UMPQUA HOLDINGS CORP
Form 10-K
February 17, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2011

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

For the transition period from to .

Commission File Number: 001-34624

UMPQUA HOLDINGS CORPORATION

(Exact name of Registrant as specified in its charter)

OREGON	**93-1261319**
(State or Other Jurisdiction 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [x] Yes [   ] No

Indicate by check mark 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, 2011, based on the closing price on that date of $11.57 per share, and 113,403,414 shares held was $1,312,077,500.

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, 2012 was 112,193,401.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2012 Annual Meeting of Shareholders of Umpqua Holdings Corporation are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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Umpqua Holdings Corporation

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PART I

ITEM 1. BUSINESS.

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as anticipates, expects, believes, estimates and intends and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds, use of proceeds, availability of acquisition and growth opportunities, dividends, adequacy of our allowance for loan and lease losses and provision for loan and lease losses, our commercial real estate portfolio and subsequent chargeoffs. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties that could cause our financial performance to differ materially from our goals, plans, expectations and projections expressed in forward-looking statements include those set forth in our filings with the SEC, Item 1A of this Annual Report on Form 10-K, and the following factors that might cause actual results to differ materially from those presented:

- *our ability to attract new deposits and loans and leases;*
- *demand for financial services in our market areas;*
- *competitive market pricing factors;*
- *deterioration in economic conditions that could result in increased loan and lease losses;*
- *risks associated with concentrations in real estate related loans;*
- *market interest rate volatility;*
- *stability of funding sources and continued availability of borrowings;*
- *changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;*
- *our ability to recruit and retain key management and staff;*
- *availability of, and competition for, FDIC-assisted and other acquisition opportunities;*
- *risks associated with merger and acquisition integration;*
- *significant decline in the market value of the Company that could result in an impairment of goodwill;*
- *our ability to raise capital or incur debt on reasonable terms;*

- *regulatory limits on the Bank s ability to pay dividends to the Company;*

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

- *the impact of the Dodd-Frank Act on the Company s interchange fee revenue, interest expense, FDIC deposit insurance assessments and regulatory compliance expenses, which includes a maximum permissible interchange fee that an issuer may receive for an electronic debit transaction, resulting in an approximate 50% decrease in interchange revenue on an average transaction.*

For a more detailed discussion of some of the risk factors, see the section entitled Risk Factors below. We do not intend to update any factors, except as required by SEC rules, or to publicly announce revisions to any of our forward-looking statements. Any forward-looking statement speaks only as of the date that such statement was made. You should consider any forward looking statements in light of this explanation, and we caution you about relying on forward-looking statements.

Umpqua Holdings Corporation

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 Umpqua Investments, Inc. (Umpqua Investments). Prior to July 2009, Umpqua Investments was known as 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 have been made available on our website within two days of filing with the SEC.

General Background

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

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

Business Strategy

Umpqua Bank s 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 San Francisco, 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 relevant and enjoyable. With this approach in mind, we have developed a unique store concept that offers one-stop shopping and includes distinct physical areas or boutiques, such as a serious about service center, an investment opportunity center and a computer café, which make the Bank s products and services more tangible and accessible. In 2006, we introduced our Neighborhood Stores and in 2007, we introduced the Umpqua Innovation Lab. In 2010, we introduced the next generation version of our Neighborhood Store in the Capitol Hill area of Seattle, Washington. We are continuing to remodel existing and acquired stores in metropolitan locations to further our retail vision and have a consistent brand experience.

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, the performance of each sales associate and store 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, Umpqua s return on quality program rewards both individual sales associates and store teams with financial incentives. Through such programs, we are able to 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. This is done through design strategy, marketing, merchandising, community based events, and delivery through our customer facing channels. From Bank branded bags of custom roasted coffee beans and chocolate coins with each transaction, to educational seminars and three Umpqua-branded ice cream trucks, Umpqua s goal is to engage our customer with the brand in a whole new way. The unique look and feel of our stores and interactive 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.

