UMPQUA HOLDINGS CORP
Form 10-K
February 26, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2007

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

For the transition period from to .

Commission File Number: 000-25597

UMPQUA HOLDINGS CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

(Address of principal executive offices) (zip code)

(503) 727-4100

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2007, based on the closing price on that date of $23.51 per share, and 61,315,960 shares outstanding was $1,200,540,924. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded because those persons may be deemed affiliates.

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

The number of shares of the Registrant s common stock (no par value) outstanding as of January 31, 2008 was 60,011,464.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2008 Annual Meeting of Shareholders of Umpqua Holdings Corporation are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

Umpqua Holdings Corporation

FORM 10-K CROSS REFERENCE INDEX

PART I

ITEM 1. BUSINESS.

This Annual Report on Form 10-K contains forward-looking statements, which statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. All statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as anticipates, expects, believes, estimates and intends and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds, adequacy of our allowance for loan and lease losses and provision for loan and lease losses, and subsequent charge-offs. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of Umpqua. Risks and uncertainties include the following:

- *The ability to attract new deposits and loans and leases*
- *Competitive market pricing factors*
- *Deterioration in economic conditions that could result in increased loan and lease losses*
- *Market interest rate volatility*
- *Changes in legal or regulatory requirements*
- *The ability to recruit and retain key management and staff*
- *Risks associated with merger integration*
- *Significant decline in the market value of the Company that could result in an impairment of goodwill*

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

Introduction

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

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

General Background

Prior to 2004, the Company s footprint included the Portland metropolitan and Willamette Valley areas of Oregon along the I-5 corridor, southern Oregon, and the Oregon coast. During the third quarter of 2004, we completed the acquisition of Humboldt Bancorp, which at the time of acquisition had total assets of approximately $1.5 billion and 27 branches located throughout Northern California. On June 2, 2006, we completed the acquisition of Western Sierra Bancorp and its principal operating subsidiaries, Western Sierra Bank, Central California Bank, Lake Community Bank and Auburn Community Bank. At the time of the acquisition, Western Sierra Bancorp had total assets of approximately $1.5 billion and 31 branches located throughout Northern California. On April 26, 2007, we completed the acquisition of North Bay Bancorp and its principal operating subsidiary, The Vintage Bank, along with its Solano Bank division. At the time of the acquisition, North Bay Bancorp had total assets of approximately $727.6 million and 10 Northern California branches located in the Napa area and in the communities of St. Helena, American Canyon, Vacaville, Benecia, Vallejo and Fairfield.

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

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

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

Business Strategy

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

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

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

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

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

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

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

Marketing and Sales

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

Media Advertising. Over the past five years, we have introduced several comprehensive media advertising campaigns. These campaigns augment our goal of strengthening the Umpqua Bank brand image and heightening public awareness of our innovative product delivery system. Campaign slogans such as Why Not?, The Banking Revolution, Expect the Unexpected, Different for a Reason , Be a Localist , and Lemonaire designed to showcase our innovative style of banking, our commitment to providing quality customer service, and our commitment to the communities we serve. Our marketing campaigns utilize various forms of media, including television, radio, print, billboards and direct mail flyers and letters.

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

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

Products and Services

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

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

Retail Brokerage Services. Strand provides a full range of brokerage services including equity and fixed income products, mutual funds, annuities, options, retirement planning and money management services. Additionally, Strand offers life insurance, disability insurance and medical supplement policies. At December 31, 2007, Strand had 44 Series 7-licensed representatives serving clients at three stand-alone retail brokerage offices and Investment Opportunity Centers located in many Bank stores.

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

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

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

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

Market Area and Competition

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

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

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

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

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

The following table presents the Bank s market share percentage for total deposits in each county where we have operations. The table also indicates the ranking by deposit size in each market. All information in the table was obtained from SNL Financial of Charlottesville, Virginia, which compiles deposit data published by the FDIC as of June 30, 2007 and updates the information for any bank mergers completed subsequent to the reporting date.

Oregon

County	Market Share	Market Rank	Number of Stores
Benton	7.7%	6	1
Clackamas	3.7%	7	5
Coos	34.6%	1	5
Curry	15.9%	3	1
Deschutes	4.5%	9	5
Douglas	54.1%	1	9
Jackson	12.4%	3	9
Josephine	15.4%	1	5
Lane	18.5%	1	9
Lincoln	11.6%	3	2
Linn	12.5%	4	3
Marion	5.4%	7	3
Multnomah	2.3%	7	10
Washington	3.7%	9	3

California

County	Market Share	Market Rank	Number of Stores
Amador	3.4%	7	1
Butte	2.9%	9	2
Calaveras	21.2%	2	4
Colusa	30.4%	1	2
Contra Costa	0.2%	24	1
El Dorado	10.4%	5	5
Glenn	24.8%	3	2
Humboldt	24.3%	1	7
Lake	12.0%	4	2
Mendocino	2.7%	8	1
Napa	11.9%	4	7
Placer	8.4%	4	9
Sacramento	0.6%	20	6
San Joaquin	0.4%	20	1
Shasta	2.4%	8	1
Solano	4.2%	8	4
Stanislaus	0.6%	17	2
Sutter	14.2%	4	2
Tehama	16.3%	4	2
Trinity	26.6%	2	1
Tuolumne	11.4%	3	5
Yolo	1.7%	12	1
Yuba	23.5%	3	2

Washington

County	Market Share	Market Rank	Number of Stores
Clark	3.2%	9	2
King	0.1%	46	1

Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2007, real estate construction/development, real estate mortgage, commercial real estate, commercial/industrial, and consumer/other loans represented approximately 20%, 10%, 50%, 19% and 1%, respectively, of the total loan and lease portfolio.

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

Allowance for Loan and Lease Losses (ALLL) Methodology

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality of the portfolio and the adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating from 1 to 10 that is assessed periodically during the term of the loan through the credit review process. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management ALLL Committee, which is responsible for, among other things, regularly reviewing of the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews loans and leases that have been placed on non-accrual status and approves placing loans and leases on impaired status. The ALLL Committee also approves removing loans and leases that are no longer impaired from impairment and non-accrual status. The Bank s Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans 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 recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses.

The combination of the risk rating based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses. The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

Management believes that the ALLL was adequate as of December 31, 2007. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

Employees

As of December 31, 2007, we had a total of 1,744 full-time equivalent employees. None of the employees are subject to a collective bargaining agreement and management believes its relations with employees to be good. Umpqua Bank was named #13 on *Fortune* magazine s 2008 list of 100 Best Companies to Work For and #34 on the 2007 list. Information regarding employment agreements with our executive officers is contained in Item 11 below, which item is incorporated by reference to our proxy statement for the 2008 annual meeting of shareholders.

Government Policies

The operations of our subsidiaries are affected by state and federal legislative changes and by policies of various regulatory authorities. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, and capital adequacy and liquidity constraints imposed by federal and state regulatory agencies.

Supervision and Regulation

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

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

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

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

The Community Reinvestment Act (CRA) requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. A less than Satisfactory rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination in November 2004, the Bank s CRA rating was Satisfactory.

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

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

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

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

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

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

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

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

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

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

FDICIA requires federal banking regulators to take prompt corrective action with respect to a capital-deficient institution, including requiring a capital restoration plan and restricting certain growth activities of the institution. Umpqua could be required to guarantee any such capital restoration plan required of the Bank if the Bank became undercapitalized. Pursuant to FDICIA, regulations were adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Under the regulations, the Bank is considered well capitalized as of December 31, 2007.

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

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

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

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

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

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

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

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

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

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

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

prohibits banks from providing correspondent accounts directly to foreign shell banks;

imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals;

requires financial institutions to establish an anti-money-laundering (AML) compliance program; and

generally eliminates civil liability for persons who file suspicious activity reports.

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

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

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

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

prohibition on personal loans by Umpqua to its directors and executive officers except loans made by the Bank in accordance with federal banking regulations;

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- independence requirements for Board audit committee members and our auditors;
- certification of Exchange Act reports by the chief executive officer, chief financial officer and principal accounting officer;
- disclosure of off-balance sheet transactions;
- expedited reporting of stock transactions by insiders; and
- increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act also requires:

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

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

ITEM 1A. RISK FACTORS.

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

Merger with North Bay Bancorp may fail to realize all of the anticipated benefits.

On April 26, 2007, Umpqua concluded its acquisition of North Bay Bancorp and its principal operating subsidiary, The Vintage Bank. We expect to generate cost savings and expense reductions through the consolidation of facilities, increased purchasing efficiencies, and elimination of duplicative technology, operations, outside services and redundant staff. The combined company may fail to realize some or all of the anticipated cost savings and other benefits of the transaction, and it may take longer than anticipated to realize such benefits. Any failure to realize the potential benefits could have a material adverse effect on the value of Umpqua common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

We and our subsidiaries are subject to extensive regulation under federal and state laws. These laws and regulations are primarily intended to protect customers, depositors and the deposit insurance fund, rather than shareholders. The Bank is an Oregon state-chartered commercial bank whose primary regulator is the Oregon Division of Finance and Corporate Securities. The Bank is also subject to the supervision by and the regulations of the Washington Department of Financial Institutions, the California Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits. Strand is subject to extensive regulation by the Securities and Exchange Commission and the Financial Industry Regulatory Authority. Umpqua is subject to regulation and supervision by the Board of Governors of the Federal Reserve System, the SEC and NASDAQ. Federal and state regulations may place banks at a competitive disadvantage compared to less regulated competitors such as finance companies, credit unions, mortgage banking companies and leasing companies. Further, future changes in federal and state banking and brokerage regulations could adversely affect our operating results and ability to continue to compete effectively.

The financial services industry is highly competitive.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive offices of Umpqua are located at One SW Columbia Street in Portland, Oregon in office space that is leased. The main office of Strand is located at 200 SW Market Street in Portland, Oregon in office space that is leased. The Bank owns its main office located in Roseburg, Oregon. At December 31, 2007, the Bank conducted business at 147 locations, including 4 limited service facilities, in Northern California, Oregon and Washington along the I-5 corridor; in Bend, Oregon; along the

Northern California and Oregon Coasts; and in Bellevue, Washington, of which 53 are owned and 94 are leased under various agreements. As of December 31, 2007, the Bank also operated 17 facilities for the purpose of administrative functions, such as data processing, of which three are owned and 14 are leased. All facilities are in a good state of repair and appropriately designed for use as banking or administrative office facilities. As of December 31, 2007, Strand leased three stand-alone offices from unrelated third parties and also leased space in 14 Bank stores under lease agreements that are based on market rates.

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

ITEM 3. LEGAL PROCEEDINGS.

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

See Part II, Item 7, *Non-Interest Expense* for a discussion of the Company s potential liability arising from litigation involving Visa, Inc.

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

No matters were submitted to the shareholders of the Company, through the solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2007.

PART II

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

(a) Our Common Stock is traded on the NASDAQ Global Select Market under the symbol UMPQ. As of December 31, 2007, there were 100,000,000 common shares authorized for issuance. The following table presents the high and low sales prices of our common stock for each period, based on inter-dealer prices that do not include retail mark-ups, mark-downs or commissions, and cash dividends declared for each period:

Quarter Ended	High	Low	Cash Dividend Per Share
December 31, 2007	$ 20.95	$ 14.15	$ 0.19
September 30, 2007	$ 24.80	$ 18.52	$ 0.19
June 30, 2007	$ 27.00	$ 23.27	$ 0.18
March 31, 2007	$ 30.00	$ 25.39	$ 0.18
December 31, 2006	$ 30.66	$ 27.21	$ 0.18
September 30, 2006	$ 29.27	$ 23.98	$ 0.18
June 30, 2006	$ 28.67	$ 24.50	$ 0.12
March 31, 2006	$ 29.67	$ 26.25	$ 0.12

As of January 31, 2008, our common stock was held of record by approximately 5,094 shareholders, a number that does not include beneficial owners who hold shares in street name , or shareholders from previously acquired companies that have not exchanged their stock. At December 31, 2007, a total of 1.6 million stock options and 247,000 restricted stock and restricted stock units were outstanding. Additional information about stock options, restricted stock and restricted stock units is included in Note 18 of the *Notes to Consolidated Financial Statements* in Item 8 below and in Item 12 below.

The payment of future cash dividends is at the discretion of our Board and subject to a number of factors, including results of operations, general business conditions, growth, financial condition and other factors deemed relevant by the Board of Directors. Further, our ability to pay future cash dividends is subject to certain regulatory requirements and restrictions discussed in the *Supervision and Regulation* section in Item 1 above. During the fourth quarter of 2007, Umpqua s board of directors approved a quarterly cash dividend of $0.19, unchanged from the third quarter of 2007 and an increase from $0.18 per share in the first and second quarters of 2007. This increase was made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the board of directors in accordance with the dividend policy.

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

Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that provide for the award of securities or the grant of options to purchase securities to employees and directors of Umpqua, its subsidiaries and its predecessors by merger that were in effect at December 31, 2007.

(shares in thousands)			
	Equity Compensation Plan Information		
	(A)	(B)	(C)
Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights(4)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A)
Equity compensation plans approved by security holders			
2003 Stock Incentive Plan(1)	659	$ 23.04	1,024
2007 Long Term Incentive Plan(2)			1,000
Other(3)	961	$ 11.36	
Total	1,620	$ 15.94	2,024
Equity compensation plans not approved by security holders			
Total	1,620	$ 15.94	2,024

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

(2) At Umpqua s 2007 Annual Meeting, shareholders approved a 2007 Long Term Incentive Plan. The plan authorized the issuance of one million shares of stock through awards of performance-based restricted stock unit grants to executive officers. Target grants of 111 thousand and maximum grants of 194 thousand were approved to be issued in 2007 under this plan. No performance-based targets were met during 2007. The number of securities available for future issuance would be 806 thousand if the maximum grants were issued.

(3) Includes other Umpqua stock plans and stock plans assumed through previous mergers. Includes 62 thousand shares issued under North Bay Bancorp s stock option plans, having a weighted average exercise price of $16.46. Includes 104 thousand shares issued under Western Sierra Bancorp s stock option plans, having a weighted average exercise price of $15.72. Includes 446 thousand shares issued under all other previously acquired companies stock option plans, having a weighted average exercise price of $7.70 per share.

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

(b) Not applicable.

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2007:

Period	Total number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(2)	Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan
10/1/07 - 10/31/07	12,968	$ 16.59		1,542,945
11/1/07 - 11/30/07		$		1,542,945
12/1/07 - 12/31/07	84	$ 16.14		1,542,945
Total for quarter	13,052	$ 16.59		

(1) Shares repurchased by the Company during the quarter consist of cancellation of 435 restricted shares to pay withholding taxes and 12,617 shares tendered in connection with option exercises. There were no shares repurchased pursuant to the Company s publicly announced corporate stock repurchase plan described in (2) below.

(2) The Company s share repurchase plan, which was approved by the Board and announced in August 2003, originally authorized the repurchase of up to 1.0 million shares. Prior to 2007, the authorization was amended to increase the repurchase limit to 2.5 million shares. On April 19, 2007, the Company announced an expansion of the Board approved common stock repurchase plan, increasing the repurchase limit to 6.0 million shares and extending the plan s expiration date from June 30, 2007 to June 30, 2009. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings and our capital plan.

The Company repurchased 4.0 million shares under the repurchase plan in 2007 as compared to none in 2006. The 2003 Stock Incentive Plan and other stock plans we administer provide for the payment of the option exercise price or withholding taxes by tendering previously owned or recently vested shares. During the years ended December 31, 2007 and 2006, 42,762 and 4,277 shares, respectively, were tendered in connection with option exercises. Restricted shares cancelled to pay withholding taxes totaled 3,830 and 1,865 shares, respectively, during the years ended December 31, 2007 and 2006.

STOCK PERFORMANCE GRAPH

The following chart, which is furnished not filed, compares the yearly percentage changes in the cumulative shareholder return on our common stock during the five fiscal years ended December 31, 2007, with (i) the Total Return Index for Nasdaq Bank Stocks (ii) the Total Return Index for The Nasdaq Stock Market (U.S. Companies) and (iii) the Standard and Poor s 500. This comparison assumes $100.00 was invested on December 31, 2002, in our common stock and the comparison indices, and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. Price information from December 31, 2002 to December 31, 2007, was obtained by using the Nasdaq closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2002	**12/31/2003**	**12/31/2004**	**12/31/2005**	**12/31/2006**	**12/31/2007**
Umpqua Holdings Corporation	$ 100.00	$ 114.87	$ 140.69	$ 161.23	$ 169.88	$ 91.76
Nasdaq Bank Stocks	$ 100.00	$ 130.51	$ 144.96	$ 141.92	$ 159.42	$ 125.80
Nasdaq U.S.	$ 100.00	$ 149.75	$ 164.64	$ 168.60	$ 187.83	$ 205.22
S&P 500	$ 100.00	$ 128.68	$ 142.69	$ 149.70	$ 173.34	$ 182.87

ITEM 6. SELECTED FINANCIAL DATA.

Umpqua Holdings Corporation

Annual Financial Trends

(in thousands, except per share data)

	2007	2006	2005	2004	2003
Interest income	$488,392	$ 405,941	$ 282,276	$ 198,058	$ 142,132
Interest expense	202,438	143,817	72,994	40,371	28,860
Net interest income	285,954	262,124	209,282	157,687	113,272
Provision for loan and lease losses	41,730	2,552	2,468	7,321	4,550
Non-interest income	64,825	53,597	47,782	41,373	38,001
Non-interest expense	210,800	177,176	146,794	119,582	93,187
Merger-related expense	3,318	4,773	262	5,597	2,082
Income before income taxes	94,931	131,220	107,540	66,560	51,454
Provision for income taxes and discontinued operations	31,663	46,773	37,805	23,270	17,970
Income from continuing operations	63,268	84,447	69,735	43,290	33,484
Income from discontinued operations, net of tax				3,876	635
Net income	$ 63,268	$ 84,447	$ 69,735	$ 47,166	$ 34,119
YEAR END					
Assets	$ 8,340,053	$ 7,344,236	$ 5,360,639	$ 4,873,035	$ 2,963,815
Earning assets	7,146,841	6,287,202	4,636,334	4,215,927	2,596,775
Loans and leases	6,055,635	5,361,862	3,921,631	3,467,904	2,003,587
Deposits	6,589,326	5,840,294	4,286,266	3,799,107	2,378,192
Term debt	73,927	9,513	3,184	88,451	55,000
Junior subordinated debentures, at fair value	131,686				
Junior subordinated debentures, at amortized cost	104,680	203,688	165,725	166,256	97,941
Shareholders equity	1,239,938	1,156,211	738,261	687,613	318,969
Shares outstanding	59,980	58,080	44,556	44,211	28,412
AVERAGE					
Assets	$ 7,897,568	$ 6,451,660	$ 5,053,417	$ 3,919,985	$ 2,710,388
Earning assets	6,797,834	5,569,619	4,353,696	3,392,475	2,359,142
Loans and leases	5,822,907	4,803,509	3,613,257	2,679,576	1,868,165
Deposits	6,250,521	5,003,949	4,002,153	3,090,497	2,212,082
Term debt	57,479	58,684	31,161	101,321	41,699
Junior subordinated debentures	221,833	187,994	165,981	130,644	76,444
Shareholders equity	1,222,628	970,394	711,765	490,724	303,569
Basic shares outstanding	59,828	52,311	44,438	35,804	28,294
Diluted shares outstanding	60,428	53,050	45,011	36,345	28,666
PER SHARE DATA					
Basic earnings	$ 1.06	$ 1.61	$ 1.57	$ 1.32	$ 1.21
Diluted earnings	1.05	1.59	1.55	1.30	1.19
Basic earnings continuing operations	1.06	1.61	1.57	1.21	1.18
Diluted earnings continuing operations	1.05	1.59	1.55	1.19	1.17
Book value	20.67	19.91	16.57	15.55	11.23
Tangible book value(1)	7.92	8.21	7.40	6.31	5.61
Cash dividends declared	0.74	0.60	0.32	0.22	0.16

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(Dollars in thousands)

	2007	2006	2005	2004	2003
PERFORMANCE RATIOS					
Return on average assets	0.80%	1.31%	1.38%	1.20%	1.26%
Return on average shareholders equity	5.17%	8.70%	9.80%	9.61%	11.24%
Return on average tangible shareholders equity(2)	13.08%	20.84%	22.91%	22.27%	23.87%
Efficiency ratio(3)	60.62%	57.33%	56.93%	60.58%	62.05%
Efficiency ratio Bank(3),(4)	56.55%	51.97%	52.47%	53.51%	55.49%
Average equity to average assets	15.48%	15.04%	14.08%	12.52%	11.20%
Leverage ratio(5)	9.24%	10.28%	10.09%	9.55%	8.73%
Net interest margin (fully tax equivalent)(6)	4.24%	4.74%	4.84%	4.68%	4.85%
Non-interest revenue to total net revenue	18.48%	16.98%	18.59%	20.78%	25.12%
Dividend payout ratio	69.81%	37.27%	20.38%	16.67%	13.22%
ASSET QUALITY					
Non-performing assets	$ 98,042	$ 9,058	$ 7,563	$ 23,552	$ 13,954
Allowance for loan and lease losses	84,904	60,090	43,885	44,229	25,352
Net charge-offs	21,994	574	2,812	4,485	3,929
Non-performing assets to total assets	1.18%	0.12%	0.14%	0.48%	0.47%
Allowance for loan and lease losses to total loans and leases	1.40%	1.12%	1.12%	1.28%	1.27%
Net charge-offs to average loans and leases	0.38%	0.01%	0.08%	0.17%	0.21%

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

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

FORWARD LOOKING STATEMENTS AND RISK FACTORS

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

EXECUTIVE OVERVIEW

In 2007, Umpqua s results reflect the impact of the significant slowdown in the housing industry. Primarily affecting our Northern California residential development portfolio, the impact of the slowdown resulted in:

- Non-performing assets increased to $98.0 million, or 1.18% of total assets as of December 31, 2007, as compared to $9.1 million or 0.12% of total assets, as of December 31, 2006.

- Net charge-offs increased to $22.0 million in 2007, or 0.38% of average loans and leases, as compared to $574,000 or 0.01% of average loans and leases in 2006.

- The increase in non-performing assets and net charge-offs in 2007 contributed to a $41.7 million provision for loan and lease losses in 2007, as compared to $2.6 million in 2006.

