UMPQUA HOLDINGS CORP
Form 10-Q
November 01, 2012

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended: September 30, 2012

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .

Commission File Number: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

One SW Columbia Street, Suite 1200

Portland, Oregon 97258

(Address of Principal Executive Offices)(Zip Code)

(503) 727-4100

(Registrant's Telephone Number, Including Area Code)

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

[ ] Yes [X] No

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

Common stock, no par value: 111,925,970 shares outstanding as of October 31, 2012

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UMPQUA HOLDINGS CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except shares)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 159,290	$ 152,265
Interest bearing deposits	336,780	445,954
Temporary investments	536	547
Total cash and cash equivalents	496,606	598,766
Investment securities		
Trading, at fair value	3,053	2,309
Available for sale, at fair value	2,899,361	3,168,578
Held to maturity, at amortized cost	5,359	4,714
Loans held for sale	225,882	98,691
Non-covered loans and leases	6,248,425	5,888,098
Allowance for non-covered loan and lease losses	(84,759)	(92,968)
Net non-covered loans and leases	6,163,666	5,795,130
Covered loans and leases, net of allowance of $15,532 and $14,320	515,045	622,451
Restricted equity securities	31,365	32,581
Premises and equipment, net	154,288	152,366
Goodwill and other intangible assets, net	673,604	677,224
Mortgage servicing rights, at fair value	24,489	18,184
Non-covered other real estate owned	19,264	34,175
Covered other real estate owned	8,111	19,491
FDIC indemnification asset	60,506	91,089
Other assets	248,365	247,606
Total assets	$ 11,528,964	$ 11,563,355
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 2,113,842	$ 1,913,121
Interest bearing	6,986,087	7,323,569
Total deposits	9,099,929	9,236,690

Securities sold under agreements to repurchase	161,051	124,605
Term debt	254,123	255,676
Junior subordinated debentures, at fair value	84,538	82,905
Junior subordinated debentures, at amortized cost	102,302	102,544
Other liabilities	112,928	88,522
Total liabilities	9,814,871	9,890,942
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 111,915,015 in 2012 and 112,164,891 in 2011	1,512,744	1,514,913
Retained earnings	169,480	123,726
Accumulated other comprehensive income	31,869	33,774
Total shareholders' equity	1,714,093	1,672,413
Total liabilities and shareholders' equity	$ 11,528,964	$ 11,563,355

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
INTEREST INCOME				
Interest and fees on non-covered loans	$ 78,090	$ 81,041	$ 233,386	$ 239,095
Interest and fees on covered loans	20,325	20,950	54,603	64,723
Interest and dividends on investment securities:				
Taxable	13,057	21,932	47,712	68,323
Exempt from federal income tax	2,302	2,136	6,870	6,479
Dividends	3	2	37	9
Interest on temporary investments and interest bearing deposits	331	466	736	1,207
Total interest income	114,108	126,527	343,344	379,836
INTEREST EXPENSE				
Interest on deposits	7,623	14,579	24,637	44,943
Interest on securities sold under agreement to repurchase and federal funds purchased	73	152	232	405
Interest on term debt	2,335	2,332	6,944	6,922
Interest on junior subordinated debentures	2,037	1,930	6,124	5,769
Total interest expense	12,068	18,993	37,937	58,039
Net interest income	102,040	107,534	305,407	321,797
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	7,078	9,089	16,883	39,578
PROVISION FOR COVERED LOAN AND LEASE LOSSES	2,927	4,420	4,302	15,443
Net interest income after provision for loan and lease losses	92,035	94,025	284,222	266,776
NON-INTEREST INCOME				
Service charges on deposit accounts	7,122	8,849	20,978	25,210
Brokerage commissions and fees	3,186	3,115	9,662	9,768
Mortgage banking revenue, net	24,346	7,084	53,069	17,166
Gain on investment securities, net:				
Gain on sale of investment securities, net	21	1,813	1,199	7,491
Total other-than-temporary impairment losses	-	-	-	(110)
Portion of other-than-temporary impairment losses transferred from other comprehensive income	-	-	-	38
Total gain on investment securities, net	21	1,813	1,199	7,419
Loss on junior subordinated debentures carried at fair value	(554)	(554)	(1,649)	(1,643)
Change in FDIC indemnification asset	(4,759)	1,611	(10,644)	(1,035)
Other income	4,317	2,860	17,227	9,105

Total non-interest income	33,679	24,778	89,842	65,990
NON-INTEREST EXPENSE				
Salaries and employee benefits	49,543	45,023	146,615	133,441
Net occupancy and equipment	13,441	12,803	40,519	37,867
Communications	2,740	2,791	8,527	8,397
Marketing	1,104	2,007	3,855	4,656
Services	5,910	6,089	18,703	17,997
Supplies	627	686	1,936	2,310
FDIC assessments	1,699	1,867	5,553	8,561
Net loss on non-covered other real estate owned	2,168	2,289	6,244	8,967
Net loss on covered other real estate owned	461	4,755	3,084	5,778
Intangible amortization	1,189	1,222	3,612	3,724
Merger related expenses	85	51	338	303
Other expenses	8,007	6,641	22,620	21,631
Total non-interest expense	86,974	86,224	261,606	253,632
Income before provision for income taxes	38,740	32,579	112,458	79,134
Provision for income taxes	13,587	10,717	38,525	26,020
Net income	$ 25,153	$ 21,862	$ 73,933	$ 53,114

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)

(UNAUDITED)

(in thousands, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income	$ 25,153	$ 21,862	$ 73,933	$ 53,114
Dividends and undistributed earnings allocated to participating securities	170	105	499	253
Net earnings available to common shareholders	$ 24,983	$ 21,757	$ 73,434	$ 52,861
Earnings per common share:				
Basic	$ 0.22	$ 0.19	$ 0.66	$ 0.46
Diluted	$ 0.22	$ 0.19	$ 0.65	$ 0.46
Weighted average number of common shares outstanding:				
Basic	111,899	114,540	111,928	114,576
Diluted	112,151	114,691	112,159	114,769

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income	$ 25,153	$ 21,862	$ 73,933	$ 53,114
Available for sale securities:				
Unrealized gains (losses) arising during the period	1,863	12,065	(2,167)	37,714
Reclassification adjustment for net gains realized in earnings (net of tax expense $8 and $725 for the three months ended September 30, 2012 and 2011, respectively, and net of tax expense of $480 and $2,996 for the nine months ended September 30, 2012 and 2011, respectively)	(13)	(1,088)	(719)	(4,495)
Income tax (expense) benefit related to unrealized gains (losses)	(745)	(4,826)	867	(15,086)
Net change in unrealized gains	1,105	6,151	(2,019)	18,133
Held to maturity securities:				
Unrealized losses related to factors other than credit (net of tax benefit of $30 for the nine months ended September 30, 2011)	-	-	-	(45)
Reclassification adjustment for impairments realized in net income (net of tax benefit of $20 for the nine months ended September 30, 2011)	-	-	-	30
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $23 and $17 for the three months ended September 30, 2012 and 2011, respectively, and net of tax benefit of $76 and $44 for the nine months ended September 30, 2012 and 2011, respectively)	35	25	114	67
Net change in unrealized losses related to factors other than credit	35	25	114	52
Other comprehensive income (loss), net of tax	1,140	6,176	(1,905)	18,185
Comprehensive income	$ 26,293	$ 28,038	$ 72,028	$ 71,299

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(in thousands, except shares)	Common Stock			Accumulated Other	
	Shares	Amount	Retained Earnings	Comprehensive Income (Loss)	Total
BALANCE AT JANUARY 1, 2011	114,536,814	$ 1,540,928	$ 76,701	$ 24,945	$ 1,642,574
Net income			74,496		74,496
Other comprehensive income, net of tax				8,829	8,829
Comprehensive income					$ 83,325
Stock-based compensation		3,785			3,785
Stock repurchased and retired	(2,557,056)	(29,754)			(29,754)
Issuances of common stock under stock plans and related net tax deficiencies	185,133	(46)			(46)
Cash dividends on common stock ($0.24 per share)			(27,471)		(27,471)
Balance at December 31, 2011	112,164,891	$ 1,514,913	$ 123,726	$ 33,774	$ 1,672,413
BALANCE AT JANUARY 1, 2012	112,164,891	$ 1,514,913	$ 123,726	$ 33,774	$ 1,672,413
Net income			73,933		73,933
Other comprehensive loss, net of tax				(1,905)	(1,905)
Comprehensive income					$ 72,028
Stock-based compensation		2,981			2,981
Stock repurchased and retired	(425,054)	(5,378)			(5,378)
Issuances of common stock under stock plans and related net tax deficiencies	175,178	228			228
Cash dividends on common stock ($0.25 per share)			(28,179)		(28,179)
Balance at September 30, 2012	111,915,015	$ 1,512,744	$ 169,480	$ 31,869	$ 1,714,093

See notes to condensed consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine months ended September 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 73,933	$ 53,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	33,023	24,582
Gain on sale of investment securities, net	(1,199)	(7,491)
Other-than-temporary impairment on investment securities held to maturity	-	72
Loss on sale of non-covered other real estate owned	481	1,449
Gain on sale of covered other real estate owned	(1,031)	(1,469)
Valuation adjustment on non-covered other real estate owned	5,763	7,518
Valuation adjustment on covered other real estate owned	4,115	7,247
Provision for non-covered loan and lease losses	16,883	39,578
Provision for covered loan and lease losses	4,302	15,443
Change in FDIC indemnification asset	10,644	1,035
Depreciation, amortization and accretion	11,848	9,454
Increase in mortgage servicing rights	(11,923)	(4,100)
Change in mortgage servicing rights carried at fair value	5,618	1,942
Change in junior subordinated debentures carried at fair value	1,633	1,636
Stock-based compensation	2,981	2,930
Net (increase) decrease in trading account assets	(744)	543
Gain on sale of loans	(36,378)	(6,585)
Origination of loans held for sale	(1,359,520)	(518,915)
Proceeds from sales of loans held for sale	1,268,707	506,831
Excess tax benefits from the exercise of stock options	(51)	(4)
Change in other assets and liabilities:		
Net decrease in other assets	(6,323)	(4,066)
Net increase in other liabilities	22,493	11,905
Net cash provided by operating activities	45,255	142,649
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(784,797)	(822,898)
Purchases of investment securities held to maturity	(931)	(1,573)
Proceeds from investment securities available for sale	1,018,791	665,131

Proceeds from investment securities held to maturity	511	1,486
Redemption of restricted equity securities	1,216	1,766
Net non-covered loan and lease originations	(391,733)	(249,199)
Net covered loan and lease paydowns	85,510	75,791
Proceeds from sales of non-covered loans	13,496	9,262
Proceeds from disposals of furniture and equipment	1,700	199
Purchases of premises and equipment	(17,155)	(23,137)
Net proceeds from FDIC indemnification asset	26,615	57,885
Proceeds from sales of non-covered other real estate owned	18,834	25,691
Proceeds from sales of covered other real estate owned	11,523	12,550
Net cash used by investing activities	(16,420)	(247,046)

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(in thousands)	Nine months ended September 30, 2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in deposit liabilities	(136,519)	(28,606)
Net increase in securities sold under agreements to repurchase	36,446	72,602
Repayment of term debt	-	(5,000)
Dividends paid on common stock	(25,919)	(17,260)
Excess tax benefits from stock based compensation	51	4
Proceeds from stock options exercised	324	310
Retirement of common stock	(5,378)	(2,061)
Net cash (used) provided by financing activities	(130,995)	19,989
Net decrease in cash and cash equivalents	(102,160)	(84,408)
Cash and cash equivalents, beginning of period	598,766	1,004,125
Cash and cash equivalents, end of period	$ 496,606	$ 919,717
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 40,653	$ 62,680
Income taxes	$ 31,825	$ 24,133
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$ (2,019)	$ 18,133
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$ 114	$ 52
Cash dividend declared on common stock and payable after period-end	$ 10,140	$ 8,056
Transfer of non-covered loans to non-covered other real estate owned	$ 10,167	$ 36,654
Transfer of covered loans to covered other real estate owned	$ 3,227	$ 11,924
Transfer of covered loans to non-covered loans	$ 14,367	$ 10,610
Transfer from FDIC indemnification asset to due from FDIC and other	$ 19,939	$ 39,000
Receivable from sales of covered other real estate owned	$ -	$ 420

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation (referred to in this report as “we”, “our” or “the Company”) conform to accounting principles generally accepted in the United States of America. The accompanying interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Umpqua Bank (“Bank”), and Umpqua Investments, Inc. (“Umpqua Investments”). All material inter-company balances and transactions have been eliminated. The consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2011 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes contained in the 2011 Annual Report filed on Form 10-K.

In preparing these financial statements, the Company has evaluated events and transactions subsequent to September 30, 2012 for potential recognition or disclosure. In management’s opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Note 2 – Business Combinations

On August 30, 2012, we announced signing of a definitive agreement to acquire Circle Bancorp and its subsidiary, Circle Bank (the “merger Agreement”). The aggregate deal value is approximately $24.9 million in cash, which includes a planned cash redemption of $3.5 million in preferred stock and the value of outstanding options and warrants. The board of directors of each company has approved this transaction. Completion of the transaction is subject to customary closing conditions, including bank regulatory approval and approval of Circle Bancorp’s common and preferred shareholders. The transaction is expected to close in the fourth quarter of 2012.

The structure of the transaction is as follows:

• Umpqua will complete the organization of a wholly owned subsidiary—UB Acquisition Subsidiary, Inc., which is a California corporation created solely to structure the transactions contemplated by the Merger Agreement to meet certain tax requirements and will not conduct any business, own any assets or incur any liabilities;

• UB Acquisition Subsidiary, Inc. will merge with and into Circle Bancorp (the "First Step Merger"), with Circle the surviving corporation;

• Immediately following and on the same day as the First Step Merger, Circle Bancorp will merge with and into Umpqua (the "Second Step Merger"), with Umpqua the surviving corporation; and

• Immediately following and on the same day as the Second Step Merger, Circle Bank will merge with and into Umpqua Bank (the "Bank Merger"), with Umpqua Bank being the resultant bank.

Upon completion of the acquisition, all Circle Bank branches will operate under the Umpqua Bank name. The acquisition will add Circle Bank's Bay Area network of six branches in Corte Madera, Novato, Petaluma, San Francisco, San Rafael and Santa Rosa to Umpqua Bank's network of 193 locations in California, Oregon, Washington and Northern Nevada and will result in a combined institution with assets of approximately $11.8 billion.

Note 3 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2012 and December 31, 2011:

September 30, 2012
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 45,517	$ 462	$ (1)	$ 45,978
Obligations of states and political subdivisions	247,175	18,887	(11)	266,051
Residential mortgage-backed securities and collateralized mortgage obligations	2,551,150	41,226	(7,364)	2,585,012
Other debt securities	143	67	-	210
Investments in mutual funds and other equity securities	1,959	151	-	2,110
	$ 2,845,944	$ 60,793	$ (7,376)	$ 2,899,361
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 1,260	$ 3	$ -	$ 1,263
Residential mortgage-backed securities and				

collateralized mortgage obligations	4,099	102	(100)	4,101
	$ 5,359	$ 105	$ (100)	$ 5,364

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December 31, 2011
(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$ 117,232	$ 1,234	$ (1)	$ 118,465
Obligations of states and political subdivisions	237,302	16,264	(13)	253,553
Residential mortgage-backed securities and collateralized mortgage obligations	2,755,153	43,152	(3,950)	2,794,355
Other debt securities	151	-	(17)	134
Investments in mutual funds and other equity securities	1,959	112	-	2,071
	$ 3,111,797	$ 60,762	$ (3,981)	$ 3,168,578
HELD TO MATURITY:				
Obligations of states and political subdivisions	$ 1,335	$ 2	$ -	$ 1,337
Residential mortgage-backed securities and collateralized mortgage obligations	3,379	120	(77)	3,422
	$ 4,714	$ 122	$ (77)	$ 4,759

Investment securities that were in an unrealized loss position as of September 30, 2012 and December 31, 2011 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

September 30, 2012
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ -	$ -	$ 65	$ 1	$ 65	$ 1
Obligations of states and political subdivisions	6,420	11	-	-	6,420	11
Residential mortgage-backed securities and collateralized mortgage obligations	642,161	5,951	128,363	1,413	770,524	7,364
Total temporarily impaired securities	$ 648,581	$ 5,962	$ 128,428	$ 1,414	$ 777,009	$ 7,376

HELD TO MATURITY:						
Residential mortgage-backed securities and						
collateralized mortgage obligations	$ -	$ -	$ 631	$ 100	$ 631	$ 100
Total temporarily impaired securities	$ -	$ -	$ 631	$ 100	$ 631	$ 100

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Unrealized losses on the impaired held to maturity collateralized mortgage obligations include the unrealized losses related to factors other than credit that are included in other comprehensive income.

December 31, 2011
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$ -	$ -	$ 85	$ 1	$ 85	$ 1
Obligations of states and political subdivisions	516	13	-	-	516	13
Residential mortgage-backed securities and collateralized mortgage obligations	489,475	3,160	52,222	790	541,697	3,950
Other debt securities	-	-	134	17	134	17
Total temporarily impaired securities	$ 489,991	$ 3,173	$ 52,441	$ 808	$ 542,432	$ 3,981
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ 602	$ 77	$ 602	$ 77
Total temporarily impaired securities	$ -	$ -	$ 602	$ 77	$ 602	$ 77

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

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of September 30, 2012. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at September 30, 2012 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

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

The following table presents the maturities of investment securities at September 30, 2012:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$ 33,293	$ 33,500	$ 295	$ 296
Over three months through twelve months	302,638	305,841	300	301
After one year through five years	1,961,957	1,997,457	41	43
After five years through ten years	435,999	447,235	188	203
After ten years	110,098	113,218	4,535	4,521
Other investment securities	1,959	2,110	-	-
	$ 2,845,944	$ 2,899,361	$ 5,359	$ 5,364

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

The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the three and nine months ended September 30, 2012 and 2011:

(in thousands)

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$ -	$ -	$ -	$ -
Obligations of states and political subdivisions	8	-	-	-
Residential mortgage-backed securities and collateralized mortgage obligations	-	-	1,827	14
Other debt securities	13	-	-	-
	$ 21	$ -	$ 1,827	$ 14

(in thousands)

	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$ 371	$ -	$ -	$ -
Obligations of states and political subdivisions	10	1	7	-
Residential mortgage-backed securities and collateralized mortgage obligations	1,484	683	8,301	817
Other debt securities	18	-	-	-
	$ 1,883	$ 684	$ 8,308	$ 817

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The following table presents, as of September 30, 2012, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$ 84,637	$ 86,869
To state and local governments to secure public deposits	799,228	820,156
Other securities pledged principally to secure repurchase agreements	208,148	209,648
Total pledged securities	$ 1,092,013	$ 1,116,673

Note 4 – Non-Covered Loans and Leases

The following table presents the major types of non-covered loans recorded in the balance sheets as of September 30, 2012 and December 31, 2011:

(in thousands)

	September 30, 2012	December 31, 2011
Commercial real estate		
Term & multifamily	$ 3,707,084	$ 3,558,295
Construction & development	174,554	165,066
Residential development	64,158	90,073
Commercial		
Term	755,255	625,766
LOC & other	865,851	832,999
Residential		
Mortgage	391,370	315,927
Home equity loans & lines	264,379	272,192
Consumer & other	37,874	38,860
Total	6,260,525	5,899,178

Deferred loan fees, net	(12,100)	(11,080)
Total	$ 6,248,425	$ 5,888,098

As of September 30, 2012, loans totaling $5.4 billion were pledged to secure borrowings and available lines of credit.

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

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

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

Formula Allowance

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

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

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

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

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

Specific Allowance

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired, when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a Specific Allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the formula allowance so as not to double-count the loss exposure. The non-accrual impaired loans as of period end have already been partially charged off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

The combination of the formula allowance component and the specific allowance component represent the allocated allowance for loan and lease losses.

Unallocated Allowance

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

• Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;

• Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

• Changes in the nature and volume of the portfolio and in the terms of loans;

• Changes in the experience and ability of lending management and other relevant staff;

• Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;

• Changes in the quality of the institution's loan review system;

• Changes in the value of underlying collateral for collateral-depending loans;

• The existence and effect of any concentrations of credit, and changes in the level of such concentrations;

• The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions' existing portfolio.

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

Management believes that the ALLL was adequate as of September 30, 2012. 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 78% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our loan portfolio. A continued deterioration in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

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

• The quality of the current loan portfolio;

• The trend in the loan portfolio's risk ratings;

• Current economic conditions;

• Loan concentrations;

• Loan growth rates;

• Past-due and non-performing trends;

• Evaluation of specific loss estimates for all significant problem loans;

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

• Recovery experience;

• Peer comparison loss rates.

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

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

The following table summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan portfolio segment for three and nine months ended September 30, 2012 and 2011, respectively:

(in thousands)

	Three months ended September 30, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 56,341	$ 19,587	$ 6,652	$ 1,038	$ -	$ 83,618
Charge-offs	(4,892)	(1,782)	(516)	(454)	-	(7,644)
Recoveries	1,020	409	171	107	-	1,707
Provision	2,779	2,540	1,381	331	47	7,078
Balance, end of period	$ 55,248	$ 20,754	$ 7,688	$ 1,022	$ 47	$ 84,759

(in thousands)

	Three months ended September 30, 2011					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 61,982	$ 23,750	$ 5,154	$ 868	$ 6,041	$ 97,795
Charge-offs	(8,413)	(6,032)	(1,657)	(351)	-	(16,453)
Recoveries	2,010	346	54	91	-	2,501
Provision	5,913	1,158	3,141	339	(1,462)	9,089
Balance, end of period	$ 61,492	$ 19,222	$ 6,692	$ 947	$ 4,579	$ 92,932

(in thousands)

	Nine months ended September 30, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 59,574	$ 20,485	$ 7,625	$ 867	$ 4,417	$ 92,968
Charge-offs	(18,007)	(8,741)	(4,030)	(1,159)	-	(31,937)
Recoveries	2,327	3,856	338	324	-	6,845
Provision	11,354	5,154	3,755	990	(4,370)	16,883
Balance, end of period	$ 55,248	$ 20,754	$ 7,688	$ 1,022	$ 47	$ 84,759

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(in thousands)

	Nine months ended September 30, 2011					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$ 64,405	$ 22,146	$ 5,926	$ 803	$ 8,641	$ 101,921
Charge-offs	(32,728)	(17,387)	(4,586)	(1,238)	-	(55,939)
Recoveries	5,463	1,437	175	297	-	7,372
Provision	24,352	13,026	5,177	1,085	(4,062)	39,578
Balance, end of period	$ 61,492	$ 19,222	$ 6,692	$ 947	$ 4,579	$ 92,932

The following table presents the allowance and recorded investment in non-covered loans by portfolio segment and balances individually or collectively evaluated for impairment as of September 30, 2012 and 2011, respectively:

(in thousands)

	September 30, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$ 54,115	$ 20,754	$ 7,683	$ 1,022	$ 47	$ 83,621
Individually evaluated for impairment	1,133	-	5	-	-	1,138
Total	$ 55,248	$ 20,754	$ 7,688	$ 1,022	$ 47	$ 84,759
Non-covered loans and leases:						
Collectively evaluated for impairment	$ 3,816,106	$ 1,602,735	$ 654,956	$ 37,874		$ 6,111,671
Individually evaluated for impairment	129,690	18,371	793	-		148,854
Total	$ 3,945,796	$ 1,621,106	$ 655,749	$ 37,874		$ 6,260,525

(in thousands)

	September 30, 2011					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
	$ 60,422	$ 19,219	$ 6,684	$ 947	$ 4,579	$ 91,851

Collectively evaluated for impairment						
Individually evaluated for impairment	1,070	3	8	-	-	1,081
Total	$ 61,492	$ 19,222	$ 6,692	$ 947	$ 4,579	$ 92,932
Non-covered loans and leases:						
Collectively evaluated for impairment	$ 3,670,059	$ 1,400,862	$ 555,864	$ 32,133		$ 5,658,918
Individually evaluated for impairment	151,861	28,277	308	-		180,446
Total	$ 3,821,920	$ 1,429,139	$ 556,172	$ 32,133		$ 5,839,364

The gross non-covered loan and lease balance excludes deferred loans fees of $12.1 million at September 30, 2012 and $11.3 million at September 30, 2011.