Use Technology to Expand Customer Base. Although our strategy continues to emphasize superior personal service, as consumer preferences evolve we continue to expand user-friendly, technology-based systems to attract customers who want to interact with their financial institution electronically. We offer technology-based services including remote deposit capture, online banking, bill pay and treasury services, mobile banking, voice response banking, automatic payroll deposit programs, advanced function ATMs, interactive product kiosks, and a robust 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 and wrap our value proposition across all channels.

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.

Pursue Strategic Acquisitions. A part of our strategy in this economic environment is to pursue the acquisition of banks within or in proximity to our geographic footprint that may be operating under capital constraints, regulatory pressure or other competitive disadvantages. We also consider the acquisition of certain failing banks that the FDIC makes available for bid, and that meet our strategic objectives. Failed bank transactions are attractive opportunities because we can acquire loans subject to a loss share agreement with the FDIC, or at a significant discount, that limits our downside risk on the purchased loan portfolio and, apart from our assumption of deposit liabilities, we have significant discretion as to the non-deposit liabilities that we assume. Assets purchased from the FDIC are marked to their fair value. We have completed four FDIC-assisted transactions since January 1, 2009.

Marketing and Sales

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

Media Advertising. Our comprehensive marketing campaigns aim to strengthen the Umpqua Bank brand and heighten public awareness about our innovative delivery of financial products and services. The Bank has been recognized nationally for its use of new media and unique approach. From programs like Umpqua s Discover Local Music Project and ice cream trucks, to campaigns like Save Hard Spend Smart and the Lemonaire, Umpqua is utilizing nontraditional media channels and leveraging mass market media in new ways. In 2005 Umpqua dubbed the term hand-shake marketing to describe the Company s fresh approach to localized marketing.

Retail Store Concept. As a financial services provider, we believe that the store environment is critical to successfully market and sell products and services. Retailers traditionally have displayed merchandise within their stores in a manner designed to encourage customers to purchase their products. Purchases are made on the spur of the moment due to the products availability and attractiveness. Umpqua Bank believes this same concept can be applied to financial institutions and accordingly displays financial services and products through tactile merchandising within our stores. Unlike many financial institutions whose strategy is to discourage customers from visiting their facilities in favor of ATMs or other forms of electronic banking, we encourage customers to visit our stores, where they are greeted by well-trained sales associates and encouraged to browse and to make impulse purchases. Our Next Generation store model includes features like free wireless, free use of laptop computers, opening rooms with refrigerated beverages and innovative products packaging like MainStreet for businesses a package that includes relationship pricing for deposit and loan products, and invitation to Business Therapy seminars. The stores host a variety of after-hours events, from poetry readings to seminars on how to build an art collection. 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 full-service stores are smaller and emphasize advanced technology. To strengthen brand recognition, all Neighborhood Stores are similar in appearance. Umpqua s Innovation Lab is a one-of-a-kind location, showcasing 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.

Service Culture. Umpqua believes strongly that if we lead with a service culture, we will have more opportunity to sell our products and services and to create deeper customer relationships across all divisions, from retail to mortgage and commercial. Although a successful marketing program will attract customers to visit, a service environment and a well-trained sales team are critical to selling our products and services. We believe that our service culture has become well established throughout the organization due to our unique facility designs and ongoing training of our associates on all aspects of sales and service. We provide training at our in-house training facility, known as The World s Greatest Bank University, to recognize and celebrate exceptional service, and pay commissions for the sale of the Bank s products and services. This service 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 target 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 equipped with an e-switchkit which includes internet banking through umpqua.online, mobile banking, 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. Our approach is to tailor fit products and bundle those that meet the customer s needs. This approach adds value for the customer, increases products per household and produces higher service fee income. We also offer a senior checking product which is augmented by Club Carefree, a group that enjoys travel, purchase discounts, and topical seminars.

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

Private Bank. Umpqua Private Bank serves high net worth individuals with liquid investable assets by providing customized financial solutions and offerings. The private bank is designed to augment Umpqua s existing high-touch customer experience, and works collaboratively with the Bank s affiliate retail brokerage Umpqua Investments and with the independent capital management firm Ferguson Wellman Capital Management, to offer a comprehensive, integrated approach that meets clients financial goals, including financial planning, trust services and investments.