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

- Completed the acquisition and integration of North Bay Bancorp and its principal operating subsidiary, The Vintage Bank, along with its Solano Bank division in an all stock exchange valued at $142.1 million with 5.2 million shares of common stock issued in connection with the acquisition.

- Increased gross loans and leases to $6.1 billion as of December 31, 2007, compared to $5.4 billion as of December 31, 2006, respectively, a growth of $693.8 million or 13%. The North Bay acquisition accounted for $443.0 million of the growth. Excluding the acquisition, the organic loan growth rate was 5% for 2007.

- Increased deposits to $6.6 billion as of December 31, 2007, compared to $5.8 billion as of December 31, 2006, a growth of $749.0 million or 13%. The North Bay acquisition accounted for $462.6 million of the growth. The organic deposit growth rate (excluding growth through acquisition) was 5% for 2007.

- Increased total consolidated assets to $8.3 billion as of December 31, 2007, compared to $7.3 billion as of December 31, 2006, an increase of $995.8 million or 14%. The North Bay acquisition accounted for $727.6 million of the growth. The organic asset growth rate (excluding growth through acquisition) was 4% for 2007.

- Issued $61.9 million of new trust preferred securities, with a weighted average adjustable interest rate of 3 month LIBOR plus 182 basis points, and redeemed existing trust preferred securities representing obligations of $25.8 million.

- Repurchased 4.0 million shares of stock at a weighted average price of $23.73 per share.

- Declared cash dividends of $0.19 per share in the third and fourth quarters of 2007 which was an increase of $0.01 per share compared to the first and second quarters of 2007.

- Opened two new stores in Portland and one in Bend, Oregon.

Also during the year:

- Net interest margin decreased to 4.24% in 2007 from 4.74% in 2006. The decrease in net interest margin resulted primarily from volatility in short-term market interest rates and the competitive climate, characterized by increasing deposit costs combined with declining earning asset yields. The decline in earning asset yields was partially due to the reversal of interest income during the year related to new non-accrual loans.

- We recorded an accrual for our estimated pro-rata share of VISA litigation related to Visa s settlement with American Express ($3.9 million pre-tax) and its ongoing litigation with Discover ($1.2 million pre-tax).

- Net income per diluted share was $1.05 in 2007, as compared to $1.59 per diluted share earned in 2006. The interest income reversal due to new non-accrual loans, provision for loan and lease losses and the VISA litigation accrual contributed to the significant decline in net income per diluted share.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality of the portfolio and the adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating from 1 to 10 that is assessed periodically during the term of the loan through the credit review process. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management ALLL Committee, which is responsible for, among other things, regular review of the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews loans that have been placed on non-accrual status and approves placing loans on impaired status. The ALLL Committee also approves removing loans that are no longer impaired from impairment and non-accrual status. The Bank s Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans 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 recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses.

The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses. The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

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

Management believes that the ALLL was adequate as of December 31, 2007. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 79% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. There has been deterioration in the northern California residential development market which has led to an increase in non-performing loans and allowance for loan and lease losses in the third and fourth quarters. A continued deterioration in this market may lead to additional charges to the provision for loan and lease losses.

Mortgage Servicing Rights

Retained mortgage servicing rights are measured at quoted market prices. Subsequent measurements are determined using a discounted cash flow model. The expected life of the loan can vary from management s estimates due to prepayments by borrowers, especially when interest rates fall. Prepayments in excess of management s estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in the model. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights.

Upon adoption of Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 156) on January 1, 2007, the Company has elected to measure its residential mortgage servicing assets at fair value. Upon the change from the lower of cost or fair value accounting method to fair value accounting under SFAS No. 156, the calculation of amortization and the assessment of impairment were discontinued. Additional information is included in Note 7 of the *Notes to Consolidated Financial Statements*.

Valuation of Goodwill and Intangible Assets

At December 31, 2007, we had $764.9 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on a quarterly basis and determined that there was no impairment as of December 31, 2007. The valuation is determined using discounted cash flows of forecasted earnings, estimated sales price based on recent observable market transactions and market capitalization based on current stock price. If impairment was deemed to exist, a write down of the asset would occur with a charge to earnings. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions.

Stock-based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123R, *Share Based Payment*, a revision to the previously issued guidance on accounting for stock options and other forms of equity-based compensation. SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the Black-Scholes methodology, and ultimately, the expense that will be recognized over the life of the option. Additional information is included in Note 1 of the *Notes to Consolidated Financial Statements*.

Fair Value

Effective January 1, 2007, we adopted SFAS No. 157, *Fair Value Measurements,* which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS No. 157 establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

See Note 20 of the *Notes to Consolidated Financial Statements* for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, FASB issued SFAS No. 141 (revised), *Business Combinations*. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We are currently evaluating the impact of the adoption of SFAS No.141R.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). SAB 109 provides guidance on the accounting for written loan commitments recorded at fair value under generally accepted accounting principles (GAAP). Specifically, the SAB revises the Staff s views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB 109, which supersedes SAB 105, *Application of Accounting Principles to Loan Commitments*, requires the expected net future cash flows related to the associated servicing of the loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 is effective on January 1, 2008 for the Company. Adoption of SAB 109 is not expected to have a material impact on the Company s financial statements.

RESULTS OF OPERATIONS OVERVIEW

For the year ended December 31, 2007, net income was $63.3 million, or $1.05 per diluted share, a decrease of 34% on a per diluted share basis compared to 2006. The decrease in net income in 2007 is principally attributable to increased provision for loan and lease losses and operating expenses, partially offset by increased net interest and non-interest income. We completed the acquisition of North Bay Bancorp on April 26, 2007, and the results of the acquired operations are only included in our financial results starting on April 27, 2007.

For the year ended December 31, 2006, net income was $84.4 million, or $1.59 per diluted share, an increase of 3% on a per diluted share basis over 2005. The improvement in diluted earnings per share for 2006 was principally attributable to improved net interest income, partially offset by increased operating expenses. We completed the acquisition of Western Sierra Bancorp on June 2, 2006 and the results of the acquired operations are only included in our financial results starting on June 3, 2006.

We incur significant expenses related to the completion and integration of mergers. Accordingly, we believe that our operating results are best measured on a comparative basis excluding the impact of merger-related expenses, net of tax. We define *operating income* as income before merger related expenses, net of tax, and we calculate *operating income per diluted share* by dividing operating income by the same diluted share total used in determining diluted earnings per share (see Note 21 of the *Notes to Consolidated Financial Statements* in Item 8 below). Operating income and operating income per diluted share are considered non-GAAP financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the *Financial Statements and Supplementary Data* in Item 8 below.

The following table presents a reconciliation of operating income and operating income per diluted share to net income and net income per diluted share for years ended December 31, 2007, 2006 and 2005:

Reconciliation of Operating Income to Net Income

Years Ended December 31,

(in thousands, except per share data)

	2007	2006	2005
Net income	$63,268	$ 84,447	$ 69,735
Merger-related expenses, net of tax	1,991	2,864	157
Operating income	$65,259	$ 87,311	$ 69,892
Per diluted share:			
Net income	$ 1.05	$ 1.59	$ 1.55
Merger-related expenses, net of tax	0.03	0.06	
Operating income	$ 1.08	$ 1.65	$ 1.55

The following table presents the returns on average assets, average shareholders equity and average tangible shareholders equity for the years ended December 31, 2007, 2006 and 2005. For each of the years presented, the table includes the calculated ratios based on reported net income and operating income as shown in the table above. Our return on average shareholders equity is negatively impacted as a result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger-related intangible assets, we believe it beneficial to also consider the return on average tangible shareholders equity. The return on average tangible shareholders equity is calculated by dividing net income by average shareholders equity less average intangible assets. The return on average tangible shareholders equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average shareholders equity.

Returns on Average Assets, Shareholders Equity and Tangible Shareholders Equity

For the Years Ended December 31,

(in thousands)

	2007	2006	2005
RETURNS ON AVERAGE ASSETS:			
Net income	0.80%	1.31%	1.38%
Operating income	0.83%	1.35%	1.38%
RETURNS ON AVERAGE SHAREHOLDERS EQUITY:			
Net income	5.17%	8.70%	9.80%
Operating income	5.34%	9.00%	9.82%
RETURNS ON AVERAGE TANGIBLE SHAREHOLDERS EQUITY:			
Net income	13.08%	20.84%	22.91%
Operating income	13.50%	21.55%	22.96%
CALCULATION OF AVERAGE TANGIBLE SHAREHOLDERS EQUITY:			
Average shareholders equity	$ 1,222,628	$ 970,394	$ 711,765
Less: average intangible assets	(739,086)	(565,167)	(407,313)
Average tangible shareholders equity	$ 483,542	$ 405,227	$ 304,452

NET INTEREST INCOME

Net interest income is the largest source of our operating income. Net interest income for 2007 was $286.0 million, an increase of $23.8 million, or 9% over 2006. Net interest income for 2006 was $262.1 million, an increase of $52.8 million, or 25% over 2005. The increase in net interest income in 2007 as compared to 2006 and 2006 as compared to 2005 is attributable to growth in outstanding average interest-earning assets, primarily loans and leases, partially offset by both growth in interest-bearing liabilities, primarily money-market and time deposits, and a decrease in net interest margin. In addition to organic growth, the North Bay merger, which was completed on April 26, 2007, and the Western Sierra merger, which was completed on June 2, 2006, contributed to the increase in interest-earning assets and interest-bearing liabilities in 2007 over 2006 and 2006 over 2005. The fair value of interest-earning assets acquired as a result of the North Bay merger totaled $523.5 million, and interest-bearing liabilities totaled $572.2 million. The fair value of interest-earning assets acquired as a result of the Western Sierra merger totaled $1.1 billion, and interest-bearing liabilities totaled $1.1 billion.

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

The net interest margin on a fully tax-equivalent basis was 4.74% for 2006, a decrease of 10 basis points as compared to 2005. This decrease is primarily due to increases in short-term market rates which led to an increase in deposit and borrowing costs. The increased yield on interest-earning assets of 81 basis points in 2006, was more than offset by a corresponding increase in our cost of interest-earning assets which increased by 91 basis points in 2006.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, changes in volume, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds, or rates. The following table presents condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the years ended December 31, 2007, 2006 and 2005:

Average Rates and Balances

(dollars in thousands)

			2007			2006			2005
	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:									
Loans and leases(1)	$5,836,980	$ 443,939	7.61%	$4,818,884	$ 372,201	7.72%	$3,628,548	$ 251,715	6.94%
Taxable securities	743,266	35,216	4.74%	607,267	27,655	4.55%	613,748	26,432	4.31%
Non-taxable securities(2)	149,291	8,234	5.52%	97,723	5,559	5.69%	62,931	3,872	6.15%
Temporary investments(3)	68,297	3,415	5.00%	45,745	2,203	4.82%	48,469	1,484	3.06%
Total interest earning assets	6,797,834	490,804	7.22%	5,569,619	407,618	7.32%	4,353,696	283,503	6.51%
Allowance for loan and lease losses	(70,177)			(52,801)			(44,866)		
Other assets	1,169,911			934,842			744,587		
Total assets	$7,897,568			$6,451,660			$5,053,417		
INTEREST-BEARING LIABILITIES:									
Interest-bearing checking and savings accounts	$3,136,738	$ 93,070	2.97%	$2,483,155	$ 62,254	2.51%	$2,041,090	$ 30,343	1.49%
Time deposits	1,849,910	87,770	4.74%	1,399,623	57,627	4.12%	993,215	29,235	2.94%
Securities sold under agreements to repurchase and federal funds purchased	65,660	2,135	3.25%	166,831	6,829	4.09%	86,201	2,207	2.56%
Term debt	57,479	2,642	4.60%	58,684	2,892	4.93%	31,161	659	2.11%
Junior subordinated debentures	221,833	16,821	7.58%	187,994	14,215	7.56%	165,981	10,550	6.36%
Total interest-bearing liabilities	5,331,620	202,438	3.80%	4,296,287	143,817	3.35%	3,317,648	72,994	2.20%
Non-interest-bearing deposits	1,263,873			1,121,171			967,848		
Other liabilities	79,447			63,808			56,156		
Total liabilities	6,674,940			5,481,266			4,341,652		
Shareholders equity	1,222,628			970,394			711,765		
Total liabilities and shareholders equity	$7,897,568			$6,451,660			$5,053,417		
NET INTEREST INCOME(2)		$ 288,366			$ 263,801			$ 210,509	
NET INTEREST SPREAD			3.42%			3.97%			4.31%
AVERAGE YIELD ON EARNING ASSETS(1),(2)			7.22%			7.32%			6.51%
INTEREST EXPENSE TO EARNING ASSETS			2.98%			2.58%			1.67%
NET INTEREST INCOME TO EARNING ASSETS OR NET			4.24%			4.74%			4.84%

INTEREST MARGIN(1),(2)

(1) Non-accrual loans and mortgage loans held for sale are included in 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 $2.4 million, $1.7 million and $1.2 million in the years ended December 31, 2007, 2006 and 2005, respectively.
(3) Temporary investments include federal funds sold and interest-bearing deposits at other banks.

The following table sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for 2007 compared to 2006 and 2006 compared to 2005. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

Rate/Volume Analysis

(in thousands)

	2007 COMPARED TO 2006 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN			2006 COMPARED TO 2005 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
INTEREST-EARNING ASSETS:						
Loans and leases	$77,514	$ (5,776)	$ 71,738	$ 89,533	$ 30,953	$ 120,486
Taxable securities	6,406	1,155	7,561	(281)	1,504	1,223
Non-taxable securities(1)	2,849	(174)	2,675	1,998	(311)	1,687
Temporary investments	1,125	87	1,212	(87)	806	719
Total(1)	87,894	(4,708)	83,186	91,163	32,952	124,115
INTEREST-BEARING LIABILITIES:						
Interest-bearing checking and savings accounts	18,157	12,659	30,816	7,654	24,257	31,911
Time deposits	20,457	9,686	30,143	14,378	14,014	28,392
Securities sold under agreements to repurchase and federal funds purchased	(3,506)	(1,188)	(4,694)	2,817	1,805	4,622
Term debt	(58)	(192)	(250)	891	1,342	2,233
Junior subordinated debentures	2,566	40	2,606	1,508	2,157	3,665
Total	37,616	21,005	58,621	27,248	43,575	70,823
Net increase in net interest income(1)	$50,278	$ (25,713)	$ 24,565	$ 63,915	$ (10,623)	$ 53,292

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

PROVISION FOR LOAN AND LEASE LOSSES

The provision for loan and lease losses was $41.7 million for 2007, compared to $2.6 million for 2006. As a percentage of average outstanding loans, the provision for loan losses recorded for 2007 was 0.72%, an increase of 67 basis points and 65 basis points from 2006 and 2005, respectively.

The increase in the provision for loan and lease losses in 2007 as compared to 2006 and 2005 is principally attributable to an increase in non-performing loans and leases related primarily to the housing market downturn and its impact on our residential development portfolio, growth in the loan and lease portfolio and the increase in loans charged off in 2007. Within the allowance for credit losses, the Company has identified $9.9 million of impairment reserve related to $81.3 million of non-accrual loans, which are specifically measured for impairment. The net increase in impairment reserve, combined with downgrades within the portfolio related primarily to residential development, led to the $41.7 million provision for loan and leases losses during 2007. The provision for loan losses is expected to cover subsequent charge-offs on these non-performing loans.

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

NON-INTEREST INCOME

Non-interest income in 2007 was $64.8 million, an increase of $11.2 million, or 21%, over 2006. Non-interest income in 2006 was $53.6 million, an increase of $5.8 million, or 12%, over 2005. The following table presents the key components of non-interest income for years ended December 31, 2007, 2006 and 2005:

Non-Interest Income

Years Ended December 31,

(in thousands)

			2007 compared to 2006				2006 compared to 2005	
	2007	2006	Change Amount	Change Percent	2006	2005	Change Amount	Change Percent
Service charges on deposit accounts	$32,126	$ 26,975	$ 5,151	19%	$26,975	$ 21,697	$ 5,278	24%
Brokerage commissions and fees	10,038	9,649	389	4%	9,649	11,317	(1,668)	15%
Mortgage banking revenue, net	7,791	7,560	231	3%	7,560	6,426	1,134	18%
Net (loss) gain on sale of investment securities	(13)	(21)	8	-38%	(21)	1,439	(1,460)	NM
Other income	14,883	9,434	5,449	58%	9,434	6,903	2,531	37%
Total	$64,825	$ 53,597	$ 11,228	21%	$53,597	$ 47,782	$ 5,815	12%

NM Not meaningful

The increase in deposit service charges in 2007 over 2006 is principally attributable to the increased volume of deposit accounts. The increase in brokerage commissions and fees in 2007 over 2006 resulted from management s efforts to recruit new brokers, increase the weighting of managed fee sources and increase efficiencies in back room operations. The increase in other income over 2006 was primarily related to a gain of $4.9 million in 2007 resulting from the change in fair value of the junior subordinated debentures recorded at fair value and a $909,000 gain on sale of excess property. Additional information regarding the fair value election for the junior subordinated debentures is included in Note 15 of the *Notes to Consolidated Financial Statements*.

The increase in deposit service charges in 2006 over 2005 is principally attributable to the increased volume of deposit accounts as a result of the Western Sierra acquisition. The decrease in brokerage commissions and fees in 2006 over 2005 resulted from the departure of certain Strand investment advisors. The remaining increase in other non-interest income resulted primarily from increased revenue related to the Western Sierra acquisition.

NON-INTEREST EXPENSE

Non-interest expense for 2007 was $214.1 million, an increase of $32.2 million or 18% compared to 2006. Non-interest expense for 2006 was $181.9 million, an increase of $34.9 million or 24% compared to 2005. The following table presents the key elements of non-interest expense for the years ended December 31, 2007, 2006 and 2005.

Non-Interest Expense

Years Ended December 31,

(in thousands)

			2007 compared to 2006				2006 compared to 2005	
	2007	2006	Change Amount	Change Percent	2006	2005	Change Amount	Change Percent
Salaries and employee benefits	$112,864	$ 98,840	$ 14,024	14%	$ 98,840	$ 82,467	$ 16,373	20%
Net occupancy and equipment	35,785	31,752	4,033	13%	31,752	24,693	7,059	29%
Communications	7,202	6,352	850	13%	6,352	5,841	511	9%
Marketing	5,554	5,760	(206)	4%	5,760	4,564	1,196	26%
Services	18,564	15,951	2,613	16%	15,951	13,245	2,706	20%
Supplies	3,627	2,994	633	21%	2,994	2,706	288	11%
Intangible amortization	6,094	3,728	2,366	63%	3,728	2,430	1,298	53%
Merger-related expenses	3,318	4,773	(1,455)	30%	4,773	262	4,511	NM
Other	21,110	11,799	9,311	79%	11,799	10,848	951	9%
Total	$214,118	$ 181,949	$ 32,169	18%	$181,949	$ 147,056	$ 34,893	24%

NM Not meaningful

The increase in non-interest expense in 2007 over 2006 and 2006 over 2005 is primarily attributable to the inclusion of expenses from California operations as a result of the North Bay and Western Sierra acquisitions. Salaries and employee benefits have continued to increase due to increased incentives, benefit costs, additional staff at new stores, and primarily the addition of approximately 110 associates in April 2007 due to the North Bay acquisition and approximately 250 associates in June 2006 due to the Western Sierra acquisition. Net occupancy and equipment also continues to increase reflecting 10 new banking locations as a result of the North Bay acquisition in April 2007, 31 new banking locations as a result of Western Sierra acquisition in June 2006 and the addition of three de novo branches in 2007 and seven in 2006. The increase in services expense was primarily due to increased escrow accounting fees and higher consulting fees. The increase in intangible amortization is due to the increase in core deposit and other intangibles as a result of the Western Sierra and North Bay acquisitions.

Other expenses in 2007 included a $5.1 million charge for Visa litigation. In November 2007, Visa Inc. announced that it had reached a settlement with American Express related to an antitrust lawsuit. Umpqua Bank and other Visa member banks are obligated to fund the settlement and share in losses resulting from this litigation.

In the fourth quarter of 2007, we recorded a liability and corresponding expense of approximately $3.9 million pre-tax, for our proportionate share of that settlement.

In addition, Visa notified us that it had established a contingency reserve related to unsettled litigation with Discover Card. In connection with this contingency, we recorded, in the fourth quarter of 2007, a liability and corresponding expense of $1.2 million pre-tax, for our proportionate share of that contingent liability. We are not a party to the Visa litigation and our liability arises solely from the Bank s membership interest in Visa, Inc.

Previously, Visa Inc. announced that it completed restructuring transactions in preparation for an initial public offering of its Class A stock planned for early 2008, and, as part of those transactions, Umpqua Bank s membership interest in Visa was exchanged for Class B stock of Visa, Inc. In connection with Visa s planned offering, it is expected that a portion of the Class B shares will be redeemed for cash, with the remaining shares to be converted to Class A shares three years after the offering or upon settlement of certain covered litigation, whichever is later. Visa is expected to set aside a portion of the proceeds from the offering to fund the American Express settlement and other litigation judgments or settlements that may occur.

In connection with the announced American Express settlement, and in consideration of accounting guidance that we have been informed was provided by the Securities and Exchange Commission, we currently anticipate that our proportionate share of the proceeds of the planned initial public offering by Visa will more than offset any liabilities related to the Visa litigation, and no cash payments from Umpqua will be made in settlement of this liability.

We also incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. Classification of expenses as merger-related is done in accordance with the provisions of a Board-approved policy. The decrease in merger-related expenses in 2007 over 2006 and the increase in 2006 over 2005 is due to the difference in timing and size of the Western Sierra and North Bay mergers.

The following table presents the merger-related expenses by major category for the years ended December 31, 2007, 2006 and 2005. Substantially all of the merger-related expense for 2007 and 2006 were related to the North Bay and Western Sierra acquisitions, respectively. We do not expect to incur any additional merger-related expenses in connection with the North Bay, Western Sierra or any other previous merger.

Merger-Related Expense

Years Ended December 31,

(in thousands)

	2007	2006	2005
Professional fees	$ 982	$ 1,082	$ 211
Compensation and relocation	1,077	778	
Communications	478	854	
Premises and equipment	188	375	(65)
Other	593	1,684	116
Total	$3,318	$ 4,773	$ 262

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2007 was 33.4%, compared to 35.6% for 2006 and 35.2% for 2005. The effective tax rates were below the federal statutory rate of 35% and the apportioned state rate of 5% (net of the federal tax benefit) principally because of non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities, tax credits arising from low income housing investments, Business Energy tax credits and exemptions related to loans and hiring in designated enterprise zones.