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Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the reserve for unfunded commitments ("RUC") and unfunded commitments for the three and nine months ended September 30, 2012 and 2011, respectively:

(in thousands)

	Three months ended September 30, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 107	$ 790	$ 162	$ 67	$ 1,126
Net change to other expense	18	1,607	2	4	1,631
Balance, end of period	$ 125	$ 2,397	$ 164	$ 71	$ 2,757

	Three months ended September 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 61	$ 705	$ 169	$ 53	$ 988
Net change to other expense	1	(36)	10	8	(17)
Balance, end of period	$ 62	$ 669	$ 179	$ 61	$ 971

	Nine months ended September 30, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 59	$ 633	$ 185	$ 63	$ 940
Net change to other expense	66	1,764	(21)	8	1,817
Balance, end of period	$ 125	$ 2,397	$ 164	$ 71	$ 2,757

	Nine months ended September 30, 2011				
	Commercial	Commercial	Residential	Consumer & Other	Total

	Real Estate				
Balance, beginning of period	$ 33	$ 575	$ 158	$ 52	$ 818
Net change to other expense	29	94	21	9	153
Balance, end of period	$ 62	$ 669	$ 179	$ 61	$ 971

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Unfunded loan commitments:					
September 30, 2012	$ 139,479	$ 900,875	$ 255,499	$ 55,312	$ 1,351,165
September 30, 2011	$ 60,906	$ 640,028	$ 227,505	$ 46,000	$ 974,439

Non-covered loans sold

In the course of managing the loan portfolio, at certain times, management may decide to sell loans prior to resolution. The following table summarizes loans sold by loan portfolio during the three and nine months ended September 30, 2012 and 2011, respectively:

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Commercial real estate				
Term & multifamily	$ 6,410	$ 2,457	$ 11,350	$ 6,341
Construction & development	-	28	-	28
Residential development	12	-	12	2
Commercial				
Term	-	-	-	151
LOC & other	1,110	-	1,942	2,740
Residential				
Mortgage	-	-	192	-
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
Total	$ 7,532	$ 2,485	$ 13,496	$ 9,262

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Asset Quality and Non-Performing Loans

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

A loan is considered impaired when, based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when non-covered loans are identified as impaired, they are moved to our Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every six to nine months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac’s or the Bank’s Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services Group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Company's Allowance for Loan and Lease Losses (“ALLL”) Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

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

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

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

The Company has written down impaired, non-accrual loans as of September 30, 2012 to their estimated net realizable value, generally based on disposition value, and expects resolution with no additional material loss, absent further decline in market prices.

Non-Covered Non-Accrual Loans and Loans Past Due

The following table summarizes our non-covered non-accrual loans and loans past due by loan class as of September 30, 2012 and December 31, 2011:

(in thousands)	September 30, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current	Total Non-covered Loans and Leases

Commercial real estate							
Term & multifamily	$ 13,759	$ 6,284	$ 667	$ 20,710	$ 44,347	$ 3,642,027	$ 3,707,084
Construction & development	-	-	-	-	5,129	169,425	174,554
Residential development	-	-	-	-	9,567	54,591	64,158
Commercial							
Term	1,085	2,666	-	3,751	9,066	742,438	755,255
LOC & other	185	1,603	-	1,788	4,973	859,090	865,851
Residential							
Mortgage	1,264	315	4,138	5,717	-	385,653	391,370
Home equity loans & lines	712	548	1,186	2,446	666	261,267	264,379
Consumer & other	52	22	594	668	-	37,206	37,874
Total	$ 17,057	$ 11,438	$ 6,585	$ 35,080	$ 73,748	$ 6,151,697	$ 6,260,525
Deferred loan fees, net							(12,100)
Total							$ 6,248,425

(in thousands)

	December 31, 2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current	Total Non-covered Loans and Leases
Commercial real estate							
Term & multifamily	$ 7,319	$ 11,184	$ -	$ 18,503	$ 44,486	$ 3,495,306	$ 3,558,295
Construction & development	-	662	575	1,237	3,348	160,481	165,066
Residential development	4,171	-	-	4,171	15,836	70,066	90,073
Commercial							
Term	2,075	738	1,179	3,992	8,120	613,654	625,766
LOC & other	5,435	1,697	1,397	8,529	8,772	815,698	832,999
Residential							
Mortgage	215	965	4,343	5,523	-	310,404	315,927
Home equity loans & lines	492	191	2,648	3,331	-	268,861	272,192
Consumer & other	67	16	679	762	-	38,098	38,860
Total	$ 19,774	$ 15,453	$ 10,821	$ 46,048	$ 80,562	$ 5,772,568	$ 5,899,178
Deferred loan fees, net							(11,080)
Total							$ 5,888,098

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Non-Covered Impaired Loans

The following table summarizes our non-covered impaired loans by loan class as of September 30, 2012 and December 31, 2011:

(in thousands)

	September 30, 2012		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	$ 52,152	$ 44,463	$ -
Construction & development	20,575	16,648	-
Residential development	15,062	11,560	-
Commercial			
Term	16,041	12,213	-
LOC & other	6,462	5,793	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	1,500	666	-
Consumer & other	-	-	-
With an allowance recorded:			
Commercial real estate			
Term & multifamily	37,223	37,223	887
Construction & development	2,682	2,682	25
Residential development	17,114	17,114	221
Commercial			
Term	365	365	-
LOC & other	-	-	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	127	127	5
Consumer & other	-	-	-
Total:			
Commercial real estate	144,808	129,690	1,133
Commercial	22,868	18,371	-
Residential	1,627	793	5

Consumer & other	-	-	-
Total	$ 169,303	$ 148,854	$ 1,138

(in thousands)

	December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
With no related allowance recorded:			
Commercial real estate			
Term & multifamily	$ 54,673	$ 44,486	$ -
Construction & development	22,553	20,602	-
Residential development	30,575	23,473	-
Commercial			
Term	14,205	11,311	-
LOC & other	23,132	8,772	-
Residential			
Mortgage	-	-	-
Home equity loans & lines	-	-	-
Consumer & other	-	-	-
With an allowance recorded:			
Commercial real estate			
Term & multifamily	22,611	22,612	680
Construction & development	3,762	2,742	27
Residential development	26,326	26,326	464
Commercial			
Term	1,851	1,851	608
LOC & other	3,975	3,975	2,000
Residential			
Mortgage	-	-	-
Home equity loans & lines	129	129	4
Consumer & other	-	-	-
Total:			
Commercial real estate	160,500	140,241	1,171
Commercial	43,163	25,909	2,608
Residential	129	129	4
Consumer & other	-	-	-
Total	$ 203,792	$ 166,279	$ 3,783

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Loans with no related allowance reported generally represent non-accrual loans. The Company recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans as of September 30, 2012 have already been written-down to their estimated net realizable value, based on disposition value, and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

At September 30, 2012 and December 31, 2011, impaired loans of $70.0 million and $80.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligation to lend additional funds on the restructured loans as of September 30, 2012.

The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class for the three and nine months ended September 30, 2012 and 2011:

(in thousands)

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$ 45,832	$ -	$ 50,024	$ -
Construction & development	16,990	-	22,253	-
Residential development	14,748	-	33,406	-
Commercial				
Term	12,037	-	10,360	-
LOC & other	6,731	-	15,444	-
Residential				
Mortgage	-	-	-	-
Home equity loans & lines	729	-	-	-
Consumer & other	-	-	-	-

With an allowance recorded:				
Commercial real estate				
Term & multifamily	28,918	352	17,013	235
Construction & development	2,712	169	7,543	281
Residential development	15,575	199	28,924	310
Commercial				
Term	182	44	438	48
LOC & other	-	-	2,857	-
Residential				
Mortgage	-	-	178	1
Home equity loans & lines	127	2	65	2
Consumer & other	-	-	-	-
Total:				
Commercial real estate	124,775	720	159,163	826
Commercial	18,950	44	29,099	48
Residential	856	2	243	3
Consumer & other	-	-	-	-
Total	$ 144,581	$ 766	$ 188,505	$ 877

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(in thousands)

	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial real estate				
Term & multifamily	$ 45,462	$ -	$ 51,238	$ -
Construction & development	18,464	-	22,436	-
Residential development	17,874	-	36,527	-
Commercial				
Term	12,325	-	8,846	-
LOC & other	7,975	-	17,893	-
Residential				
Mortgage	-	-	-	-
Home equity loans & lines	364	-	-	-
Consumer & other	-	-	-	-
With an allowance recorded:				
Commercial real estate				
Term & multifamily	25,916	785	20,214	659
Construction & development	2,727	513	5,138	619
Residential development	18,873	600	34,431	1,005
Commercial				
Term	554	140	322	137
LOC & other	994	-	3,558	-
Residential				
Mortgage	-	-	178	4
Home equity loans & lines	128	5	32	2
Consumer & other	-	-	-	-
Total:				
Commercial real estate	129,316	1,898	169,984	2,283
Commercial	21,848	140	30,619	137
Residential	492	5	210	6
Consumer & other	-	-	-	-
Total	$ 151,656	$ 2,043	$ 200,813	$ 2,426

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The impaired loans for which these interest income amounts were recognized primarily relate to accruing restructured loans.

Non-Covered Credit Quality Indicators

As previously noted, the Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Bank differentiates its lending portfolios into homogeneous loans (generally consumer loans) and non-homogeneous loans (generally all non-consumer loans). The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans:

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

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

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

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

Acceptable Risk—An acceptable risk loan, risk rated 5, is a loan with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement.

The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

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

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

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

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

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

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

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

Special Mention—A Special Mention loan, risk rated 7, has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institutions credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a Substandard classification. A Special Mention loan has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank’s position at some future date. Such weaknesses include:

• Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.

• Loans with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.

• Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating.

• This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.

• Unlike a Substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

Substandard—A substandard asset, risk rated 8, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans are classified as Substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between Special Mention and Substandard. The following are examples of well-defined weaknesses:

• Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.

• Borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.

• Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.

• Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.

• Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Bank's primary source of repayment (unless this was the original source of repayment). If the collateral is under the Bank's control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be Special Mention or Watch.

• The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.

• There is material, uncorrectable faulty documentation or materially suspect financial information.

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Doubtful—Loans classified as doubtful, risk rated 9, have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a Doubtful rating will be temporary, while the Bank is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged off. The remaining balance, properly margined, may then be upgraded to Substandard, however must remain on non-accrual.

Loss—Loans classified as loss, risk rated 10, are considered un-collectible and of such little value that the continuance as an active Bank asset is not warranted. This rating does not mean that the loan has no recovery or salvage value, but rather that the loan should be charged off now, even though partial or full recovery may be possible in the future.

Impaired—Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as non-accrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

Homogeneous loans are not risk rated until they are greater than 30 days past due, and risk rating is based primarily on the past due status of the loan. The risk rating categories can be generally described by the following groupings for commercial and commercial real estate homogeneous loans:

Special Mention –A homogeneous special mention loan, risk rated 7, is 30-59 days past due from the required payment date at month-end.

Substandard –A homogeneous substandard loan, risk rated 8, is 60-119 days past due from the required payment date at month-end.

Doubtful –A homogeneous doubtful loan, risk rated 9, is 120-149 days past due from the required payment date at month-end.

Loss –A homogeneous loss loan, risk rated 10, is 150 days and more past due from the required payment date. These loans are generally charged-off in the month in which the 150 day time period elapses.

The risk rating categories can be generally described by the following groupings for residential and consumer and other homogeneous loans:

Special Mention – A homogeneous retail special mention loan, risk rated 7, is 30-89 days past due from the required payment date at month-end.

Substandard – A homogeneous retail substandard loan, risk rated 8, is an open-end loan 90-180 days past due from the required payment date at month-end or a closed-end loan 90-120 days past due from the required payment date at month-end.

Loss – A homogeneous retail loss loan, risk rated 10, is a closed-end loan that becomes past due 120 cumulative days or an open-end retail loan that becomes past due 180 cumulative days from the contractual due date. These loans are generally charged-off in the month in which the 120 or 180 day period elapses.

The following table summarizes our internal risk rating by loan class for the non-covered loan portfolio as of September 30, 2012 and December 31, 2011:

(in thousands)

	September 30, 2012						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
Commercial real estate							
Term & multifamily	$ 3,274,893	$ 217,960	$ 132,545	$ -	$ -	$ 81,686	$ 3,707,084
Construction & development	132,843	16,284	6,097	-	-	19,330	174,554
Residential development	25,579	3,746	6,159	-	-	28,674	64,158
Commercial							
Term	683,948	32,658	26,071	-	-	12,578	755,255
LOC & other	824,039	19,152	16,867	-	-	5,793	865,851
Residential							

Mortgage	385,653	1,579	-	-	4,138	-	391,370
Home equity loans & lines	261,140	1,260	83	-	1,103	793	264,379
Consumer & other	37,224	74	64	-	512	-	37,874
Total	$ 5,625,319	$ 292,713	$ 187,886	$ -	$ 5,753	$ 148,854	$ 6,260,525
Deferred loan fees, net							(12,100)
Total							$ 6,248,425

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(in thousands)

	December 31, 2011						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
Commercial real estate							
Term & multifamily	$ 3,068,803	$ 275,475	$ 146,919	$ -	$ -	$ 67,098	$ 3,558,295
Construction & development	109,434	19,946	12,342	-	-	23,344	165,066
Residential development	24,801	6,740	8,733	-	-	49,799	90,073
Commercial							
Term	586,365	16,631	9,608	-	-	13,162	625,766
LOC & other	775,495	22,051	22,706	-	-	12,747	832,999
Residential							
Mortgage	309,478	2,106	296	-	4,047	-	315,927
Home equity loans & lines	268,731	683	773	-	1,876	129	272,192
Consumer & other	38,098	82	254	-	426	-	38,860
Total	$ 5,181,205	$ 343,714	$ 201,631	$ -	$ 6,349	$ 166,279	$ 5,899,178
Deferred loan fees, net							(11,080)
Total							$ 5,888,098

The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 3.3%, 6.3%, and 90.4%, respectively, as of September 30, 2012. The percentage of non-covered impaired loans classified as special mention, substandard, and loss was 3.8%, 96.0%, and 0.2%, respectively, as of December 31, 2011.

Troubled Debt Restructurings

At September 30, 2012 and December 31, 2011, impaired loans of $70.0 million and $80.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. Impaired restructured loans carry a specific allowance and the allowance on impaired restructured loans is calculated consistently across the portfolios.

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As a result of adopting the amendments in Accounting Standards Update No. 2011-02 on January 1, 2011, the Company reassessed all restructurings that occurred on or after the beginning of January 1, 2011 for identification as troubled debt restructurings. The Company identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as troubled debt restructurings, the Company identified them as impaired under the guidance in Section 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. At the end of September 30, 2012 and December 31, 2011, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was $0.3 million and $5.4 million, respectively and there was no allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, respectively. In evaluating concessions made during the year, the Company frequently obtained adequate compensation for concessions made. Adequate compensation includes any or a combination of additional collateral or guarantor(s), pre-funded payment reserves, shortened amortization, principal paydown and adjustment to or above current market interest rate. As a result, few loans qualified as troubled debt restructuring under the new definitions outlined in Section 310-10-35.

There were no available commitments for troubled debt restructurings outstanding as of September 30, 2012 and there were $205,000 as of December 31, 2011.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of September 30, 2012 and December 31, 2011:

(in thousands)

	September 30, 2012		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Term & multifamily	$ 35,807	$ 17,470	$ 53,277
Construction & development	14,201	3,515	17,716
Residential development	18,696	8,587	27,283
Commercial			
Term	365	4,778	5,143
LOC & other	820	1,493	2,313
Residential			
Mortgage	-	-	-

Home equity loans & lines	126	-	126
Consumer & other	-	-	-
Total	$ 70,015	$ 35,843	$ 105,858

(in thousands)

	December 31, 2011		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Term & multifamily	$ 22,611	$ 21,951	$ 44,562
Construction & development	19,996	921	20,917
Residential development	33,964	11,969	45,933
Commercial			
Term	3,863	1,762	5,625
LOC & other	-	6,973	6,973
Residential			
Mortgage	-	-	-
Home equity loans & lines	129	-	129
Consumer & other	-	-	-
Total	$ 80,563	$ 43,576	$ 124,139

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The Bank's policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appear relatively certain. The Bank's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

The types of modifications offered can generally be described in the following categories:

Rate Modification—A modification in which the interest rate is modified.

Term Modification —A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification—A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification—A modification in which the payment amount is changed, other than an interest only modification described above.

Combination Modification—Any other type of modification, including the use of multiple types of modifications.

The following tables present newly non-covered restructured loans that occurred during the three and nine months ended September 30, 2012 and 2011, respectively:

(in thousands)

	Three months ended September 30, 2012					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	$ 14,920	$ -	$ -	$ -	$ 2,554	$ 17,474
Construction & development	-	-	-	-	-	-

Residential development	-	-	-	-	-	-
Commercial						
Term	-	-	-	-	-	-
LOC & other	-	-	-	820	-	820
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-
Total	$ 14,920	$ -	$ -	$ 820	$ 2,554	$ 18,294

(in thousands)

	Three months ended September 30, 2011					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	$ -	$ -	$ -	$ -	$ 7,631	$ 7,631
Construction & development	-	-	-	-	-	-
Residential development	-	-	-	-	943	943
Commercial						
Term	-	-	-	-	5,241	5,241
LOC & other	-	-	-	-	943	943
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ -	$ 14,758	$ 14,758

(in thousands)

	Nine months ended September 30, 2012					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	$ 14,920	$ -	$ -	$ -	$ 3,357	$ 18,277
Construction & development	-	-	-	-	-	-
Residential development	-	-	-	-	-	-
Commercial						
Term	-	-	-	-	-	-
LOC & other	-	-	-	820	-	820
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-
Total	$ 14,920	$ -	$ -	$ 820	$ 3,357	$ 19,097

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(in thousands)

	Nine months ended September 30, 2011					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate						
Term & multifamily	$ -	$ -	$ -	$ -	$ 33,570	$ 33,570
Construction & development	-	-	-	-	13,760	13,760
Residential development	279	-	-	-	9,090	9,369
Commercial						
Term	-	-	-	70	5,311	5,381
LOC & other	-	-	-	-	4,050	4,050
Residential						
Mortgage	-	-	-	-	-	-
Home equity loans & lines	-	130	-	-	-	130
Consumer & other	-	-	-	-	-	-
Total	$ 279	$ 130	$ -	$ 70	$ 65,781	$ 66,260

For the periods presented in the tables above, the outstanding recorded investment was the same pre and post modification.

The following tables represent financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three and nine months ended September 30, 2012 and 2011, respectively:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Commercial real estate				
Term & multifamily	$ -	$ 196	$ 217	$ 9,642
Construction & development	-	-	-	-
Residential development	-	-	633	1,767

Commercial				
Term	-	70	-	140
LOC & other	-	-	26	-
Residential				
Mortgage	-	-	-	-
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
Total	$ -	$ 266	$ 876	$ 11,549

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Note 6 – Covered Assets and Indemnification Asset

Covered Loans

Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as “covered loans” and reported separately in our statements of financial condition. Covered loans are reported exclusive of the cash flow reimbursements expected from the FDIC.

Acquired loans are valued as of acquisition date in accordance with ASC 805. Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”). Because of the significant fair value discounts associated with the acquired portfolios, the concentration of real estate related loans (to finance or secured by real estate collateral) and the decline in real estate values in the regions serviced, and after considering the underwriting standards of the acquired originating bank, the Company elected to account for all acquired loans under ASC 310-30. Under ASC 805 and ASC 310-30, loans are to be recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan losses is not carried over or recorded as of the acquisition date. We have aggregated the acquired loans into various loan pools based on multiple layers of common risk characteristics for the purpose of determining their respective fair values as of their acquisition dates, and for applying the subsequent recognition and measurement provisions for income accretion and impairment testing.

The covered loans acquired are, and will continue to be, subject to the Company’s internal and external credit review and monitoring. To the extent there is experienced or projected credit deterioration on the acquired loan pools subsequent to amounts estimated at the previous remeasurement date, this deterioration will be measured, and a provision for credit losses will be charged to earnings. Additionally, provision for credit losses will be recorded on advances on covered loans subsequent to acquisition date in a manner consistent with the allowance for non-covered loan and lease losses. These provisions will be mostly offset by an increase to the FDIC indemnification asset, which is recognized in non-interest income.

Covered Loans

The following table presents the major types of covered loans as of September 30, 2012 and December 31, 2011:

(in thousands)

	September 30, 2012			
	Evergreen	Rainier	Nevada Security	Total
Commercial real estate				
Term & multifamily	$ 84,496	$ 208,546	$ 111,455	$ 404,497
Construction & development	5,226	658	6,942	12,826
Residential development	3,843	21	6,302	10,166
Commercial				
Term	10,761	2,924	12,522	26,207
LOC & other	4,712	9,060	3,259	17,031
Residential				
Mortgage	4,314	23,090	1,831	29,235
Home equity loans & lines	3,592	17,812	2,790	24,194
Consumer & other	1,929	4,466	26	6,421
Total	$ 118,873	$ 266,577	$ 145,127	$ 530,577
Allowance for covered loans				(15,532)
Total				$ 515,045

	December 31, 2011			
	Evergreen	Rainier	Nevada Security	Total
Commercial real estate				
Term & multifamily	$ 99,346	$ 248,206	$ 126,502	$ 474,054
Construction & development	7,241	711	6,868	14,820
Residential development	7,809	227	9,727	17,763
Commercial				
Term	14,911	5,807	13,432	34,150
LOC & other	8,776	8,854	5,796	23,426
Residential				
Mortgage	6,320	27,320	1,863	35,503
Home equity loans & lines	4,660	21,055	3,370	29,085
Consumer & other	2,394	5,541	35	7,970
Total	$ 151,457	$ 317,721	$ 167,593	$ 636,771
Allowance for covered loans				(14,320)
Total				$ 622,451

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The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at September 30, 2012 was $160.9 million, $315.0 million and $214.8 million, for Evergreen, Rainier, and Nevada Security, respectively, as compared to $209.5 million, $379.0 million and $260.2 million, for Evergreen, Rainier, and Nevada Security, respectively, at December 31, 2011.