Retail Brokerage Services. Umpqua Investments provides a full range of brokerage services including equity and fixed income products, mutual funds, annuities, options, retirement planning and money management services. Additionally, Umpqua

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Investments offers life insurance. At December 31, 2011, Umpqua Investments had 41 Series 7-licensed financial advisors serving clients at three stand-alone retail brokerage offices, one location located within a retirement facility, and Investment Opportunity Centers located in many Bank stores.

Asset Management Services. Umpqua entered into a strategic alliance with Ferguson Wellman in the fall of 2009 to further enhance our offerings to individuals, unions and corporate retirement plans, endowments and foundations.

Commercial Loans and Commercial Real Estate Loans. We offer specialized loans for business and commercial customers, including accounts receivable and inventory financing, equipment loans, international trade, real estate construction loans and permanent financing and SBA program financing as well as capital markets and treasury management services. Additionally, we offer specially designed loan products for small businesses through our Small Business Lending Center, and have recently introduced a new business banking division to increase lending to small and mid-sized businesses. Ongoing credit management activities continue to focus on commercial real estate loans given this is a significant portion of our loan portfolio. We are also engaged in initiatives that continue to diversify the loan portfolio including a strong focus on commercial and industrial loans in addition to financing owner-occupied properties.

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. Servicing is retained on the majority of these loans. We also support the Home Affordable Refinance Program and Home Affordable Modification Program.

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

Market Area and Competition

The geographic markets we serve are highly competitive for deposits, loans, leases and retail brokerage services. We compete with traditional banking 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, Western Washington, Northern California, and Nevada, major banks and large regional banks generally hold dominant market share positions. By virtue of their larger capital bases, these institutions 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.

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, non-bank institutions are able to attract funds and provide lending and other financial services even without offices located in our primary service area. Some insurance companies and brokerage firms compete for deposits by offering rates that are higher than may be appropriate for the Bank in relation to its asset and liability management objectives. However, we offer a wide array of deposit products and believe we can compete effectively through rate-driven product promotions. We also compete with full service investment firms for non-bank financial products and services offered by Umpqua Investments.

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 relationships, 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 historically experienced growth below statewide averages. During the past several years, the States of Oregon, California, Washington, and Nevada have experienced economic difficulties. To the extent

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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 the U.S. recession, the housing market downturn, and declining real estate values in our markets, have negatively impacted aspects of our loan portfolio and the markets we serve. Continued deterioration in the real estate market or other segments of our loan portfolio could further negatively impact our operations in these markets, financial condition and results of operations.

The following table presents the Bank s market share percentage for total deposits as of June 30, 2011, 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, 2011 and updates the information for any bank mergers and acquisitions completed subsequent to the reporting date.

Oregon

County	Market Share	Market Rank	Number of Stores
Benton	7.3%	7	1
Clackamas	4.6%	7	5
Coos	39.6%	1	5
Curry	27.6%	2	1
Deschutes	4.7%	8	5
Douglas	60.2%	1	9
Jackson	16.7%	1	9
Josephine	18.3%	1	5
Lane	17.8%	1	9
Lincoln	12.1%	4	2
Linn	12.7%	4	3
Marion	8.4%	5	3
Multnomah	3.3%	6	16
Washington	4.1%	9	4

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California

County	Market Share	Market Rank	Number of Stores
Amador	5.6%	7	1
Butte	3.3%	8	2
Calaveras	23.7%	2	4
Colusa	35.7%	1	2
Contra Costa	0.2%	24	2
El Dorado	7.9%	4	5
Glenn	27.7%	3	2
Humboldt	25.1%	1	7
Lake	16.4%	3	2
Mendocino	3.3%	7	1
Napa	12.4%	3	7
Placer	6.7%	3	9
Sacramento	1.1%	15	6
San Joaquin	0.6%	20	1
Shasta	2.8%	8	1
Solano	4.0%	9	4
Sonoma	0.1%	20	1
Stanislaus	0.9%	15	2
Sutter	15.7%	2	2
Tehama	16.9%	1	2
Trinity	26.1%	2	1
Tuolumne	18.7%	3	5
Yolo	2.8%	10	1
Yuba	24.4%	2	2