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

FINANCIAL CONDITION

INVESTMENT SECURITIES

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

Trading securities consist of securities held in inventory by Strand for sale to its clients and securities invested in trust for former employees of acquired institutions as required by agreements. Trading securities were $2.8 million at December 31, 2007, as compared to $4.2 million at December 31, 2006. This decrease is principally attributable to a decrease in Strand s inventory of trading securities.

Investment securities available for sale were $1.1 billion as of December 31, 2007, as compared to $715.2 million at December 31, 2006. This increase is principally attributable to the North Bay acquisition ($85.6 million of investment securities as of the acquisition date) and purchases of $372.2 million of investment securities, partially offset by sales and maturities of $137.5 million of investment securities available for sale and an increase in fair value of investment securities available for sale of $15.1 million.

Investment securities held to maturity were $6.0 million as of December 31, 2007, as compared to $8.8 million at December 31, 2006. This decrease is principally attributable to sales and maturities of investment securities held to maturity.

Investment securities for each of the last three years are as follows:

Summary of Investment Securities

As of December 31,

(in thousands)

	December 31,		
	2007	2006	2005
AVAILABLE-FOR-SALE:			
U.S. Treasury and agencies	$ 158,432	$ 193,134	$ 196,538
Mortgage-backed securities and collateralized mortgage obligations	672,344	362,882	359,583
Obligations of states and political subdivisions	169,994	110,219	67,836
Other debt securities	967	973	
Investments in mutual funds and other equity securities	49,019	47,979	47,911
	$1,050,756	$ 715,187	$ 671,868
HELD-TO-MATURITY:			
Obligations of states and political subdivisions	$ 5,403	$ 8,015	$ 8,302
Mortgage-backed securities and collateralized mortgage obligations	227	372	
Other investment securities	375	375	375
	$ 6,005	$ 8,762	$ 8,677

The following table presents information regarding the amortized cost, fair value, average yield and maturity structure of the investment portfolio at December 31, 2007.

Investment Securities Composition*

December 31, 2007

(in thousands)

	Amortized Cost	Fair Value	Average Yield
U.S. TREASURY AND AGENCIES			
One year or less	$ 73,187	$ 72,875	3.60%
One to five years	85,632	85,557	4.23%
	158,819	158,432	3.94%
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS:			
One year or less	9,962	10,057	3.92%
One to five years	53,363	53,651	3.77%
Five to ten years	107,498	107,616	3.89%
Over ten years	4,024	4,093	4.39%
	174,847	175,417	3.87%
OTHER DEBT SECURITIES			
One to five years	526	487	7.33%
Over ten years	500	480	9.00%
	1,026	967	8.16%
Serial Maturities	670,342	672,572	5.75%
Other investment securities	52,371	49,394	5.00%
Total securities	$1,057,405	$ 1,056,782	5.13%

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

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

Equity securities in Other Investment Securities in the table above at December 31, 2007 consisted principally of investments in two mutual funds comprised largely of mortgage-related securities, although the funds may also invest in U.S. government or agency securities, bank certificates of deposit insured by the FDIC or repurchase agreements.

Because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, none of the investment securities are considered other than temporarily impaired. Additional information about the investment securities portfolio is provided in Note 4 of the *Notes to Consolidated Financial Statements* in Item 8 below.

LOANS AND LEASES

Total loans and leases outstanding at December 31, 2007 were $6.1 billion, an increase of $693.8 million, or 13%, from year-end 2006. The growth in loans was due to the North Bay acquisition ($443.0 million of loans as of the acquisition date) and organic loan growth of $250.8 million, or 5%, primarily in the Oregon/Washington region.

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

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

Loan Portfolio Composition

As of December 31,

(in thousands)

	2007		2006		2005		2004		2003	
Type of Loan	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Real estate secured loans:										
Construction	$ 1,202,173	19.9%	$ 1,189,090	22.2%	$ 638,555	16.3%	$ 481,836	13.9%	$ 232,792	11.6%
Mortgage	582,771	9.6%	523,715	9.8%	427,877	10.9%	445,976	12.9%	259,316	12.9%
Commercial and agricultural	3,012,743	49.7%	2,649,468	49.4%	2,019,623	51.5%	1,700,634	49.0%	854,588	42.7%
Total real estate loans	4,797,687	79.2%	4,362,273	81.4%	3,086,055	78.7%	2,628,446	75.8%	1,346,696	67.2%
Commercial and agricultural	1,169,939	19.3%	924,917	17.2%	753,131	19.3%	733,876	21.2%	566,092	28.3%
Leases	40,207	0.7%	22,870	0.4%	17,385	0.4%	18,351	0.5%	10,918	0.5%
Installment and other	59,091	1.0%	63,262	1.2%	76,128	1.9%	98,406	2.8%	86,787	4.3%
Deferred loan fees, net	(11,289)	0.2%	(11,460)	0.2%	(11,068)	0.3%	(11,175)	0.3%	(6,906)	0.3%
Total loans	$ 6,055,635	100.0%	$ 5,361,862	100.0%	$ 3,921,631	100.0%	$ 3,467,904	100.0%	$ 2,003,587	100.0%

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

Loan Concentrations

As of December 31, 2007 and 2006

(in thousands)

	2007		2006	
	Amount	Percentage	Amount	Percentage
Construction and land development	$ 1,202,173	19.9%	$ 1,189,090	22.2%
Farmland	94,687	1.6%	77,283	1.4%
Home equity credit lines	196,895	3.3%	152,962	2.9%
Single family first lien mortgage	200,570	3.3%	178,159	3.3%
Single family second lien mortgage	29,451	0.5%	30,554	0.6%
Multifamily	155,855	2.6%	162,040	3.0%
Commercial real estate	2,918,056	48.0%	2,572,185	48.0%
Total real estate secured	4,797,687	79.2%	4,362,273	81.4%
Commercial and industrial	1,108,774	18.3%	874,264	16.3%

Agricultural production	61,165	1.0%	50,653	0.9%
Consumer	37,865	0.6%	42,417	0.8%
Leases	40,207	0.7%	22,870	0.4%
Other	21,226	0.4%	20,845	0.4%
Deferred loan fees, net	(11,289)	-0.2%	(11,460)	-0.2%
Total loans	$ 6,055,635	100.0%	$ 5,361,862	100.0%

Commercial, agriculture and construction loans are the most sensitive to interest rate changes. The following table presents the maturity distribution of our commercial and construction loan portfolios and the sensitivity of these loans to changes in interest rates as of December 31, 2007:

Maturities and Sensitivities of Loans to Changes in Interest Rates

(in thousands)

	By Maturity				Loans Over One Year by Rate Sensitivity	
	One Year or Less	One Through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial and Agriculture	$ 504,314	$ 446,597	$ 219,028	$ 1,169,939	324,035	$ 341,590
Real Estate construction	980,332	134,031	87,810	1,202,173	87,728	134,113
	$1,484,646	$ 580,628	$ 306,838	$ 2,372,112	$ 411,763	$ 475,703

ASSET QUALITY AND NON-PERFORMING ASSETS

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

Non-performing loans, which include non-accrual loans and accruing loans past due over 90 days totaled $91.1 million or 1.50% of total loans as of December 31, 2007, as compared to $9.1 million, or 0.17% of total loans, at December 31, 2006. Non-performing assets, which include non-performing loans and foreclosed real estate (other real estate owned), totaled $98.0 million, or 1.18% of total assets as of December 31, 2007, compared with $9.1 million, or 0.12% of total assets as of December 31, 2006. The increase in non-performing assets in 2007 related primarily to the housing market downturn and its impact on our residential development portfolio.

Loans are classified as non-accrual when collection of principal or interest is doubtful generally if they are past due as to maturity or payment of principal or interest by 90 days or more unless such loans are well-secured and in the process of collection. Additionally, all loans that are impaired in accordance with SFAS No. 114, *Accounting by Creditors for the Impairment of a Loan,* are considered for non-accrual status. These loans will typically remain on non-accrual status until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan agreement appear relatively certain. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan or market value of the property less expected selling costs. Other real estate owned at December 31, 2007 totaled $6.9 million and consisted of nine properties.

The following table summarizes our non-performing assets as of December 31 for each of the last five years.

Non-Performing Assets

As of December 31,

(in thousands)

	2007	2006	2005	2004	2003
Loans on nonaccrual status	$81,317	$ 8,629	$ 5,953	$ 21,836	$ 10,498
Loans past due 90 days or more and accruing	9,782	429	487	737	927
Total non-performing loans	91,099	9,058	6,440	22,573	11,425
Other real estate owned	6,943		1,123	979	2,529
Total non-performing assets	$ 98,042	$ 9,058	$ 7,563	$ 23,552	$ 13,954
Allowance for loan and lease losses	$84,904	$ 60,090	$ 43,885	$ 44,229	$ 25,352
Reserve for unfunded commitments	1,182	1,313	1,601	1,338	
Allowance for credit losses	$86,086	$ 61,403	$ 45,486	$ 45,567	$ 25,352
ASSET QUALITY RATIOS:					
Non-performing assets to total assets	1.18%	0.12%	0.14%	0.48%	0.47%
Non-performing loans to total loans	1.50%	0.17%	0.16%	0.65%	0.57%
Allowance for loan and lease losses to total loans	1.40%	1.12%	1.12%	1.28%	1.27%
Allowance for credit losses to total loans	1.42%	1.15%	1.16%	1.31%	1.27%
Allowance for credit losses to total non-performing loans	94%	678%	706%	202%	222%

At December 31, 2007, there were no loans classified as restructured as compared to $8.0 million at December 31, 2006. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. Substantially all of the restructured loans as of December 31, 2006 were classified as impaired. No restructured loans were included as non-accrual loans in the table above at December 31, 2007 and 2006.

A decline in the economic conditions in our general market areas or other factors could adversely impact individual borrowers or the loan portfolio in general. Accordingly, there can be no assurance that loans will not become 90 days or more past due, become impaired or placed on non-accrual status, restructured or transferred to other real estate owned in the future.

Additional information about the loan portfolio is provided in Note 5 of the *Notes to Consolidated Financial Statements* in Item 8 below.

ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED COMMITMENTS

The allowance for loan and lease losses (ALLL) totaled $84.9 million and $60.1 million at December 31, 2007 and 2006, respectively. The increase in the allowance for loan and lease losses as of December 31, 2007 is principally attributable to an increase in provision for loan and lease losses in excess of charge-offs.

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

Allowance for loan and lease losses Composition

As of December 31,

(in thousands)

	2007	2006	2005	2004	2003
Commercial	$19,513	$ 14,161	$ 11,230	$ 12,334	$ 11,091
Real estate	60,840	44,179	30,137	29,464	12,689
Loans to individuals and overdrafts	504	603	669	1,126	1,225
Unallocated	4,047	1,147	1,849	1,305	347
Allowance for loan and lease losses	$84,904	$ 60,090	$ 43,885	$ 44,229	$ 25,352

The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not provided for in other components of ALLL analysis, and acknowledges the inherent imprecision of all loss prediction models. The increase in unallocated ALLL resulted from management s evaluation of existing general business and economic conditions, and declining credit quality and collateral value trends in the residential housing segment. Additionally the ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge-offs may occur.

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

Activity in the Allowance for loan and lease losses

Years Ended December 31,

(in thousands)

	2007	2006	2005	2004	2003
Balance at beginning of year	$ 60,090	$ 43,885	$ 44,229	$ 25,352	$ 24,731
Loans charged off:					
Real estate	(21,340)	(734)	(132)	(42)	(15)
Commercial	(2,030)	(2,135)	(6,538)	(5,244)	(5,429)
Consumer and other	(1,360)	(1,336)	(1,082)	(1,143)	(633)
Total loans charged off	(24,730)	(4,205)	(7,752)	(6,429)	(6,077)
Recoveries:					
Real Estate	1,250	897	32	292	123
Commercial	785	1,916	4,344	1,292	1,761
Consumer and other	701	818	564	360	264
Total recoveries	2,736	3,631	4,940	1,944	2,148
Net charge-offs	(21,994)	(574)	(2,812)	(4,485)	(3,929)
Addition incident to mergers	5,078	14,227		17,257	
Reclassification(1)				(1,216)	
Provision charged to operations	41,730	2,552	2,468	7,321	4,550
Balance at end of year	$ 84,904	$ 60,090	$ 43,885	$ 44,229	$ 25,352

Ratio of net charge-offs to average loans	0.38%	0.01%	0.08%	0.17%	0.21%
Ratio of provision to average loans	0.72%	0.05%	0.07%	0.27%	0.24%
Recoveries as a percentage of charge-offs	11%	86%	64%	30%	35%

(1) Reflects amount of allowance related to unfunded commitments, which was reclassified during the third quarter of 2004.

The significant increase in real estate loans charged off over previous years was due to significant slowdown in the housing industry which primarily affected our Northern California residential development portfolio.

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

Summary of Reserve for Unfunded Commitments Activity

Years Ended December 31,

(in thousands)

	2007	2006	2005
Balance, beginning of year	$1,313	$ 1,601	$ 1,338
Acquisition	134	382	
Net (decrease) increase charged to other expenses	(265)	(670)	263
Balance, end of year	$1,182	$ 1,313	$ 1,601

We believe that the ALLL and RUC at December 31, 2007 are sufficient to absorb losses inherent in the loan portfolio and credit commitments outstanding as of that date, respectively, based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan growth, and a detailed review of the quality of the loan portfolio, involves uncertainty and judgment; therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

MORTGAGE SERVICING RIGHTS

The following table presents the key elements of our mortgage servicing rights asset as of December 31, 2007, 2006 and 2005:

Summary of Mortgage Servicing Rights

Years Ended December 31,

(in thousands)

	2007	2006	2005
Balance, beginning of year(1)	$ 9,952	$ 10,890	$ 11,154
Additions for new mortgage servicing rights capitalized	892	1,487	3,318
Changes in fair value:			
Due to changes in model inputs or assumptions(2)	595		
Other(3)	(1,351)		
Amortization of servicing rights		(1,198)	(2,000)
Impairment charge		(1,227)	(1,582)
Balance, end of year	$ 10,088	$ 9,952	$ 10,890
Balance of loans serviced for others	$870,680	$ 955,444	$ 1,016,092
MSR as a percentage of serviced loans	1.16%	1.04%	1.07%

(1) Represents fair value as of December 31, 2006 and amortized cost as of December 31, 2005 and 2004. The fair value as of December 31, 2005 and 2004 was $10.9 million and $11.5 million, respectively.

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

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

As of December 31, 2007, we serviced residential mortgage loans for others with an aggregate outstanding principal balance of $870.7 million for which servicing assets have been recorded. Prior to the adoption of SFAS No.156 on January 1, 2007, the servicing asset recorded at the time of sale was amortized over the term of, and in proportion to, net servicing revenues. Subsequent to adoption, the mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue.

The value of mortgage servicing rights is impacted by market rates for mortgage loans. Historically low market rates can cause prepayments to increase as a result of refinancing activity. To the extent loans are prepaid sooner than estimated at the time servicing assets are originally recorded, it is possible that certain mortgage servicing rights assets may decrease in value. Generally, the fair value of our mortgage servicing rights will increase as market rates for mortgage loans rise and decrease if market rates fall. We have started hedging the fair value change of the MSR portfolio starting in the fourth quarter of 2007 with a goal of minimizing the volatility to earnings.

GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2007, we had goodwill and other intangible assets of $723.3 million and $41.6 million, respectively, as compared to $645.9 million and $33.6 million, respectively, at year-end 2006. This increase in goodwill and other intangible assets is principally attributed to the North Bay acquisition. The goodwill recorded in connection with the North Bay acquisition represented the excess of the purchase price over the estimated fair value of the net assets acquired. A portion of the purchase price was allocated to the value of North Bay s core deposits, which included all deposits except certificates of deposit, and merchant servicing portfolio. The value of the other intangible assets recorded in connection with the North Bay acquisition was determined by a third party based on the net present value of future cash flows for the merchant servicing portfolio and an analysis of the cost differential between the core deposits and alternative funding sources for the core deposit intangible.

We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. Substantially all of the goodwill is associated with our community banking operations. We evaluate goodwill for possible impairment on a quarterly basis and there were no impairments recorded for the years ended December 31, 2007, 2006 or 2005. Additional information regarding our accounting for goodwill and other intangible assets is included in Notes 1, 2 and 8 of the *Notes to Consolidated Financial Statements* in Item 8 below.

DEPOSITS

Total deposits were $6.6 billion at December 31, 2007, an increase of $749.0 million, or 13%, from the prior year-end. The growth in deposits was principally due to the North Bay acquisition ($462.6 million of deposits as of the acquisition date). Organic deposit growth during 2007 was $286.4 million (5% organic growth), primarily in the Oregon/Washington region. Management attributes this growth to ongoing business development and marketing efforts in our service markets. Information on average deposit balances and average rates paid is included under the *Net Interest Income* section of this report. Additional information regarding deposits is included in Note 11 of the *Notes to Consolidated Financial Statements* in Item 8 below.

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

Deposits

As of December 31,

(in thousands)

	2007		2006	
	Amount	Percentage	Amount	Percentage
Non-interest bearing	$1,272,872	19%	$ 1,222,107	21%
Interest bearing demand	820,122	12%	725,127	12%
Savings and money market	2,538,252	40%	2,133,497	37%
Time, $100,000 or greater	1,138,538	17%	898,617	15%
Time, less than $100,000	819,542	12%	860,946	15%
Total	$6,589,326	100%	$ 5,840,294	100%

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

Deposits by Region

(in thousands)

	2007		2006	
	Amount	Mix	Amount	Mix
DEPOSITS BY REGION:				
Oregon/Washington	$3,700,419	56%	$ 3,500,965	60%
California	2,888,907	44%	2,339,329	40%
Total Deposits	$6,589,326	100%	$ 5,840,294	100%
CORE DEPOSITS:(1)				
Oregon/Washington	$3,137,684	58%	$ 3,030,449	61%
California	2,313,104	42%	1,911,228	39%
Total Core deposits	$5,450,788	100%	$ 4,941,677	100%
% of total deposits	83%		85%	

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

The following table presents the scheduled maturities of time deposits of $100,000 and greater as of December 31, 2007:

Maturities of Time Deposits of $100,000 and Greater

(in thousands)

Three months or less	$ 461,643
Three months to six months	359,165
Six months to one year	247,442
Over one year	70,288
Total	$ 1,138,538

BORROWINGS

At December 31, 2007, the Bank had outstanding $36.3 million of securities sold under agreements to repurchase and $69.5 million of federal funds purchased. Additional information regarding securities sold under agreements to repurchase and federal funds purchased is provided in Notes 12 and 13 of *Notes to Consolidated Financial Statements* in Item 8 below.

At December 31, 2007, the Bank had outstanding term debt of $73.9 million. Advances from the Federal Home Loan Bank (FHLB) amounted to $73.1 million of the total and are secured by investment securities and residential mortgage loans. The FHLB advances outstanding at December 31, 2007 had fixed interest rates ranging from 3.25% to 7.44% and $42.0 million, or 57%, mature prior to December 31, 2008, while another $30.0 million, or 41%, mature prior to December 31, 2009. Management expects continued use of FHLB advances as a source of short and long-term funding. Additional information regarding term debt is provided in Note 14 of *Notes to Consolidated Financial Statements* in Item 8 below.

JUNIOR SUBORDINATED DEBENTURES

We had junior subordinated debentures with carrying values of $236.4 million and $203.7 million, respectively, at December 31, 2007 and 2006. Umpqua early adopted SFAS No. 159 and selected the fair value measurement option for certain junior subordinated debentures not acquired through acquisitions and new junior subordinated debentures issued in 2007.

At December 31, 2007, approximately $191.8 million, or 83% of the total issued amount, had interest rates that are adjustable on a quarterly basis based on a spread over LIBOR. Although any increases in short-term market interest rates will increase the interest expense for junior subordinated debentures, we believe that other attributes of our balance sheet will serve to mitigate the impact to net interest income on a consolidated basis.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2007, under guidance issued by the Board of Governors of the Federal Reserve System. Additional information regarding the terms of the junior subordinated debentures, including maturity/redemption dates, interest rates and the adoption of SFAS No. 159, is included in Note 15 of the *Notes to Consolidated Financial Statements* in Item 8 below.

LIQUIDITY AND CASH FLOW

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

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities under agreements to repurchase, borrow on a secured basis from the FHLB or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling $1.6 billion at December 31, 2007. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $240.0 million at December 31, 2007. Availability of the lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict the consecutive day usage.

The Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Company s revenues are obtained from dividends declared and paid by the Bank. In 2007, the Bank paid the Company $44.0 million in dividends to fund regular operations. The Bank also paid the Company $60.0 million in special dividends in 2007 to fund share repurchases. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to shareholders and meet its ongoing cash obligations, which consist principally of debt service on the $230.1 million (issued amount) of outstanding junior subordinated debentures. As of December 31, 2007, the Company did not have any borrowing arrangements of its own.

As disclosed in the *Consolidated Statements of Cash Flows* in Item 8 of this report, net cash provided by operating activities was $79.7 million during 2007. The principal source of cash provided by operating activities was net income. Net cash of $426.1 million used in investing activities consisted principally of $292.6 million of net loan growth and purchases of $372.2 million of investment securities available for sale, partially offset by sales and maturities of investment securities of $140.2 million, cash acquired in the North Bay merger, net of cash consideration paid, of $78.7 million and proceeds on sales of other real estate owned of $17.9 million. The $202.8 million of cash provided by financing activities primarily consisted of $286.3 million of net deposit increases, $60.0 million in proceeds on issuance of junior subordinated debentures and $69.5 million increase in Fed funds purchased, partially offset by financing outflows related to stock repurchases of $96.3 million, dividends payment of $43.5 million, and repayment of $36.1 million of junior subordinated debentures and $34.7 million of term loans.

OFF-BALANCE-SHEET ARRANGEMENTS

Information regarding Off-Balance-Sheet Arrangements is included in Note 17 of the *Notes to Consolidated Financial Statements.*

The following table presents a summary of significant contractual obligations extending beyond one year as of December 31, 2007 and maturing as indicated:

Future Contractual Obligations

As of December 31, 2007

(in thousands)

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Term debt	$42,000	$ 30,000	$	$ 1,694	$ 73,694
Junior subordinated debentures				230,061	230,061
Operating leases, net of subleases	10,583	18,004	15,105	30,899	74,591
Other long-term liabilities(1)	4,852	5,149	4,384	41,898	56,283
Total contractual obligations	$57,435	$ 53,153	$ 19,489	$ 304,552	$ 434,629

(1) Include maximum payments related to employee benefit plans, assuming all future vesting conditions are met. Additional information about employee benefit plans is provided in Note 16 of the *Notes to Consolidated Financial Statements* in Item 8 below.