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference.

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the “accretable yield”. The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

The following table presents the changes in the accretable yield for the three and nine months ended September 30, 2012 and 2011 for each respective acquired loan portfolio:

(in thousands)

	Three months ended September 30, 2012			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 48,064	$ 123,501	$ 54,623	$ 226,188
Accretion to interest income	(6,139)	(8,361)	(5,316)	(19,816)
Disposals	(1,989)	(5,677)	(1,650)	(9,316)
Reclassifications (to)/from nonaccretable difference	3,261	3,336	3,094	9,691
Balance, end of period	$ 43,197	$ 112,799	$ 50,751	$ 206,747

	Three months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 67,469	$ 143,997	$ 68,594	$ 280,060

Accretion to interest income	(5,953)	(8,994)	(5,532)	(20,479)
Disposals	(1,668)	(5,138)	(486)	(7,292)
Reclassifications (to)/from nonaccretable difference	1,631	2,105	4,893	8,629
Balance, end of period	61,479	$ 131,970	$ 67,469	$ 260,918

	Nine months ended September 30, 2012			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 56,479	$ 120,333	$ 61,021	$ 237,833
Accretion to interest income	(14,918)	(23,216)	(14,924)	(53,058)
Disposals	(5,671)	(14,363)	(3,069)	(23,103)
Reclassifications (to)/from nonaccretable difference	7,307	30,045	7,723	45,075
Balance, end of period	$ 43,197	$ 112,799	$ 50,751	$ 206,747

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	Nine months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 90,771	$ 172,615	$ 73,515	$ 336,901
Accretion to interest income	(21,266)	(25,634)	(16,480)	(63,380)
Disposals	(8,641)	(14,585)	(3,293)	(26,519)
Reclassifications (to)/from nonaccretable difference	615	(426)	13,727	13,916
Balance, end of period	$ 61,479	$ 131,970	$ 67,469	$ 260,918

Allowance for Covered Loan and Lease Losses

The following table summarizes activity related to the allowance for covered loan and lease losses by covered loan portfolio segment for the three and nine months ended September 30, 2012 and 2011, respectively:

(in thousands)

	Three months ended September 30, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 7,461	$ 4,547	$ 664	$ 305	$ 12,977
Charge-offs	(480)	(450)	(73)	(45)	(1,048)
Recoveries	371	215	68	22	676
Provision	1,884	990	79	(26)	2,927
Balance, end of period	$ 9,236	$ 5,302	$ 738	$ 256	$ 15,532

	Three months ended September 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 5,714	$ 2,632	$ 1,193	$ 680	$ 10,219
Charge-offs	(381)	(454)	(17)	(56)	(908)
Recoveries	421	240	15	16	692

Provision	2,882	1,247	225	66	4,420
Balance, end of period	$ 8,636	$ 3,665	$ 1,416	$ 706	$ 14,423

	Nine months ended September 30, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 8,939	$ 3,964	$ 991	$ 426	$ 14,320
Charge-offs	(2,570)	(1,257)	(510)	(578)	(4,915)
Recoveries	1,012	596	147	70	1,825
Provision	1,855	1,999	110	338	4,302
Balance, end of period	$ 9,236	$ 5,302	$ 738	$ 256	$ 15,532

	Nine months ended September 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$ 2,465	$ 176	$ 56	$ 24	$ 2,721
Charge-offs	(2,945)	(776)	(920)	(679)	(5,320)
Recoveries	1,090	318	95	76	1,579
Provision	8,026	3,947	2,185	1,285	15,443
Balance, end of period	$ 8,636	$ 3,665	$ 1,416	$ 706	$ 14,423

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The following table presents the allowance and recorded investment in covered loans by portfolio segment as of September 30, 2012 and 2011:

(in thousands)

	September 30, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for covered loans and leases:					
Loans acquired with deteriorated credit quality (1)	$ 8,662	$ 4,785	$ 694	$ 211	$ 14,352
Collectively evaluated for impairment (2)	574	517	44	45	1,180
Total	$ 9,236	$ 5,302	$ 738	$ 256	$ 15,532
Covered loans and leases:					
Loans acquired with deteriorated credit quality (1)	$ 424,547	$ 28,141	$ 48,838	$ 3,699	$ 505,225
Collectively evaluated for impairment (2)	2,942	15,097	4,591	2,722	25,352
Total	$ 427,489	$ 43,238	$ 53,429	$ 6,421	$ 530,577

	September 30, 2011				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for covered loans and leases:					
Loans acquired with deteriorated credit quality (1)	$ 8,190	$ 2,992	$ 1,381	$ 676	$ 13,239
Collectively evaluated for impairment (2)	446	673	35	30	1,184
Total	$ 8,636	$ 3,665	$ 1,416	$ 706	$ 14,423
Covered loans and leases:					
Loans acquired with deteriorated credit quality (1)	$ 538,928	$ 42,313	$ 65,252	$ 6,057	$ 652,550
Collectively evaluated for impairment (2)	2,916	24,191	4,547	2,349	34,003
Total	$ 541,844	$ 66,504	$ 69,799	$ 8,406	$ 686,553

(1) In accordance with ASC 310-30, the valuation allowance is netted against the carrying value of the covered loan and lease balance.

(2) The allowance on covered loan and lease losses includes an allowance on covered loan advances on acquired loans subsequent to acquisition.

The valuation allowance on covered loans was reduced by recaptured provision of $0.5 million and $3.7 million for three and nine months ended September 30, 2012, and $0.9 million and $1.4 million for three and nine months ended September 30, 2011.

Covered Credit Quality Indicators

Covered loans are risk rated in a manner consistent with non-covered loans. As previously noted, the Company's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating groupings are described fully in Note 5. The below table includes both loans acquired with deteriorated credit quality accounted for under ASC 310-30 and covered loan advances on acquired loans subsequent to acquisition.

The following table summarizes our internal risk rating grouping by covered loans, net as of September 30, 2012 and December 31, 2011:

(in thousands)

	September 30, 2012					
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate						
Term & multifamily	$ 263,752	$ 46,925	$ 70,227	$ 17,127	$ -	$ 398,031
Construction & development	1,975	208	4,906	4,128	-	11,217
Residential development	-	398	6,878	1,729	-	9,005
Commercial						
Term	10,230	3,658	6,049	1,962	-	21,899
LOC & other	13,575	482	953	1,027	-	16,037
Residential						
Mortgage	29,032	-	-	-	-	29,032
Home equity loans & lines	23,544	-	115	-	-	23,659
Consumer & other	6,165	-	-	-	-	6,165
Total	$ 348,273	$ 51,671	$ 89,128	$ 25,973	$ -	$ 515,045

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	December 31, 2011					
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total
Construction & development						
Term & multifamily	$ 329,273	$ 58,610	$ 68,521	$ 12,343	$ -	$ 468,747
Construction & development	1,552	1,410	6,733	3,410	-	13,105
Residential development	1,187	405	8,394	5,808	-	15,794
Commercial						
Term	18,006	1,661	8,244	3,228	-	31,139
LOC & other	13,605	2,756	5,607	556	-	22,524
Residential						
Mortgage	35,233	-	-	-	-	35,233
Home equity loans & lines	28,223	-	143	-	-	28,366
Consumer & other	7,543	-	-	-	-	7,543
Total	$ 434,622	$ 64,842	$ 97,642	$ 25,345	$ -	$ 622,451

Covered Other Real Estate Owned

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

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

The following table summarizes the activity related to the covered OREO for the three and nine months ended September 30, 2012 and 2011:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 9,191	$ 30,153	$ 19,491	$ 29,863
Additions to covered OREO	1,881	3,256	3,227	11,924
Dispositions of covered OREO	(2,192)	(5,044)	(10,492)	(11,501)
Valuation adjustments in the period	(769)	(5,326)	(4,115)	(7,247)
Balance, end of period	$ 8,111	$ 23,039	$ 8,111	$ 23,039

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FDIC Indemnification Asset

The Company has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC 805, Business Combinations. The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into non-interest income over the life of the FDIC indemnification asset.

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered assets. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to non-interest income. The resulting carrying value of the indemnification asset represents the amounts recoverable from the FDIC for future expected losses, and the amounts due from the FDIC for claims related to covered losses the Company have incurred less amounts due back to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC indemnification asset for each respective acquired portfolio for the three and nine months ended September 30, 2012 and 2011:

(in thousands)

	Three months ended September 30, 2012			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 22,301	$ 20,571	$ 25,933	$ 68,805
Change in FDIC indemnification asset	(1,731)	(2,887)	(141)	(4,759)
Transfers to due from FDIC and other	(1,215)	(944)	(1,381)	(3,540)
Balance, end of period	$ 19,355	$ 16,740	$ 24,411	$ 60,506

	Three months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total

Balance, beginning of period	$ 36,118	$ 35,999	$ 44,811	$ 116,928
Change in FDIC indemnification asset	177	372	1,062	1,611
Transfers to due from FDIC and other	(3,420)	(2,991)	(5,750)	(12,161)
Balance, end of period	$ 32,875	$ 33,380	$ 40,123	$ 106,378

	Nine months ended September 30, 2012			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 28,547	$ 28,272	$ 34,270	$ 91,089
Change in FDIC indemnification asset	(5,830)	(5,803)	989	(10,644)
Transfers to due from FDIC and other	(3,362)	(5,729)	(10,848)	(19,939)
Balance, end of period	$ 19,355	$ 16,740	$ 24,411	$ 60,506

(in thousands)	Nine months ended September 30, 2011			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$ 40,606	$ 43,726	$ 62,081	$ 146,413
Change in FDIC indemnification asset	2,027	(4,549)	1,487	(1,035)
Transfers to due from FDIC and other	(9,758)	(5,797)	(23,445)	(39,000)
Balance, end of period	$ 32,875	$ 33,380	$ 40,123	$ 106,378

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Note 7 – Mortgage Servicing Rights

The following table presents the changes in the Company's mortgage servicing rights ("MSR") for the three and nine months ended September 30, 2012 and 2011:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 22,513	$ 16,350	$ 18,184	$ 14,454
Additions for new mortgage servicing rights capitalized	5,642	1,693	11,923	4,100
Changes in fair value:				
Due to changes in model inputs or assumptions[(1)]	(2,770)	(590)	(3,833)	(564)
Other[(2)]	(896)	(841)	(1,785)	(1,378)
Balance, end of period	$ 24,489	$ 16,612	$ 24,489	$ 16,612

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.
(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of September 30, 2012 and December 31, 2011 was as follows:

(dollars in thousands)

	September 30, 2012	December 31, 2011
Balance of loans serviced for others	$ 2,814,102	$ 2,009,849
MSR as a percentage of serviced loans	0.87%	0.90%

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the Condensed Consolidated Statements of Income, was $1.7 million and $4.6 million for the three and nine months ended September 30, 2012, as compared to $1.2 million and $3.5 million for the three and nine months ended September 30, 2011.

Key assumptions used in measuring the fair value of MSR as of September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012	December 31, 2011
Constant prepayment rate	20.59%	20.39%
Discount rate	8.60%	8.60%
Weighted average life (years)	4.7	4.5

Note 8 – Non-covered Other Real Estate Owned, Net

The following table presents the changes in non-covered other real estate owned ("OREO") for the three and nine months ended September 30, 2012 and 2011:

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 26,884	$ 34,409	$ 34,175	$ 32,791
Additions to OREO	1,174	11,332	10,167	36,654
Dispositions of OREO	(7,750)	(8,954)	(19,315)	(27,140)
Valuation adjustments in the period	(1,044)	(2,000)	(5,763)	(7,518)
Balance, end of period	$ 19,264	$ 34,787	$ 19,264	$ 34,787

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Note 9 – Junior Subordinated Debentures

Following is information about the Trusts as of September 30, 2012:

(dollars in thousands) Trust Name	Issue Date	Issued Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date	Redemption Date
AT FAIR VALUE:							
Umpqua Statutory Trust II	October 2002	$ 20,619	$ 14,404	Floating (4)	5.44%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	21,822	Floating (5)	5.51%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	6,768	Floating (6)	5.03%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	6,749	Floating (6)	4.95%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	21,714	Floating (7)	3.30%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	13,081	Floating (8)	4.95%	December 2037	December 2012
		134,024	84,538				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,287	10.875%	8.29%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	5,868	10.200%	8.30%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,338	Floating (9)	3.15%	December 2031	December 2006
Humboldt Bancorp Statutory Trust III	September 2003	27,836	30,507	Floating (10)	2.62%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,186	Floating (5)	3.19%	November 2032	November 2007
	July 2001	6,186	6,186		4.03%	July 2031	July 2006

Western Sierra Statutory Trust I				Floating (11)			
Western Sierra Statutory Trust II	December 2001	10,310	10,310	Floating (9)	3.99%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,310	Floating (12)	3.36%	September 2033	September 2008
Western Sierra Statutory Trust IV	September 2003	10,310	10,310	Floating (12)	3.36%	September 2033	September 2008
		96,037	102,302				
	Total	$ 230,061	$ 186,840				

(1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of September 2012.
(4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
(5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
(6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
(7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
(8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
(9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
(10) Rate based on LIBOR plus 2.95%, adjusted quarterly.
(11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
(12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The Trusts are reflected as junior subordinated debentures in the Condensed Consolidated Balance Sheets. The common stock issued by the Trusts is recorded in other assets in the Condensed Consolidated Balance Sheets, and totaled $6.9 million at September 30, 2012 and December 31, 2011.

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

The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Consolidated Balance Sheets. In July 2010, the Dodd-Frank Act was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and is expected to effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future.

Due to inactivity in the junior subordinated debenture market and the inability to obtain observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The Company monitors activity in the trust preferred and related markets, to the extent available, changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Regarding the activity in and condition of the junior subordinated debt market, we noted no observable changes in the current period as it relates to companies comparable to our size and condition, in either the primary or secondary markets. Relating to the interest rate environment, we considered the change in slope and shape of the forward LIBOR swap curve in the current period, the affects of which did not result in a significant change in the fair value of these liabilities.

The Company's specific credit risk is implicit in the credit risk adjusted spread used to determine the fair value of our junior subordinated debentures. As our Company is not specifically rated by any credit agency, it is difficult to specifically attribute changes in our estimate of the applicable credit risk adjusted spread to specific changes in our own creditworthiness versus changes in the market's required return from similar companies. As a result, these considerations must be largely based off of qualitative considerations as we do not have a credit rating and we do not regularly issue senior or subordinated debt that would provide us an independent measure of the changes in how the market quantifies our perceived default risk.

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On a quarterly basis we assess entity-specific qualitative considerations that if not mitigated or represents a material change from the prior reporting period may result in a change to the perceived creditworthiness and ultimately the estimated credit risk adjusted spread utilized to value these liabilities. Entity-specific considerations that positively impact our creditworthiness include: our strong capital position resulting from our successful public stock offerings in 2009 and 2010 that offers us flexibility to pursue business opportunities such as mergers and acquisitions, or expand our footprint and product offerings; having significant levels of on and off-balance sheet liquidity; being profitable (after excluding the one-time goodwill impairment charge recognized in 2009); and, having an experienced management team. However, these positive considerations are mitigated by significant risks and uncertainties that impact our creditworthiness and ability to maintain capital adequacy in the future. Specific risks and concerns include: given our concentration of loans secured by real estate in our loan portfolio, a continued and sustained deterioration of the real estate market may result in declines in the value of the underlying collateral and increased delinquencies that could result in an increased of charge-offs; despite recent improvement, our credit quality metrics remain negatively elevated since 2007 relative to historical standards; the continuation of current economic downturn that has been particularly severe in our primary markets could adversely affect our business; recent increased regulation facing our industry, such as the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009 and the Dodd-Frank Act, will increase the cost of compliance and restrict our ability to conduct business consistent with historical practices, and could negatively impact profitability; we have a significant amount of goodwill and other intangible assets that dilute our available tangible common equity; and the carrying value of certain material, recently recorded assets on our balance sheet, such as the FDIC loss-sharing indemnification asset, are highly reliant on management estimates, such as the timing or amount of losses that are estimated to be covered, and the assumed continued compliance with the provisions of the applicable loss-share agreement. To the extent assumptions ultimately prove incorrect or should we consciously forego or unknowingly violate the guidelines of the agreement, an impairment of the asset may result which would reduce capital.

Additionally, the Company periodically utilizes an external valuation firm to determine or validate the reasonableness of the assessments of inputs and factors that ultimately determines the estimated fair value of these liabilities. The extent we involve or engage these external third parties correlates to management’s assessment of the current subordinated debt market, how the current environment and market compares to the preceding quarter, and perceived changes in the Company’s own creditworthiness during the quarter. In periods of potential significant valuation changes and at year-end reporting periods we typically engage third parties to perform a full independent valuation of these liabilities. For periods where management has assessed the market and other factors impacting the underlying valuation assumptions of these liabilities, and has determined significant changes to the valuation of these liabilities in the current period are remote, the scope of the valuation specialist’s review is limited to a review the reasonableness of Management’s assessment of inputs. Based on the procedures and methodology as described above, the Company has determined that the underlying inputs and assumptions have not materially changed since that last full-scope third-party valuation as of December 31, 2011.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner similar to the effective yield method as if these instruments were accounted for under the amortized cost method. This will result in recognizing losses on junior subordinated debentures carried at fair value on a quarterly basis within non-interest income. For the three and nine months ended September 30, 2012, we recorded a loss of $554,000 and $1.6 million and for the three and nine months ended September 30, 2011, we recorded a loss of $554,000 and $1.6 million resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

As noted above, the Dodd-Frank Act limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. As the Company had less than $15 billion in assets at December 31, 2009, under the Dodd-Frank Act, the Company will be able to continue to include its existing trust preferred securities, less the common stock of the Trusts, in Tier 1 capital. However, under a recently issued notice of proposed rulemaking by federal banking regulators to revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework (Basel III), the trust preferred security debt issuances would be phased out of Tier 1 capital into Tier 2 capital over a 10 year period. If the proposed rulemaking becomes effective, it is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. At September 30, 2012, the Company's restricted core capital elements were 17.8% of total core capital, net of goodwill and any associated deferred tax liability.

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Note 10 – Commitments and Contingencies

Lease Commitments — The Company leases 141 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three and nine months ended September 30, 2012 was $4.2 million and $12.8 million and for the three and nine months ended September 30, 2011 was $4.2 million and $12.3 million. Rent expense was offset by rent income for the three and nine months ended September 30, 2012 of $248,000 and $856,000 and for the three and nine months ended September 30, 2011 of $286,000 and $758,000.

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

The following table presents a summary of the Bank's commitments and contingent liabilities:

(in thousands)	As of September 30, 2012
Commitments to extend credit	$ 1,336,108
Commitments to extend overdrafts	$ 199,139
Forward sales commitments	$ 414,506
Commitments to originate loans held for sale	$ 288,447
Standby letters of credit	$ 58,685

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

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

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and incurred no losses in connection with standby letters of credit during the three and nine months ended September 30, 2012. The Bank was not required to perform on any financial guarantees and incurred $110,000 of losses in connection with standby letters of credit during the three and nine months ended September 30, 2011. At September 30, 2012, approximately $28.6 million of standby letters of credit expire within one year, and $30.1 million expire thereafter. Upon issuance, the Bank recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $254,000 as of September 30, 2012.

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Mortgage loans sold to investors may be sold with servicing rights retained, for which the Bank makes only standard legal representations and warranties as to meeting certain underwriting and collateral documentation standards. In the past two years, the Bank has had to repurchase fewer than 20 loans due to deficiencies in underwriting or loan documentation and has not realized significant losses related to these repurchases. Management believes that any liabilities that may result from such recourse provisions are not significant.

Legal Proceedings— The Bank owns 468,659 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4206 per Class A share. As of September 30, 2012, the value of the Class A shares was $134.28 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $26.5 million as of September 30, 2012, and has not been reflected in the accompanying financial statements. The shares of Visa Class B common stock are restricted and may not be transferred. Visa member banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa may sell additional Class A shares and use the proceeds to settle litigation, and thereby reducing 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.

On July 13, 2012, Visa, Inc. announced that it had entered into a memorandum of understanding obligating it to enter into a settlement agreement to resolve the multi-district interchange litigation brought by the class plaintiffs in the matter styled In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation, Case No. 05-MD-1720 (JG) (JO) pending in the U.S. District Court for the Eastern District of New York. The claims originally were brought by a class of U.S. retailers in 2005. The proposed settlement is subject to court approval and Visa's share of the settlement to be paid is estimated to be approximately $4.4 billion. However, certain trade associations and merchants are actively opposing the proposed settlement and it is unknown when or if the proposed settlement will be approved. The effect of this proposed settlement on the value of the Bank's Class B common stock is unknown at this time.

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

Concentrations of Credit Risk - The Company grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, and Nevada. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 78% and 79% of the Bank's non-covered loan and lease portfolio at September 30, 2012 and December 31, 2011. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Company's primary market areas in particular, such as has been seen with the deterioration in the residential development market since 2007, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

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

Note 11 – Derivatives

The Company may use derivatives to hedge the risk of changes in the fair values of interest rate lock commitments, residential mortgage loans held for sale, and mortgage servicing rights. None of the Company's derivatives are designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company primarily utilizes forward interest rate contracts in its derivative risk management strategy.

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2012 and 2011. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2012, the Bank had commitments to originate mortgage loans held for sale totaling $288.4 million and forward sales commitments of $414.5 million.

The Company’s mortgage banking derivative instruments do not have specific credit risk-related contingent features. The forward sales commitments do have contingent features that may require transferring collateral to the broker/dealers upon their request. However, this amount would be limited to the net unsecured loss exposure at such point in time and would not materially affect the Company’s liquidity or results of operations.

Effective in the second quarter of 2011, the Bank began executing interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of September 30, 2012, the Bank had 134 interest rate swaps with an aggregate notional amount of $766.2 million related to this program.

In connection with the interest rate swap program with commercial customers, the Bank has agreements with its derivative counterparties that contain a provision where if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligations. The Bank also has agreements with its derivative counterparties that contain a provision where if the Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations under the agreements. Similarly, the Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as if the Bank were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels.

As of September 30, 2012, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $21.9 million. The Bank has minimum collateral posting thresholds with certain of its derivative counterparties, and has been required to post collateral against its obligations under these agreements of $22.6 million as of September 30, 2012. If the Bank had breached any of these provisions at September 30, 2012, it could have been required to settle its obligations under the agreements at the termination value.