Washington

County	Market Share	Market Rank	Number of Stores
Clark	8.4%	7	5
King	0.5%	21	10
Pierce	4.2%	7	11
Snohomish	0.8%	21	1

Nevada

County	Market Share	Market Rank	Number of Stores
Washoe	0.6%	7	4

Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2011, commercial real estate, commercial, residential, and consumer and other represented approximately 64%, 25%, 10%, and 1%, respectively, of the total non-covered loan and lease portfolio.

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

Allowance for Loan and Lease Losses (ALLL) Methodology

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

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

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

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 10% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of December 31, 2011, the unallocated allowance amount represented 5% of the allowance.

Management believes that the ALLL was adequate as of December 31, 2011. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 80% of our total loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our residential development, commercial real estate, commercial construction and commercial loan portfolios, and have led to an increase in non-performing loans and the allowance for loan and lease losses. A continued deterioration or a prolonged delay in economic recovery in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

Employees

As of December 31, 2011, we had a total of 2,255 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 #69 on *Fortune* magazine s 2012 list of 100 Best Companies to Work For , #25 on the 2011 list, #23 on the 2010 list, and #34 on the 2009 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 2012 annual meeting of shareholders.

Government Policies

The operations of our subsidiaries are affected by state and federal legislative changes and by policies of various regulatory authorities. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System, United States fiscal policy, and capital adequacy and liquidity constraints imposed by federal and state regulatory agencies. Congress enacted the *Emergency Economic Stabilization Act of 2008* (EESA), which granted significant authority to the U.S. Department of the Treasury (the Treasury) to invest in financial institutions, guarantee debt, buy troubled assets and take other action designed to stabilize financial markets. In November 2008, the Company closed a transaction under the Capital Purchase Program (CPP) in which the Company issued 214,181 shares of cumulative preferred stock to the Treasury and issued a warrant to purchase 2,221,795 (reduced in 2009 to 1,110,898) shares of common stock at $14.46 per share in exchange for $214,181,000. Agreements executed in connection with the CPP transaction placed restrictions on compensation payable to senior executive officers and provided that the Company may not declare dividends that exceed $0.19 per common share per quarter without Treasury s prior written consent. Federal and state governments have been actively responding to the financial market crisis that unfolded in 2008 and legislative and regulatory initiatives are expected to continue for the foreseeable future. In connection with the Company s public offering in February 2010, Umpqua repurchased the preferred stock from the Treasury and the warrant in March 2010. See Note 22 of the *Notes to the Consolidated Financial Statement* in Item 8 below.

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 primarily 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, the Nevada Division of Financial Institutions , the FDIC and the Consumer Financial Protection Bureau (CFPB). 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) regularly examines 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 April 2010, 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 various affiliate agreements in compliance with Regulation W.

The Federal Reserve and the FDIC have adopted non-capital safety and soundness standards for institutions. 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. Substantially all deposits with Umpqua Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a bank s capital level and supervisory ratings. The base assessment rates under the Federal Deposit Insurance Reform Act of 2005 (Reform Act), enacted in February 2006, ranged from $0.02 to $0.40 per $100 of deposits annually. The FDIC could increase or decrease the assessment rate schedule five basis points (annualized) higher or lower than the base rates in order to manage the DIF to prescribed statutory target levels. For 2007 the effective assessment amounts were $0.03 above the base rate amounts. Assessment rates for well managed, well capitalized institutions ranged from $0.05 to $0.07 per $100 of deposits annually. The Bank s assessment rate for 2008 fell within this range. In 2007, the FDIC issued one-time assessment credits that could be used to offset this expense. The Bank s credit was fully utilized in 2007 and covered the majority of that year s assessment. The Bank did not have any remaining credit to offset assessments in 2008.