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

Although we expect the Bank s and the Company s liquidity positions to remain satisfactory during 2008, there is significant competition for bank deposits. It is possible that our deposit growth for 2008 may not be maintained at previous levels due to increased pricing pressure or, in order to generate deposit growth, our pricing may need to be adjusted in a manner that results in increased interest expense on deposits.

CONCENTRATIONS OF CREDIT RISK

Information regarding Concentrations of Credit Risk is included in Notes 3, 5, and 17 of the *Notes to Consolidated Financial Statements.*

CAPITAL RESOURCES

Shareholders equity at December 31, 2007 was $1.2 billion, an increase of $83.7 million, or 7%, from December 31, 2006. The increase in shareholders equity during 2007 was principally due to the issuance of shares in connection with the North Bay acquisition valued at $142.1 million, shares issued in connection with stock plans and related tax benefit of $9.4 million, and retention of $18.8 million, or approximately 30%, of net income for the year, partially offset by stock repurchases of $96.3 million.

The Federal Reserve Board has in place guidelines for risk-based capital requirements applicable to U.S. banks and bank/financial holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulation, associated with various categories of assets, both on and off-balance sheet. Under the guidelines, capital strength is measured in two tiers, which are used in conjunction with risk-adjusted assets to determine the risk-based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier I capital. Our consolidated Tier I capital, which consists of shareholders equity and qualifying trust-preferred securities, less other comprehensive income, goodwill and deposit-based intangibles, totaled $695.7 million at December 31, 2007. Tier II capital components include all, or a portion of, the allowance for loan and lease losses and the portion of trust preferred securities in excess of Tier I statutory limits. The total of Tier I capital plus Tier II capital components is referred to as Total Risk-Based Capital, and was $771.9 million at December 31, 2007. The percentage ratios, as calculated under the guidelines, were 9.82% and 10.89% for Tier I and Total Risk-Based Capital, respectively, at December 31, 2007.

A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as period-end shareholders equity and qualifying trust preferred securities, less other comprehensive income, goodwill and deposit-based intangibles,

divided by average assets as adjusted for goodwill and other intangible assets. Although a minimum leverage ratio of 4% is required for the highest-rated financial holding companies that are not undertaking significant expansion programs, the Federal Reserve Board may require a financial holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and financial holding companies. Our consolidated leverage ratios at December 31, 2007 and 2006 were 9.24%, and 10.28%, respectively. As of December 31, 2007, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s regulatory capital category.

At December 31, 2007, all three of the capital ratios of the Bank exceeded the minimum ratios required by federal regulation. Management monitors these ratios on a regular basis to ensure that the Bank remains within regulatory guidelines. Further information regarding the actual and required capital ratios is provided in Note 19 of the *Notes to Consolidated Financial Statements* in Item 8 below.

During the third and fourth quarter of 2007, Umpqua s Board of Directors increased the quarterly cash dividend rate to $0.19 from $0.18 per share, which was the rate paid, in the first and second quarters of 2007. This increase was made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels and expected asset growth. The payment of cash dividends is subject to regulatory limitations as described under the *Supervision and Regulation* section of Part I of this report. There is no assurance that future cash dividends will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per share divided by basic earnings per share) for the years ended December 31, 2007, 2006 and 2005:

Cash Dividends and Payout Ratios

	2007	2006	2005
Dividend declared per share	$ 0.74	$ 0.60	$ 0.32
Dividend payout ratio	70%	37%	20%

On April 19, 2007, the Company announced that the Board of Directors approved an expansion of the common stock repurchase plan, increasing the repurchase limit to 6.0 million shares and extending the plan s expiration date from June 30, 2007 to June 30, 2009. As of December 31, 2007, a total of 1.5 million shares remained available for repurchase. There were no shares repurchased in open market transactions during the fourth quarter of 2007. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Management utilizes an interest rate simulation model to estimate the sensitivity of net interest income to changes in market interest rates. Such estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments. Interest rate sensitivity is a function of the repricing characteristics of our interest-earning assets and interest-bearing liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates. Effective interest rate sensitivity management seeks to ensure that both assets and liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the impact of interest rate changes on net interest income. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities at a point in time that are subject to repricing at various time horizons: immediate to three months, four to twelve months, one to five years, over five years, and on a cumulative basis. The differences are known as interest sensitivity gaps. The table below sets forth interest sensitivity gaps for these different intervals as of December 31, 2007.

Interest Sensitivity Gap

(in thousands)

	By Repricing Interval				Non-Rate-	
	0-3 Months	4-12 Months	1-5 Years	Over 5 Years	Sensitive	Total
ASSETS						
Temporary Investments	$ 3,288	$	$	$	$	$ 3,288
Trading account assets	2,837					2,837
Securities available-for-sale	157,023	177,309	436,016	292,884	(12,476)	1,050,756
Securities held-to-maturity	2,522	1,425	1,973	72	13	6,005
Loans and loans held for sale	2,353,187	936,448	2,428,587	357,252	(6,792)	6,068,682
Non-interest-earning assets					1,208,485	1,208,485
Total assets	2,518,857	1,115,182	2,866,576	650,208	1,189,230	$ 8,340,053
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing demand deposits	820,122					$ 820,122
Savings and money-market deposits	2,538,252					2,538,252
Time deposits	715,195	1,087,381	152,645	3,497	(638)	1,958,080
Securities sold under agreements to repurchase	36,294					36,294
Federal funds purchased	69,500					69,500
Term debt	50	42,154	30,960	704	59	73,927
Junior subordinated debentures	189,422	27,836		10,465	8,643	236,366
Non-interest bearing liabilities and shareholders equity					2,607,512	2,607,512
Total liabilities and shareholders equity	4,368,835	1,157,371	183,605	14,666	2,615,576	$ 8,340,053
Interest rate sensitivity gap	(1,849,978)	(42,189)	2,682,971	635,542	(1,426,346)	
Cumulative interest rate sensitivity gap	$(1,849,978)	$ (1,892,167)	$ 790,804	$ 1,426,346	$	
Cumulative gap as a % of earning assets	25.9%	26.5%	11.1%	20.0%		

Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly, while the timing of repricing for both the asset and the liability remains the same, thus impacting net interest

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income. This characteristic is referred to as basis risk and generally relates to the possibility that the repricing characteristics of short-term assets tied to the prime rate are different from those of short-term funding sources such as certificates of deposit. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in the interest rate sensitivity analysis. These prepayments may have a significant impact on our net interest margin. Because of these factors, an interest sensitivity gap analysis may not provide an accurate assessment of our exposure to changes in interest rates.

We utilize an interest rate simulation model to monitor and evaluate the impact of changing interest rates on net interest income. The estimated impact on our net interest income over a time horizon of one year as of December 31, 2007 is indicated in the table below. For the scenarios shown, the interest rate simulation assumes a parallel and sustained shift in market interest rates ratably over a twelve-month period and no change in the composition or size of the balance sheet. For example, the up 200 basis points scenario is based on a theoretical increase in market rates of 16.7 basis points per month for twelve months applied to the balance sheet of December 31 for each respective year.

Interest Rate Simulation Impact on Net Interest Income

As of December 31,

(dollars in thousands)

	2007		2006		2005	
	Increase (Decrease) in Net Interest Income from Base Scenario	Percentage Change	Increase (Decrease) in Net Interest Income from Base Scenario	Percentage Change	Increase (Decrease) in Net Interest Income from Base Scenario	Percentage Change
Up 200 basis points	$ (7,646)	2.7%	$ (2,596)	0.9%	$ 2,664	1.1%
Up 100 basis points	$ (3,868)	1.4%	$ (1,082)	0.4%	$ 1,482	0.6%
Down 100 basis points	$ 4,622	1.6%	$ 989	0.4%	$ (2,147)	0.9%
Down 200 basis points	$ 5,211	1.8%	$ (2,557)	0.9%	$ (5,709)	2.4%

As of December 31, 2005, we believe our balance sheet was in an asset-sensitive position, as the repricing characteristics were such that an increase in market interest rates would have a positive effect on net interest income and a decrease in market interest rates would have negative effect on net interest income. The flattening yield curve and changed mix and pricing characteristics of our balance sheet in 2006 resulted in decreased asset sensitivity from the previous years. At December 31, 2006, we were liability-sensitive in three of four scenarios. However, our overall sensitivity in all four scenarios has decreased as compared to prior years indicating a more neutral interest risk position. As of December 31, 2007, we believe our balance sheet was in a liability-sensitive position, as the repricing characteristics were such that an increase in market interest rates would have a negative effect on net interest income and a decrease in market interest rates would have positive effect on net interest income. Some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances will occur. In addition, the simulation model does not take into account any future actions which we could undertake to mitigate an adverse impact due to changes in interest rates from those expected, in the actual level of market interest rates or competitive influences on our deposit base.

A second interest rate sensitivity measure we utilize is the quantification of market value changes for all financial assets and liabilities, given an increase or decrease in market interest rates. This approach provides a longer-term view of interest rate risk, capturing all future expected cash flows. Assets and liabilities with option characteristics are measured based on different interest rate path valuations using statistical rate simulation techniques.

The table below illustrates the effects of various market interest rate changes on the fair values of financial assets and liabilities (excluding mortgage servicing rights) as compared to the corresponding carrying values and fair values:

Interest Rate Simulation Impact on Fair Value of Financial Assets and Liabilities

As of December 31,

(dollars in thousands)

	2007		2006	
	Increase (Decrease) in Estimated Fair Value of Equity	Percentage Change	Increase (Decrease) in Estimated Fair Value of Equity	Percentage Change
Up 200 basis points	$ (119,042)	5.9%	$ (72,797)	4.3%
Up 100 basis points	$ (54,159)	2.7%	$ (34,117)	2.0%
Down 100 basis points	$ 22,483	1.1%	$ 9,962	0.6%
Down 200 basis points	$ 18,387	0.9%	$ (4,155)	0.2%

Consistent with the results in the interest rate simulation impact on net interest income, our overall sensitivity to market interest rate changes has increased as compared to 2006.

IMPACT OF INFLATION AND CHANGING PRICES

A financial institution s asset and liability structure is substantially different from that of an industrial firm in that primarily all assets and liabilities of a bank are monetary in nature, with relatively little investment in fixed assets or inventories. Inflation has an important impact on the growth of total assets and the resulting need to increase equity capital at higher than normal rates in order to maintain appropriate capital ratios. We believe that the impact of inflation on financial results depends on management s ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. We have an asset/liability management program which attempts to manage interest rate sensitivity. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

Our financial statements included in Item 8 below have been prepared in accordance with accounting principles generally accepted in the United States, which requires us to measure financial position and operating results principally in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on our results of operations is through increased operating costs, such as compensation, occupancy and business development expenses. In management s opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the rate of inflation. Although interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including U.S. fiscal and monetary policy and general national and global economic conditions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Umpqua Holdings Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Umpqua Holdings Corporation and Subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. We also have audited the Company s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risks. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Umpqua Holdings Corporation and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Umpqua Holdings Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Portland, Oregon

February 26, 2008

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(in thousands, except shares)

	2007	2006
ASSETS		
Cash and due from banks	$ 188,782	$ 169,769
Temporary investments	3,288	165,879
Total cash and cash equivalents	192,070	335,648
Investment securities		
Trading	2,837	4,204
Available for sale, at fair value	1,050,756	715,187
Held to maturity, at amortized cost	6,005	8,762
Loans held for sale	13,047	16,053
Loans and leases	6,055,635	5,361,862
Allowance for loan and lease losses	(84,904)	(60,090)
Net loans and leases	5,970,731	5,301,772
Restricted equity securities	15,273	15,255
Premises and equipment, net	106,267	101,830
Goodwill and other intangible assets, net	764,906	679,493
Mortgage servicing rights, net	10,088	9,952
Other assets	208,073	156,080
Total assets	$8,340,053	$ 7,344,236
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest bearing	$1,272,872	$ 1,222,107
Interest bearing	5,316,454	4,618,187
Total deposits	6,589,326	5,840,294
Securities sold under agreements to repurchase	36,294	47,985
Federal funds purchased	69,500	
Term debt	73,927	9,513
Junior subordinated debentures, at fair value	131,686	
Junior subordinated debentures, at amortized cost	104,680	203,688
Other liabilities	94,702	86,545
Total liabilities	7,100,115	6,188,025
COMMITMENTS AND CONTINGENCIES (NOTE 17)		
SHAREHOLDERS EQUITY		
Preferred stock, no par value, 2,000,000 shares authorized; none issued and outstanding		
Common stock, no par value, 100,000,000 shares authorized; issued and outstanding:		
59,980,161 in 2007 and 58,080,171 in 2006	988,780	930,867
Retained earnings	251,545	234,783
Accumulated other comprehensive loss	(387)	(9,439)

Total shareholders equity	1,239,938	1,156,211
Total liabilities and shareholders equity	$8,340,053	$ 7,344,236

See notes to consolidated financial statements

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2007, 2006 and 2005

(in thousands, except per share amounts)

	2007	2006	2005
INTEREST INCOME			
Interest and fees on loans	$443,939	$ 372,201	$ 251,715
Interest and dividends on investment securities			
Taxable	34,891	27,370	26,268
Exempt from federal income tax	5,822	3,882	2,645
Dividends	325	285	164
Interest on temporary investments	3,415	2,203	1,484
Total interest income	488,392	405,941	282,276
INTEREST EXPENSE			
Interest on deposits	180,840	119,881	59,578
Interest on securities sold under agreements to repurchase and federal funds purchased	2,135	6,829	2,207
Interest on term debt	2,642	2,892	659
Interest on junior subordinated debentures	16,821	14,215	10,550
Total interest expense	202,438	143,817	72,994
Net interest income	285,954	262,124	209,282
Provision for Loan and Lease Losses	41,730	2,552	2,468
Net interest income after provision for loan and lease losses	244,224	259,572	206,814
NON-INTEREST INCOME			
Service charges on deposit accounts	32,126	26,975	21,697
Brokerage commissions and fees	10,038	9,649	11,317
Mortgage banking revenue, net	7,791	7,560	6,426
Net (loss) gain on sale of investment securities	(13)	(21)	1,439
Other income	14,883	9,434	6,903
Total non-interest income	64,825	53,597	47,782
NON-INTEREST EXPENSE			
Salaries and employee benefits	112,864	98,840	82,467
Net occupancy and equipment	35,785	31,752	24,693
Communications	7,202	6,352	5,841
Marketing	5,554	5,760	4,564
Services	18,564	15,951	13,245
Supplies	3,627	2,994	2,706
Intangible amortization	6,094	3,728	2,430
Merger related expenses	3,318	4,773	262
Other expenses	21,110	11,799	10,848
Total non-interest expense	214,118	181,949	147,056
Income before provision for income taxes	94,931	131,220	107,540
Provision for income taxes	31,663	46,773	37,805
Net income	$ 63,268	$ 84,447	$ 69,735

BASIC EARNINGS PER SHARE	$	1.06	$	1.61	$	1.57
DILUTED EARNINGS PER SHARE	$	1.05	$	1.59	$	1.55

See notes to consolidated financial statements

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Years Ended December 31, 2007, 2006 and 2005

(in thousands, except shares)

	Common Stock				
	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total
BALANCE AT JANUARY 1, 2005	44,211,075	$ 560,611	$ 128,112	$ (1,110)	$ 687,613
Net income			69,735		69,735
Other comprehensive loss, net of tax:					
Unrealized losses on securities arising during the year				(8,799)	(8,799)
Comprehensive income					$ 60,936
Stock-based compensation		693			693
Stock repurchased and retired	(84,185)	(1,904)			(1,904)
Issuances of common stock under stock plans and related tax benefit	429,379	5,179			5,179
Cash dividends ($0.32 per share)			(14,256)		(14,256)
Balance at December 31, 2005	44,556,269	$ 564,579	$ 183,591	$ (9,909)	$ 738,261
BALANCE AT JANUARY 1, 2006	44,556,269	$ 564,579	$ 183,591	$ (9,909)	$ 738,261
Net income			84,447		84,447
Other comprehensive income, net of tax:					
Unrealized gains on securities arising during the year				470	470
Comprehensive income					$ 84,917
Stock-based compensation		1,932			1,932
Stock repurchased and retired	(6,142)	(179)			(179)
Issuances of common stock under stock plans and related tax benefit	784,715	10,814			10,814
Stock issued in connection with acquisition	12,745,329	353,721			353,721
Cash dividends ($0.60 per share)			(33,255)		(33,255)
Balance at December 31, 2006	58,080,171	$ 930,867	$ 234,783	$ (9,439)	$ 1,156,211
BALANCE AT JANUARY 1, 2007	58,080,171	$ 930,867	$ 234,783	$ (9,439)	$ 1,156,211
Adoption of fair value option junior subordinated debentures			(2,064)		(2,064)
Net income			63,268		63,268
Other comprehensive income, net of tax:					
Unrealized gains on securities arising during the year				9,052	9,052
Comprehensive income					$ 72,320
Stock-based compensation		2,684			2,684
Stock repurchased and retired	(4,061,439)	(96,291)			(96,291)
	797,856	9,408			9,408

Issuances of common stock under stock plans and related tax benefit					
Stock issued in connection with acquisition	5,163,573	142,112			142,112
Cash dividends ($0.74 per share)			(44,442)		(44,442)
Balance at December 31, 2007	59,980,161	$ 988,780	$ 251,545	$ (387)	$ 1,239,938

See notes to consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2007, 2006 and 2005

(in thousands)

	2007	2006	2005
Net income	$63,268	$ 84,447	$ 69,735
Unrealized gains (losses) arising during the year on investment securities available for sale	15,074	762	(13,226)
Reclassification adjustment for losses (gains) realized in net income, net of tax (benefit of $5 and $8 in 2007 and 2006 and expense of $576 in 2005, respectively)	8	13	(863)
Income tax (expense) benefit related to unrealized gains/losses on investment securities, available for sale	(6,030)	(305)	5,290
Net unrealized gains (losses) on investment securities available for sale	9,052	470	(8,799)
Comprehensive income	$72,320	$ 84,917	$ 60,936

See notes to consolidated financial statements

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007, 2006 and 2005

(in thousands)

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$63,268	$84,447	$69,735
Adjustments to reconcile net income to net cash provided by operating activities:			
Restricted equity securities stock dividends	(234)	(285)	(164)
Deferred income tax (benefit) expense	(5,080)	(6,143)	7,575
(Accretion) amortization of investment discounts and premiums, net	(373)	1,101	1,150
Loss (gain) on sale of investment securities available-for-sale	13	21	(1,439)
Provision for loan and lease losses	41,730	2,552	2,468
Depreciation, amortization and accretion	12,765	11,331	12,297
Change in fair value of mortgage servicing rights	756		
Change in fair value of junior subordinated debentures	(4,829)		
Stock-based compensation	2,684	1,932	693
Net decrease (increase) in trading account assets	1,367	(1,132)	976
Origination of loans held for sale	(253,647)	(259,767)	(289,277)
Proceeds from sales of loans held for sale	256,830	254,873	299,868
Increase in mortgage servicing rights	(892)	(1,487)	(3,318)
Tax benefits from the exercise of stock options			2,425
Excess tax benefits from the exercise of stock options	(289)	(1,173)	
Net (increase) decrease in other assets	(31,347)	27,476	(10,096)
Net (decrease) increase in other liabilities	(3,084)	4,249	7,298
Net cash provided by operating activities	79,638	117,995	100,191
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities available-for-sale	(372,223)	(60,651)	(175,546)
Sales and maturities of investment securities available-for-sale	137,497	90,841	166,012
Maturities of investment securities held-to-maturity	2,737	2,764	3,169
Redemption of restricted equity securities	5,603	9,322	119
Net loan and lease originations	(315,860)	(437,549)	(478,694)
Proceeds from sales of loans	23,295	23,444	22,945
Proceeds from disposals of furniture and equipment	5,813	247	89
Purchases of premises and equipment	(9,560)	(13,597)	(12,051)
Sales of real estate owned	17,906	1,192	
Cash acquired in merger, net of cash consideration paid	78,729	36,950	
Net cash used by investing activities	(426,063)	(347,037)	(473,957)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposit liabilities	286,315	539,172	487,610
Net increase (decrease) in Federal funds purchased	69,500	(55,000)	27,000
Net decrease in securities sold under agreements to repurchase	(11,691)	(10,880)	(1,402)
Term debt borrowings		600,000	
Proceeds from the issuance of junior subordinated debentures	60,000		
Repayment of junior subordinated debentures	(36,084)		
Repayment of term debt	(34,685)	(652,634)	(85,188)
Dividends paid on common stock	(43,461)	(28,131)	(11,557)
Excess tax benefits from the exercise of stock options	289	1,173	

Proceeds from stock options exercised	8,955	9,415	2,754
Retirement of common stock	(96,291)	(179)	(1,904)
Net cash provided by financing activities	202,847	402,936	417,313
Net (decrease) increase in cash and cash equivalents	(143,578)	173,894	43,547
Cash and cash equivalents, beginning of year	335,648	161,754	118,207
Cash and cash equivalents, end of year	$192,070	$335,648	$161,754

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007, 2006 and 2005

(in thousands)

	2007	2006	2005
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 202,979	$ 137,034	$ 68,821
Income taxes	$ 50,495	$ 46,084	$ 19,418
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Change in unrealized gain or loss on available-for-sale securities, net of taxes	$ 9,052	$ 470	$ (8,799)
Cash dividend declared and payable after year-end	$ 11,436	$ 10,476	$ 5,352
Transfer of loans to other real estate owned	$ 24,853	$	$ 1,190
Acquisitions:			
Assets acquired	$ 648,877	$ 1,455,140	$
Liabilities assumed	$ 585,494	$ 1,138,369	$
Net	$ 63,383	$ 316,771	$

See notes to condensed consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2007, 2006 and 2005

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Umpqua Holdings Corporation (the Company) is a financial holding company headquartered in Portland, Oregon, that is engaged primarily in the business of commercial and retail banking and the delivery of retail brokerage services. The Company provides a wide range of banking, asset management, mortgage banking and other financial services to corporate, institutional and individual customers through its wholly-owned banking subsidiary Umpqua Bank (the Bank). The Company engages in the retail brokerage business through its wholly-owned subsidiary Strand, Atkinson, Williams & York, Inc. (Strand). The Company and its subsidiaries are subject to regulation by certain federal and state agencies and undergo periodic examination by these regulatory agencies.