The fair value of the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, to comply with the provisions of ASC 820, the Bank incorporates credit valuation adjustments (“CVA”) to appropriately reflect nonperformance risk in the fair value measurements of its derivatives. The CVA is calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying the counterparties’ credit spreads to the exposure. For derivatives with two-way exposure, specifically, the Bank’s interest rate swaps, the counterparty’s credit spread is applied to the Bank’s exposure to the counterparty, and the Bank’s own credit spread is applied to the counterparty’s exposure to the Bank, and the net CVA is reflected in the Bank’s derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. For the Bank’s own credit spread and for counterparties having publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. For counterparties without publicly available credit information, which are primarily commercial banking customers, the credit spreads over LIBOR used in the calculations are estimated by the Bank based on current market conditions, including consideration of current borrowing spreads for similar customers and transactions, review of existing collateralization or other credit enhancements, and changes in credit sector and entity-specific credit information. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Bank has considered the impact of netting and any applicable credit enhancements.

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As of September 30, 2012, the net CVA decreased the settlement values of the Bank's derivative assets by $655,000. During the three and nine months ended September 30, 2012, the Bank recognized a loss of $235,000 and $352,000, and during the three and nine months ended September 30, 2011, the Bank recognized a loss of $238,000 and $153,000 respectively related to credit valuation adjustments on nonhedge derivative instruments, which is included in noninterest income. Various factors impact changes in the CVA over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

Although the Bank has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the CVA associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2012, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its derivative positions and has determined that the CVA are not significant to the overall valuation of its derivatives. As a result, the Bank has classified its derivative valuations in Level 2 of the fair value hierarchy.

Effective January 1, 2012, the Company made an accounting policy election to use the exception commonly referred to as the "portfolio exception" with respect to measuring counterparty credit risk for its interest rate swap derivative instruments with commercial banking customers that are hedged with offsetting interest rate swaps with third parties.

The following tables summarize the types of derivatives, separately by assets and liabilities, their locations on the Condensed Consolidated Balance Sheets, and the fair values of such derivatives as of September 30, 2012 and December 31, 2011:

(in thousands)

Derivatives not designated as hedging instrument	Balance Sheet Location	Asset Derivatives September 30, 2012	Asset Derivatives December 31, 2011	Liability Derivatives September 30, 2012	Liability Derivatives December 31, 2011
Interest rate lock commitments	Other assets/Other liabilities	$ 4,031	$ 1,752	$ 65	$ 3
Interest rate forward sales commitments	Other assets/Other liabilities	44	-	6,488	90
Interest rate swaps	Other assets/Other liabilities	21,158	6,203	21,680	6,416
Total		$ 25,233	$ 7,955	$ 28,233	$ 6,509

The following table summarizes the types of derivatives, their locations within the Condensed Consolidated Statements of Income, and the gains (losses) recorded during the three and nine months ended September 30, 2012 and 2011:

(in thousands)

Derivatives not designated as hedging instrument	Income Statement Location	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Interest rate lock commitments	Mortgage banking revenue	$ 1,680	$ 1,844	$ 2,216	$ 1,936
Interest rate forward sales commitments	Mortgage banking revenue	(11,695)	(6,732)	(21,504)	(8,714)
Interest rate swaps	Other income	(235)	(264)	(352)	(178)
Total		$ (10,250)	$ (5,152)	$ (19,640)	$ (6,956)

Note 12 – Shareholders' Equity

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was $1.0 million and $3.0 million for the three and nine months ended September 30, 2012, respectively, as compared to $942,000 and $2.9 million for the three and nine months ended September 30, 2011, respectively. The total income tax benefit recognized related to stock-based compensation was $415,000 and $1.2 million for the three and nine months ended September 30, 2012, respectively, as compared to $377,000 and $1.2 million for the three and nine months ended September 30, 2011, respectively.

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In 2011, the Company's Compensation Committee modified restricted stock awards and option grants that were originally issued to fourteen executive officers. As a result of the modification, there was no incremental compensation cost. The modification:

· Added performance vesting conditions linking total shareholder return, compared to the return of a regional bank stock total return index;
· Provided that the awards will cliff vest after three years instead of time vest over a four year period, but only to the extent that the performance conditions are met; and
· Provided that grants will vest in whole or in part only if total shareholder return achieves specified targets, subject to prorated vesting upon death, disability, qualifying retirement, termination for good reason or a change of control.

The following table summarizes information about stock option activity for the nine months ended September 30, 2012:

(in thousands, except per share data)

	Nine months ended September 30, 2012			
	Options Outstanding	Weighted-Avg Exercise Price	Weighted-Avg Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance, beginning of period	2,151	$ 14.48		
Exercised	(31)	$ 10.39		
Forfeited/expired	(113)	$ 14.08		
Balance, end of period	2,007	$ 14.57	5.11	$ 2,842
Options exercisable, end of period	1,403	$ 15.85	4.05	$ 1,961

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three and nine months ended September 30, 2012 was $65,000 and $82,000, respectively, as compared to three and nine months ended September 30, 2011 of none and $147,000, respectively. During the three and nine months ended September 30, 2012, the amount of cash received from the exercise of stock options was $246,000 and $324,000, respectively, as compared to the three and nine months ended September 30, 2011 of none and $310,000, respectively.

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. There were no stock options granted in the nine months ended September 30, 2012.

The following weighted average assumptions were used for stock options granted in the nine months ended September 30, 2011:

	Nine months ended September 30, 2011
Dividend yield	2.79%
Expected life (years)	7.1
Expected volatility	52%
Risk-free rate	2.71%
Weighted average fair value of options on date of grant	$ 4.65

The Company grants restricted stock periodically as a part of the 2003 Stock Incentive Plan for the benefit of employees. Restricted shares issued prior to 2011 generally vest on an annual basis over five years. Restricted shares issued since 2011 generally vest over a three year period, subject to performance vesting conditions stated above. The following table summarizes information about nonvested restricted share activity for the nine months ended September 30, 2012:

(in thousands, except per share data)

	Nine months ended September 30, 2012	
	Restricted Shares Outstanding	Weighted Average Grant Date Fair Value
Balance, beginning of period	585	$ 12.98
Granted	360	$ 11.80
Released	(144)	$ 13.54
Forfeited/expired	(1)	$ 13.02
Balance, end of period	800	$ 12.35

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The total fair value of restricted shares vested and released during the three and nine months ended September 30, 2012 was $136,000 and $1.8 million, respectively, as compared to the three and nine months ended September 30, 2011 of $120,000 and $886,000, respectively.

The Company grants restricted stock units as a part of the 2007 Long Term Incentive Plan for the benefit of certain executive officers. Restricted stock unit grants are subject to performance-based vesting as well as other approved vesting conditions. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements. The following table summarizes information about restricted stock unit activity for the nine months ended September 30, 2012:

(in thousands, except per share data)

	Nine months ended September 30, 2012		
	Restricted Stock Units Outstanding		Weighted Average Grant Date Fair Value
Balance, beginning of period	219	$	9.17
Granted	25	$	10.39
Forfeited/expired	(114)	$	8.01
Balance, end of period	130	$	10.41

There were no restricted stock units vested and released during the three and nine months ended September 30, 2012. The total fair value of restricted stock units vested and released during the three and nine months ended September 30, 2011 was none and $677,000 respectively.

As of September 30, 2012, there was $1.8 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 1.8 years. As of September 30, 2012, there was $5.3 million of total unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 2.2 years. As of September 30, 2012, there was $657,000 of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 1.6 years, assuming expected performance conditions are met.

For the three and nine months ended September 30, 2012, the Company received income tax benefits of $79,000 and $764,000, respectively, as compared to the three and nine months ended September 30, 2011 of $48,000 and $682,000 related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. In the nine months ended September 30, 2012, the Company had net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) of $60,000, compared to $260,000 for the nine months ended September 30, 2011. Only cash flows from gross excess tax benefits are classified as financing cash flows.

Note 13 – Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as the Oregon and California state jurisdictions. The Company is no longer subject to U.S. federal or Oregon state tax authority examinations for years before 2008 and California state tax authority examinations for years before 2004. During 2010, the Internal Revenue Service concluded an examination of the Company's U.S. income tax returns through 2008. The results of these examinations had no significant impact on the Company's financial statements.

Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax asset will not be realized.

The Company applies the provisions of FASB ASC 740, Income Taxes, relating to the accounting for uncertainty in income taxes.

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The Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities' examinations of the Company's tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

The Company had gross unrecognized tax benefits relating to California tax incentives of $511,000 recorded as of September 30, 2012. If recognized, the unrecognized tax benefit would reduce the 2012 annual effective tax rate by 0.2%. During the nine months ended September 30, 2012, the Company recognized a benefit of $11,000 in interest reversed primarily due to the reduction of its liability for unrecognized tax benefits during the same period. Interest expense is reported by the Company as a component of tax expense. As of September 30, 2012, the accrued interest related to unrecognized tax benefits is $155,000.

Note 14 – Earnings Per Common Share

Nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested restricted stock awards qualify as participating securities.

Net earnings, less any preferred dividends accumulated for the period (whether or not declared), is allocated between the common stock and participating securities pursuant to the two-class method. Basic earnings per common share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. For all periods presented, warrants, stock options, certain restricted stock awards and restricted stock units are the only potentially dilutive non-participating instruments issued by the Company. Next, we determine and include in diluted earnings per common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Undistributed losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

The following is a computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2012 and 2011:

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
NUMERATORS:				
Net income	$ 25,153	$ 21,862	$ 73,933	$ 53,114
Less:				
Dividends and undistributed earnings allocated to participating securities (1)	170	105	499	253
Net earnings available to common shareholders	$ 24,983	$ 21,757	$ 73,434	$ 52,861
DENOMINATORS:				
Weighted average number of common shares outstanding - basic	111,899	114,540	111,928	114,576
Effect of potentially dilutive common shares (2)	252	151	231	193
Weighted average number of common shares outstanding - diluted	112,151	114,691	112,159	114,769
EARNINGS PER COMMON SHARE:				
Basic	$ 0.22	$ 0.19	$ 0.66	$ 0.46
Diluted	$ 0.22	$ 0.19	$ 0.65	$ 0.46

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

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three and nine months ended September 30, 2012 and 2011.

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Stock options	1,141	1,827	1,313	1,845

Note 15 – Segment Information

The Company operates three primary segments: Community Banking, Home Lending and Wealth Management. The Community Banking segment's principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of September 30, 2012, the Community Banking segment operated 193 locations throughout Oregon, California, Washington, and Northern Nevada.

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

The Wealth Management segment consists of the operations of Umpqua Investments, Inc. an affiliate of the Bank, which offers a full range of retail brokerage services and products to its clients who consist primarily of individual investors, and Umpqua Private Bank, which serves high net worth individuals with liquid investable assets and provides customized financial solutions and offerings. The Company accounts for intercompany fees and services between Umpqua Investments and the Bank at estimated fair value according to regulatory requirements for services provided. Intercompany items relate primarily to management services, referral fees and deposit rebates.

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

Segment Information

(in thousands)

	Three months ended September 30, 2012			
	Community Banking	Wealth Management	Home Lending	Consolidated
Interest income	$ 105,352	$ 3,235	$ 5,521	$ 114,108
Interest expense	11,137	197	734	12,068
Net interest income	94,215	3,038	4,787	102,040
Provision for non-covered loan and lease losses	7,078	-	-	7,078
Provision for covered loan and lease losses	2,927	-	-	2,927
Non-interest income	5,805	3,370	24,504	33,679
Non-interest expense	72,947	3,743	10,284	86,974
Income before income taxes	17,068	2,665	19,007	38,740
Provision for income taxes	5,031	953	7,603	13,587
Net income	12,037	1,712	11,404	25,153
Dividends and undistributed earnings allocated to participating securities	170	-	-	170
Net earnings available to common shareholders	$ 11,867	$ 1,712	$ 11,404	$ 24,983

	Nine months ended September 30, 2012			
	Community Banking	Wealth Management	Home Lending	Consolidated
Interest income	$ 318,007	$ 10,704	$ 14,633	$ 343,344
Interest expense	35,245	694	1,998	37,937
Net interest income	282,762	10,010	12,635	305,407
Provision for non-covered loan and lease losses	16,883	-	-	16,883
Provision for covered loan losses	4,302	-	-	4,302
Non-interest income	26,178	10,220	53,444	89,842
Non-interest expense	223,939	11,423	26,244	261,606
Income before income taxes	63,816	8,807	39,835	112,458
Provision for income taxes	19,422	3,169	15,934	38,525
Net income	44,394	5,638	23,901	73,933
Dividends and undistributed earnings allocated to participating securities	499	-	-	499
Net earnings available to common shareholders	$ 43,895	$ 5,638	$ 23,901	$ 73,434

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	Three months ended September 30, 2011			
	Community Banking	Wealth Management	Home Lending	Consolidated
Interest income	$ 119,385	$ 3,506	$ 3,636	$ 126,527
Interest expense	17,872	469	652	18,993
Net interest income	101,513	3,037	2,984	107,534
Provision for non-covered loan and lease losses	9,089	-	-	9,089
Provision for covered loan and lease losses	4,420	-	-	4,420
Non-interest income	14,179	3,397	7,202	24,778
Non-interest expense	77,187	3,720	5,317	86,224
Income before income taxes	24,996	2,714	4,869	32,579
Provision for income taxes	7,800	969	1,948	10,717
Net income	17,196	1,745	2,921	21,862
Dividends and undistributed earnings allocated to participating securities	105	-	-	105
Net earnings available to common shareholders	$ 17,091	$ 1,745	$ 2,921	$ 21,757

(in thousands)

	Nine months ended September 30, 2011			
	Community Banking	Wealth Management	Home Lending	Consolidated
Interest income	$ 360,395	$ 9,277	$ 10,164	$ 379,836
Interest expense	54,703	1,514	1,822	58,039
Net interest income	305,692	7,763	8,342	321,797
Provision for non-covered loan and lease losses	39,578	-	-	39,578
Provision for covered loan losses	15,443	-	-	15,443
Non-interest income	37,947	10,664	17,379	65,990
Non-interest expense	227,898	11,763	13,971	253,632
Income before income taxes	60,720	6,664	11,750	79,134
Provision for income taxes	18,974	2,346	4,700	26,020
Net income	41,746	4,318	7,050	53,114
Dividends and undistributed earnings allocated to participating securities	253	-	-	253
Net earnings available to common shareholders	$ 41,493	$ 4,318	$ 7,050	$ 52,861

(in thousands)

	September 30, 2012			
	Community Banking	Wealth Management	Home Lending	Consolidated

Total assets	$ 10,824,278	$ 74,273	$ 630,413	$ 11,528,964
Total loans and leases (covered and non-covered)	$ 6,344,647	$ 59,536	$ 359,287	$ 6,763,470
Total deposits	$ 8,708,805	$ 352,040	$ 39,084	$ 9,099,929

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	December 31, 2011			
	Community Banking	Wealth Management	Home Lending	Consolidated
Total assets	$ 11,086,493	$ 53,044	$ 423,818	$ 11,563,355
Total loans and leases (covered and non-covered)	$ 6,171,368	$ 38,810	$ 300,371	$ 6,510,549
Total deposits	$ 8,830,353	$ 390,992	$ 15,345	$ 9,236,690

Note 16 – Fair Value Measurement

The following table presents estimated fair values of the Company's financial instruments as of September 30, 2012 and December 31, 2011, whether or not recognized or recorded at fair value in the Condensed Consolidated Balance Sheets:

(in thousands)

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$ 496,606	$ 496,606	$ 598,766	$ 598,766
Trading securities	3,053	3,053	2,309	2,309
Securities available for sale	2,899,361	2,899,361	3,168,578	3,168,578
Securities held to maturity	5,359	5,364	4,714	4,759
Loans held for sale	225,882	225,882	98,691	98,691
Non-covered loans and leases, net	6,163,666	6,111,527	5,795,130	5,816,714
Covered loans and leases, net	515,045	579,063	622,451	722,295
Restricted equity securities	31,365	31,365	32,581	32,581
Mortgage servicing rights	24,489	24,489	18,184	18,184
Bank owned life insurance assets	94,925	94,925	92,555	92,555
FDIC indemnification asset	60,506	21,914	91,089	47,008
Derivatives	25,233	25,233	7,955	7,955
Visa Class B common stock	-	25,146	-	19,230
FINANCIAL LIABILITIES:				
Deposits	$ 9,099,929	$ 9,120,666	$ 9,236,690	$ 9,260,327
Securities sold under agreements to repurchase	161,051	161,051	124,605	124,605

Term debt	254,123	283,396	255,676	284,911
Junior subordinated debentures, at fair value	84,538	84,538	82,905	82,905
Junior subordinated debentures, at amortized cost	102,302	69,954	102,544	68,698
Derivatives	28,233	28,233	6,509	6,509

Fair Value of Assets and Liabilities Not Measured at Fair Value

The following table presents information about the level in the fair value hierarchy for the Company's assets and liabilities that are not measured at fair value as of September 30, 2012:

(in thousands)

	Fair Value at September 30, 2012			
Description	Total	Level 1	Level 2	Level 3
ASSETS				
Cash and cash equivalents	$ 496,606	$ 496,606	$ -	$ -
Securities held to maturity	5,364	-	-	5,364
Loans held for sale	225,882	-	225,882	-
Non-covered loans and leases, net	6,111,527	-	-	6,111,527
Covered loans and leases, net	579,063	-	-	579,063
Restricted equity securities	31,365	31,365	-	-
Bank owned life insurance assets	94,925	94,925	-	-
FDIC indemnification asset	21,914	-	-	21,914
Visa Class B common stock	25,146	-	-	25,146
Deposits				
Non-maturity deposits	$ 7,075,861	$ 7,075,861	$ -	$ -
Deposits with stated maturities	2,044,805	-	2,044,805	-
Securities sold under agreements to repurchase	161,051	161,051	-	-
Term debt	283,396	-	283,396	-
Junior subordinated debentures, at amortized cost	69,954	-	-	69,954

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011:

(in thousands)

	Fair Value at September 30, 2012			
Description	Total	Level 1	Level 2	Level 3
Trading securities				
Obligations of states and political subdivisions	$ 538	$ -	$ 538	$ -
Equity securities	122	122	-	-
Other investments securities[1]	2,393	2,393	-	-
Available for sale securities				
U.S. Treasury and agencies	45,978	-	45,978	-
Obligations of states and political subdivisions	266,051	-	266,051	-
Residential mortgage-backed securities and collateralized mortgage obligations	2,585,012	-	2,585,012	-
Other debt securities	210	-	210	-
Investments in mutual funds and other equity securities	2,110	-	2,110	-
Mortgage servicing rights, at fair value	24,489	-	-	24,489
Derivatives				
Interest rate lock commitments	4,031	-	4,031	-
Interest rate forward sales commitments	44	-	44	-
Interest rate swaps	21,158	-	21,158	-
Total assets measured at fair value	$ 2,952,136	$ 2,515	$ 2,925,132	$ 24,489
Junior subordinated debentures, at fair value	$ 84,538	$ -	$ -	$ 84,538
Derivatives				
Interest rate lock commitments	65	-	65	-
Interest rate forward sales commitments	6,488	-	6,488	-
Interest rate swaps	21,680	-	21,680	-
Total liabilities measured at fair value	$ 112,771	$ -	$ 28,233	$ 84,538

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(in thousands)

	Fair Value at December 31, 2011			
Description	Total	Level 1	Level 2	Level 3
Trading securities				
Obligations of states and political subdivisions	$ 296	$ -	$ 296	$ -
Equity securities	1,918	1,918	-	-
Other investments securities[(1)]	95	95	-	-
Available for sale securities				
U.S. Treasury and agencies	118,465	-	118,465	-
Obligations of states and political subdivisions	253,553	-	253,553	-
Residential mortgage-backed securities and collateralized mortgage obligations	2,794,355	-	2,794,355	-
Other debt securities	134	-	134	-
Investments in mutual funds and other equity securities	2,071	-	2,071	-
Mortgage servicing rights, at fair value	18,184	-	-	18,184
Derivatives				
Interest rate lock commitments	1,752	-	1,752	-
Interest rate forward sales commitments	-	-	-	-
Interest rate swaps	6,203	-	6,203	-
Total assets measured at fair value	$ 3,197,026	$ 2,013	$ 3,176,829	$ 18,184
Junior subordinated debentures, at fair value	$ 82,905	$ -	$ -	$ 82,905
Derivatives				
Interest rate lock commitments	3	-	3	-
Interest rate forward sales commitments	90	-	90	-
Interest rate swaps	6,416	-	6,416	-
Total liabilities measured at fair value	$ 89,414	$ -	$ 6,509	$ 82,905

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies.

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

Cash and Cash Equivalents—For short-term instruments, including cash and due from banks, and interest bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

Securities— Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, or broker indicative bids, when market quotes are not readily accessible or available.

Loans Held For Sale— For loans held for sale, carrying value approximates fair value.

Non-covered Loans and Leases - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, including commercial, real estate and consumer loans. Each loan category is further segregated by fixed and variable rate. For variable rate loans, carrying value approximates fair value. The fair value of fixed rate loans is calculated by discounting contractual cash flows at rates which similar loans are currently being made. These amounts are discounted further by embedded probable losses expected to be realized in the portfolio.

Covered Loans and Leases – Covered loans are initially measured at their estimated fair value on their date of acquisition as described in Note 6. Subsequent to acquisition, the fair value of covered loans is measured using the same methodology as that of non-covered loans.

Restricted Equity Securities – The carrying value of restricted equity securities approximates fair value as the shares can only be redeemed by the issuing institution at par.

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Mortgage Servicing Rights - The fair value of mortgage servicing rights is estimated using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Management believes the significant inputs utilized are indicative of those that would be used by market participants.

Bank Owned Life Insurance Assets – Fair values of insurance policies owned are based on the insurance contract's cash surrender value.

FDIC Indemnification Asset - The FDIC indemnification asset is calculated as the expected future cash flows under the loss-share agreement discounted by a rate reflective of the creditworthiness of the FDIC as would be required from the market.

Visa Class B Common Stock - The fair value of Visa Class B common stock is estimated by applying a 5% discount to the value of the unredeemed Class A equivalent shares. The discount primarily represents the risk related to the further potential reduction of the conversion ratio between Class B and Class A shares and a liquidity risk premium.

Deposits—The fair value of deposits with no stated maturity, such as non-interest bearing deposits, savings and interest checking accounts, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold under Agreements to Repurchase and Federal Funds Purchased - For short-term instruments, including securities sold under agreements to repurchase and federal funds purchased, the carrying amount is a reasonable estimate of fair value.

Term Debt—The fair value of medium term notes is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Junior Subordinated Debentures - The fair value of junior subordinated debentures is estimated using an income approach valuation technique. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, we have classified this as a Level 3 fair value measure. For further discussion of the valuation technique and inputs, see Note 9.

