Leases	40,155	0.7%	40,207	0.7%	22,870	0.4%	17,385	0.4%	18,351	0.5%
Installment and other	62,044	1.0%	59,091	1.0%	63,262	1.2%	76,128	1.9%	98,406	2.8%
Deferred loan fees, net	(11,450)	-0.2%	(11,289)	-0.2%	(11,460)	-0.2				