Basis of Financial Statement Presentation The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with prevailing practices within the banking and securities industries. In preparing such financial statements, management is required to make certain estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, the valuation of mortgage servicing rights and the valuation of goodwill and other intangible assets.

Consolidation The accompanying consolidated financial statements include the accounts of the Company, the Bank and Strand. All significant intercompany balances and transactions have been eliminated in consolidation. As of December 31, 2007, the Company had 14 wholly-owned trusts (Trusts) that were formed to issue trust preferred securities and related common securities of the Trusts. The Company has not consolidated the accounts of the Trusts in its consolidated financial statements in accordance with FASB Interpretation 46R, *Consolidation of Variable Interest Entities*. As a result the junior subordinated debentures issued by the Company to the Trusts, are reflected on the Company s consolidated balance sheet as junior subordinated debentures.

Cash and Cash Equivalents Cash and cash equivalents include cash and due from banks, and temporary investments which are federal funds sold and interest-bearing balances due from other banks. Cash and cash equivalents generally have a maturity of 90 days or less at the time of purchase.

Trading Account Securities Debt and equity securities held for resale are classified as trading account securities and reported at fair value. Realized and unrealized gains or losses are recorded in non-interest income.

Investment Securities Debt securities are classified as *held-to-maturity* if the Company has both the intent and ability to hold those securities to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives.

Securities are classified as *available-for-sale* if the Company intends and has the ability to hold those securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are carried at fair value. Unrealized holding gains or losses are included in other comprehensive income as a separate component of shareholders equity, net of tax. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

Unrealized losses due to fluctuations in the fair value of securities held to maturity or available for sale are recognized through earnings when it is determined that an other-than-temporary decline in value has occurred. The Company assesses other-than-temporary impairment based on the nature of the decline and whether the Company has the ability and intent to hold the investments until a market price recovery. No other-than-temporary impairment losses were recognized in the years ended December 31, 2007, 2006 or 2005. Additional information on investment securities is included in Note 4.

Loans Held for Sale Loans held for sale includes mortgage loans and are reported at the lower of cost or market value. Cost generally approximates market value, given the short duration of these assets. Gains or losses on the sale of loans that are held for sale are recognized at the time of the sale and determined by the difference between net sale proceeds and the net book value of the loans less the estimated fair value of any retained mortgage servicing rights.

Loans Loans are stated at the amount of unpaid principal, net of unearned income and any deferred fees or costs. All discounts and premiums are recognized over the estimated life of the loan as yield adjustments. This estimated life is adjusted for prepayments.

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. The carrying value of impaired loans is based on the present value of expected future cash flows (discounted at each loan s effective interest rate) or, for collateral dependent loans, at fair value of the collateral. If the measurement of each impaired loans value is less than the recorded investment in the loan, an impairment allowance is created by either charging the provision for loan and lease losses or allocating an existing component of the allowance for loan and lease losses. Additional information on loans is included in Note 5.

Income Recognition on Non-Accrual and Impaired Loans Loans, including impaired loans, are classified as non-accrual if the collection of principal and interest is doubtful. Generally, this occurs when a loan is 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. If a loan or portion thereof is partially charged-off, the loan is considered impaired and classified as non-accrual. Loans that are less than 90 days past due may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

When a loan is classified as non-accrual, all uncollected accrued interest is reversed to interest income and the accrual of interest income is terminated. Generally, any cash payments are applied as a reduction of principal outstanding. In cases where the future collectibility of the principal balance in full is expected, interest income may be recognized on a cash basis. A loan may be restored to accrual status when the borrower s financial condition improves so that full collection of principal is considered likely. For those loans placed on non-accrual status due to payment delinquency, this will generally not occur until the borrower demonstrates repayment ability over a period of not less than six months.

The decision to classify a loan as impaired is made by the Bank s Allowance for Loan and Lease Losses (ALLL) Committee. The ALLL Committee meets regularly to review the status of all problem and potential problem loans. If the ALLL Committee concludes a loan is impaired but recovery of the full principal and interest is expected, an impaired loan may remain on accrual status.

Allowance for loan and lease losses The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality of the portfolio and the adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating from 1 to 10 that is assessed periodically during the term of the loan through the credit review process. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management ALLL Committee, which is responsible for, among other things, regular review of the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews loans that have been placed on non-accrual status and approves placing loans on impaired status. The ALLL Committee also approves removing loans that are no longer impaired from impairment and non-accrual status. The Bank s Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

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

Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment reserve as a specific component to be provided for in the allowance for loan and lease losses.

The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses. The Bank also maintains an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

As adjustments become necessary, they are reported in earnings in the periods in which they become known as a change in the provision for loan and lease losses and a corresponding charge to the allowance. Loans, or portions thereof, deemed uncollectible are charged to the allowance. Provisions for losses, and recoveries on loans previously charged off, are added to the allowance.

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

Management believes that the ALLL was adequate as of December 31, 2007. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. At December 31, 2007, approximately 79% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses.

Additional information on the allowance for loan and lease losses is included in Note 5.

Reserve for Unfunded Commitments A reserve for unfunded commitments is maintained at a level that, in the opinion of management, is adequate to absorb probable losses associated with the Bank s commitment to lend funds under existing agreements such as letters or lines of credit. Management determines the adequacy of the reserve for unfunded commitments based upon reviews of individual credit facilities, current economic conditions, the risk characteristics of the various categories of commitments and other relevant factors. The reserve is based on estimates, and ultimate losses may vary from the current estimates. These estimates are evaluated on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Draws on unfunded commitments that are considered uncollectible at the time funds are advanced are charged to the allowance. Provisions for unfunded commitment losses, and recoveries on loans previously charged off, are added to the reserve for unfunded commitments, which is included in the *Other Liabilities* section of the consolidated balance sheets.

Loan Fees and Direct Loan Origination Costs Loan origination and commitment fees and direct loan origination costs are deferred and recognized as an adjustment to the yield over the life of the related loans.

Restricted Equity Securities Restricted equity securities were $15.3 million at December 31, 2007 and 2006. Federal Home Loan Bank stock amounted to $14.3 million and $14.2 million of the total restricted securities as of December 31, 2007 and 2006, respectively. Federal Home Loan Bank stock represents the Bank s investment in the Federal Home Loan Banks of Seattle and San Francisco (FHLB) stock and is carried at par value, which reasonably approximates its fair value. As a member of the

FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. At December 31, 2007, the Bank s minimum required investment in FHLB stock was $7.0 million. The Bank may request redemption at par value of any stock in excess of the minimum required investment. Stock redemptions are at the discretion of the FHLB.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided over the estimated useful life of equipment, generally three to ten years, on a straight-line or accelerated basis. Depreciation is provided over the estimated useful life of premises, up to 39 years, on a straight-line or accelerated basis. Leasehold improvements are amortized over the life of the related lease, or the life of the related asset, whichever is shorter. Expenditures for major renovations and betterments of the Company s premises and equipment are capitalized.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* management reviews long-lived and intangible assets any time that a change in circumstance indicates that the carrying amount of these assets may not be recoverable. Recoverability of these assets is determined by comparing the carrying value of the asset to the forecasted undiscounted cash flows of the operation associated with the asset. If the evaluation of the forecasted cash flows indicates that the carrying value of the asset is not recoverable, the asset is written down to fair value.

Additional information regarding premises and equipment is provided in Note 6.

Goodwill and Other Intangibles Intangible assets are comprised of goodwill and other intangibles acquired in business combinations. Goodwill and intangible assets with indefinite useful lives are not amortized. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and also reviewed for impairment.

Amortization of intangible assets is included in other non-interest expense in the consolidated statements of income. Goodwill is tested for impairment on a quarterly basis and more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount of the asset exceeds its fair value. Additional information on goodwill and intangible assets is included in Note 8.

Mortgage Servicing Rights Retained mortgage servicing rights (MSR) are measured at quoted market prices. Subsequent measurements are determined using a discounted cash flow model. The expected life of the loan can vary from management s estimates due to prepayments by borrowers, especially when interest rates fall. Prepayments in excess of management s estimates would negatively impact the recorded value of MSR. The value of the MSR is also dependent upon the discount rate used in the model. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of MSR.

Upon adoption of Statement of Financial Accounting Standards (SFAS) No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 156) on January 1, 2007, the Company has elected to measure its residential mortgage servicing assets at fair value. Upon the change from the lower of cost or fair value accounting method to fair value accounting under SFAS No. 156, the calculation of amortization and the assessment of impairment were discontinued. Additional information is included in Note 7.

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

SBA/USDA Loans Sales and Servicing The Bank, on a regular basis, sells or transfers loans, including the guaranteed portion of Small Business Administration (SBA) and Department of Agriculture (USDA) loans (with servicing retained) for cash proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records an asset representing the right to service loans for others when it sells a loan and retains the servicing rights. The carrying value of loans is allocated between the loan and the servicing rights, based on their relative fair values. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates. The servicing rights are carried at the lower of cost or market and are amortized in proportion to, and over the period of, the estimated net servicing income, assuming prepayments.

For purposes of evaluating and measuring impairment, servicing rights are based on a discounted cash flow methodology, current prepayment speeds and market discount rates. Any impairment is measured as the amount by which the carrying value of servicing rights for a stratum exceeds its fair value. The carrying value of SBA/USDA servicing rights at December 31, 2007 and 2006 were $1.0 million and $1.2 million, respectively. No impairment charges were recorded for the years ended December 31, 2007, 2006 or 2005 related to SBA/USDA servicing assets.

A premium over the adjusted carrying value is received upon the sale of the guaranteed portion of an SBA or USDA loan. The Bank s investment in an SBA or USDA loan is allocated among the sold and retained portions of the loan based on the relative fair value of each portion at the time of loan origination, adjusted for payments and other activities. Because the portion retained does not carry an SBA or USDA guarantee, part of the gain recognized on the sold portion of the loan may be deferred and amortized as a yield enhancement on the retained portion in order to obtain a market equivalent yield.

Other Real Estate Owned 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. Revenue and expenses from operations and subsequent adjustments to the carrying amount of the property are included in other non-interest expense in the consolidated statements of income.

In some instances, the Bank may make loans to facilitate the sales of other real estate owned. Management reviews all sales for which it is the lending institution for compliance with sales treatment under provisions established by SFAS No. 66, *Accounting for Sales of Real Estate*.

Income Taxes 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.

Derivative Loan Commitments 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. The commitments to originate mortgage loans held for sale and the related forward delivery contracts are considered derivatives. In the fourth quarter of 2007, the Bank began using derivative instruments to hedge the risk of changes in the fair value of MSR due to changes in interest rates. The Company accounts for its derivatives under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The Statement requires recognition of all derivatives as either assets or liabilities in the balance sheet and requires measurement of those instruments at fair value through adjustments to accumulated other comprehensive income and/or current earnings, as appropriate. None of the Company s derivatives qualify for hedge accounting and the Company reports changes in fair values of its derivatives in current period net income.

The fair value of the derivative loan commitments is estimated using the present value of expected future cash flows. Assumptions used include pull-through rate assumption based on historical information, current mortgage interest rates, the stage of completion of the underlying application and underwriting process, and the time remaining until the expiration of the derivative loan commitment.

Operating Segments SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information,* requires public enterprises to report certain information about their operating segments in a complete set of financial statements to shareholders. It also requires reporting of certain enterprise-wide information about the Company s products and services, its activities in different geographic areas, and its reliance on major customers. The basis for determining the Company s operating segments is the manner in which management operates the business. Management has identified three primary business segments, Community Banking, Retail Brokerage and Mortgage Banking. Additional information on Operating Segments is provided in Note 22.

Share-Based Payment The Company has two active stock-based compensation plans that provide for the granting of stock options and restricted stock awards to eligible employees and directors. Effective January 1, 2006, we adopted the provisions of SFAS No. 123R, *Share Based Payment*, a revision to the previously issued guidance on accounting for stock options and other forms of equity-based compensation. SFAS No. 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees requisite service period (generally the vesting period). Prior to January 1, 2006, we accounted for share-based compensation to employees under the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Under the intrinsic value method, compensation expense is recognized only to the extent an option s exercise price is less than the market value of the underlying stock on the date of grant. We also followed the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure.* We adopted SFAS No. 123R under the *modified prospective* method which means that the unvested portion of previously granted awards and any awards that are granted or modified after the date of adoption will be measured and accounted for under the provisions of SFAS No. 123R. Accordingly, financial statement amounts for prior periods presented have not been restated to reflect the fair value method of recognizing compensation cost relating to stock options. The Company will continue to use straight-line recognition of expenses for awards with graded vesting.

The compensation cost related to stock options, including costs related to unvested options assumed in connection with acquisitions, that has been charged against income (included in salaries and employee benefits) was $1.3 million, $1.4 million and $59,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The total income tax benefit recognized in the income statement related to stock options was $540,000, $551,000 and $24,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Under APB No. 25, for all options originally granted by the Company, no compensation cost was recognized related to stock options in the years ended December 31, 2005. Compensation cost, net of tax, of $35,000, was recognized as salaries and benefits expense for the year ended December 31, 2005 for certain unvested options that were assumed in connection with prior acquisitions that continued to vest after acquisition. The following table presents the effect on net income and earnings per share if the fair value based method prescribed by SFAS No. 123, using straight-line expense recognition, had been applied to all outstanding and unvested awards in the year ended December 31, 2005:

(in thousands, except per share data)

	2005
NET INCOME, AS REPORTED	$ 69,735
Deduct: Additional stock-based employee compensation determined under the fair value based method for all awards, net of tax effects	(813)
Pro forma net income	$ 68,922
NET INCOME PER SHARE:	
Basic as reported	$ 1.57
Basic pro forma	$ 1.55
Diluted as reported	$ 1.55
Diluted pro forma	$ 1.53

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model using assumptions noted in the following table. Expected volatility is based on the historical volatility of the price of the Company s stock. The Company uses historical data to estimate option exercise and stock option forfeiture rates within the valuation model. The expected term of options granted is derived from the vesting period and contractual term using an allowed short-cut method and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following weighted-average assumptions were used to determine the fair value of option grants as of the grant date to determine compensation cost under SFAS No. 123R and SFAS No. 123 for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Dividend yield	3.29%	2.68%	1.67%
Expected life (years)	6.2	6.4	7.5
Expected volatility	34%	35%	38%
Risk-free rate	4.46%	4.30%	4.21%
Weighted average grant date fair value of options granted	$ 7.49	$ 9.18	$ 9.50

The Company s stock compensation plan provides for granting of restricted stock awards. The restricted stock awards generally vest ratably over 5 years and are recognized as expense over that same period of time.

Additional information on share-based payments is provided in Note 18.

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

Advertising expenses Advertising costs are generally expensed as incurred.

Recently Issued Accounting Pronouncements In December 2007, FASB issued SFAS No. 141 (revised), *Business Combinations*. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We are currently evaluating the impact of the adoption of SFAS No.141R.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). SAB 109 provides guidance on the accounting for written loan commitments recorded at fair value under GAAP. Specifically, the SAB revises the Staff s views on incorporating expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB 109, which supersedes SAB 105, *Application of Accounting Principles to Loan Commitments*, requires the expected net future cash flows related to the associated servicing of the loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 is effective on January 1, 2008 for the Company. Adoption of SAB 109 is not expected to have a material impact on the Company s financial statements.

Reclassifications Certain amounts reported in prior years and quarters financial statements have been reclassified to conform to the current presentation. The results of the reclassifications are not considered material and have no effect on previously reported net income and earnings per share.

NOTE 2. BUSINESS COMBINATIONS

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

The aggregate purchase price was $143.2 million and included 5.2 million common shares valued at $135.2 million, options to purchase 542,000 shares of common stock valued at $6.9 million and $1.1 million of direct merger costs. North Bay shareholders received 1.228 shares of the Company s common stock for each share of North Bay common stock (exchange ratio of 1.228:1). The value of the common shares issued was $26.18 per share based on the average closing market price of the Company s common stock for the fifteen trading days before the last five trading days before the merger. Outstanding North Bay stock options were converted (using the exchange ratio of 1.228:1) at a weighted average fair value of $12.78 per option.

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

(in thousands)

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

The intangible assets represent the value ascribed to the long-term deposit relationships and merchant services portfolio income stream acquired. These intangible assets are being amortized on an accelerated basis over a weighted average estimated useful life of ten to fifteen years. The intangible assets are estimated not to have a significant residual value. Goodwill represents the excess of the total purchase price paid for North Bay over the fair values of the assets acquired, net of the fair values of liabilities assumed. Goodwill has been assigned to the Company s Community Banking segment. Goodwill is not amortized, but is evaluated for possible impairment on a quarterly basis and more frequently if events and circumstances indicate that the asset might be impaired. No impairment losses were recognized in connection with intangible or goodwill assets during the period from acquisition to December 31, 2007. At December 31, 2007, goodwill recorded in connection with the North Bay acquisition was $77.0 million. The $1.8 million decrease from April 26, 2007 is primarily due to the recognition of a tax benefit upon exercise of fully vested acquired options.

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

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

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

(in thousands)

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

The core deposit intangible asset represents the value ascribed to the long-term deposit relationships acquired. This intangible asset is being amortized on a straight-line basis over a weighted average estimated useful life of ten years. The core deposit intangible asset is estimated not to have a significant residual value. Goodwill represents the excess of the total purchase price paid for Western Sierra over the fair values of the assets acquired, net of the fair values of liabilities assumed. Goodwill has been assigned to our Community Banking segment. Goodwill is not amortized, but is evaluated for possible impairment at least annually and more frequently if events and circumstances indicate that the asset might be impaired. No impairment losses were recognized in connection with core deposit intangible or goodwill assets during the period from acquisition to December 31, 2007. At December 31, 2007, goodwill recorded in connection with the Western Sierra acquisition was $247.1 million.

The following tables present unaudited pro forma results of operations for the year ended December 31, 2007, 2006 and 2005 as if the acquisitions of North Bay and Western Sierra had occurred on January 1, 2005. Any cost savings realized as a result of the mergers are not reflected in the pro forma consolidated condensed statements of income. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisitions actually occurred on January 1, 2005:

Pro Forma Financial Information Unaudited

(in thousands, except per share data)

	Year Ended December 31, 2007				
	Umpqua	North Bay(a)	Western Sierra	Pro Forma Adjustments	Pro Forma Combined
Net interest income	$285,954	$ 8,732	$	$ 454(b)	$ 295,140
Provision for loan and lease losses	41,730				41,730
Non-interest income	64,825	1,434			66,259
Non-interest expense	214,118	6,985		(3,537)(c)	217,566
Income before income taxes	94,931	3,181		3,991	102,103
Provision for income taxes	31,663	1,054		1,596(d)	34,313
Net income	$ 63,268	$ 2,127	$	$ 2,395	$ 67,790
Earnings per share:					
Basic	$ 1.06				$ 1.10
Diluted	$ 1.05				$ 1.09
Average shares outstanding:					
Basic	59,828	1,325		302(e)	61,455
Diluted	60,428	1,376		314(e)	62,118

(a) North Bay amounts represent results from January 1, 2007 to acquisition date of April 26, 2007.
(b) Consists of additional net accretion of fair value adjustments related to the North Bay and Western Sierra acquisitions.
(c) Consists of merger related expenses of $3.3 million at Umpqua, adjusted for amortization of intangible assets and premises purchase accounting adjustment related to the North Bay and Western Sierra acquisitions.
(d) Income tax effect of pro forma adjustments at 40%.
(e) Additional shares issued at an exchange ratio of 1.228:1 for North Bay and 1.610:1 for Western Sierra shares.

(in thousands, except per share data)

	Umpqua	North Bay	Western Sierra(a)	Pro Forma Adjustments	Pro Forma Combined
				Year Ended December 31, 2006	
Net interest income	$262,124	$ 29,094	$ 25,834	$ (474)(b)	$ 316,578
Provision for loan and lease losses	2,552	200	350		3,102
Non-interest income	53,597	4,547	5,040		63,184
Non-interest expense	181,949	22,461	18,168	(1,959)(c)	220,619
Income before income taxes	131,220	10,980	12,356	1,485	156,041
Provision for income taxes	46,773	3,854	4,898	594(d)	56,119
Net income	$ 84,447	$ 7,126	$ 7,458	$ 891	$ 99,922
Earnings per share:					
Basic	$ 1.61				$ 1.59
Diluted	$ 1.59				$ 1.57
Average shares outstanding:					
Basic	52,311	4,131	3,292	2,950(e)	62,684
Diluted	53,050	4,290	3,378	3,039(e)	63,757

(a) Western Sierra amounts represent results from January 1, 2006 to acquisition date of June 2, 2006.
(b) Consists of additional net accretion of fair value adjustments related to the North Bay and Western Sierra acquisitions.
(c) Consists of merger related expenses of $4.8 million at Umpqua, adjusted for amortization of intangible assets and premises purchase accounting adjustment related to the North Bay and Western Sierra acquisitions.
(d) Income tax effect of pro forma adjustments at 40%.
(e) Additional shares issued at an exchange ratio of 1.228:1 for North Bay and 1.610:1 for Western Sierra shares.

(in thousands, except per share data)

	Umpqua	North Bay	Western Sierra	Pro Forma Adjustments	Pro Forma Combined
				Year Ended December 31, 2005	
Net interest income	$209,282	$ 28,660	$ 59,428	$ 5,398(a)	$ 302,768
Provision for loan and lease losses	2,468	815	2,050		5,333
Non-interest income	47,782	4,064	13,198		65,044
Non-interest expense	147,056	21,171	42,758	5,232(b)	216,217
Income before income taxes	107,540	10,738	27,818	166	146,262
Provision for income taxes	37,805	4,105	10,072	66(c)	52,048
Net income	$ 69,735	$ 6,633	$ 17,746	$ 100	$ 94,214
Earnings per share:					
Basic	$ 1.57				$ 1.52
Diluted	$ 1.55				$ 1.49
Average shares outstanding:					
Basic	44,438	4,074	7,707	5,630(d)	61,849
Diluted	45,011	4,254	7,951	5,820(d)	63,036

(a) Consists of net accretion of fair value adjustments related to the North Bay and Western Sierra acquisitions.
(b)

Consists of amortization of intangible assets and premises purchase accounting adjustment related to the North Bay and Western Sierra acquisitions.