Derivative Instruments - The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The fair value of the interest rate swaps is determined using a discounted cash flow technique incorporating credit valuation adjustments to reflect nonperformance risk in the measurement of fair value. For further discussion of the valuation technique and inputs, see Note 11. The Company has made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

The following table provides a description of the valuation technique, unobservable input, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at September 30, 2012:

(in thousands)

Financial Instrument	Valuation Technique	Unobservable Input	Weighted Average (Range)
Mortgage servicing rights	Discounted cash flow		
		Constant Prepayment Rate	20.59%
		Discount Rate	8.60%
Junior subordinated debentures	Discounted cash flow		
		Credit Spread	5.7% (5.4% - 6.7%)

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Generally, any significant increases in the constant prepayment rate and discount rate utilized in the fair value measurement of the mortgage servicing rights will result in negative fair value adjustments (and a decrease in the fair value measurement). Conversely, a decrease in the constant prepayment rate and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement). An increase in the weighted average life assumptions will result in a decrease in the constant prepayment rate and conversely, a decrease in the weighted average life will result in an increase of the constant prepayment rate.

Management believes that the credit risk adjusted spread utilized in the fair value measurement of the junior subordinated debentures carried at fair value is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. The widening of the credit risk adjusted spread above the Company's contractual spreads has primarily contributed to the positive fair value adjustments. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of September 30, 2012, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments (and decrease the fair value measurement). Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments (and increase the fair value measurement).

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three and nine months ended September 30, 2012 and 2011.

(in thousands)

Three months ended September 30,	Beginning Balance	Change included in earnings	Purchases and issuances	Sales and settlements	Ending Balance	Net change in unrealized gains or (losses) relating to items held at end of period
2012						
Mortgage servicing rights	$ 22,513	$ (3,666)	$ 5,642	$ -	$ 24,489	$ (2,720)
Junior subordinated debentures	83,993	1,592	-	(1,047)	84,538	1,592
2011						

Mortgage servicing rights	$ 16,350	$ (1,431)	$ 1,693	$ -	$ 16,612	$ (1,116)
Junior subordinated debentures	81,766	1,531	-	(973)	82,324	1,531

(in thousands)

Nine months ended September 30,	Beginning Balance	Change included in earnings	Purchases and issuances	Sales and settlements	Ending Balance	Net change in unrealized gains or (losses) relating to items held at end of period
2012						
Mortgage servicing rights	$ 18,184	$ (5,618)	$ 11,923	$ -	$ 24,489	$ (2,570)
Junior subordinated debentures	82,905	4,780	-	(3,147)	84,538	4,780
2011						
Mortgage servicing rights	$ 14,454	$ (1,942)	$ 4,100	$ -	$ 16,612	$ (1,037)
Junior subordinated debentures	80,688	4,564	-	(2,928)	82,324	4,564

Losses on mortgage servicing rights carried at fair value are recorded in mortgage banking revenue within other non-interest income. Gains (losses) on junior subordinated debentures carried at fair value are recorded within other non-interest income. The contractual interest expense on the junior subordinated debentures is recorded on an accrual basis as interest on junior subordinated debentures within interest expense. Settlements related to the junior subordinated debentures represent the payment of accrued interest that is embedded in the fair value of these liabilities.

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Additionally, from time to time, certain assets are measured at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment.

Fair Value of Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported upon.

(in thousands)

	September 30, 2012			
	Total	Level 1	Level 2	Level 3
Non-covered loans and leases	$ 30,589	$ -	$ -	$ 30,589
Non-covered other real estate owned	8,301	-	-	8,301
Covered other real estate owned	9,128	-	-	9,128
	$ 48,018	$ -	$ -	$ 48,018

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$ 487	$ -	$ -	$ 487
Non-covered loans and leases	53,847	-	-	53,847
Non-covered other real estate owned	11,321	-	-	11,321
Covered other real estate owned	12,561	-	-	12,561
	$ 78,216	$ -	$ -	$ 78,216

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and nine months ended September 30, 2012 and 2011:

(in thousands)

Nine months ended

	Three months ended			
	September 30,		September 30,	
	2012	2011	2012	2011
Investment securities, held to maturity				
Residential mortgage-backed securities and collateralized mortgage obligations	$ -	$ -	$ -	$ 72
Non-covered loans and leases	6,390	15,338	29,230	48,533
Non-covered other real estate owned	1,044	2,000	5,763	7,518
Covered other real estate owned	769	5,326	4,115	7,247
Total loss from nonrecurring measurements	$ 8,203	$ 22,664	$ 39,108	$ 63,370

The investment securities held to maturity above relate to non-agency collateralized mortgage obligations where other-than-temporary impairment ("OTTI") has been identified and the investments have been adjusted to fair value. The fair value of these investments securities were obtained from third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. While we do not expect to recover the entire amortized cost basis of these securities, as we as we do not intend to sell these securities and it is not likely that we will be required to sell these securities before maturity, only the credit loss component of the impairment is recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. The remaining impairment loss related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to a separate component other comprehensive income ("OCI"). We estimate the cash flows of the underlying collateral within each security considering credit, interest and prepayment risk models that incorporate management's estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then use a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows are then discounted at the interest rate used to recognize interest income on each security.

The non-covered loans and leases amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral. The carrying value of loans fully charged-off is zero.

The non-covered and covered other real estate owned amount above represents impaired real estate that has been adjusted to fair value. Non-covered other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on non-covered other real estate owned for fair value adjustments based on the fair value of the real estate.

During the three and nine months ended September 30, 2012, the Bank transferred none and $767,000 of trading securities from Level 1 to Level 2 under the fair value hierarchy due to a refinement in the fair value methodology.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

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

• our ability to attract new deposits and loans and leases;

• demand for financial services in our market areas;

• competitive market pricing factors;

• deterioration in economic conditions that could result in increased loan and lease losses;

• risks associated with concentrations in real estate related loans;

• market interest rate volatility;

• compression of our net interest margin;

• stability of funding sources and continued availability of borrowings;

• changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;

• our ability to recruit and retain key management and staff;

• availability of, and competition for, FDIC-assisted and other acquisition opportunities;

• risks associated with merger and acquisition integration;

• significant decline in the market value of the Company that could result in an impairment of goodwill;

• our ability to raise capital or incur debt on reasonable terms;

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

• the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and related rules and regulations on the Company’s business operations and competitiveness, including the impact of executive compensation restrictions, which may affect the Company’s ability to retain and recruit executives in competition with firms in other industries who do not operate under those restrictions; and

•the impact of the Dodd-Frank Act on the Company’s interchange fee revenue, interest expense, FDIC deposit insurance assessments and regulatory compliance expenses, which includes a maximum permissible interchange fee that an issuer may receive for an electronic debit transaction, resulting in a decrease in interchange revenue on an average transaction.

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

General

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

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Headquartered in Roseburg, Oregon, Umpqua Bank is considered one of the most innovative community banks in the United States and has implemented a variety of retail marketing strategies to increase revenue and differentiate the company from its competition. The Bank combines a high touch customer experience with the sophisticated products and expertise of a commercial bank. The Bank provides a wide range of banking, wealth management, mortgage and other financial services to corporate, institutional and individual customers. Along with its subsidiaries, the Company is subject to the regulations of state and federal agencies and undergoes periodic examinations by these regulatory agencies.

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

Executive Overview

Significant items for the third quarter of 2012 were as follows:

• Net earnings available to common shareholders per diluted common share were $0.22 and $0.65 for the three and nine months ended September 30, 2012, as compared to net earnings available to common shareholders per diluted common share of $0.19 and $0.46 for the three and nine months ended September 30, 2011. Operating earnings per diluted common share, defined as earnings available to common shareholders before net gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains, net of tax, merger related expenses, net of tax, and goodwill impairment, divided by the same diluted share total used in determining diluted earnings per common share, were $0.23 and $0.67 for the three and nine months ended September 30, 2012, as compared to operating income per diluted common share of $0.19 and $0.47 for the three and nine months ended September 30, 2011. Operating income per diluted share is considered a “non-GAAP” financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading Results of Operations - Overview below.

• Net interest margin, on a tax equivalent basis, decreased to 3.98% and 4.04% for the three and nine months ended September 30, 2012, compared to 4.12% and 4.21% for the three and nine months ended September 30, 2011. The decrease in net interest margin resulted from the decline in non-covered loan yields, the decrease in average covered loan balances and the decline in investment yields, partially offset by a decrease in average interest bearing cash, the increase in average non-covered loans outstanding, an increase in loan disposal gains from the covered loan portfolio, a decrease in interest bearing liabilities and the decrease in the cost of interest bearing deposits. Excluding the impact of loan disposal gains from the covered loan portfolio and interest and fee reversals on non-accrual loans, our adjusted net interest margin was 3.76% and 3.90% for the three and nine months ended September 30, 2012, as compared to adjusted net interest margin of 3.94% and 3.98% for the three and nine months ended September 30, 2011. Adjusted net interest margin is considered a “non-GAAP” financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading Results of Operations - Overview below.

• The provision for non-covered loan and lease losses was $7.1 million and $16.9 million for the three and nine months ended September 30, 2012, as compared to the $9.1 million and $39.6 million recognized for the three and nine months ended September 30, 2011. This resulted from continued improvement and stabilization of credit quality, continued decline in non-performing loans, and decline in net charge-offs.

• Mortgage banking revenue was $24.3 million and $53.1 million for the three and nine months ended September 30, 2012, compared to $7.1 million and $17.2 million for the three and nine months ended September 30, 2011. Closed mortgage volume increased 140% in the current year-to-date over the prior year same period due to an ongoing increased purchase and refinancing activity relating to historically low interest rates.

• Total gross non-covered loans and leases were $6.2 billion as of September 30, 2012, an increase of $360.3 million, or 6.1%, as compared to December 31, 2011. This increase is principally attributable to new loan production and draws on commercial lines of credit.

• Total deposits were $9.1 billion as of September 30, 2012, a decrease of $136.8 million, or 1.5%, as compared to December 31, 2011. Despite the decline in total deposits, non-interest bearing deposits increased $200.7 million, or 10.5%, and low cost savings accounts increased $55.9 million, or 14.5%, as compared to December 31, 2011.

• Total consolidated assets were $11.5 billion as of September 30, 2012, representing a slight decrease from the $11.6 billion at December 31, 2011.

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• Non-covered, non-performing assets decreased to $99.6 million, or 0.86% of total assets, as of September 30, 2012, as compared to $125.6 million, or 1.09% of total assets, as of December 31, 2011. Non-covered, non-performing loans decreased to $80.3 million, or 1.29% of total non-covered loans, as of September 30, 2012, as compared to $91.4 million, or 1.55% of total non-covered loans as of December 31, 2011. Non-accrual loans have been written-down to their estimated net realizable values.

• Net charge-offs on non-covered loans were $5.9 million for the three months ended September 30, 2012, or 0.38% of average non-covered loans and leases (annualized), as compared to net charge-offs of $14.0 million, or 0.96% of average non-covered loans and leases (annualized), for the three months ended September 30, 2011. Net charge-offs on non-covered loans were $25.1 million for the nine months ended September 30, 2012, or 0.55% of average non-covered loans and leases (annualized), as compared to net charge-offs of $48.6 million, or 1.14% of average non-covered loans and leases (annualized), for the nine months ended September 30, 2011.

• Total risk based capital decreased to 17.1% as of September 30, 2012, compared to 17.2% as of December 31, 2011, due to the increase in risk-weighted assets during the quarter.

• Cash dividends declared in the third quarter of 2012 were $0.09 per common share, compared to cash dividends declared in the third quarter of 2011 of $0.07 per common share.

Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2011 included in the Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 17, 2012. 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 10% of the allowance, but may be maintained at higher levels during times of 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.

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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 September 30, 2012. 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 78% 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.

Covered Loans and FDIC Indemnification Asset

Loans acquired in an FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as “covered loans” and reported separately in our statements of financial condition. Acquired loans were aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flows were estimated for each pool. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The cash flows expected to be received over the life of the pool were estimated by management with the assistance of a third party valuation specialist. These cash flows were input into a FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”), compliant accounting loan system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions are periodically reassessed and updated within the accounting model to update our expectation of future cash flows. The excess of the cash flows expected to be collected over a pool’s carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows. Changes in the accretable yield are disclosed quarterly.

The Company has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC 805, Business Combinations (“ASC 805”). The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the carrying value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted or amortized into non-interest income over the life of the FDIC indemnification asset, which is maintained at the loan pool level.

Mortgage Servicing Rights (“MSR”)

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 measures its residential mortgage servicing assets at fair value and reports changes in fair value through earnings. Fair value adjustments encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are separately reported. Under the fair value method, the MSR is carried in the balance sheet at fair value and the changes in fair value are reported in earnings under the caption mortgage banking revenue in the period in which the change occurs.

Retained mortgage servicing rights are measured at fair 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, as available.

The expected life of the loan can vary from management's estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management's estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in the model, which we base on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights. Additional information is included in Note 7 of the Notes to Consolidated Financial Statements.

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Valuation of Goodwill and Intangible Assets

At September 30, 2012, we had $673.6 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstance indicate impairment potentially exists. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption may result in additional impairment of all, or some portion of, goodwill.

Stock-based Compensation

In accordance with FASB ASC 718, Stock Compensation, we recognize expense in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each grant is estimated as of the grant date using the Black-Scholes option-pricing model or a Monte Carlo simulation pricing model. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the pricing model, and ultimately, the expense that will be recognized over the life of the option. Additional information is included in Note 12 of the Notes to Consolidated Financial Statements.

Fair Value

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 16 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 April 2011, the FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The Update amends existing guidance to remove from the assessment of effective control, the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and, as well, the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for the Company’s reporting period beginning on or after December 15, 2011. The guidance applies prospectively to transactions or modification of existing transactions that occur on or after the effective date and early adoption is not permitted. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The Update amends existing guidance regarding the highest and best use and valuation premise by clarifying these concepts are only applicable to measuring the fair value of nonfinancial assets. The Update also clarifies that the fair value measurement of financial assets and financial liabilities which have offsetting market risks or counterparty credit risks that are managed on a portfolio basis, when several criteria are met, can be measured at the net risk position. Additional disclosures about Level 3 fair value measurements are required including a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, a description of the valuation process in place, and discussion of the sensitivity of fair value changes in unobservable inputs and interrelationships about those inputs as well disclosure of the level of the fair value of items that are not measured at fair value in the financial statements but disclosure of fair value is required. The provisions of ASU No. 2011-04 are effective for the Company’s reporting period beginning after December 15, 2011 and are applied prospectively. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The Update amends current guidance to allow a company the option of presenting the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions do not change the items that must be reported in other comprehensive income or when an item of other comprehensive must to reclassified to net income. The amendments do not change the option for a company to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense (benefit) related to the total of other comprehensive income items. The amendments do not affect how earnings per share is calculated or presented. The provisions of ASU No. 2011-05 are effective for the Company's reporting period beginning after December 15, 2011 and are applied retrospectively. Early adoption was permitted and there are no required transition disclosures. In December 2011, the FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. The ASU defers indefinitely the requirement to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. The adoption of the ASUs did not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. With the Update, a company testing goodwill for impairment now has the option of performing a qualitative assessment before calculating the fair value of the reporting unit (the first step of goodwill impairment test). If, on the basis of qualitative factors, the fair value of the reporting unit is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. Additionally, new examples of events and circumstances that an entity should consider in performing its qualitative assessment about whether to proceed to the first step of the goodwill impairment have been made to the guidance and replace the previous guidance for triggering events for interim impairment assessment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2012-11, Disclosures about Offsetting Assets and Liabilities. The Update requires an entity to offset, and present as a single net amount, a recognized eligible asset and a recognized eligible liability when it has an unconditional and legally enforceable right of setoff and intends either to settle the asset and liability on a net basis or to realize the asset and settle the liability simultaneously. The ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. The Company is currently in the process of evaluating the ASU but does not expect it will have a material impact on the Company's consolidated financial statements.

In July 2012, the FASB issued ASU No. 2011-02, Testing Indefinite-Lived Intangible Assets for Impairment. With the Update, a company testing indefinite-lived intangibles for impairment now has the option to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with current guidance. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

In October 2012, the FASB issued ASU. 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. The Update clarifies that when an entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs, as a result of a change in cash flows expected to be collected on the assets subject to indemnification, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

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Results of Operations

Overview

For the three months ended September 30, 2012, net earnings available to common shareholders were $25.0 million, or $0.22 per diluted common share, as compared to net earnings available to common shareholders of $21.8 million, or $0.19 per diluted common share for the three months ended September 30, 2011. For the nine months ended September 30, 2012, net earnings available to common shareholders were $73.4 million, or $0.65 per diluted common share, as compared to net earnings available to common shareholders of $52.9 million, or $0.46 per diluted common share for the nine months ended September 30, 2011. The increase in net earnings for the three months ended September 30, 2012 compared to the same period of the prior year is principally attributable to increased non-interest income and decreased provision for loan losses, partially offset by decreased net interest income. The increase in net earnings for the nine months ended September 30, 2012 compared to the same period of the prior year is principally attributable to increased non-interest income and decreased provision for loan losses, partially offset by decreased net interest income and increased non-interest expense.

Umpqua recognizes gains or losses on our junior subordinated debentures carried at fair value resulting from the estimated market credit risk adjusted spread and changes in interest rates that do not directly correlate with the Company's operating performance. Also, Umpqua incurs significant expenses related to the completion and integration of mergers and acquisitions. Additionally, we may recognize goodwill impairment losses that have no direct effect on the Company's or the Bank's cash balances, liquidity, or regulatory capital ratios. Lastly, Umpqua may recognize one-time bargain purchase gains on certain FDIC-assisted acquisitions that are not reflective of Umpqua's on-going earnings power. Accordingly, management believes that our operating results are best measured on a comparative basis excluding the impact of gains or losses on junior subordinated debentures measured at fair value, net of tax, merger-related expenses, net of tax, and other charges related to business combinations such as goodwill impairment charges or bargain purchase gains, net of tax. We define operating earnings as earnings available to common shareholders before gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains on acquisitions, net of tax, merger related expenses, net of tax, and goodwill impairment, and we calculate operating earnings per diluted share by dividing operating earnings by the same diluted share total used in determining diluted earnings per common share.

The following table provides the reconciliation of earnings available to common shareholders (GAAP) to operating earnings (non-GAAP), and earnings per diluted common share (GAAP) to operating earnings per diluted share (non-GAAP) for the three and nine months ended September 30, 2012 and 2011:

Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net earnings available to common shareholders	$ 24,983	$ 21,757	$ 73,434	$ 52,861
Adjustments:				
Net loss on junior subordinated debentures carried at fair value, net of tax	332	332	989	986
Merger-related expenses, net of tax	51	31	203	182
Operating earnings	$ 25,366	$ 22,120	$ 74,626	$ 54,029
Per diluted share:				
Net earnings available to common shareholders	$ 0.22	$ 0.19	$ 0.65	$ 0.46
Adjustments:				
Net loss on junior subordinated debentures carried at fair value, net of tax	0.01	-	0.02	0.01
Merger-related expenses, net of tax	-	-	-	-
Operating earnings	$ 0.23	$ 0.19	$ 0.67	$ 0.47

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Management believes adjusted net interest income and adjusted net interest margin are useful financial measures because they enable investors to evaluate the underlying growth or compression in these values excluding interest income adjustments related to credit quality. Management uses these measures to evaluate adjusted net interest income operating results exclusive of credit costs, in order to monitor our effectiveness in growing higher interest yielding assets and managing our cost of interest bearing liabilities over time. Adjusted net interest income is calculated as net interest income, adjusting tax exempt interest income to its taxable equivalent, adding back interest and fee reversals related to new non-accrual loans during the period, and deducting the interest income gains recognized from loan disposition activities within covered loan pools. Adjusted net interest margin is calculated by dividing annualized adjusted net interest income by a period's average interest earning assets. Adjusted net interest income and adjusted net interest margin 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 (unaudited) in Item 1.

The following table presents a reconciliation of net interest income to adjusted net interest income and net interest margin to adjusted net interest margin for the three and nine months ended September 30, 2012 and 2011:

Reconciliation of Net Interest Income to Adjusted Net Interest Income and Net Interest Margin to Adjusted Net Interest Margin

(in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net interest income - tax equivalent basis (1)	$ 103,204	$ 108,587	$ 308,875	$ 325,002
Adjustments:				
Interest and fee reversals on non-accrual loans	174	149	1,137	1,918
Covered loan disposal gains	(5,859)	(4,793)	(11,572)	(19,667)
Adjusted net interest income - tax equivalent basis (1)	$ 97,519	$ 103,943	$ 298,440	$ 307,253
Average interest earning assets	$ 10,313,397	$ 10,455,398	$ 10,210,094	$ 10,326,854
Net interest margin - consolidated (1)	3.98%	4.12%	4.04%	4.21%
Adjusted net interest margin - consolidated (1)	3.76%	3.94%	3.90%	3.98%

(1) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $1.2 million and $1.1 million for the three months ended September 30, 2012 and 2011, respectively, and $3.5 million and $3.2 million for the nine months ended September 30, 2012 and 2011 respectively.

The following table presents the returns on average assets, average common shareholders' equity and average tangible common shareholders' equity for the three and nine months ended September 30, 2012 and 2011. For each of the periods presented, the table includes the calculated ratios based on reported net earnings available to common shareholders and operating income as shown in the table above. Our return on average common shareholders' equity is negatively impacted as the result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger and acquisition-related intangible assets, we believe it beneficial to also consider the return on average tangible common shareholders' equity. The return on average tangible common shareholders' equity is calculated by dividing net earnings available to common shareholders by average shareholders' common equity less average goodwill and intangible assets, net (excluding MSRs). The return on average tangible common shareholders' equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders' equity.