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

(d) Additional shares issued at an exchange ratio of 1.228:1 for North Bay and 1.610:1 for Western Sierra shares.

The following table summarizes activity in the Company s accrued restructuring charges related to the North Bay and Western Sierra acquisitions which are recorded in other liabilities:

Accrued Restructuring Charges

(in thousands)

			2007
	Western Sierra	North Bay	Total
Beginning balance	$ 4,369	$	$ 4,369
Additions:			
Severance, retention and other compensation	242	2,819	3,061
Premises	568		568
Utilization:			
Cash payments	(2,969)	(1,805)	(4,774)
Ending Balance	$ 2,210	$ 1,014	$ 3,224

These accrued restructuring charges will be utilized by May 2012.

The Company incurs significant expenses related to mergers that cannot be capitalized. Generally, these expenses begin to be recognized while due diligence is being conducted and continue until such time as all systems have been converted and operational functions become fully integrated. Merger-related expenses are included as a line item on the consolidated statements of income.

The following table presents the key components of merger-related expense for years ended December 31, 2007, 2006 and 2005. Substantially all of the merger-related expenses incurred during 2007 were in connection with the North Bay acquisition and substantially all of the merger-related expenses incurred during 2006 were in connection with the Western Sierra acquisition.

Merger-Related Expense

(in thousands)

	2007	2006	2005
Professional fees	$ 982	$ 1,082	$ 211
Compensation and relocation	1,077	778	
Communications	478	854	
Premises and equipment	188	375	(65)
Other	593	1,684	116
Total	$3,318	$ 4,773	$ 262

No additional merger-related expenses are expected in connection with the North Bay acquisition or any other acquisition prior to North Bay.

NOTE 3. CASH AND DUE FROM BANKS

The Bank is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The amount of required reserve balance at December 31, 2007 and 2006 was approximately $43.4 million and $37.8 million, respectively, and was met by holding cash and maintaining an average balance with the Federal Reserve Bank.

NOTE 4. INVESTMENT SECURITIES

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at December 31, 2007 and 2006:

December 31, 2007

(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE-FOR-SALE:				
U.S. Treasury and agencies	$ 158,819	$ 35	$ (422)	$ 158,432
Mortgage-backed securities and collateralized mortgage obligations	670,115	6,406	(4,177)	672,344
Obligations of states and political subdivisions	169,444	1,165	(615)	169,994
Other debt securities	1,026		(59)	967
Investments in mutual funds and other equity securities	51,996	15	(2,992)	49,019
	$1,051,400	$ 7,621	$ (8,265)	$ 1,050,756
HELD-TO-MATURITY:				
Obligations of states and political subdivisions	$ 5,403	$ 20	$	$ 5,423
Mortgage-backed securities and collateralized mortgage obligations	227	1		228
Other investment securities	375			375
	$ 6,005	$ 21	$	$ 6,026

December 31, 2006

(in thousands)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE-FOR-SALE:				
U.S. Treasury and agencies	$ 197,510	$ 32	$ (4,408)	$ 193,134
Mortgage-backed securities and collateralized mortgage obligations	371,892	408	(9,418)	362,882
Obligations of states and political subdivisions	110,239	649	(669)	110,219
Other debt securities	1,040		(67)	973
Investments in mutual funds and other equity securities	50,237		(2,258)	47,979
	$730,918	$ 1,089	$ (16,820)	$ 715,187
HELD-TO-MATURITY:				
Obligations of states and political subdivisions	$ 8,015	$ 56	$	$ 8,071
Mortgage-backed securities and collateralized mortgage obligations	372	1	(2)	371
Other investment securities	375			375
	$ 8,762	$ 57	$ (2)	$ 8,817

Investment securities available-for-sale that were in an unrealized loss position as of December 31, 2007 and 2006 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 interest rate differentials:

December 31, 2007

(in thousands)

	Less than 12 Months		12 Months or Longer			Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agencies	$ 5,156	$ 17	$ 124,104	$ 405	$ 129,260	$ 422
Mortgage-backed securities and collateralized mortgage obligations	110,516	1,066	155,880	3,111	266,396	4,177
Obligations of states and political subdivisions	40,260	373	24,337	242	64,597	615
Other debt securities			967	59	967	59
Investments in mutual funds and other equity securities			47,045	2,992	47,045	2,992
Total temporarily impaired securities	$155,932	$ 1,456	$ 352,333	$ 6,809	$ 508,265	$ 8,265

December 31, 2006

(in thousands)

	Less than 12 Months		12 Months or Longer			Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agencies	$ 2,358	$ 12	$ 178,689	$ 4,396	$ 181,047	$ 4,408
Mortgage-backed securities and collateralized mortgage obligations	45,527	405	287,341	9,013	332,868	9,418
Obligations of states and political subdivisions	31,654	172	28,592	497	60,246	669
Other debt securities	973	67			973	67
Investments in mutual funds and other equity securities			47,979	2,258	47,979	2,258
Total temporarily impaired securities	$80,512	$ 656	$ 542,601	$ 16,164	$ 623,113	$ 16,820

The unrealized losses on investments in U.S. Treasury and agencies securities were caused by interest rate increases subsequent to the purchase of the 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 has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on mortgage-backed securities and collateralized mortgage obligations were caused by interest rate increases subsequent to the purchase of the securities. It is expected that the securities will not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on obligations of political subdivisions were caused by interest rate increases subsequent to the purchase of the securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase on obligations of political subdivisions in an unrealized loss position as of December 31, 2007. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

Other investment securities consist primarily of investments in two mutual funds comprised largely of mortgage-related securities, although the funds may also invest in U.S. government or agency securities, bank certificates of deposit insured by the FDIC or repurchase agreements. The unrealized loss on other investment securities at December 31, 2007 is attributed to changes in interest rates and not credit quality. Since the Bank has the ability and intent to hold these investments until a market price recovery, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The following table presents the maturities of investment securities at December 31, 2007:

(in thousands)

	Available-For-Sale		Held-To-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$ 2,177	$ 2,178	$ 470	$ 470
Over three months through twelve months	86,448	86,228	1,571	1,579
After one year through five years	448,144	448,249	2,856	2,868
After five years through ten years	370,218	371,030	733	734
After ten years	92,417	94,052		
Other investment securities	51,996	49,019	375	375
	$1,051,400	$ 1,050,756	$ 6,005	$ 6,026

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 years ended December 31, 2007, 2006 and 2005:

(in thousands)

	2007		2006		2005	
	Gains	Losses	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$44	$ 78	$	$	$ 5	$
Mortgage-backed securities and collateralized mortgage obligations	13					
Obligations of states and political subdivisions	16	8	16	37	1,654	220
Other debt securities						
Investments in mutual funds and other equity securities						
	$73	$ 86	$ 16	$ 37	$ 1,659	$ 220

The following table presents, as of December 31, 2007, investment securities which were pledged to secure borrowings and public deposits as permitted or required by law:

(in thousands)

	Amortized Cost	Fair Value
SECURITIES PLEDGED:		
To Federal Home Loan Bank to secure borrowings	$ 113,803	$ 114,080
To state and local governments to secure public deposits	503,609	505,024
To U.S. Treasury and Federal Reserve to secure customer tax payments	7,675	7,699
Other securities pledged	205,877	205,079
Total pledged securities	$ 830,964	$ 831,882

The carrying value of investment securities pledged as of December 31, 2006 was $622.1 million.

NOTE 5. LOANS, LEASES AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents the major types of loans recorded in the balance sheets as of December 31, 2007 and 2006:

(in thousands)

	2007	2006
Real estate construction and land development	$1,202,173	$ 1,189,090
Real estate commercial and agricultural	3,012,743	2,649,468
Real estate single and multi-family residential	582,771	523,715
Commercial, industrial and agricultural	1,169,939	924,917
Leases	40,207	22,870
Installment and other	59,091	63,262
	6,066,924	5,373,322
Deferred loan fees, net	(11,289)	(11,460)
Total loans and leases	$6,055,635	$ 5,361,862

The following table summarizes activity related to the allowance for loan and lease losses for the years ended December 31, 2007, 2006 and 2005:

(In thousands)

	2007	2006	2005
Balance, beginning of year	$ 60,090	$ 43,885	$ 44,229
Provision for loan and lease losses	41,730	2,552	2,468
Charge-offs	(24,730)	(4,205)	(7,752)
Recoveries	2,736	3,631	4,940
Acquisitions	5,078	14,227	
Balance, end of year	$ 84,904	$ 60,090	$ 43,885

At December 31, 2007, the recorded investment in loans classified as impaired in accordance with SFAS No. 114, *Accounting for Impaired Loans*, totaled $81.3 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $9.9 million. At December 31, 2006, the total recorded investment in impaired loans was $16.7 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $223,000. The average recorded investment in impaired loans was approximately $45.7 million, $16.4 million and $20.4 million for the years ended December 31, 2007, 2006 and 2005, respectively. There were no impaired loans accruing interest at December 31, 2007. For the years ended December 31, 2006 and 2005, interest income of $1.2 million, and $765,000, respectively, was recognized in connection with impaired loans.

Non-accrual loans totaled $81.3 million at December 31, 2007, and $8.6 million at December 31, 2006. If non-accrual loans had performed according to their original terms, additional interest income of approximately $4.7 million, $448,000, and $448,000 would have been recognized in 2007, 2006, and 2005, respectively.

As of December 31, 2007, loans totaling $2.3 billion were pledged to secure borrowings.

NOTE 6. PREMISES AND EQUIPMENT

The following table presents the major components of premises and equipment at December 31, 2007 and 2006:

(In thousands)

	2007	2006
Land	$ 14,175	$ 12,389
Buildings and improvements	87,945	79,774
Furniture, fixtures and equipment	72,795	67,578
Construction in progress	3,694	3,650
Total premises and equipment	178,609	163,391
Less: Accumulated depreciation and amortization	(72,342)	(61,561)
Premises and equipment, net	$106,267	$ 101,830

Depreciation expense totaled $10.9 million, $9.5 million and $8.5 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Umpqua s subsidiaries have entered into a number of non-cancelable lease agreements with respect to premises and equipment. See Note 17 for more information regarding rental expense, net of rent income, and minimum annual rental commitments under non-cancelable lease agreements.

NOTE 7. MORTGAGE SERVICING RIGHTS

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

The Company determines its classes of servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company elected to measure its residential mortgage servicing assets at fair value subsequent to adoption. As the retrospective application of SFAS No. 156 is not permitted, there was no change to prior period financial statements. Since there was no difference between the carrying amount and fair value of the mortgage servicing rights (MSR) on the date of adoption, there was also no cumulative effect adjustment to retained earnings.

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

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are reported in earnings under the caption mortgage banking revenue in the period in which the change occurs. Changes in the balance of the MSR were as follows:

(in thousands)

	2007	2006	2005
Balance, beginning of year[(1)]	$ 9,952	$ 10,890	$ 11,154
Additions for new mortgage servicing rights capitalized	892	1,487	3,318
Changes in fair value:			
Due to changes in model inputs or assumptions[(2)]	595		
Other[(3)]	(1,351)		
Amortization of servicing rights		(1,198)	(2,000)
Impairment charge		(1,227)	(1,582)
Balance, end of year	$ 10,088	$ 9,952	$ 10,890
Balance of loans serviced for others	$870,680	$ 955,444	$ 1,016,092
MSR as a percentage of serviced loans	1.16%	1.04%	1.07%

(1) Represents fair value as of December 31, 2006 and amortized cost as of December 31, 2005 and 2004. The fair value as of December 31, 2005 and 2004 was $10.9 million and $11.5 million, respectively.

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

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

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the consolidated statements of income, were $2.4 million, $2.6 million and $2.1 million, respectively, for the years ended December 31, 2007, 2006 and 2005.

Retained mortgage servicing rights are measured at fair values as of the date of sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys. Key assumptions used in measuring the fair value of MSR as of December 31, 2007 were as follows:

Constant prepayment rate	11.38%
Discount rate	8.82%
Weighted average life (years)	6.0

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

In the fourth quarter of 2007, we began using derivative instruments to hedge the risk of changes in the fair value of MSR due to changes in interest rates. During 2007, we recognized a loss of $334,000 related to MSR hedging activities, which was recorded in mortgage banking revenue on the consolidated statements of income.

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the changes in the Company s goodwill and other intangible assets for the years ended December 31, 2007 and 2006. Goodwill is reflected by operating segment; all other intangible assets are related to the Community Banking segment.

(in thousands)

	Goodwill			Other Intangible Assets		
	Community Banking	Retail Brokerage	Total	Gross	Accumulated Amortization	Net
Balance, December 31, 2005	$395,147	$ 3,697	$ 398,844	$ 14,411	$ (4,752)	$ 9,659
Additions	247,094		247,094	27,624		27,624
Amortization					(3,728)	(3,728)
Balance, December 31, 2006	642,241	3,697	645,938	42,035	(8,480)	33,555
Additions	77,329		77,329	14,178		14,178
Amortization					(6,094)	(6,094)
Balance, December 31, 2007	$719,570	$ 3,697	$ 723,267	$ 56,213	$ (14,574)	$ 41,639

Goodwill additions of $78.8 million and $247.8 million in 2007 and 2006 were related primarily to the North Bay and Western Sierra acquisitions, respectively, and represented the excess of the total purchase price paid over the fair values of the assets acquired, net of the fair values of liabilities assumed. Additional information on the acquisitions and purchase price allocation is provided in Note 2. Other significant changes to goodwill included decreases of $2.6 million and $1.7 million in 2007 and 2006, respectively, due to the recognition of a tax benefit upon exercise of fully vested acquired options.

The additions to other intangible assets in 2007 represent the value ascribed to the long-term deposit relationships and merchant services portfolio income stream acquired in the North Bay acquisition. The additions to other intangible assets in 2006 represent the value ascribed to the long-term deposit relationships acquired in the Western Sierra acquisition. Additional information on intangible assets related to these acquisitions is provided in Note 2.

The table below presents the forecasted amortization expense for 2008 through 2012 for intangible assets acquired in all mergers:

(in thousands)

Year	Expected Amortization
2008	$ 5,857
2009	$ 5,361
2010	$ 5,087
2011	$ 4,784
2012	$ 4,686

NOTE 9. OTHER ASSETS

Other assets consisted of the following at December 31, 2007 and 2006:

(in thousands)

	2007	2006
Cash surrender value of life insurance policies	$80,593	$ 67,738
Accrued interest receivable	35,010	32,435
Deferred tax assets, net	30,370	23,564
Income taxes receivable	15,189	2,918
Other real estate owned	6,943	
Investment in unconsolidated Trusts	6,965	7,806
Equity method investments Homestead	4,689	5,157
Equity method investments WNC Fund	3,912	4,168
Other	24,402	12,294
Total	$208,073	$ 156,080

The Company invests in Homestead Capital and WNC Fund, limited partnerships that operate qualified affordable housing projects to receive tax benefits in the form of tax deductions from operating losses and tax credits. The Company accounts for the investments under the equity method. The Company s remaining capital commitments to these partnerships at December 31, 2007 and 2006 were approximately $3.6 million and $5.0 million, respectively. Such amounts are included in other liabilities on the consolidated balance sheets. See Note 15 for information on the Company s investment in Trusts.

NOTE 10. INCOME TAXES

The following table presents the components of income tax expense attributable to continuing operations included in the consolidated statements of income for the years ended December 31:

(in thousands)

	Current	Deferred	Total
YEAR ENDED DECEMBER 31, 2007:			
Federal	$29,946	$ (3,793)	$ 26,153
State	6,797	(1,287)	5,510
	$36,743	$ (5,080)	$ 31,663
YEAR ENDED DECEMBER 31, 2006:			
Federal	$45,949	$ (4,958)	$ 40,991
State	6,967	(1,185)	5,782
	$52,916	$ (6,143)	$ 46,773
YEAR ENDED DECEMBER 31, 2005:			
Federal	$26,066	$ 6,220	$ 32,286
State	4,164	1,355	5,519
	$30,230	$ 7,575	$ 37,805

The following table presents a reconciliation of income taxes computed at the Federal statutory rate to the actual effective rate attributable to continuing operations for the years ended December 31:

	2007	2006	2005
Statutory Federal income tax rate	35.0%	35.0%	35.0%
Tax-exempt income	3.1%	1.4%	1.1%
State tax, net of Federal income tax benefit	3.8%	2.9%	2.6%
Tax credits	2.3%	1.2%	1.2%
Other	0.0%	0.3%	0.1%
Effective income tax rate	33.4%	35.6%	35.2%

The following table reflects the effects of temporary differences that give rise to the components of the net deferred tax asset (recorded in other assets on the consolidated balance sheets) as of December 31:

(in thousands)

	2007	2006
DEFERRED TAX ASSETS:		
Allowance for loan and lease losses	$ 34,482	$ 23,958
Accrued severance and deferred compensation	12,162	9,995
Purchased tax credits	9,772	5,107
Discount on trust preferred securities	3,510	3,903
Loans	1,821	2,671
Unrealized loss on investment securities	258	6,292
Other	9,357	7,028
Total gross deferred tax assets	71,362	58,954
DEFERRED TAX LIABILITIES:		
Intangibles	17,604	13,734
Deferred loan fees	6,319	4,483
Premises and equipment depreciation	4,084	5,961
Leased assets	3,111	2,856
FHLB stock dividends	2,527	2,386
Mortgage servicing rights	2,355	2,578
Other	4,992	3,392
Total gross deferred tax liabilities	40,992	35,390
Net deferred tax assets	$30,370	$ 23,564

The Company has determined that it is not required to establish a valuation allowance for the deferred tax assets as management believes it is more likely than not that the deferred tax assets of $71.4 million and $59.0 million at December 31, 2007 and 2006, respectively, will be realized principally through carry-back to taxable income in prior years and future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

The purchased tax credits totaling $9.8 million and $5.1 million at December 31, 2007 and 2006, respectively, comprised primarily of State of Oregon Business Energy Tax Credits (BETC), will be utilized to offset future state income taxes. The Company made its first BETC purchase in 2004, and has made subsequent BETC purchases in each year thereafter. Most of the tax credits benefit a five-year period, with an eight-year carry-forward allowed. Management believes, based upon the Company s historical performance, that the deferred tax assets will be realized in the normal course of operations, and, accordingly, management has not reduced deferred tax assets by a valuation allowance.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as the Oregon and California state jurisdictions. Except for the California amended returns of Western Sierra Bancorp and Subsidiaries for the tax years 2001 through 2002, and only as it relates to the net interest deduction taken on these amended returns, the company is no longer subject to U.S. or Oregon state examinations by tax authorities for years before 2004 and California state examinations for years before 2003. The Internal Revenue Service concluded an examination of the Company s U.S. income tax returns for 2003 and 2004 in the second quarter of 2006. The results of the examination had no significant impact on the financial statements.

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

NOTE 11. INTEREST-BEARING DEPOSITS

The following table presents the major types of interest-bearing deposits at December 31, 2007 and 2006:

(in thousands)

	2007	2006
Negotiable order of withdrawal (NOW)	$ 820,122	$ 725,127
Savings and money market	2,538,252	2,133,497
Time, $100,000 and over	1,138,538	898,617
Other time less than $100,000	819,542	860,946
Total interest-bearing deposits	$5,316,454	$ 4,618,187

The following table presents interest expense for each deposit type for the years ended December 31, 2007, 2006 and 2005:

(in thousands)

	2007	2006	2005
NOW	$ 13,286	$ 11,085	$ 5,881
Savings and money market	79,784	51,169	24,462
Time, $100,000 and over	48,816	30,972	16,139
Other time less than $100,000	38,954	26,655	13,096
Total interest on deposits	$180,840	$ 119,881	$ 59,578

The following table presents time deposits by their maturity or next repricing date as of December 31, 2007:

(in thousands)

Three months or less	$ 715,082
Over three months through twelve months	1,086,963
Over one year through three years	122,763
Over three years	33,272
Total time deposits	$ 1,958,080

NOTE 12. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The following table presents information regarding securities sold under agreements to repurchase at December 31, 2007 and 2006:

(in thousands)

	Repurchase Amount	Weighted Average Interest Rate	Carrying Value of Underlying Assets	Market Value of Underlying Assets
December 31, 2007	$ 36,294	2.29%	$ 37,085	$ 37,085
December 31, 2006	$ 47,985	3.13%	$ 49,027	$ 49,027

The securities underlying agreements to repurchase entered into by the Bank are for the same securities originally sold, with a one-day maturity. In all cases, the Bank maintains control over the securities. Securities sold under agreements to repurchase averaged approximately $49.1 million, $63.5 million and $59.6 million for the years ended December 31, 2007, 2006 and 2005, respectively. The maximum amount outstanding at any month end for the year ended December 31, 2007, 2006 and 2005 was $59.6 million, $65.5 million and $65.8 million, respectively. Investment securities are pledged as collateral in an amount equal to or greater than the repurchase agreements.

NOTE 13. FEDERAL FUNDS PURCHASED

At December 31, 2007, the outstanding balance of federal funds purchased was $69.5 million. This compared to no outstanding balance of federal funds purchased at December 31, 2006. The Bank had available lines of credit with the FHLB totaling $1.6 billion at December 31, 2007. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $240.0 million and $290.0 million at December 31, 2007 and 2006, respectively. At December 31, 2007, the lines of credit had interest rates ranging from 3.75% to 4.89%. Availability of the lines is subject to federal funds balances available for loan, continued borrower eligibility and are reviewed and renewed periodically throughout the year. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

NOTE 14. TERM DEBT

The Bank had outstanding secured advances from the FHLB and other creditors at December 31, 2007 and 2006 of $73.9 million and $9.5 million, respectively.

Future maturities of borrowed funds (excluding purchase accounting adjustments) at December 31, 2007 are as follows:

(in thousands)

Year	Amount
2008	$ 42,000
2009	30,000
2010	
2011	
2012	
Thereafter	1,694
Total borrowed funds	$ 73,694

The maximum amount outstanding from the FHLB under term advances at month end during 2007 and 2006 was $104.2 million and $227.4 million, respectively. The average balance outstanding on FHLB term advances during 2007 and 2006 was $63.7 million and $58.7 million, respectively. The average interest rate on the borrowings was 4.35% in 2007 and 5.04% in 2006. The FHLB requires the Bank to maintain a required level of investment in FHLB and sufficient collateral to qualify for notes. The Bank has pledged as collateral for these notes all FHLB stock, all funds on deposit with the FHLB, and its investments and commercial real estate portfolios, accounts, general intangibles, equipment and other property in which a security interest can be granted by the Bank to the FHLB.

NOTE 15. JUNIOR SUBORDINATED DEBENTURES

As of December 31, 2007, the Company had 14 wholly-owned trusts (Trusts) that were formed to issue trust preferred securities and related common securities of the Trusts and are not consolidated. The Company formed master Trusts that issued trust preferred securities representing an obligation of $61.9 million. The proceeds were used to redeem existing trust preferred securities representing an obligation of $25.8 million in the third quarter of 2007 and to repurchase 1.65 million shares of common stock in 2007. One Trust, representing an obligation of approximately $10.3 million (fair value of approximately $10.3 million as of the merger date), was assumed in connection with the North Bay merger and subsequently redeemed in June 2007. Four Trusts, representing aggregate total obligations of approximately $37.1 million (fair value of approximately $38.7 million as of the merger date), were assumed in connection with the Western Sierra merger. Five Trusts, representing aggregate total obligations of approximately $58.9 million (fair value of approximately $68.6 million as of the merger date), were assumed in connection with previous mergers.

Following is information about the Trusts as of December 31, 2007:

Junior Subordinated Debentures

(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	$ 20,924	Floating(4)	7.98%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	31,345	Floating(5)	7.98%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	10,463	Floating(6)	7.98%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	10,302	Floating(6)	7.98%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	38,346	Floating(7)	7.98%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	20,306	Floating(8)	7.98%	December 2037	December 2012
		134,024	131,686				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,552	10.875%	7.96%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	6,052	10.200%	8.04%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,592	Floating(9)	7.15%	December 2031	December 2006
Humboldt Bancorp Staututory Trust III	September 2003	27,836	31,253	6.75%(10)	5.06%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,394	Floating(5)	7.14%	November 2032	November 2007
Western Sierra Statutory Trust I	July 2001	6,186	6,333	Floating(11)	6.49%	July 2031	July 2006
Western Sierra Statutory Trust II	December 2001	10,310	10,554	Floating(9)	6.52%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,475	Floating(12)	6.75%	September 2033	September 2008
Western Sierra Statutory Trust IV	September 2003	10,310	10,475	Floating(12)	6.75%	September 2033	September 2008
		96,037	104,680				
	Total	$230,061	$ 236,366				

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

(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate as of December 2007, including impact of purchase accounting amortization.
(4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
(5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
(6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
(7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
(8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
(9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
(10) Rate fixed for 5 years from issuance, then adjusted quarterly thereafter based on LIBOR plus 2.95%.
(11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
(12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The $236.4 million of trust preferred securities issued to the Trusts as of December 31, 2007 ($203.7 million as of December 31, 2006) are reflected as junior subordinated debentures in the consolidated balance sheets. The common stock issued by the Trusts is recorded in other assets in the consolidated balance sheets, and totaled $6.9 million and $5.8 million at December 31, 2007 and 2006, respectively.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2007, under guidance issued by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Effective April 11, 2005, the Federal Reserve Board adopted a rule that permits the inclusion of trust preferred securities in Tier 1 capital, but with stricter quantitative limits. Under the Federal Reserve Board rule, after a five-year transition period ending March 31, 2009, the aggregate amount of trust preferred securities and certain other restricted core capital elements is limited to 25% of Tier 1 capital, net of goodwill. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, subject to restrictions. At December 31, 2007, the Company s restricted core capital elements were 32% of total core capital, net of goodwill. There can be no assurance that the Federal Reserve Board will not further limit the amount of trust preferred securities permitted to be included in Tier 1 capital for regulatory capital purposes.

Effective January 1, 2007, the Company adopted SFAS No. 159 and SFAS No. 157. See Note 20 for additional information on SFAS No. 157. SFAS No. 159 allows companies to measure at fair value most financial assets and liabilities that are currently required to be measured in a different manner, such as at amortized cost. Following the initial fair value measurement date, ongoing unrealized gains and losses on items for which fair value reporting has been elected are reported in earnings at each subsequent reporting date. Under SFAS No. 159, fair value reporting may be elected on an instrument-by-instrument basis, and thus companies may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles (GAAP).

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

Umpqua selected the fair value measurement option for certain pre-existing junior subordinated debentures of $97.9 million (the Umpqua Statutory Trusts) as of the adoption date. The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition.

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

(in thousands)

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

(1) Consists of issuance costs related to junior subordinated debentures for which fair value option was elected.
(2) Consists of accrued interest related to junior subordinated debentures for which fair value option was elected.
The gains and losses described in the table above will not be recognized in earnings based upon application of SFAS No. 159. Regulatory capital will be reduced by the adjustment to retained earnings. However, the Company s capital exceeds the capital levels required to be classified as well-capitalized, and the reduction in retained earnings resulting from the adoption of SFAS No. 159 will have minimal effect on the Company s current regulatory capital ratios.

As a result of the fair value measurement election for the above financial instruments, we recorded a gain of $4.9 million for the year ended December 31, 2007 resulting from the change in fair value of the junior subordinated debentures recorded at fair value. This gain was recorded as other non-interest income. Interest expense on junior subordinated debentures is recorded on an accrual basis. The junior subordinated debentures recorded at fair value of $131.7 million had contractual unpaid principal amounts of $134.0 million outstanding as of December 31, 2007.

NOTE 16. EMPLOYEE BENEFIT PLANS

Employee Savings Plan Substantially all of the Bank s and Strand s employees are eligible to participate in the Umpqua Bank 401(k) and Profit Sharing Plan (the Umpqua 401(k) Plan), a defined contribution and profit sharing plan sponsored by the Company. Employees may elect to have a portion of their salary contributed to the plan in conformity with Section 401(k) of the Internal Revenue Code. At the discretion of the Company s Board of Directors, the Company may elect to make matching and/or profit sharing contributions to the Umpqua 401(k) Plan based on profits of the Bank. The Company s contributions under the plan charged to expense amounted to $2.5 million, $2.6 million and $2.0 million for the years ended December 31, 2007, 2006 and 2005, respectively, and are recorded in other liabilities.

Supplemental Retirement Plan The Company has established the Umpqua Holdings Corporation Supplemental Retirement Plan (the SRP), a nonqualified deferred compensation plan to help supplement the retirement income of certain highly compensated executives selected by resolution of the Company s Board of Directors. The Company may make discretionary contributions to the SRP. For the years ended December 31, 2007, 2006 and 2005, the Company s matching contribution charged to expense for these supplemental plans totaled $65,000, $95,000 and $66,000, respectively. The plan balances at December 31, 2007 and 2006 were $329,000 and $276,000, respectively, and are recorded in other liabilities.

Salary Continuation Plans The Bank sponsors various salary continuation plans for the CEO and certain retired employees. These plans are unfunded, and provide for the payment of a specified amount on a monthly basis for a specified period (generally 10 to 20 years) after retirement. In the event of a participant employee s death prior to or during retirement, the Bank is obligated to pay to the designated beneficiary the benefits set forth under the plan. At December 31, 2007 and 2006, liabilities recorded for the estimated present value of future salary continuation plan benefits totaled $14.3 million and $10.8 million, respectively, and are recorded in other liabilities. For the years ended December 31, 2007, 2006, and 2005, expense recorded for the salary continuation plan benefits totaled $719,000, $1.3 million and $1.1 million, respectively.

Deferred Compensation Plans and Rabbi Trusts The Bank from time to time adopts deferred compensation plans that provide certain key executives with the option to defer a portion of their compensation. In connection with prior acquisitions, the Bank assumed liability for certain deferred compensation plans for key employees, retired employees and directors. Subsequent to the effective date of the acquisitions, no additional contributions were made to these plans. At December 31, 2007 and 2006, liabilities recorded in connection with deferred compensation plan benefits totaled $6.8 million and $6.6 million, respectively, and are recorded in other liabilities.

The Bank has established and sponsors, for some deferred compensation plans assumed in connection with prior mergers, irrevocable trusts commonly referred to as Rabbi Trusts. The trust assets (generally cash and trading assets) are consolidated in the Company s balance sheets and the associated liability (which equals the related asset balances) is included in other liabilities. The asset and liability balances related to these trusts as of December 31, 2007 and 2006 were $2.5 million and $2.9 million, respectively.

The Bank has purchased, or acquired through mergers, life insurance policies in connection with the implementation of certain executive supplemental income, salary continuation and deferred compensation retirement plans. These policies provide protection against the adverse financial effects that could result from the death of a key employee and provide tax-exempt income to offset expenses associated with the plans. It is the Bank s intent to hold these policies as a long-term investment. However, there will be an income tax impact if the Bank chooses to surrender certain policies. Although the lives of individual current or former management-level employees are insured, the Bank is the owner and sole or partial beneficiary. At December 31, 2007 and 2006, the cash surrender value of these policies was $80.6 million and $67.7 million, respectively. At December 31, 2007, the Bank also had a $1.2 million liability for post-retirement benefits payable to other partial beneficiaries under some of these life insurance policies. The Bank is exposed to credit risk to the extent an insurance company is unable to fulfill its financial obligations under a policy. In order to mitigate this risk, the Bank uses a variety of insurance companies and regularly monitors their financial condition.

In connection with the Western Sierra acquisition, the Bank became the sponsor of the Western Sierra Bancorp and Subsidiaries 401KSOP (401KSOP) and the Western Sierra Bancorp Employee Stock Ownership Plan (ESOP Plan). On December 28, 2006, the 401KSOP was merged into the Bank s 401(k) plan. The Bank recognized $159,000 of expense related to employer matching contributions for the 401KSOP plan during 2006. On October 5, 2006, Umpqua received a favorable determination letter from the IRS approving the termination of the ESOP Plan.

In connection with the North Bay acquisition, the Bank became the sponsor of the North Bay 401(k) plan. On May 1, 2007, the North Bay 401(k) plan was frozen and no further contributions were made to that plan. On January 1, 2008, the North Bay 401(k) plan was merged with the Bank s 401(k) plan.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Lease Commitments The Company leases 110 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times upon expiration.

Rent expense for the years ended December 31, 2007, 2006 and 2005 was $11.9 million, $9.4 million and $5.9 million, respectively. Rent expense was offset by rent income of $657,000, $392,000 and $270,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

The following table sets forth, as of December 31, 2007, the future minimum lease payments under non-cancelable operating leases and future minimum income receivable under non-cancelable operating subleases:

(in thousands)

	Lease Payments	Sublease Income
2008	$11,038	$ 455
2009	9,636	262
2010	8,809	179
2011	8,168	89
2012	7,099	73
Thereafter	30,966	67
Total	$75,716	$ 1,125

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 December 31, 2007
Commitments to extend credit	$ 1,404,365
Commitments to extend overdrafts	$ 182,724
Commitments to originate loans held-for-sale	$ 27,545
Other derivative commitments	$ 61,094
Standby letters of credit	$ 62,491

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

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

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

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in 2007, 2006 or 2005. 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 December 31, 2007, the Bank had commitments to originate mortgage loans held for sale totaling $27.5 million with a net fair value asset of approximately $68,000. As of that date, it also had forward sales commitments of $24.1 million with a net fair value liability of $144,000. The Bank recorded a loss of $5,000, a loss of $58,000 and a gain of $166,000, related to its commitments to originate mortgage loans and related forward sales commitments in 2007, 2006 and 2005, respectively.

In the fourth quarter of 2007, the Bank began using derivative instruments to hedge the risk of changes in the fair value of MSR due to changes in interest rates. At December 31, 2007, the Bank had derivative instruments with a notional amount of $37.0 million with a net fair value asset of $34,000. During 2007, we recognized a loss of $334,000 related to MSR hedging activities, which was recorded in mortgage banking revenue on the consolidated statements of income.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank has not been required to perform on any financial guarantees and did not incur any losses in connection with standby letters of credit during the years ended December 31, 2007, 2006 and 2005. At December 31, 2007, approximately $48.3 million of standby letters of credit expire within one year, and $14.2 million expire thereafter. Upon issuance, the Company recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The fair value of guarantees associated with standby letters of credit was $150,000 as of December 31, 2007.

At December 31, 2007, the reserve for unfunded commitments, which is included in other liabilities on the consolidated balance sheet, was $1.2 million. The adequacy of the reserve for unfunded commitments is reviewed on a quarterly basis, based upon changes in the amounts of commitments, loss experience, and economic conditions.

Mortgage loans sold to investors may be sold with servicing rights retained, with only the standard legal representations and warranties regarding recourse to the Bank. Management believes that any liabilities that may result from such recourse provisions are not significant.

Legal Proceedings In November 2007, Visa Inc. announced that it had reached a settlement with American Express related to an antitrust lawsuit. Umpqua Bank and other Visa member banks are obligated to fund the settlement and share in losses resulting from this litigation.

In the fourth quarter of 2007, the Company recorded a liability and corresponding expense of approximately $3.9 million pre-tax, for its proportionate share of that settlement.

In addition, Visa notified the Company that it had established a contingency reserve related to unsettled litigation with Discover Card. In connection with this contingency, the Company recorded, in the fourth quarter of 2007, a liability and corresponding expense of $1.2 million pre-tax, for its proportionate share of that contingent liability. The Company is not a party to the Visa litigation and its liability arises solely from the Bank s membership interest in Visa, Inc.

Previously, Visa Inc. announced that it completed restructuring transactions in preparation for an initial public offering of its Class A stock planned for early 2008, and, as part of those transactions, Umpqua Bank s membership interest in Visa was exchanged for Class B stock of Visa, Inc. In connection with Visa s planned offering, it is expected that a portion of the Class B shares will be redeemed for cash, with the remaining shares to be converted to Class A shares three years after the offering or upon settlement of certain covered litigation, whichever is later. Visa is expected to set aside a portion of the proceeds from the offering to fund the American Express settlement and other litigation judgments or settlements that may occur.

In connection with the announced American Express settlement, and in consideration of accounting guidance that the Company has been informed was provided by the Securities and Exchange Commission, the Company currently anticipates that its proportionate share of the proceeds of the planned initial public offering by Visa will more than offset any liabilities related to the Visa litigation, and no cash payments from Umpqua will be made in settlement of this liability.

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

Concentrations of Credit Risk The Company grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington and California. In management s judgment, a concentration exists in real estate-related loans, which represented approximately 79% and 81% of the Company s loan and lease portfolio at December 31, 2007 and 2006, respectively. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectibility, a substantial decline in the economy in general, or a decline in real estate values in the Company s primary market areas in particular, such as was seen with the deterioration in the northern California residential development market in 2007, could have an adverse impact on the repayment of these loans. Personal and business incomes represent the primary source of repayment for a majority of these loans.

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

NOTE 18. COMMON STOCK

Stock Plans

The Company s 2007 Long Term Incentive Plan (2007 LTI Plan) authorizes the award of up to 1 million restricted stock unit grants, which are subject to performance-based vesting as well as other approved vesting conditions. The Company s 2003 Stock Incentive Plan (2003 Plan) provides for grants of up to 2 million shares. The 2003 Plan further provides that no grants may be issued if existing options and subsequent grants under the 2003 Plan exceed 10% of the Company s outstanding shares on a diluted basis. Under the terms of the 2003 Plan, options and awards generally vest ratably over a period of five years, the exercise price of each option equals the market price of the Company s stock on the date of the grant, and the maximum term is ten years.

The Company has options outstanding under two prior plans adopted in 1995 and 2000, respectively. With the adoption of the 2003 Plan, no additional grants can be issued under the previous plans. The Company also assumed various plans in connection with mergers and acquisitions but does not make grants under those plans. During 2007, in connection with the North Bay merger, a total of 542,000 options were exchanged for North Bay stock options granted at an exchange ratio of 1.228 Umpqua stock options for each North Bay stock option outstanding. During 2006, in connection with the Western Sierra merger, a total of 723,000 options were exchanged for Western Sierra stock options granted at an exchange ratio of 1.61 Umpqua stock options for each Western Sierra stock option outstanding. All of the North Bay options and Western Sierra options were vested as of the date the mergers were completed.

The following table summarizes information about stock options outstanding at December 31, 2007, 2006 and 2005:

(shares in thousands)

	2007		2006		2005	
	Options Outstanding	Weighted-Avg Exercise Price	Options Outstanding	Weighted-Avg Exercise Price	Options Outstanding	Weighted-Avg Exercise Price
Balance, beginning of year	1,807	$ 14.78	1,846	$ 13.75	1,877	$ 9.98
Granted	50	26.12	25	28.43	508	23.60
Acquisitions	542	13.39	723	14.32		
Exercised	(767)	11.67	(769)	12.18	(409)	6.73
Forfeited/expired	(50)	21.21	(18)	19.90	(130)	19.88
Balance, end of year	1,582	$ 15.94	1,807	$ 14.78	1,846	$ 13.75
Options exercisable, end of year	1,215	$ 13.91	1,304	$ 11.88	1,164	$ 9.42

The following table summarizes information about outstanding stock options issued under all plans as of December 31, 2007:

(shares in thousands)

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Avg. Remaining Contractual Life (Years)	Weighted Avg. Exercise Price	Options Exercisable	Weighted Avg. Exercise Price
$4.00 to $8.78	318	4.8	$ 5.76	317	$ 5.76
$9.15 to $13.34	369	2.6	11.44	368	11.43
$13.46 to $19.31	337	5.1	17.55	255	17.20
$19.46 to $23.49	387	6.7	22.94	184	22.72
$24.25 to $28.43	171	7.9	25.66	91	25.48
	1,582	5.1	$ 15.94	1,215	$ 13.91

The total intrinsic value (which is the amount by which the stock price exceeds the exercise price) of both options outstanding and options exercisable as of December 31, 2007, was $4.6 million. The weighted average remaining contractual term of options exercisable was 4.7 years as of December 31, 2007. The total intrinsic value of options exercised was $8.7 million, $11.5 million and $7.2 million, in the years ended December 31, 2007, 2006, and 2005, respectively. During the years ended December 31, 2007, 2006, and 2005, the amount of cash received from the exercise of stock options was $9.0 million, $9.4 million and $2.8 million, respectively. As of December 31, 2007, there was $2.0 million of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of 2.1 years.

The Company grants restricted stock periodically as a part of the 2003 Plan for the benefit of employees. Restricted shares issued generally vest on an annual basis over five years for all grants issued. The following table summarizes information about non-vested restricted shares outstanding at December 31:

(shares in thousands)

	2007		2006		2005	
	Restricted Shares Outstanding	Average Grant Date Fair Value	Restricted Shares Outstanding	Average Grant Date Fair Value	Restricted Shares Outstanding	Average Grant Date Fair Value
Balance, beginning of year	122	$ 26.36	47	$ 21.28	66	$ 20.63
Granted	134	23.71	93	27.99	8	25.20
Released	(31)	24.96	(14)	20.76	(15)	20.45
Forfeited/expired	(16)	26.28	(4)	23.35	(12)	21.36
Balance, end of year	209	$ 24.88	122	$ 26.36	47	$ 21.28

The compensation cost related to restricted stock that has been charged against income (included in salaries and employee benefits) was $1.1 million, $555,000 and $241,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The total income tax benefit recognized in the income statement related to restricted stock was $444,000, $222,000 and $96,000 for the years ended December 31, 2007, 2006, and 2005, respectively. The total fair value of shares vested was $757,000, $383,000 and $363,000, for the years ended December 31, 2007, 2006, and 2005, respectively. As of December 31, 2007, there was $3.9 million of total unrecognized compensation cost related to non-vested restricted stock which is expected to be recognized over a weighted-average period of 3.8 years.

In the second quarter of 2007, the Company awarded a restricted stock unit grant to an executive under the 2003 Plan that vests based on continued service in various increments through July 1, 2011. The Company shall issue certificates for the vested grant units within the seventh month following termination of executive s employment. The restricted stock units granted under the 2007 LTI Plan cliff vest after three years based on performance and service conditions. The compensation cost related to the restricted stock units was $224,000 for the year ended December 31, 2007. At December 31, 2007, 38,000 restricted stock units with a weighted average grant date fair value of $26.39 were outstanding; 8,000 restricted stock units at a weighted average grant date fair value of $26.39 were vested and deferred.

For the years ended December 31, 2007, 2006, and 2005, the Company received income tax benefits of $3.4 million, $4.0 million, and $2.3 million, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions in the exercise of incentive stock options and the vesting of restricted shares. In the years ended December 31, 2007 and 2006, the cash flows from excess tax benefits (tax benefits resulting from tax deductions in excess of the compensation cost recognized) classified as financing cash flows were $289,000 and $1.2 million, respectively.

Share Repurchase Plan

The Company s share repurchase plan, which was approved by the Board and announced in August 2003, originally authorized the repurchase of up to 1.0 million shares. Prior to 2007, the authorization was amended to increase the repurchase limit to 2.5 million shares. On April 19, 2007, the Company announced an expansion of the Board of Directors approved common stock repurchase plan, increasing the repurchase limit to 6.0 million shares and extending the plan s expiration date from June 30, 2007 to June 30, 2009. As of December 31, 2007, a total of 1.5 million shares remained available for repurchase. The Company repurchased 4.0 million shares under the repurchase plan in 2007 as compared to none in 2006. 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.

We also have certain stock option and restricted stock plans which provide for the payment of the option exercise price or withholding taxes by tendering previously owned or recently vested shares. During the years ended December 31, 2007 and

2006, 43,000 and 4,000 shares were tendered in connection with option exercises. Restricted shares cancelled to pay withholding taxes totaled 4,000 and 2,000 shares during the years ended December 31, 2007 and 2006.

NOTE 19. REGULATORY CAPITAL

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company s financial statements. Under capital adequacy guidelines, the Company must meet specific capital guidelines that involve quantitative measures of the Company s assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Company s capital amounts and classifications are also subject to qualitative judgments by the regulators about risk components, asset risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2007, that the Company meets all capital adequacy requirements to which it is subject.