Return on Average Assets, Common Shareholders' Equity and Tangible Common Shareholders' Equity

(dollars in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Returns on average assets:				
Net earnings available to common shareholders	0.86%	0.74%	0.86%	0.61%
Operating earnings	0.87%	0.75%	0.87%	0.62%
Returns on average common shareholders' equity:				
Net earnings available to common shareholders	5.81%	5.11%	5.79%	4.23%
Operating earnings	5.90%	5.20%	5.88%	4.33%
Returns on average tangible common shareholders' equity:				
Net earnings available to common shareholders	9.60%	8.55%	9.62%	7.14%
Operating earnings	9.75%	8.70%	9.78%	7.30%
Calculation of average common tangible shareholders' equity:				
Average common shareholders' equity	$ 1,709,270	$ 1,688,082	$ 1,694,706	$ 1,669,373
Less: average goodwill and other intangible assets, net	(674,122)	(678,967)	(675,311)	(680,212)
Average tangible common shareholders' equity	$ 1,035,148	$ 1,009,115	$ 1,019,395	$ 989,161

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Additionally, management believes tangible common equity and the tangible common equity ratio are meaningful measures of capital adequacy. Umpqua believes the exclusion of certain intangible assets in the computation of tangible common equity and tangible common equity ratio provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results and capital of the Company. Tangible common equity is calculated as total shareholders' equity less preferred stock and less goodwill and other intangible assets, net (excluding MSRs). In addition, tangible assets are total assets less goodwill and other intangible assets, net (excluding MSRs). The tangible common equity ratio is calculated as tangible common shareholders’ equity divided by tangible assets. The tangible common equity and tangible common equity ratio is considered a non-GAAP financial measure and should be viewed in conjunction with the total shareholders’ equity and the total shareholders’ equity ratio. The following table provides a reconciliation of ending shareholders’ equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of September 30, 2012 and December 31, 2011:

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

(dollars in thousands)

	September 30, 2012	December 31, 2011
Total shareholders' equity	$ 1,714,093	$ 1,672,413
Subtract:		
Goodwill and other intangible assets, net	673,604	677,224
Tangible common shareholders' equity	$ 1,040,489	$ 995,189
Total assets	$ 11,528,964	$ 11,563,355
Subtract:		
Goodwill and other intangible assets, net	673,604	677,224
Tangible assets	$ 10,855,360	$ 10,886,131
Tangible common equity ratio	9.59%	9.14%

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

Net Interest Income

Net interest income is the largest source of our operating income. Net interest income for the three months ended September 30, 2012 was $102.0 million, a decrease of $5.5 million or 5.1% compared to the same period in 2011. Net interest income for the nine months ended September 30, 2012 was $305.4 million, a decrease of $16.4 million or 5.1% compared to the same period in 2011. The results for the three and nine months ended September 30, 2012 as compared to the same period in 2011 are attributable to a decrease in outstanding average interest-earning assets, primarily covered loans and investment securities, and a decrease in net interest margin, partially offset by an increase in non-covered loans and leases and a decrease in interest-bearing liabilities.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 3.98% for the three months ended September 30, 2012, a decrease of 14 basis points as compared to the same period in 2011. The net interest margin on a fully tax equivalent basis was 4.04% for the nine months ended September 30, 2012, a decrease of 17 basis points as compared to the same period in 2011.The decrease in net interest margin for the three months ended September 30, 2012 as compared to the same periods in the prior year primarily resulted from a decline in non-covered loan yields, decrease in average covered loans outstanding, and a decline in investment yields, partially offset by a decrease in average interest bearing cash, an increase in average non-covered loans outstanding, an increase in loan disposal gains from the covered loan portfolio, a decline in the cost of interest-bearing deposits, and a decrease in average interest-bearing liabilities. The decrease in net interest margin for the nine months ended September 30, 2012 as compared to the same periods in the prior year primarily resulted from a decline in non-covered loan yields, decrease in average covered loans outstanding, a decrease in loan disposal gains from the covered loan portfolio, and a decline in investment yields, partially offset by a decrease in average interest bearing cash, an increase in average non-covered loans outstanding, a decline in the cost of interest-bearing deposits, and a decrease in average interest-bearing liabilities.

Loan disposal related activities within the covered loan portfolio, either through loans being paid off in full or transferred to other real estate owned (“OREO”), result in gains within covered loan interest income to the extent assets received in satisfaction of debt (such as cash or the net realizable value of OREO received) exceeds the allocated carrying value of the loan disposed of from the pool. Loan disposal activities contributed $5.9 million of interest income for the three months ended September 30, 2012 compared to $4.8 million of interest income during the three months ended September 30, 2011. Loan disposal activities contributed $11.6 million of interest income for the nine months ended September 30, 2012 compared to $19.7 million of interest income during the nine months ended September 30, 2011. Excluding the impact of covered loan disposal gains, consolidated net interest margin on a fully tax equivalent basis would have been 3.75% and 3.89% for the three and nine months ended September 30, 2012 and 3.94% and 3.95% for the three and nine months ended September 30, 2011. While dispositions of covered loans positively impact net interest margin, we recognize a corresponding decrease to the change in FDIC indemnification asset at the incremental loss-sharing rate within other non-interest income.

Net interest income for the three and nine months ended September 30, 2012 was negatively impacted by the $0.2 million and $1.1 million reversal of interest and fee income on non-covered, non-accrual loans, as compared to the $0.1 million and $1.9 million reversal of interest and fee income during the three and nine months ended September 30, 2011. These reversals reduced tax equivalent net interest margin by 1 basis points for the three and nine months ended September 30, 2012 and 2011, respectively. Excluding the impact of covered loan disposal gains and interest and fee income reversals on non-covered, non-accrual loans, tax equivalent net interest margin would have been 3.76% and 3.90% for the three and nine months ended September 30, 2012 and 3.94% and 3.98% for the three and nine months ended September 30, 2011.

Partially offsetting the decrease in net interest margin in the current quarter as compared to the same period of the prior year is the continued reduction in the cost of interest-bearing liabilities, specifically interest-bearing deposits. The total cost of interest-bearing deposits for the three and nine months ended September 30, 2012 was 0.43% and 0.46%, representing a 34 and 33 basis point decrease compared to the three and nine months ended September 30, 2011.

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 tables present condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2012 and 2011:

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Average Rates and Balances

(dollars in thousands)

	Three months ended September 30, 2012			Three months ended September 30, 2011		
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:						
Non-covered loans and leases (1)	$ 6,375,998	$ 78,090	4.87%	$ 5,838,699	$ 81,041	5.51%
Covered loans and leases, net	535,816	20,325	15.09%	690,090	20,950	12.04%
Taxable securities	2,630,018	13,060	1.99%	2,964,361	21,934	2.96%
Non-taxable securities (2)	262,323	3,466	5.28%	221,218	3,189	5.77%
Temporary investments and interest-bearing deposits	509,242	331	0.26%	741,030	466	0.25%
Total interest earning assets	10,313,397	115,272	4.45%	10,455,398	127,580	4.84%
Allowance for non-covered loan and lease losses	(83,331)			(96,365)		
Other assets	1,328,835			1,349,046		
Total assets	$ 11,558,901			$ 11,708,079		
INTEREST-BEARING LIABILITIES:						
Interest-bearing checking and savings accounts	$ 4,996,353	$ 2,354	0.19%	$ 4,734,705	$ 5,520	0.46%
Time deposits	2,090,269	5,269	1.00%	2,823,652	9,059	1.27%
Federal funds purchased and repurchase agreements	149,255	73	0.19%	122,207	152	0.49%
Term debt	254,349	2,335	3.65%	256,419	2,332	3.61%
Junior subordinated debentures	186,313	2,037	4.35%	184,340	1,930	4.15%
Total interest-bearing liabilities	7,676,539	12,068	0.63%	8,121,323	18,993	0.93%
Non-interest-bearing deposits	2,075,097			1,829,245		
Other liabilities	97,995			69,429		
Total liabilities	9,849,631			10,019,997		
Common equity	1,709,270			1,688,082		
Total liabilities and shareholders' equity	$ 11,558,901			$ 11,708,079		
NET INTEREST INCOME		$ 103,204			$ 108,587	
NET INTEREST SPREAD			3.82%			3.91%
			4.45%			4.84%

AVERAGE YIELD ON EARNING ASSETS (1), (2)		
INTEREST EXPENSE TO EARNING ASSETS	0.47%	0.72%
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)	3.98%	4.12%

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

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately \$1.2 million and \$1.1 million for the three months ended September 30, 2012 and 2011, respectively.

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Average Rates and Balances (Year-to-Date)

(dollars in thousands)

	Nine months ended September 30, 2012			Nine months ended September 30, 2011		
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:						
Non-covered loans and leases (1)	$ 6,200,326	$ 233,386	5.03%	$ 5,735,525	$ 239,095	5.57%
Covered loans and leases, net	572,481	54,603	12.74%	725,737	64,723	11.92%
Taxable securities	2,791,915	47,749	2.28%	2,996,292	68,332	3.04%
Non-taxable securities (2)	256,510	10,338	5.37%	221,439	9,684	5.83%
Temporary investments and interest bearing deposits	388,862	736	0.25%	647,861	1,207	0.25%
Total interest earning assets	10,210,094	346,812	4.54%	10,326,854	383,041	4.96%
Allowance for non-covered loan and lease losses	(86,999)			(97,637)		
Other assets	1,330,749			1,369,159		
Total assets	$ 11,453,844			$ 11,598,376		
INTEREST-BEARING LIABILITIES:						
Interest bearing checking and savings accounts	$ 4,989,233	$ 7,815	0.21%	$ 4,686,707	$ 16,416	0.47%
Time deposits	2,139,476	16,822	1.05%	2,890,161	28,527	1.32%
Federal funds purchased and repurchase agreements	136,593	232	0.23%	103,530	405	0.52%
Term debt	254,862	6,944	3.64%	258,036	6,922	3.59%
Junior subordinated debentures	185,819	6,124	4.40%	183,879	5,769	4.19%
Total interest-bearing liabilities	7,705,983	37,937	0.66%	8,122,313	58,039	0.96%
Non-interest-bearing deposits	1,968,153			1,735,767		
Other liabilities	85,002			70,923		
Total liabilities	9,759,138			9,929,003		
Common equity	1,694,706			1,669,373		
Total liabilities and shareholders' equity	$ 11,453,844			$ 11,598,376		
NET INTEREST INCOME		$ 308,875			$ 325,002	
NET INTEREST SPREAD			3.88%			4.00%
AVERAGE YIELD ON EARNING ASSETS (1), (2)			4.54%			4.96%

INTEREST EXPENSE TO EARNING ASSETS	0.50%	0.75%
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)	4.04%	4.21%

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

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $3.5 million and $3.2 million for the nine months ended September 30, 2012 and 2011, respectively.

The following tables sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for the three and nine months ended September 30, 2012 as compared to the same periods in 2011. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

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Rate/Volume Analysis

(in thousands)	Three months ended September 30, 2012 compared to 2011 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total
INTEREST-EARNING ASSETS:			
Non-covered loans and leases	$ 7,073	$ (10,024)	$ (2,951)
Covered loans and leases	(5,235)	4,610	(625)
Taxable securities	(2,266)	(6,608)	(8,874)
Non-taxable securities (1)	558	(281)	277
Temporary investments and interest bearing deposits	(151)	16	(135)
Total (1)	(21)	(12,287)	(12,308)
INTEREST-BEARING LIABILITIES:			
Interest bearing checking and savings accounts	290	(3,456)	(3,166)
Time deposits	(2,077)	(1,713)	(3,790)
Repurchase agreements and federal funds	28	(107)	(79)
Term debt	(19)	22	3
Junior subordinated debentures	21	86	107
Total	(1,757)	(5,168)	(6,925)
Net increase (decrease) in net interest income (1)	$ 1,736	$ (7,119)	$ (5,383)

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

Rate/Volume Analysis (Year-to-Date)

(in thousands)	Nine months ended September 30, 2012 compared to 2011 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total

INTEREST-EARNING ASSETS:			
Non-covered loans and leases	$ 18,521	$ (24,230)	$ (5,709)
Covered loans and leases	(14,382)	4,262	(10,120)
Taxable securities	(4,411)	(16,172)	(20,583)
Non-taxable securities (1)	1,453	(799)	654
Temporary investments and interest bearing deposits	(490)	19	(471)
Total (1)	691	(36,920)	(36,229)
INTEREST-BEARING LIABILITIES:			
Interest bearing checking and savings accounts	999	(9,600)	(8,601)
Time deposits	(6,564)	(5,141)	(11,705)
Repurchase agreements and federal funds	103	(276)	(173)
Term debt	(85)	107	22
Junior subordinated debentures	62	293	355
Total	(5,485)	(14,617)	(20,102)
Net increase (decrease) in net interest income (1)	$ 6,176	$ (22,303)	$ (16,127)

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

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Provision for Loan AND LEASE Losses

The provision for non-covered loan and lease losses was $7.1 million and $16.9 million for the three and nine months ended September 30, 2012, as compared to $9.1 million and $39.6 million for the same periods in 2011. As an annualized percentage of average outstanding loans, the provision for loan and lease losses recorded for the three and nine months ended September 30, 2012 was 0.46% and 0.37% as compared to 0.63% and 0.93% in the same periods in 2011.

The decrease in the provision for loan and lease losses in the three and nine months ended September 30, 2012 as compared to the same periods in 2011 is principally attributable to declining non-performing loans and classified assets and reflects continued improvement and stabilization of credit quality and decrease in net charge-offs.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Therefore, the non-covered, non-accrual loans of $73.7 million as of September 30, 2012 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

The provision for non-covered 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 non-covered loan and lease losses. Additional discussion on loan quality and the allowance for non-covered loan and lease losses is provided under the heading Asset Quality and Non-Performing Assets below.

The provision for covered loan and lease losses was $2.9 million and $4.3 million for the three and nine months ended September 30, 2012, as compared to $4.4 million and $15.4 million for the same periods in 2011. Provisions for covered loan and leases are recognized subsequent to acquisition to the extent it is probable we will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when determined losses of unpaid principal incurred exceed previous loss expectations to-date, or future cash flows previously expected to be collectible are no longer probable of collection. Provisions for covered loan and lease losses, including amounts advanced subsequent to acquisition, are not reflected in the allowance for non-covered loan and lease losses, rather as a valuation allowance netted against the carrying value of the covered loan and lease balance accounted for under ASC 310-30, in accordance with the guidance.

Non-Interest Income

Non-interest income for the three months ended September 30, 2012 was $33.7 million, an increase of $8.9 million, or 36%, as compared to the same period in 2011. Non-interest income for the nine months ended September 30, 2012 was $89.8 million, an increase of $23.9 million, or 36%, as compared to the same period in 2011. The following table presents the key components of non-interest income for the three and nine months ended September 30, 2012 and 2011:

Non-Interest Income

(in thousands)

	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	Change Amount	Change Percent	2012	2011	Change Amount	Change Percent
Service charges on deposit accounts	$ 7,122	$ 8,849	$ (1,727)	-20%	$ 20,978	$ 25,210	$ (4,232)	-17%
Brokerage commissions and fees	3,186	3,115	71	2%	9,662	9,768	(106)	-1%
Mortgage banking revenue, net	24,346	7,084	17,262	244%	53,069	17,166	35,903	209%
Gain on investment securities, net	21	1,813	(1,792)	-99%	1,199	7,419	(6,220)	-84%
Loss on junior subordinated debentures carried at fair value	(554)	(554)	-	0%	(1,649)	(1,643)	(6)	0%
Change in FDIC indemnification asset	(4,759)	1,611	(6,370)	-395%	(10,644)	(1,035)	(9,609)	928%
Other income	4,317	2,860	1,457	51%	17,227	9,105	8,122	89%
Total	$ 33,679	$ 24,778	$ 8,901	36%	$ 89,842	$ 65,990	$ 23,852	36%

The decrease in deposit service charges in the three and nine months ended September 30, 2012 compared to the same period in 2011 is primarily the result of a reduction in interchange fee revenue relating to the Durbin Amendment of the Dodd Frank Act, which became effective October 1, 2011.

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Mortgage banking revenue for the three and nine months ended September 30, 2012 increased due to continued increase in purchase and refinancing activity, compared to the same period of the prior year. Closed mortgage volume for the three and nine months ended September 30, 2012 was $621.3 million and $1.5 billion, representing a 122% and 140% increase compared to the same periods of the prior year.

During the nine months ended September 30, 2012, the Company sold investment securities which carried a higher duration in future potential higher interest rate scenarios to reduce the price risk of the portfolio if interest rates were to increase significantly. In connection with the sale, we recognized a gain on sale of none and $1.2 million for the three and nine months ended September 30, 2012, respectively, compared to $1.8 million and $7.5 million for the three and nine months ended September 30, 2011.

For both the three and nine months ended September 30, 2012 and 2011, we recorded a loss of $554,000 and $1.6 million in the change of fair value on the junior subordinated debentures recorded at fair value. Additional information on the junior subordinated debentures carried at fair value is included in Note 9 of the Notes to Condensed Consolidated Financial Statements and under the heading Junior Subordinated Debentures.

The change in FDIC indemnification asset represents a change in cash flows expected to be recoverable under the loss-share agreements entered into with the FDIC in connection with FDIC-assisted acquisitions.

Other income for the three and nine months ended September 30, 2012 increased primarily due to the Debt Capital Market revenue of $1.6 million and $7.0 million related to initiation of an interest rate swap program in the second half of 2011 with commercial banking customers to facilitate their risk management strategies. Additionally, for the nine months ended September 30, 2012, in connection with the termination of a definitive agreement between the Company and American Perspective Bank, the Company received a termination fee of $1.6 million.

Non-Interest Expense

Non-interest expense for the three months ended September 30, 2012 was $87.0 million, an increase of $0.8 million, or 1%, as compared to the same period in 2011. Non-interest expense for the nine months ended September 30, 2012 was $261.6 million, an increase of $8.0 million, or 3%, as compared to the same period in 2011. The following table presents the key elements of non-interest expense for the three and nine months ended September 30, 2012 and 2011:

Non-Interest Expense

(in thousands)

	Three months ended September 30,				Nine months ended September 30,			
	2012	2011	Change Amount	Change Percent	2012	2011	Change Amount	Change Percent
Salaries and employee benefits	$ 49,543	$ 45,023	$ 4,520	10%	$ 146,615	$ 133,441	$ 13,174	10%
Net occupancy and equipment	13,441	12,803	638	5%	40,519	37,867	2,652	7%
Communications	2,740	2,791	(51)	-2%	8,527	8,397	130	2%
Marketing	1,104	2,007	(903)	-45%	3,855	4,656	(801)	-17%
Services	5,910	6,089	(179)	-3%	18,703	17,997	706	4%
Supplies	627	686	(59)	-9%	1,936	2,310	(374)	-16%
FDIC assessments	1,699	1,867	(168)	-9%	5,553	8,561	(3,008)	-35%
Net loss on non-covered other real estate owned	2,168	2,289	(121)	-5%	6,244	8,967	(2,723)	-30%
Net loss on covered other real estate owned	461	4,755	(4,294)	-90%	3,084	5,778	(2,694)	-47%
Intangible amortization	1,189	1,222	(33)	-3%	3,612	3,724	(112)	-3%
Merger related expenses	85	51	34	67%	338	303	35	12%
Other expenses	8,007	6,641	1,366	21%	22,620	21,631	989	5%
Total	$ 86,974	$ 86,224	$ 750	1%	$ 261,606	$ 253,632	$ 7,974	3%

Included in non-interest expense are several categories which are outside of the operational control of the Company or depend on changes in market values, including FDIC deposit insurance assessments, gain or loss on other real estate owned ("OREO,") and merger related costs. Excluding these non-operating items, the remaining non-interest expense items totaled $82.6 million for the three months ended September 30, 2012 compared to $77.3 million for the three months ended September 30, 2011, and $246.4 million for the nine months ended September 30, 2012 compared to $230.0 million for nine months ended September 30, 2011.

Salaries and employee benefits costs increased $4.5 million in the three months ended September 30, 2012, as compared to the same period prior year, and increased $13.2 million in the nine months ended September 30, 2012, as compared to the same period prior year, which primarily relates to an increase of 45 full-time equivalent employees. In addition, variable compensation costs related to the Mortgage group has increased due to record loan production in the current year.

Net occupancy and equipment expense increased $0.6 million for the three months ended September 30, 2012, and $2.7 million for the nine months ended September 30, 2012 as compared to the same periods in the prior year as a result of the addition of 10 de novo Community Banking locations, one Mortgage office, and one administrative facility during 2011.

FDIC assessments decreased for the three and nine months ended September 30, 2012 as compared to the same periods of the prior year primarily as a result of the adoption by the FDIC of a final rule that changed the assessment rate and the assessment base (from a domestic deposit base to a scorecard based assessment system for banks with more than $10 billion in assets) effective in the second quarter of 2011.

Other expenses increased $1.4 million for the three months ended September 30, 2012 and $1.0 million for the nine months ended September 30, 201 as compared to the same periods in the prior year as the result of an increase in the provision for unfunded commitments.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. The merger-related expense incurred in 2011 related primarily to FDIC-assisted acquisitions, while those incurred in 2012 relate to current acquisition activities. Classification of expenses as merger-related is done in accordance with the provisions of a Board-approved policy.

Although there has been an easing in the velocity of declining real estate values, depressed values continue to detrimentally affect our loan portfolio and has led to a continued elevated level of foreclosures on related properties and movement of the properties into other real estate owned ("OREO"). In the three and nine months ended September

30, 2012, the Company recognized net loss (which includes gains on sale and valuation adjustments) on non-covered OREO properties of $2.2 million and $6.2 million as compared to net loss (which includes loss on sale and valuation adjustments) on non-covered OREO properties of $2.3 million and $9.0 million in the same period a year ago. Included within the results for the three and nine months ended September 30, 2012, the Company recognized net loss (which includes gains on sale and valuation adjustments) on covered OREO properties of $0.5 million and $3.1 million as compared to net loss (which includes gains on sale and valuation adjustments) on covered OREO properties of $4.8 million and $5.8 million in the same periods a year ago.

Income Taxes

Our consolidated effective tax rate as a percentage of pre-tax income for the three and nine months ended September 30, 2012 was 35.1% and 34.3% as compared to 32.9% and 32.9% for the three and nine months ended September 30, 2011. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 4.3% (net of the federal tax benefit) principally because of non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities and tax credits arising from low income housing investments.

FINANCIAL CONDITION

Investment Securities

Trading securities consist of securities held in inventory by Umpqua Investments for sale to its clients and securities invested in trust for the benefit of certain executives or former employees of acquired institutions as required by agreements. Trading securities were $3.1 million at September 30, 2012, as compared to $2.3 million at December 31, 2011. This increase is principally attributable to an increase in Umpqua Investments' inventory of trading securities.

Investment securities available for sale were $2.9 billion as of September 30, 2012 compared to $3.2 billion at December 31, 2011. Purchases of $784.8 million of investment securities available for sale and an increase in fair value of investments securities available for sale of $3.4 million were offset by paydowns of $1.0 billion and amortization of net purchase price premiums of $33.1 million.

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Investment securities held to maturity were $5.4 million as of September 30, 2012 as compared to holdings of $4.7 million at December 31, 2011. The change primarily relates to purchases of $0.9 million, offset by paydowns and maturities of investment securities held to maturity of $0.5 million.

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of September 30, 2012 and December 31, 2011:

Investment Securities Composition

(dollars in thousands)

	Investment Securities Available for Sale			
	September 30, 2012		December 31, 2011	
	Fair Value	%	Fair Value	%
U.S. Treasury and agencies	$ 45,978	2%	$ 118,465	4%
Obligations of states and political subdivisions	266,051	9%	253,553	8%
Residential mortgage-backed securities and collateralized mortgage obligations	2,585,012	89%	2,794,355	88%
Other debt securities	210	-	134	-
Investments in mutual funds and other equity securities	2,110	-	2,071	-
Total	$ 2,899,361	100%	$ 3,168,578	100%

	Investment Securities Held to Maturity			
	September 30, 2012		December 31, 2011	
	Amortized Cost	%	Amortized Cost	%
Obligations of states and political subdivisions	$ 1,260	24%	$ 1,335	28%
Residential mortgage-backed securities and collateralized mortgage obligations	4,099	76%	3,379	72%
Total	$ 5,359	100%	$ 4,714	100%

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

For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI.

The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income ("OCI"). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is reevaluated according to the procedures described above.

Gross unrealized losses in the available for sale investment portfolio was $7.4 million at September 30, 2012. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $7.4 million. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral. Additional information about the investment portfolio is provided in Note 3 of the Notes to Condensed Consolidated Financial Statements.

RESTRICTED EQUITY SECURITIES

Restricted equity securities were $31.4 million at September 30, 2012 and $32.6 million at December 31, 2011. The decrease of $1.2 is attributable to stock redemptions by the Federal Home Loan Bank ("FHLB") of San Francisco and Seattle during the period. Of the $31.4 million at September 30, 2012, $30.1 million represent the Bank's investment in the FHLBs of Seattle and San Francisco. The remaining restricted equity securities represent investments in Pacific Coast Bankers' Bancshares stock. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

In September 2012, the FHLB of Seattle was notified by the Federal Housing Finance Agency ("Finance Agency") that it is now classified as "adequately capitalized" as compared to the prior classification of "undercapitalized." Under Finance Agency regulations, the FHLB of Seattle may repurchase excess capital stock under certain conditions, however they may not redeem stock or pay a dividend without Finance Agency approval.

Management periodically evaluates FHLB stock for other-than-temporary or permanent impairment. Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount of the FHLB and the length of time this situation has persisted, (2) the compliance with the minimum financial metrics required as part of the Consent Arrangement the bank has with the Finance Agency, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

Moody's Investors Services rating of the FHLB of Seattle as Aaa was confirmed in August 2011, but a negative outlook was assigned as Moody's revised the rating outlook to negative for U.S. government debt and all issuers

Moody's considers directly-linked to the U.S. government. Standard and Poors' rating is AA+, but it also issued a negative outlook with the action reflecting the downgrade of the long-term sovereign credit rating of the U.S. in 2011. Based on the above, the Company has determined there is not an other-than-temporary impairment on the FHLB stock investment as of September 30, 2012.

Loans AND LEASES

Non-Covered Loans and Leases

Total non-covered loans and leases outstanding at September 30, 2012 were $6.2 billion, an increase of $360.3 million as compared to year-end 2011. This increase is principally attributable to net loan originations of $391.7 million and covered loans transferred to non-covered loans of $14.4 million, partially offset by charge-offs of $31.9 million, transfers to other real estate owned of $10.2 million, and non-covered loans sold of $13.5 million during the period. The following table presents the concentration distribution of our non-covered loan portfolio at September 30, 2012 and December 31, 2011.

Non-Covered Loan Concentrations

(dollars in thousands)

	September 30, 2012		December 31, 2011	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Term & multifamily	$ 3,707,084	59.3%	$ 3,558,295	60.5%
Construction & development	174,554	2.8%	165,066	2.8%
Residential development	64,158	1.0%	90,073	1.5%
Commercial				
Term	755,255	12.1%	625,766	10.6%
LOC & other	865,851	13.9%	832,999	14.1%
Residential				
Mortgage	391,370	6.3%	315,927	5.4%
Home equity loans & lines	264,379	4.2%	272,192	4.6%
Consumer & other	37,874	0.6%	38,860	0.7%
Deferred loan fees, net	(12,100)	-0.2%	(11,080)	-0.2%
Total	$ 6,248,425	100.0%	$ 5,888,098	100.0%

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Covered Loans and Leases

Total covered loans and leases outstanding at September 30, 2012 were $515.0 million, a decrease of $107.4 million as compared to year-end 2011. This decrease is principally attributable to net loan paydowns and maturities of $85.5 million and transfers of covered loans to non-covered loans of $14.4 million. The following table presents the concentration distribution of our covered loan portfolio at September 30, 2012 and December 31, 2011.

Covered Loan Concentrations

(dollars in thousands)

	September 30, 2012		December 31, 2011	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Term & multifamily	$ 404,497	76.3%	$ 474,054	74.3%
Construction & development	12,826	2.4%	14,820	2.3%
Residential development	10,166	1.9%	17,763	2.8%
Commercial				
Term	26,207	4.9%	34,150	5.4%
LOC & other	17,031	3.2%	23,426	3.7%
Residential				
Mortgage	29,235	5.5%	35,503	5.6%
Home equity loans & lines	24,194	4.6%	29,085	4.6%
Consumer & other	6,421	1.2%	7,970	1.3%
Total	530,577	100%	636,771	100%
Allowance for covered loans	(15,532)		(14,320)	
Total	$ 515,045		$ 622,451	

The covered loans are subject to loss-sharing agreements with the FDIC. Under the terms of the Evergreen Bank acquisition loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, other real estate owned (“OREO”) and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $90.0 million on covered assets for Evergreen and absorb 95% of losses and share in 95% of loss recoveries exceeding $90.0 million, except for the Bank will incur losses up to $30.2 million before the loss-sharing will commence. As of September 30, 2012, losses have exceeded $30.2 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and

10 years, respectively, from the acquisition dates.

Under the terms of the Rainier Pacific Bank loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first $95.0 million of losses on covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding $95.0 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Under the terms of the Nevada Security Bank loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on all covered assets. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Discussion of and tables related to the covered loan segment is provided under the heading Asset Quality and Non-Performing Assets.

Asset Quality and Non-Performing Assets

Non-Covered Loans and Leases

Non-covered, non-performing loans, which include non-covered, non-accrual loans and non-covered accruing loans past due over 90 days, totaled $80.3 million or 1.29% of total non-covered loans as of September 30, 2012, as compared to $91.4 million, or 1.55% of total non-covered loans, at December 31, 2011. Non-covered, non-performing assets, which include non-covered, non-performing loans and non-covered, foreclosed real estate ("other real estate owned"), totaled $99.6 million, or 0.86% of total assets as of September 30, 2012 compared with $125.6 million, or 1.09% of total assets as of December 31, 2011. The decrease in non-performing assets in 2012 is attributable to the improving economic environment, an improvement in real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio.

A loan is considered impaired when, based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when non-covered loans are identified as impaired they are moved to our Special Assets Division. When we identify a loan as impaired, we measure the loan for potential impairment using discount cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every six to nine months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac's or the Bank's Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services Group to ensure the quality of the appraisal and the expertise and independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Company's Allowance for Loan and Lease Losses (“ALLL”) Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

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

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess whether a lower price reflects the market value of the property and would enable us to sell the property. In addition, we update appraisals on other real estate owned property six to nine months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on a) updated appraisals received during the period, or b) management's authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan moving to other real estate owned. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan or market value of the property less expected selling costs. Non-covered other real estate owned at September 30, 2012 totaled $19.3 million and consisted of 44 properties.

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

The Company has written down impaired, non-covered non-accrual loans as of September 30, 2012 to their estimated net realizable value, based on disposition value, and expects resolution with no additional material loss, absent further decline in market prices.

The following table summarizes our non-covered non-performing assets and restructured loans as of September 30, 2012 and December 31, 2011:

Non-Covered Non-Performing Assets

(in thousands)

	September 30, 2012	December 31, 2011
Non-covered loans on non-accrual status	$ 73,748	$ 80,562
Non-covered loans past due 90 days or more and accruing	6,585	10,821
Total non-covered non-performing loans	80,333	91,383
Non-covered other real estate owned	19,264	34,175
Total non-covered non-performing assets	$ 99,597	$ 125,558
Restructured loans [(1)]	$ 70,015	$ 80,563
Allowance for loan losses	$ 84,759	$ 92,968
Reserve for unfunded commitments	2,757	940
Allowance for credit losses	$ 87,516	$ 93,908
Asset quality ratios:		
Non-covered non-performing assets to total assets	0.86%	1.09%

Non-covered non-performing loans to total non-covered loans	1.29%	1.55%
Allowance for non-covered loan losses to total non-covered loans	1.36%	1.58%
Allowance for non-covered credit losses to total non-covered loans	1.40%	1.59%
Allowance for non-covered credit losses to total non-covered non-performing loans	109%	103%

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

The following tables summarize our non-covered non-performing assets by loan type and region as of September 30, 2012 and December 31, 2011:

Non-Covered Non-Performing Assets by Type and Region

(in thousands)

	September 30, 2012						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Loans on non-accrual status:							
Commercial real estate							
Term & multifamily	$ 139	$ 24,762	$ 718	$ 3,437	$ 10,727	$ 4,564	$ 44,347
Construction & development	662	-	91	-	4,376	-	5,129
Residential development	2,585	6,213	697	72	-	-	9,567
Commercial							
Term	122	3,918	239	3,239	921	627	9,066
LOC & other	162	1,156	174	-	2,921	560	4,973
Residential							
Mortgage	-	-	-	-	-	-	-
Home equity loans & lines	-	666	-	-	-	-	666
Consumer & other	-	-	-	-	-	-	-
Total	3,670	36,715	1,919	6,748	18,945	5,751	73,748
Loans past due 90 days or more and accruing:							
Commercial real estate							
Term & multifamily	$ -	$ -	$ 354	$ 158	$ 155	$ -	$ 667
Construction & development	-	-	-	-	-	-	-
Residential development	-	-	-	-	-	-	-
Commercial							
Term	-	-	-	-	-	-	-
LOC & other	-	-	-	-	-	-	-
Residential							

Mortgage	-	4,138	-	-	-	-	4,138
Home equity loans & lines	-	-	131	423	83	549	1,186
Consumer & other	70	399	33	15	33	44	594
Total	70	4,537	518	596	271	593	6,585
Total non-performing loans	3,740	41,252	2,437	7,344	19,216	6,344	80,333
Other real estate owned:							
Commercial real estate							
Term & multifamily	$ -	$ 4,452	$ 444	$ 366	$ 6,560	$ -	$ 11,822
Construction & development	-	1,404	-	-	1,017	-	2,421
Residential development	589	427	-	221	1,898	-	3,135
Commercial							
Term	-	117	-	-	-	-	117
LOC & other	1,132	63	-	-	-	-	1,195
Residential							
Mortgage	-	297	-	-	-	-	297
Home equity loans & lines	-	-	-	-	277	-	277
Consumer & other	-	-	-	-	-	-	-
Total	1,721	6,760	444	587	9,752	-	19,264
Total non-performing assets	$ 5,461	$ 48,012	$ 2,881	$ 7,931	$ 28,968	$ 6,344	$ 99,597

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	December 31, 2011						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Loans on non-accrual status:							
Commercial real estate							
Term & multifamily	$ 1,159	$ 27,800	$ 2,286	$ 4,058	$ 8,789	$ 394	$ 44,486
Construction & development	-	921	568	-	1,859	-	3,348
Residential development	4,172	9,226	-	252	2,186	-	15,836
Commercial							
Term	157	2,538	239	3,724	1,462	-	8,120
LOC & other	1,114	5,605	95	285	1,493	180	8,772
Residential							
Mortgage	-	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	-	-
Consumer & other	-	-	-	-	-	-	-
Total	6,602	46,090	3,188	8,319	15,789	574	80,562
Loans past due 90 days or more and accruing:							
Commercial real estate							
Term & multifamily	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction & development	-	-	-	-	575	-	575
Residential development	-	-	-	-	-	-	-
Commercial							
Term	-	-	-	-	-	1,179	1,179
LOC & other	-	-	-	-	47	1,350	1,397
Residential							
Mortgage	-	4,342	-	-	-	-	4,342
Home equity loans & lines	-	972	294	550	613	220	2,649
Consumer & other	2	475	155	26	21	-	679
Total	2	5,789	449	576	1,256	2,749	10,821
Total non-performing loans	6,604	51,879	3,637	8,895	17,045	3,323	91,383
Other real estate owned:							
Commercial real estate							
Term & multifamily	$ -	$ 4,813	$ 786	$ 1,124	$ 9,193	$ -	$ 15,916
Construction & development	-	2,782	-	-	3,166	-	5,948
Residential development	589	2,431	1,457	630	3,649	-	8,756
Commercial							
Term	-	-	-	-	-	-	-
LOC & other	522	355	-	-	-	-	877
Residential							
Mortgage	-	2,100	-	-	-	-	2,100
Home equity loans & lines	-	-	212	-	366	-	578

Consumer & other	-	-	-	-	-	-	-
Total	1,111	12,481	2,455	1,754	16,374	-	34,175
Total non-performing assets	$ 7,715	$ 64,360	$ 6,092	$ 10,649	$ 33,419	$ 3,323	$ 125,558

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As of September 30, 2012, the non-covered non-performing assets of $99.6 million have been written down by 35%, or $52.9 million, from their original balance of $152.5 million.

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

Non-Covered Restructured Loans

At September 30, 2012 and December 31, 2011, non-covered impaired loans of $70.0 million and $80.6 million were classified as non-covered performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The non-covered performing restructured loans on accrual status represent principally the only impaired loans accruing interest at September 30, 2012. In order for a restructured loan to be considered performing and on accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan must be current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligation to lend additional funds on the restructured loans as of September 30, 2012.

Residential Modification Program

The Bank's modification program is designed to enable the Bank to work with its customers experiencing financial difficulty to maximize repayment.   While the Bank has designed guidelines similar to the government sponsored Home Affordable Refinance Program ("HARP") and Home Affordable Modification Program ("HAMP"), the bank participates in the programs only in the capacity as servicer on behalf of investor loans that have been sold.

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A and B Note Workout Structures

The Bank performs A note/B note workout structures as a subset of the Bank's troubled debt restructuring strategy. The amount of loans restructured using this structure was $15.5 million and $21.4 million as of September 30, 2012 and December 31, 2011, respectively.

Under an A note/B note workout structure, the new A note is underwritten in accordance with customary troubled debt restructuring underwriting standards and is reasonably assured of full repayment while the B note is not. The B note is immediately charged off upon restructuring.

If the loan was on accrual prior to the troubled debt restructuring being documented with the loan legally bifurcated into an A note fully supporting accrual status and a B note or amount fully contractually forgiven and charged off, the A note may remain on accrual status. If the loan was on nonaccrual at the time the troubled debt restructuring was documented with the loan legally bifurcated into an A note fully supporting accrual status and a B note or amount contractually forgiven and fully charged off, the A note may be returned to accrual status, and risk rated accordingly, after a reasonable period of performance under the troubled debt restructuring terms. Six months of payment performance is generally required to return these loans to accrual status.

The A note will continue to be classified as a troubled debt restructuring and only may be removed from impaired status in years after the restructuring if (a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and (b) the loan is not impaired based on the terms specified by the restructuring agreement.

The following tables summarize our performing non-covered restructured loans by loan type and region as of September 30, 2012 and December 31, 2011:

Non-Covered Restructured Loans by Type and Region

(in thousands)

September 30, 2012

	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Commercial real estate							
Term & multifamily	$ 13,556	$ 10,779	$ 3,870	$ 664	$ 6,938	$ -	$ 35,807
Construction & development	-	8,797	-	-	5,404	-	14,201
Residential development	-	9,803	-	-	8,893	-	18,696
Commercial	-						
Term	-	-	-	365	-	-	365
LOC & other	-	-	-	-	820	-	820
Residential	-						
Mortgage	-	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	126	126
Consumer & other	-	-	-	-	-	-	-
Total	$ 13,556	$ 29,379	$ 3,870	$ 1,029	$ 22,055	$ 126	$ 70,015

(in thousands)

December 31, 2011	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Commercial real estate							
Term & multifamily	$ -	$ 10,147	$ 5,243	$ -	$ 7,221	$ -	$ 22,611
Construction & development	-	8,967	-	-	11,029	-	19,996
Residential development	-	15,138	-	-	18,826	-	33,964
Commercial							
Term	-	-	-	672	3,191	-	3,863
LOC & other	-	-	-	-	-	-	-
Residential							
Mortgage	-	-	-	-	-	-	-
Home equity loans & lines	-	-	-	-	-	129	129
Consumer & other	-	-	-	-	-	-	-
Total	$ -	$ 34,252	$ 5,243	$ 672	$ 40,267	$ 129	$ 80,563

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The following table presents a distribution of our performing non-covered restructured loans by year of maturity, according to the restructured terms, as of September 30, 2012:

(in thousands)

Year	Amount
	$
2012	$ 15,978
2013	36,641
2014	-
2015	5,127
2016	9,429
Thereafter	2,840
Total	$ 70,015

The Bank has had a varying degree of success with different types of concessions. The following table presents the percentage of troubled debt restructurings, by type of concession, at September 30, 2012 that have performed and are expected to perform according to the troubled debt restructuring agreement:

	September 30, 2012
Rate	98%
Term	80%
Payment	98%
Combination	73%

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

Covered Non-Performing Assets

Covered non-performing assets totaled $8.1 million, or 0.07% of total assets at September 30, 2012 as compared to $19.5 million, or 0.17% of total assets at December 31, 2011. These covered nonperforming assets are subject to shared-loss agreements with the FDIC. The following tables summarize our covered non-performing assets by loan type as of September 30, 2012 and December 31, 2011:

(in thousands)				
	September 30, 2012			
	Evergreen	Rainier	Nevada Security	Total
Covered other real estate owned:				
Commercial real estate				
Term & multifamily	$ 540	$ 213	$ 1,983	$ 2,736
Construction & development	36	825	3,336	4,197
Residential development	347	125	559	1,031
Commercial				
Term	-	-	-	-
LOC & other	-	-	-	-
Residential				
Mortgage	69	78	-	147
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
Total	$ 992	$ 1,241	$ 5,878	$ 8,111

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(in thousands)

	December 31, 2011			
	Evergreen	Rainier	Nevada Security	Total
Covered other real estate owned:				
Commercial real estate				
Term & multifamily	$ 914	$ 1,827	$ 8,525	$ 11,266
Construction & development	36	1,053	2,621	3,710
Residential development	351	2,359	1,301	4,011
Commercial				
Term	-	-	188	188
LOC & other	-	-	-	-
Residential				
Mortgage	69	247	-	316
Home equity loans & lines	-	-	-	-
Consumer & other	-	-	-	-
Total	$ 1,370	$ 5,486	$ 12,635	$ 19,491

Total Non-Performing Assets

The following tables summarize our total (including covered and non-covered) nonperforming assets at September 30, 2012 and December 31, 2011:

(dollars in thousands)

	September 30, 2012	December 31, 2011
Loans on non-accrual status	$ 73,748	$ 80,562
Loans past due 90 days or more and accruing	6,585	10,821
Total non-performing loans	80,333	91,383
Other real estate owned	27,375	53,666
Total non-performing assets	$ 107,708	$ 145,049
Asset quality ratios:		
Total non-performing assets to total assets	0.93%	1.25%
Total non-performing loans to total loans	1.19%	1.40%

Allowance for NON-COVERED Loan and lease Losses and Reserve for Unfunded Commitments

The allowance for non-covered loan and lease losses ("ALLL") totaled $84.8 million at September 30, 2012, a decrease of $8.2 million from the $93.0 million at December 31, 2011. The decrease in the ALLL from the prior year-end results is principally attributable to net charge-offs exceeding the non-covered provision for loan and lease losses and improved credit quality of our portfolio. The following table shows the activity in the ALLL for the three and nine months ended September 30, 2012 and 2011:

Allowance for Non-Covered Loan and Lease Losses

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 83,618	$ 97,795	$ 92,968	$ 101,921
Loans charged off:				
Commercial real estate	(4,892)	(8,413)	(18,007)	(32,728)
Commercial	(1,782)	(6,032)	(8,741)	(17,387)
Residential	(516)	(1,657)	(4,030)	(4,586)
Consumer & other	(454)	(351)	(1,159)	(1,238)
Total loans charged off	(7,644)	(16,453)	(31,937)	(55,939)
Recoveries:				
Commercial real estate	1,020	2,010	2,327	5,463
Commercial	409	346	3,856	1,437
Residential	171	54	338	175
Consumer & other	107	91	324	297
Total recoveries	1,707	2,501	6,845	7,372
Net charge-offs	(5,937)	(13,952)	(25,092)	(48,567)
Provision charged to operations	7,078	9,089	16,883	39,578
Balance, end of period	$ 84,759	$ 92,932	$ 84,759	$ 92,932
As a percentage of average non-covered loans and leases (annualized):				
Net charge-offs	0.38%	0.96%	0.55%	1.14%
Provision for non-covered loan and lease losses	0.46%	0.63%	0.37%	0.93%
Recoveries as a percentage of charge-offs	22.33%	15.20%	21.43%	13.18%

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The decrease in the non-covered allowance for loan and lease losses as of September 30, 2012 in relation to the same periods of the prior year is primarily a result the decrease in provision for loan and lease losses which is a result of improving credit quality of the loan portfolio and decreasing non-performing loans. Additional discussion on the change in provision for loan and lease losses is provided under the heading Provision for Loan and Lease Losses above.

All impaired loans are individually evaluated for impairment. If the measurement of each impaired loans' value is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. This can be accomplished by charging-off the impaired portion of the loan or establishing a specific component within the allowance for loan and lease losses. If in management's assessment the sources of repayment will not result in a reasonable probability that the carrying value of a loan can be recovered, the amount of a loan's specific impairment is charged-off against the allowance for loan and lease losses. The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

The following table sets forth the allocation of the allowance for non-covered loan and lease losses and percent of loans in each category to total loans (excluding deferred loan fees) as of September 30, 2012 and December 31, 2011:

(dollars in thousands)

	September 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Commercial real estate	$ 55,248	63%	$ 59,574	64%
Commercial	20,754	26%	20,485	25%
Residential	7,688	10%	7,625	10%
Consumer & other	1,022	1%	867	1%
Unallocated	47		4,417	
Allowance for non-covered loan and lease losses	$ 84,759		$ 92,968	

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At September 30, 2012, the recorded investment in non-covered loans classified as impaired totaled $148.9 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $1.1 million. The valuation allowance on impaired loans represents the impairment reserves on performing non-covered restructured loans and nonaccrual loans. At December 31, 2011, the total recorded investment in non-covered impaired loans was $166.3 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $3.8 million. The valuation allowance on impaired loans represents the impairment reserves on performing restructured loans, nonaccrual loans and two loans included in loans past due 30+ days and accruing at December 31, 2011.