The Company s capital amounts and ratios as of December 31, 2007 and 2006 are presented in the following table:

(in thousands)

	Actual		For Capital Adequacy purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
AS OF DECEMBER 31, 2007:						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 771,855	10.89%	$ 567,019	8.00%	$ 708,774	10.00%
Umpqua Bank	$ 761,510	10.77%	$ 565,653	8.00%	$ 707,066	10.00%
Tier I Capital						
(to Risk Weighted Assets)						
Consolidated	$ 695,662	9.82%	$ 283,365	4.00%	$ 425,048	6.00%
Umpqua Bank	$ 685,317	9.70%	$ 282,605	4.00%	$ 423,907	6.00%
Tier I Capital						
(to Average Assets)						
Consolidated	$ 695,662	9.24%	$ 301,152	4.00%	$ 376,441	5.00%
Umpqua Bank	$ 685,317	9.12%	$ 300,578	4.00%	$ 375,722	5.00%
AS OF DECEMBER 31, 2006:						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 733,239	11.63%	$ 504,378	8.00%	$ 630,472	10.00%
Umpqua Bank	$ 715,593	11.37%	$ 503,496	8.00%	$ 629,369	10.00%
Tier I Capital						
(to Risk Weighted Assets)						
Consolidated	$ 671,836	10.66%	$ 252,096	4.00%	$ 378,144	6.00%
Umpqua Bank	$ 654,190	10.39%	$ 251,854	4.00%	$ 377,781	6.00%
Tier I Capital						
(to Average Assets)						
Consolidated	$ 671,836	10.28%	$ 261,415	4.00%	$ 326,769	5.00%
Umpqua Bank	$ 654,190	10.02%	$ 261,154	4.00%	$ 326,442	5.00%

The Bank is an Oregon state chartered bank with deposits insured by the Federal Deposit Insurance Corporation (FDIC), and is subject to the supervision and regulation of the Director of the Oregon Department of Consumer and Business Services, administered through the Division of Finance and Corporate Securities, and to the supervision and regulation of the California Department of Financial Institutions, the Washington Department of Financial Institutions and the FDIC. As of December 31, 2007, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. The Company is not subject to the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank s regulatory capital category.

NOTE 20. FAIR VALUES

SFAS No. 107*, Disclosures about Fair Value of Financial Instruments,* requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. The following table presents estimated fair values of the Company s financial instruments as of December 31, 2007 and 2006:

(in thousands)

	2007 Carrying Value	2007 Fair Value	2006 Carrying Value	2006 Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$ 192,070	$ 192,070	$ 335,648	$ 335,648
Trading securities	2,837	2,837	4,204	4,204
Securities available-for-sale	1,050,756	1,050,756	715,187	715,187
Securities held-to-maturity	6,005	6,026	8,762	8,817
Loans held for sale	13,047	13,047	16,053	16,053
Loans and leases, net	5,970,731	6,158,672	5,301,772	5,327,245
Restricted equity securities	15,273	15,273	15,255	15,255
Mortgage servicing rights	10,088	10,088	9,952	9,952
Bank owned life insurance assets	80,593	80,593	67,738	67,738
FINANCIAL LIABILITIES:				
Deposits	$ 6,589,326	$ 6,581,471	$ 5,840,294	$ 5,838,056
Securities sold under agreement to repurchase	36,294	36,294	47,985	47,985
Federal funds purchased	69,500	69,500		
Term debt	73,927	74,784	9,513	9,186
Junior subordinated debentures, at fair value	131,686	131,686		
Junior subordinated debentures, at amortized cost	104,680	108,752	203,688	239,671
DERIVATIVE FINANCIAL INSTRUMENTS:				
Rate lock commitments	$ 68	$ 68	$ (49)	$ (49)
Forward sales agreements	$ (144)	$ (144)	$ 70	$ 70
MSR hedge instruments	$ 34	$ 34	$	$

SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurement. Upon adoption of SFAS No. 157, there was no cumulative effect adjustment to beginning retained earnings and no impact on the financial statements, other than in conjunction with the adoption of SFAS No. 159, in the year ended December 31, 2007.

The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of December 31, 2007, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

(in thousands)

		Fair Value Measurements at December 31, 2007, Using		
Description	Fair Value December 31, 2007	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading securities	$ 2,837	$ 2,837		
Securities available-for-sale	1,050,756		1,050,756	
Mortgage servicing rights	10,088		10,088	
Total assets measured at fair value	$1,063,681	$ 2,837	$ 1,060,844	$
Junior subordinated debentures, at fair value	$ 131,686		$ 131,686	
Total liabilities measured at fair value	$ 131,686	$	$ 131,686	$

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

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, when market quotes are not readily accessible or available.

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

Loans 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, performing and nonperforming categories. For variable rate loans, carrying value approximates fair value. Fair value of fixed rate loans is calculated by discounting contractual cash flows at rates which similar loans are currently being made.

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

Bank owned life insurance assets Fair values of insurance policies owned are based on the insurance contract s cash surrender value.

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 as of December 31, 2007 and 2006. 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 a discounted cash flow model.

Derivative Instruments The fair value of the derivative instruments is 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.

NOTE 21. EARNINGS PER SHARE

The following is a computation of basic and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005:

(in thousands, except per share)

	2007	2006	2005
BASIC EARNINGS PER SHARE:			
Weighted average shares outstanding	59,828	52,311	44,438
Net income	$63,268	$ 84,447	$ 69,735
Basic earnings per share	$ 1.06	$ 1.61	$ 1.57
DILUTED EARNINGS PER SHARE:			
Weighted average shares outstanding	59,828	52,311	44,438
Net effect of the assumed exercise of stock options and vesting of restricted shares, based on the treasury stock method	600	739	573
Total weighted average shares and common stock equivalents outstanding	60,428	53,050	45,011
Net income	$63,268	$ 84,447	$ 69,735
Diluted earnings per share	$ 1.05	$ 1.59	$ 1.55

Options to purchase an additional 510,000 shares of common stock and 66,000 unvested restricted shares were outstanding at December 31, 2007 but were not included in the computation of diluted earnings per share because their effect would be anti-dilutive. Anti-dilutive options and unvested restricted stock excluded at December 31, 2006 and 2005 were not significant.

NOTE 22. OPERATING SEGMENTS

The Company operates three primary segments: Community Banking, Mortgage Banking and Retail Brokerage. The Community Banking segment s principal business focus is the offering of loan and deposit products to its business and retail customers in its primary market areas. As of December 31, 2007, the Community Banking segment operates 147 stores located throughout Oregon, Northern California and Washington.

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

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

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

Year Ended December 31, 2007

(in thousands)

	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Interest income	$ 472,836	$ 63	$ 15,493	$ 488,392
Interest expense	194,139		8,299	202,438
Net interest income	278,697	63	7,194	285,954
Provision for loan and lease losses	41,730			41,730
Non-interest income	45,966	10,750	8,109	64,825
Non-interest expense	191,998	9,876	8,926	210,800
Merger-related expense	3,318			3,318
Income before income taxes	87,617	937	6,377	94,931
Provision for income taxes	28,748	364	2,551	31,663
Net income	$ 58,869	$ 573	$ 3,826	$ 63,268
Total assets	$8,120,970	$ 8,332	$ 210,751	$ 8,340,053
Total loans	$5,869,125	$	$ 186,510	$ 6,055,635
Total deposits	$6,581,709	$	$ 7,617	$ 6,589,326

Year Ended December 31, 2006

(in thousands)

	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Interest income	$ 392,195	$ 73	$ 13,673	$ 405,941
Interest expense	134,840		8,977	143,817
Net interest income	257,355	73	4,696	262,124
Provision for loan and lease losses	2,552			2,552
Non-interest income	35,675	10,133	7,789	53,597
Non-interest expense	157,870	9,844	9,462	177,176
Merger-related expense	4,773			4,773
Income before income taxes	127,835	362	3,023	131,220
Provision for income taxes	45,408	156	1,209	46,773
Net income	$ 82,427	$ 206	$ 1,814	$ 84,447
Total assets	$7,087,227	$ 7,656	$ 249,353	$ 7,344,236
Total loans	$5,139,818	$	$ 222,044	$ 5,361,862
Total deposits	$5,834,835	$	$ 5,459	$ 5,840,294

Year Ended December 31, 2005

(in thousands)

	Community Banking	Retail Brokerage	Mortgage Banking	Consolidated
Interest income	$ 276,224	$ 101	$ 5,951	$ 282,276
Interest expense	69,239		3,755	72,994
Net interest income	206,985	101	2,196	209,282
Provision for loan and lease losses	2,468			2,468
Non-interest income	29,427	11,816	6,539	47,782
Non-interest expense	127,329	11,284	8,181	146,794
Merger-related expense	262			262
Income before income taxes	106,353	633	554	107,540
Provision for income taxes	37,365	219	221	37,805
Net income	$ 68,988	$ 414	$ 333	$ 69,735
Total assets	$5,257,333	$ 7,925	$ 95,381	$ 5,360,639
Total loans	$3,846,507	$	$ 75,124	$ 3,921,631
Total deposits	$4,286,227	$	$ 39	$ 4,286,266

NOTE 23. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has made loans to its directors and executive officers (and their associated and affiliated companies). All such loans have been made on the same terms as those prevailing at the time of origination to other borrowers.

The following table presents a summary of aggregate activity involving related party borrowers for the years ended December 31, 2007 and 2006:

(in thousands)

	2007	2006
Loans outstanding at beginning of year	$12,191	$ 11,730
New loans and advances	2,460	3,776
Less loan repayments	(3,619)	(2,866)
Reclassification(1)	(1,404)	(449)
Loans outstanding at end of year	$ 9,628	$ 12,191

(1) Represents loans that were once considered related party but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

At December 31, 2007 and 2006, deposits of related parties amounted to $7.4 million and $10.2 million, respectively.

NOTE 24. PARENT COMPANY FINANCIAL STATEMENTS

Condensed Balance Sheets

December 31,

(in thousands)

	2007	2006
ASSETS		
Non-interest-bearing deposits with subsidiary banks	$ 18,903	$ 33,049
Investments in:		
Bank subsidiary	1,449,046	1,323,025
Nonbank subsidiaries	13,152	11,325
Receivable from nonbank subsidiary	1,783	1,662
Other assets	6,196	7,315
Total assets	$1,489,080	$ 1,376,376
LIABILITIES AND SHAREHOLDERS EQUITY		
Payable to bank subsidiary	$ 7	$ 102
Other liabilities	12,769	16,375
Junior subordinated debentures, at fair value	131,686	
Junior subordinated debentures, at amortized cost	104,680	203,688
Total liabilities	249,142	220,165
Shareholders equity	1,239,938	1,156,211
Total liabilities and shareholders equity	$1,489,080	$ 1,376,376

Condensed Statements of Income

Year Ended December 31,

(in thousands)

	2007	2006	2005
INCOME			
Dividends from subsidiaries	$104,540	$ 28,445	$ 20,323
Other income	379	886	251
Total income	104,919	29,331	20,574
EXPENSES			
Management fees paid to subsidiaries	150	135	119
Other expenses	13,089	15,366	11,626
Total expenses	13,239	15,501	11,745
Income before income tax and equity in undistributed earnings of subsidiaries	91,680	13,830	8,829
Income tax benefit	(5,011)	(5,534)	(4,355)
Net income before equity in undistributed earnings of subsidiaries	96,691	19,364	13,184

(Distributions in excess) equity in undistributed earnings of subsidiaries	(33,423)	65,083	56,551
Net income	$ 63,268	$ 84,447	$ 69,735

Condensed Statements of Cash Flows

Year Ended December 31,

(in thousands)

	2007	2006	2005
OPERATING ACTIVITIES:			
Net income	$ 63,268	$ 84,447	$ 69,735
Adjustment to reconcile net income to net cash provided by operating activities:			
(Distributions in excess) equity in undistributed earnings of subsidiaries	33,423	(65,083)	(56,551)
Net amortization and depreciation	(1,099)	(783)	(529)
Change in fair value of junior subordinated debentures	(4,829)		
Net (increase) decrease in other assets	(207)	18,086	(4,692)
Net (decrease) increase in other liabilities	(2,164)	3,137	99
Net cash provided by operating activities	88,392	39,804	8,062
INVESTING ACTIVITIES:			
Investment in subsidiary	1,084		
Acquisitions	2,596	2,638	
Sales and maturities of investment securities available for sale	797	225	50
Net (increase) decrease in receivables from subsidiaries	(121)	1,079	5,074
Net cash provided by investing activities	4,356	3,942	5,124
FINANCING ACTIVITIES:			
Net (decrease) increase in payables to subsidiaries	(13)	95	(31)
Proceeds from the issuance of subordinated debentures	60,000		
Repayment of junior subordinated debentures	(36,084)		
Dividends paid	(43,461)	(28,131)	(11,557)
Stock repurchased	(96,291)	(179)	(1,904)
Proceeds from exercise of stock options	8,955	9,415	2,754
Net cash used by financing activities	(106,894)	(18,800)	(10,738)
Change in cash and cash equivalents	(14,146)	24,946	2,448
Cash and cash equivalents, beginning of year	33,049	8,103	5,655
Cash and cash equivalents, end of year	$ 18,903	$ 33,049	$ 8,103

NOTE 25. QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following tables present the summary results for the eight quarters ending December 31, 2007:

2007

(in thousands, except per share information)

	December 31	September 30	June 30	March 31	2007 Four Quarters
Interest income	$124,288	$ 127,861	$ 122,556	$ 113,687	$ 488,392
Interest expense	52,835	53,986	50,240	45,377	202,438
Net interest income	71,453	73,875	72,316	68,310	285,954
Provision for loan losses	17,814	20,420	3,413	83	41,730
Non-interest income	16,387	18,543	15,930	13,965	64,825
Non-interest expense (including merger expenses)	57,268	52,893	53,945	50,012	214,118
Income before income taxes	12,758	19,105	30,888	32,180	94,931
Provision for income taxes	3,242	5,928	10,975	11,518	31,663
Net income	$ 9,516	$ 13,177	$ 19,913	$ 20,662	$ 63,268
Basic earnings per share	$ 0.16	$ 0.22	$ 0.33	$ 0.36	
Diluted earnings per share	$ 0.16	$ 0.22	$ 0.32	$ 0.35	
Cash dividends declared per common share	$ 0.19	$ 0.19	$ 0.18	$ 0.18	

2006

(in thousands, except per share information)

	December 31	September 30	June 30	March 31	2006 Four Quarters
Interest income	$116,514	$ 114,738	$ 93,943	$ 80,746	$ 405,941
Interest expense	43,225	40,939	33,186	26,467	143,817
Net interest income	73,289	73,799	60,757	54,279	262,124
Provision for loan losses	125	2,352	54	21	2,552
Non-interest income	14,113	13,476	13,806	12,202	53,597
Non-interest expense (including merger expenses)	49,040	50,686	43,243	38,980	181,949
Income before income taxes	38,237	34,237	31,266	27,480	131,220
Provision for income taxes	13,704	11,381	11,635	10,053	46,773
Net income	$ 24,533	$ 22,856	$ 19,631	$ 17,427	$ 84,447
Basic earnings per share	$ 0.42	$ 0.40	$ 0.40	$ 0.39	
Diluted earnings per share	$ 0.42	$ 0.39	$ 0.40	$ 0.39	

Cash dividends declared per common share	$ 0.18	$ 0.18	$ 0.12	$ 0.12

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

On a quarterly basis, we carry out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15b of the Securities Exchange Act of 1934. Our Disclosure Control Committee operates under a charter that was approved by our Audit and Compliance Committee. As of December 31, 2007, our management, including our Chief Executive Officer, Principal Financial Officer, and Principal Accounting Officer, concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us, which is required to be included in our periodic SEC filings.

Although we change and improve our internal controls over financial reporting on an ongoing basis, we do not believe that any such changes occurred in the fourth quarter 2007 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Umpqua Holdings Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and under the Securities Exchange Act of 1934. The Company s internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company s assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with the authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on our assessment and those criteria, we believe that, as of December 31, 2007, the Company maintained effective internal control over financial reporting.

The Company s registered public accounting firm has audited the Company s consolidated financial statements as of and for the year ended December 31, 2007 that are included in this annual report and issued their Report of Independent Registered Public Accounting Firm, appearing under Item 8, which includes an attestation report on the Company s internal control over financial reporting. The attestation report expresses an unqualified opinion on the effectiveness of the Company s internal controls over financial reporting as of December 31, 2007.

February 25, 2008

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The response to this item is incorporated by reference to Umpqua s Proxy Statement for the April 2008 annual meeting of shareholders under the captions Annual Meeting Business , Information About Directors and Executive Officers , Corporate Governance Overview and Section 16(a) Beneficial Ownership Reporting Compliance.

ITEM 11. EXECUTIVE COMPENSATION.

The response to this item is incorporated by reference to the Proxy Statement, under the captions Executive Compensation Discussion and Analysis and Executive Compensation Decisions.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The response to this item is incorporated by reference to the Proxy Statement, under the caption Security Ownership of Management and Others.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The response to this item is incorporated by reference to the Proxy Statement, under the caption Related Party Transactions.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The response to this item is incorporated by reference to the Proxy Statement, under the caption Independent Registered Public Accounting Firm.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) (1) Financial Statements:

The consolidated financial statements are included as Item 8 of this Form 10-K.

(2) Financial Statement Schedules:

All schedules have been omitted because the information is not required, not applicable, not present in amounts sufficient to require submission of the schedule, or is included in the financial statements or notes thereto.

(3) The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are listed on the Index of Exhibits to this annual report on Form 10-K on sequential page 101.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Umpqua Holdings Corporation has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on February 25, 2008.

UMPQUA HOLDINGS CORPORATION (Registrant)

By: /s/ Raymond P. Davis Date: February 25, 2008
Raymond P. Davis, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Raymond P. Davis	President, Chief Executive Officer and Director	February 25, 2008
Raymond P. Davis	(Principal Executive Officer)	
/s/ Ronald L. Farnsworth	Executive Vice President, Chief Financial Officer	February 25, 2008
Ronald L. Farnsworth	(Principal Executive Officer)	
/s/ Neal T. McLaughlin	Executive Vice President, Treasurer	February 25, 2008
Neal T. McLaughlin	(Principal Accounting Officer)	
/s/ Ronald F. Angell	Director	February 25, 2008
Ronald F. Angell		
/s/ Scott D. Chambers	Director	February 25, 2008
Scott D. Chambers		
/s/ Allyn C. Ford	Director	February 25, 2008
Allyn C. Ford		

Signature	Title	Date
	Director	February 25, 2008
David B. Frohnmayer		
/s/ Stephen Gambee	Director	February 25, 2008
Stephen Gambee		
/s/ Dan Giustina	Director	February 25, 2008
Dan Giustina		
	Director	February 25, 2008
William A. Lansing		
/s/ Theodore S. Mason	Director	February 25, 2008
Theodore S. Mason		
/s/ Diane D. Miller	Director	February 25, 2008
Diane D. Miller		
/s/ Bryan L. Timm	Director	February 25, 2008
Bryan L. Timm		

EXHIBIT INDEX

Exhibit		
2.1	(a)	Agreement and Plan of Reorganization dated January 17, 2007 by and among Umpqua Holdings Corporation, Umpqua Bank, North Bay Bancorp and The Vintage Bank and related Plan of Merger
3.1	(b)	Restated Articles of Incorporation
3.2	(c)	Bylaws
4.1	(d)	Specimen Stock Certificate
4.2	(e)	Amended and Restated Declaration of Trust for Umpqua Master Trust I, dated August 9, 2007
4.3	(f)	Indenture, dated August 9, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
4.4	(g)	Series A Guarantee Agreement, dated August 9, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
4.5	(h)	Series B Guarantee Agreement, dated September 6, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
4.6	(i)	Series B Supplement pursuant to Amended and Restated Declaration of Trust dated August 9, 2007
10.1	(j)	Second Restated Supplemental Executive Retirement Plan effective January 1, 2007 between the Company and Raymond P. Davis
10.2	(k)	Employment Agreement dated effective July 1, 2003 between the Company and Raymond P. Davis
10.3	(l)	Umpqua Holdings Corporation 2005 Performance-Based Executive Incentive Plan
10.4	(m)	2003 Stock Incentive Plan, as amended, effective March 5, 2007
10.5	(n)	2007 Long Term Incentive Plan effective March 5, 2007
10.6	(o)	Employment Agreement with William Fike, dated May 12, 2005, as amended
10.7	(p)	Employment Agreement with Brad Copeland dated March 10, 2006
10.8	(q)	Employment Agreement with David Edson dated March 10, 2006
10.9	(r)	Employment Agreement with Daniel Sullivan dated September 15, 2003
10.10		Amendment to Employment Agreement with Daniel Sullivan dated June 1, 2007
10.11	(s)	Employment Agreement with Ronald L. Farnsworth dated February 15, 2005
10.12	(t)	Deferred Restricted Stock Grant Agreement effective March 5, 2007 between the Company and Raymond P. Davis
10.13	(u)	2005 Executive Deferred Compensation Agreement between the Company and William Fike
21.1	Subsidiaries of the Registrant	
23.1	Consent of Independent Registered Public Accounting Firm Moss Adams LLP	
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	

(a) Incorporated by reference to Appendix A to Form S-4 filed February 16, 2007
(b) Incorporated by reference to Exhibit 3.1 to Form 10-Q filed August 7, 2006
(c) Incorporated by reference to Exhibit 3.2 to Form 10-Q filed May 8, 2007
(d) Incorporated by reference to the Registration Statement on Form S-8 (No. 333-77259) filed with the SEC on April 28, 1999
(e) Incorporated by reference to Exhibit 4.1 to Form 8-K filed August 10, 2007
(f) Incorporated by reference to Exhibit 4.2 to Form 8-K filed August 10, 2007
(g) Incorporated by reference to Exhibit 4.3 to Form 8-K filed August 10, 2007
(h) Incorporated by reference to Exhibit 4.3 to Form 8-K filed September 7, 2007
(i) Incorporated by reference to Exhibit 4.4 to Form 8-K filed September 7, 2007
(j) Incorporated by reference to Exhibit 99.1 to Form 8-K filed April 20, 2007

(k) Incorporated by reference to Exhibit 10.4 to Form 10-Q filed August 11, 2003
(l) Incorporated by reference to Appendix B to Form DEF 14A filed March 31, 2005
(m) Incorporated by reference to Appendix A to Form DEF 14A filed March 14, 2007
(n) Incorporated by reference to Appendix B to Form DEF 14A filed March 14, 2007
(o) Incorporated by reference to Exhibit 10.1 to Form 10-Q filed August 9, 2005 and to Exhibit 10.1 to Form 8-K filed March 21, 2006.
(p) Incorporated by reference to Exhibit 10.2 to Form 8-K filed March 21, 2006
(q) Incorporated by reference to Exhibit 10.3 to Form 8-K filed March 21, 2006
(r) Incorporated by reference to Exhibit 10.5 to Form 10-Q filed November 14, 2003 and to Exhibit 10.9 attached to this report.
(s) Incorporated by reference to Exhibit 10.1 to Form 8-K filed May 16, 2007
(t) Incorporated by reference to Exhibit 99.2 to Form 8-K filed April 20, 2007
(u) Incorporated by reference to Exhibit 10.2 to Form 10-Q filed August 9, 2005