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

Summary of Reserve for Unfunded Commitments Activity

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 1,126	$ 988	$ 940	$ 818
Net change to other expense:				
Commercial real estate	18	1	66	29
Commercial	1,607	(36)	1,764	94
Residential	2	10	(21)	21
Consumer & other	4	8	8	9
Total change to other expense	1,631	(17)	1,817	153
Balance, end of period	$ 2,757	$ 971	$ 2,757	$ 971

We believe that the ALLL and RUC at September 30, 2012 are sufficient to absorb losses inherent in the loan portfolio and credit commitments outstanding as of that date based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan growth, and a detailed review of the quality of the loan portfolio, involves uncertainty and judgment. Therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

Allowance for COVERED Loan and lease Losses

The allowance for covered loan and lease losses ("ALLL") totaled $15.5 million at September 30, 2012, an increase of $1.2 million from the $14.3 million at December 31, 2011. The increase in the covered ALLL from the prior year end results from changes in the amount and the timing of expected cash flows on the acquired loans compared to those previously estimated and charge-offs of unpaid principal balance against previously established allowance, as measured on a pool basis. The following table summarizes activity related to the allowance for covered loan and lease losses by covered loan portfolio segment for the three and nine months ended September 30, 2012 and 2011, respectively:

Allowance for Covered Loan and Lease Losses

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 12,977	$ 10,219	$ 14,320	$ 2,721
Loans charged off:				
Commercial real estate	(480)	(381)	(2,570)	(2,945)
Commercial	(450)	(454)	(1,257)	(776)
Residential	(73)	(17)	(510)	(920)
Consumer & other	(45)	(56)	(578)	(679)
Total loans charged off	(1,048)	(908)	(4,915)	(5,320)
Recoveries:				
Commercial real estate	371	421	1,012	1,090
Commercial	215	240	596	318
Residential	68	15	147	95
Consumer & other	22	16	70	76
Total recoveries	676	692	1,825	1,579
Net charge-offs	(372)	(216)	(3,090)	(3,741)
Covered provision charged to operations	2,927	4,420	4,302	15,443
Balance, end of period	$ 15,532	$ 14,423	$ 15,532	$ 14,423
As a percentage of average covered loans and leases (annualized):				
Net charge-offs	0.28%	0.12%	0.72%	0.69%
Provision for covered loan and lease losses	2.17%	2.54%	1.00%	2.85%

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The following table sets forth the allocation of the allowance for covered loan and lease losses and percent of covered loans in each category to total loans as of September 30, 2012 and December 31, 2011:

(in thousands)

	September 30, 2012		December 31, 2011	
	Amount	%	Amount	%
Commercial real estate	$ 9,236	81%	$ 8,939	80%
Commercial	5,302	8%	3,964	9%
Residential	738	10%	991	10%
Consumer & other	256	1%	426	1%
Allowance for covered loan and lease losses	$ 15,532	100%	$ 14,320	100%

Mortgage Servicing Rights

The following table presents the key elements of our mortgage servicing rights asset for the three and nine months ended September 30, 2012 and 2011, respectively:

Summary of Mortgage Servicing Rights

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011

Balance, beginning of period	$ 22,513	$ 16,350	$ 18,184	$ 14,454
Additions for new mortgage servicing rights capitalized	5,642	1,693	11,923	4,100
Changes in fair value:				
Due to changes in model inputs or assumptions(1)	(2,770)	(590)	(3,833)	(564)
Other(2)	(896)	(841)	(1,785)	(1,378)
Balance, end of period	$ 24,489	$ 16,612	$ 24,489	$ 16,612

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.
(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of September 30, 2012 and December 31, 2011 was as follows:

(dollars in thousands)

	September 30, 2012	December 31, 2011
Balance of loans serviced for others	$ 2,814,102	$ 2,009,849
MSR as a percentage of serviced loans	0.87%	0.90%

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As of September 30, 2012, we serviced residential mortgage loans for others with an aggregate outstanding principal balance of $2.8 billion for which servicing assets have been recorded. Mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue.

Goodwill and OTHER INTAngible Assets

At September 30, 2012, we had goodwill and other intangible assets of $673.6 million, as compared to $677.2 million at December 31, 2011. The goodwill recorded in connection with acquisitions represents the excess of the purchase price over the estimated fair value of the net assets acquired. At September 30, 2012 and December 31, 2011, we had goodwill of $656.1 million. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management evaluates intangible assets with indefinite lives on an annual basis as of December 31. Additionally, we perform impairment evaluations on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition.

Under recently issued guidance, the Company has the option to perform a qualitative assessment before completing the goodwill impairment test two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step the Company calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment. No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess. The Company performs the first step on an annual basis and in between if certain events or circumstances indicate goodwill may be impaired. No goodwill impairment losses have been recognized in the periods presented.

At September 30, 2012, we had other intangible assets of $17.5 million, as compared to $21.1 million at December 31, 2011. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. No impairment losses separate from the scheduled amortization have been recognized in the periods presented.

Deposits

Total deposits were $9.1 billion at September 30, 2012, a decrease of $136.8 million, or 1.5%, as compared to year-end 2011. The decrease is primarily due to the run-off of higher priced time and public funds deposits.

The following table presents the deposit balances by major category as of September 30, 2012 and December 31, 2011:

Deposits

(dollars in thousands)

	September 30, 2012		December 31, 2011	
	Amount	Percentage	Amount	Percentage
Non-interest bearing	$ 2,113,842	23%	$ 1,913,121	21%
Interest bearing demand	1,140,988	13%	993,579	11%
Money market	3,378,625	37%	3,661,785	39%
Savings	442,406	5%	386,528	4%
Time, $100,000 or greater	1,441,371	16%	1,629,505	18%
Time, less than $100,000	582,697	6%	652,172	7%
Total	$ 9,099,929	100%	$ 9,236,690	100%

The following table presents the average amount of and average rate paid by major category as of the three and nine months ended September 30, 2012 and 2011:

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(dollars in thousands)

	Three months ended September 30,			
	2012		2011	
	Average Deposits	Average Rate	Average Deposits	Average Rate
Non-interest bearing	$ 2,075,097	-	$ 1,829,245	-
Interest bearing demand	1,126,832	0.17%	878,694	0.34%
Money market	3,434,406	0.21%	3,478,763	0.53%
Savings	435,115	0.07%	377,248	0.09%
Time	2,090,269	1.00%	2,823,652	1.27%
Total	$ 9,161,719		$ 9,387,602	

(dollars in thousands)

	Nine months ended September 30,			
	2012		2011	
	Average Deposits	Average Rate	Average Deposits	Average Rate
Non-interest bearing	$ 1,968,153	-	$ 1,735,767	-
Interest bearing demand	1,101,221	0.20%	895,621	0.36%
Money market	3,470,420	0.23%	3,421,528	0.54%
Savings	417,592	0.07%	369,558	0.10%
Time	2,139,476	1.05%	2,890,161	1.32%
Total	$ 9,096,862		$ 9,312,635	

The Company has an agreement with Promontory Interfinancial Network LLC ("Promontory") that makes it possible to provide FDIC deposit insurance to balances in excess of current deposit insurance limits. Promontory's Certificate of Deposit Account Registry Service ("CDARS") uses a deposit-matching program to exchange Bank deposits in excess of the current deposit insurance limits for excess balances at other participating banks, on a dollar-for-dollar basis, that would be fully insured at the Bank. This product is designed to enhance our ability to attract and retain customers and increase deposits, by providing additional FDIC coverage to customers. CDARS deposits can be reciprocal or one-way. All of the Bank's CDARS deposits are reciprocal. At September 30, 2012 and December 31, 2011, the Company's CDARS balances totaled $135.3 million and $274.6 million, respectively. Of these totals, at September 30, 2012 and December 31, 2011, $127.9 million and $258.3 million, respectively, represented time deposits equal to or greater than $100,000 but were fully insured under current deposit insurance limits.

The Dodd-Frank Act provides for unlimited deposit insurance for non-interest bearing transactions accounts, excluding NOW (interest bearing deposit accounts) and including all IOLTAs (lawyers' trust accounts), beginning December 31, 2010 for a period of two years. The Dodd-Frank Act permanently raises the current standard maximum federal deposit insurance amount from $100,000 to $250,000 per qualified account.

Borrowings

At September 30, 2012, the Bank had outstanding $161.1 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Bank had outstanding term debt of $254.1 million at September 30, 2012. Term debt outstanding as of September 30, 2012 decreased $1.6 million since December 31, 2011 as a result of accretion of purchase accounting adjustments. Advances from the FHLB amounted to $245.0 million of the total term debt and are secured by investment securities and loans secured by real estate. The FHLB advances have fixed interest rates ranging from 4.46% to 4.72% and mature in 2016 and 2017.

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Junior Subordinated Debentures

We had junior subordinated debentures with carrying values of $186.8 million and $185.4 million at September 30, 2012 and December 31, 2011, respectively.

At September 30, 2012, approximately $219.6 million, or 95% of the total issued amount, had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR. Interest expense for junior subordinated debentures increased slightly for the three and nine months ended September 30, 2012, compared to the same period in 2011, primarily resulting from increases in three month LIBOR. Although increases in three month LIBOR will increase the interest expense for junior subordinated debentures, we believe that other attributes of our balance sheet will serve to mitigate the impact to net interest income on a consolidated basis.

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

The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Condensed Consolidated Balance Sheets. In July 2010, the Dodd-Frank Act was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and is expected to effectively close the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future.

Due to inactivity in the junior subordinated debenture market and the inability to obtain observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The Company monitors activity in the trust preferred and related markets, to the extent available, changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Regarding the activity in and condition of the junior subordinated debt market, we noted no observable changes in the current period as it relates to companies comparable to our size and condition, in either the primary or secondary markets. Relating to the interest rate environment, we considered the change in slope and shape of the forward LIBOR swap curve in the current period, the affects of which did not result in a significant change in the fair value of these liabilities.

The Company’s specific credit risk is implicit in the credit risk adjusted spread used to determine the fair value of our junior subordinated debentures. As our Company is not specifically rated by any credit agency, it is difficult to specifically attribute changes in our estimate of the applicable credit risk adjusted spread to specific changes in our own creditworthiness versus changes in the market’s required return from similar companies. As a result, these considerations must be largely based off of qualitative considerations as we do not have a credit rating and we do not regularly issue senior or subordinated debt that would provide us an independent measure of the changes in how the market quantifies our perceived default risk.

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On a quarterly basis we assess entity-specific qualitative considerations that if not mitigated or represents a material change from the prior reporting period may result in a change to the perceived creditworthiness and ultimately the estimated credit risk adjusted spread utilized to value these liabilities. Entity-specific considerations that positively impact our creditworthiness include: our strong capital position resulting from our successful public stock offerings in 2009 and 2010, that offers us flexibility to pursue business opportunities such as mergers and acquisitions, or expand our footprint and product offerings; having significant levels of on and off-balance sheet liquidity; being profitable; and, having an experienced management team. However, these positive considerations are mitigated by significant risks and uncertainties that impact our creditworthiness and ability to maintain capital adequacy in the future. Specific risks and concerns include: given our concentration of loans secured by real estate in our loan portfolio, a continued and sustained deterioration of the real estate market may result in declines in the value of the underlying collateral and increased delinquencies that could result in an increased of charge-offs; despite recent improvement, our credit quality metrics remain negatively elevated since 2007 relative to historical standards; the continuation of current economic downturn that has been particularly severe in our primary markets could adversely affect our business; recent increased regulation facing our industry, such as the ESAA, ARRA and the Dodd-Frank Act, will increase the cost of compliance and restrict our ability to conduct business consistent with historical practices, and could negatively impact profitability; we have a significant amount of goodwill and other intangible assets that dilute our available tangible common equity; and the carrying value of certain material, recently recorded assets on our balance sheet, such as the FDIC loss-sharing indemnification asset, are highly reliant on management estimates, such as the timing or amount of losses that are estimated to be covered, and the assumed continued compliance with the provisions of the loss-share agreement. To the extent assumptions ultimately prove incorrect or should we consciously forego or unknowingly violate the guidelines of the agreement, an impairment of the asset may result which would reduce capital.

Additionally, the Company periodically utilizes an external valuation firm to determine or validate the reasonableness of the assessments of inputs and factors that ultimately determines the estimate fair value of these liabilities. The extent we involve or engage these external third parties correlates to management's assessment of the current subordinate debt market, how the current environment and market compares to the preceding quarter, and perceived changes in the Company's own creditworthiness during the quarter. In periods of potential significant valuation changes and at year-end reporting periods we typically engage third parties to perform a full independent valuation of these liabilities. For periods where management has assessed the market and other factors impacting the underlying valuation assumptions of these liabilities, and has determined significant changes to the valuation of these liabilities in the current period are remote, the scope of the valuation specialist's review is limited to a review the reasonableness of Management's assessment of inputs. In the fourth quarter of 2011, the Company engaged an external valuation firm to prepare an independent valuation of our junior subordinated debentures measured at fair value and the results were consistent with the Company's valuation.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner similar to the effective yield method as if these instruments were accounted for under the amortized cost method. For the three and nine months ended September 30, 2012 and 2011, we recorded a loss of $554,000 and $1.6 million as compared to loss of $554,000 and $1.6 million, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

As noted above, the Dodd-Frank Act limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. As the Company had less than $15 billion in assets at December 31, 2009, under the Dodd-Frank Act, the Company will be able to continue to include its existing trust preferred securities, less the common stock of the Trusts, in Tier 1 capital. However, under a recently issued notice of proposed rulemaking by federal banking regulators to revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework (Basel III), the trust preferred security debt issuances would be phased out of Tier 1 capital into Tier 2 capital over a 10 year period. If the proposed rulemaking becomes effective, it is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. At September 30, 2012, the Company's restricted core capital elements were 17.8% of total core capital, net of goodwill and any associated deferred tax liability.

Additional information regarding junior subordinated debentures measured at fair value is included in Note 16 of the Notes to Condensed Consolidated Financial Statements.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of September 30, 2012, under guidance issued by the Board of Governors of the Federal Reserve System. Additional information regarding the terms of the junior subordinated debentures, including maturity/redemption dates, interest rates and the fair value election, is included in Note 9 of the Notes to Condensed Consolidated Financial Statements.

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Liquidity and Cash Flow

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

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance. Public deposits represent 9.8% of total deposits at September 30, 2012 and 10.9% of total deposits at December 31, 2011. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state’s risk assessment of depository institutions. Changes in the pledging requirements for uninsured public deposits may require pledging additional collateral to secure these deposits, drawing on other sources of funds to finance the purchase of assets that would be available to be pledged to satisfy a pledging requirement, or could lead to the withdrawal of certain public deposits from the Bank. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities under agreements to repurchase, borrow on a secured basis from the FHLB or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling $2.0 billion at September 30, 2012 subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had available lines of credit with the Federal Reserve totaling $437.1 million subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $160.0 million at September 30, 2012. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

The Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Company's revenues are obtained from dividends declared and paid by the Bank. There were $32.5 million of dividends paid by the Bank to the Company in the nine months ended September 30, 2012. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the $230.1 million (issued amount) of outstanding junior subordinated debentures. As of September 30, 2012, the Company did not have any borrowing arrangements of its own.

As disclosed in the Consolidated Statements of Cash Flows, net cash provided by operating activities was $45.3 million during the nine months ended September 30, 2012. The difference between cash provided by operating activities and net income largely consisted of originations of loans held for sale of $1.4 billion offset by proceeds from the sale of loans held for sale of $1.3 billion.

Net cash of $16.4 million used by investing activities consisted principally of proceeds from investment securities available for sale of $1.0 billion, net covered loan paydowns of $85.5 million, net proceeds from the FDIC indemnification asset of $26.6 million, proceeds from the sale of non-covered other real estate owned of $18.8 million, and proceeds from the sale of covered other real estate owned of $11.5 million, partially offset by $784.8 million of purchases of investment securities available for sale, net non-covered loan originations of $391.7 million and purchases of premises and equipment of $17.2 million.

Net cash of $131.0 million used by financing activities primarily consisted of $136.5 million decrease in net deposits, $25.9 million of dividends paid on common stock, and $5.4 million of common stock repurchased, partially offset by $36.4 million increase in net securities sold under agreements to repurchase.

Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2012, it is possible that our deposit growth for 2012 not be maintained at previous levels due to pricing pressure or, in order to generate deposit growth, our pricing may need to be adjusted in a manner that results in increased interest expense on deposits.

Off-balance-Sheet Arrangements

Information regarding Off-Balance-Sheet Arrangements is included in Note 10 of the Notes to Condensed Consolidated Financial Statements.

Concentrations of Credit Risk

Information regarding Concentrations of Credit Risk is included in Note 10 of the Notes to Condensed Consolidated Financial Statements.

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Capital Resources

Shareholders' equity at September 30, 2012 was $1.7 billion, an increase of $41.7 million from December 31, 2011. The increase in shareholders' equity during the nine months ended September 30, 2012 was principally due to net income of $73.9 million, offset by common stock dividends declared of $28.2 million and stock repurchased of $5.4 million.

The following table shows Umpqua Holdings' consolidated and Umpqua Bank's capital adequacy ratios, as calculated under regulatory guidelines, compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a "well-capitalized" institution at September 30, 2012 and December 31, 2011:

(dollars in thousands)

	Actual Amount	Ratio	For Capital Adequacy purposes Amount	Ratio	To be Well Capitalized Amount	Ratio
As of September 30, 2012						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 1,335,242	17.14%	$ 623,217	8.00%	$ 779,021	10.00%
Umpqua Bank	$ 1,217,347	15.65%	$ 622,286	8.00%	$ 777,858	10.00%
Tier I Capital						
(to Risk Weighted Assets)						
Consolidated	$ 1,237,821	15.89%	$ 311,597	4.00%	$ 467,396	6.00%
Umpqua Bank	$ 1,120,058	14.40%	$ 311,127	4.00%	$ 466,691	6.00%
Tier I Capital						
(to Average Assets)						
Consolidated	$ 1,237,821	11.36%	$ 435,852	4.00%	$ 544,816	5.00%
Umpqua Bank	$ 1,120,058	10.29%	$ 435,397	4.00%	$ 544,246	5.00%
As of December 31, 2011						
Total Capital						
(to Risk Weighted Assets)						

Consolidated	$ 1,287,560	17.16%	$ 600,261	8.00%	$ 750,326	10.00%
Umpqua Bank	$ 1,163,611	15.53%	$ 599,413	8.00%	$ 749,267	10.00%
Tier I Capital						
(to Risk Weighted Assets)						
Consolidated	$ 1,193,740	15.91%	$ 300,123	4.00%	$ 450,185	6.00%
Umpqua Bank	$ 1,069,914	14.28%	$ 299,696	4.00%	$ 449,544	6.00%
Tier I Capital						
(to Average Assets)						
Consolidated	$ 1,193,740	10.91%	$ 437,668	4.00%	$ 547,085	5.00%
Umpqua Bank	$ 1,069,914	9.78%	$ 437,593	4.00%	$ 546,991	5.00%

The Company’s share repurchase plan, which was first approved by the Board and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. The repurchase program will run through June 2013. As of September 30, 2012, a total of 12.2 million shares remained available for repurchase. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan. In addition, our stock plans provide that option and award holders may pay for the exercise price and tax withholdings in part or whole by tendering previously held shares.

The Company’s dividend policy considers, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth to determine the amount of dividends declared, if any, on a quarterly basis. There is no assurance that future cash dividends on common shares will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the three and nine months ended September 30, 2012 and 2011:

Cash Dividends and Payout Ratios per Common Share

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Dividend declared per common share	$ 0.09	$ 0.07	$ 0.25	$ 0.17
Dividend payout ratio	41%	37%	38%	37%

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our assessment of market risk as of September 30, 2012 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures

Our management, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, has concluded that our disclosure controls and procedures are effective in timely alerting them to information relating to us that is required to be included in our periodic SEC filings. The disclosure controls and procedures were last evaluated by management as of September 30, 2012.

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

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

In our Form 10-K for the period ending December 31, 2011, we initially reported on a class action lawsuit filed in the U.S. District Court for the Northern District of California against the Bank by Amber Hawthorne relating to overdraft fees and check posting order. There have been no material developments in the case since it was filed.

See Note 10 of the Notes to the Condensed Consolidated Financial Statements for a discussion of the Company's involvement in litigation pertaining to Visa Inc.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended December 31, 2011. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Proposed Rules Will Require Increased Capital, Disqualify TRUPS as Tier 1 Capital and Accelerate the Accretion of a Fair Value Discount.

In June 2012, federal banking regulators jointly proposed rules that would update the agencies' general risk based and leverage capital requirements to incorporate "Basel III" capital requirements and implement section 171 of the Dodd Frank Act. The proposed rules would be phased in over the next 10 years, beginning January 1, 2013. Among other things, the proposed rules would require that we maintain a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8% and a leverage ratio of 4%. In addition, we would have to maintain an additional capital conservation buffer of 2.5% of total risk weighted assets or be subject to limitations on dividends and other capital distributions, as well as limiting discretionary bonus payments to executive officers. Under the proposed rules, trust preferred securities/junior subordinated debentures (TRUPS) would be phased out of Tier 1 capital at a rate of 10% per year over a 10 year period. TRUPS now constitute approximately 18% of our Tier 1 capital. In addition, we would be required to accelerate the accretion of an approximate $50 million fair value discount in our TRUPS portfolio over a more accelerated time period than anticipated prior to the proposed rules being issued. These proposals may require us to raise more common capital or other capital that qualifies as Tier 1 capital. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. However, based on the current components and levels of our capital and assets, we believe that we would be in compliance with the requirements in the proposed rules if they were currently in effect. There is no assurance that the Basel III-related proposals will be adopted in their current form, what changes may be made prior to adoption, or when the final rules will be effective.

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

(a) Not applicable

(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 September 30, 2012:

Period	Total number of Common Shares Purchased (1)	Average Price Paid per Common 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
7/1/12 - 7/31/12	32	$ 13.67	-	12,252,121
8/1/12 - 8/31/12	2,873	$ 11.90	-	12,252,121
9/1/12 - 9/30/12	980	$ 13.06	7,292	12,244,829
Total for quarter	3,885	$ 12.20	7,292	

(1) Common shares repurchased by the Company during the quarter consist of cancellation of 3,099 restricted stock awards and no restricted stock units to pay withholding taxes. During the three months ended September 30, 2012, 786 common shares were repurchased in connection with option exercises and 7,292 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 first approved by its Board of Directors and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. The repurchase program will run through June 2013. As of September 30, 2012, a total of 12.2 million shares remained available for repurchase. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan.

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

(a) Not applicable

(b) Not applicable

Item 6. Exhibits

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

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SIGNATURES

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

UMPQUA HOLDINGS CORPORATION

(Registrant)

Dated	November 1, 2012	/s/ Raymond P. Davis President and Chief Executive Officer Raymond P. Davis
Dated	November 1, 2012	/s/ Ronald L. Farnsworth Ronald L. Farnsworth Executive Vice President/ Chief Financial Officer and Principal Financial Officer
Dated	November 1, 2012	/s/ Neal T. McLaughlin Neal T. McLaughlin Executive Vice President/Treasurer and Principal Accounting Officer

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EXHIBIT INDEX

Exhibit

3.1 (a) Restated Articles of Incorporation with designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and designation of Series B Common Stock Equivalent preferred stock

3.2 (b) Bylaws, as amended

4.1 (c) Specimen Common Stock Certificate

31.1 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

31.3 Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document *

101.SCH XBRL Taxonomy Extension Schema Document *

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *

101.DEF XBRL Taxonomy Extension Definition Linkbase Document *

101.LAB XBRL Taxonomy Extension Label Linkbase Document *

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or

prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities and

Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.

**Indicates compensatory plan or arrangement

(a) Incorporated by reference to Exhibit 3.1 to Form 10-Q filed May 7, 2010
(b) Incorporated by reference to Exhibit 3.2 to Form 8-K filed April 22, 2008
(c) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 (No. 333-77259) filed with the SEC on April 28, 1999