In December 2008, the FDIC adopted a rule that amended the system for risk-based assessments and changed assessment rates in attempt to restore targeted reserve ratios in the DIF. Effective January 1, 2009, the risk-based assessment rates were uniformly raised by seven basis points (annualized). On February 27, 2009, the FDIC further modified the risk-based assessment system, effective April 1, 2009, to effectively require larger risk institutions to pay a larger share of the assessment. Characteristics of larger risk institutions include a significant reliance on secured liabilities or brokered deposits, particularly when combined with rapid asset growth. The rule also provided incentives for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital. The initial base assessment rates range from $0.12 to $0.45 per $100 of deposits annually. After potential adjustments related to unsecured debt, secured liabilities and brokered deposit balances, the final total assessment rates range from $0.07 to $0.775 per $100 of deposits annually. Initial base assessment rates for well managed, well capitalized institutions ranged from $0.12 to $0.16 per $100 of deposits annually. The Bank s assessment rate for 2010 fell within this range.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will forego the uniform three-basis point increase in initial assessment rates schedules for January 1, 2011 and maintain the current schedule of assessment rates. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, increase or decrease assessment rates. On February 7, 2011, the FDIC adopted a final rule modifying the risk-based assessment system from a domestic deposit base to a scorecard based assessment system, effective April 1, 2011. Effective as of April 1, 2011, the Bank was categorized as a large institution as the Bank has more than $10 billion in assets. The initial base assessment rates range from five to 35 basis points. After potential adjustments related to unsecured debt and brokered deposit balances, the final total assessment rates range from 2.5 to 45 basis points. Initial base assessment rates for large institutions ranged from five to 35 basis points. The Bank s assessment rate for 2011 fell at the low end of this range. Further increases in the assessment rate could have a material adverse effect on our earnings, depending upon the amount of the increase.

In 2006, the Reform Act increased the deposit insurance limit for certain retirement plan deposit accounts from $100,000 to $250,000. The basic insurance limit for other deposits, including individuals, joint account holders, businesses, government entities, and trusts, remained at $100,000. The Reform Act also provided for the merger of the two deposit insurance funds administered by the FDIC, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF), into the DIF. On October 3, 2008, the EESA temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The basic deposit insurance limit would have returned to $100,000 after December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in the standard maximum deposit insurance amount to $250,000 per depositor through December 31, 2013. The standard maximum deposit insurance amount would return to $100,000 on January 1, 2014. The Dodd-Frank Act permanently raises the current standard maximum federal deposit insurance amount from $100,000 to $250,000 per qualified account.

In November 2008, the FDIC approved the final ruling establishing the Transaction Account Guarantee Program (TAGP) as part of the Temporary Liquidity Guarantee Program (TLGP). Under this program, effective immediately and through December 31, 2009, all non-interest bearing transaction accounts became fully guaranteed by the FDIC for the entire amount in the account. This unlimited coverage also extended to NOW (interest bearing deposit accounts) earning an interest rate no greater than 0.50% and all IOLTAs (lawyers trust accounts). Coverage under the TAGP, funded through insurance premiums paid by participating financial institutions, was in addition to and separate from the additional coverage announced under EESA. In August 2009, the FDIC extended the TAGP portion of the TLGP through June 30, 2010. In June 2010, the FDIC extended the TAGP portion of the TLGP for an additional six months, from July 1, 2010 to December 31, 2010. The rule required that interest rates on qualifying NOW accounts offered by banks participating in the program be reduced to 0.25% from 0.50%. The rule provided for an additional extension of the program, without further rulemaking, for a period of time not to exceed December 31, 2011. Umpqua elected to participate in the TAGP program through the extended period. In July 2010, the Dodd-Frank Act, was enacted which provides for unlimited deposit insurance for noninterest bearing transactions accounts (excluding NOW, but including IOLTAs) beginning December 31, 2010 for a period of two years.

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.

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Dividends. Under the Oregon Bank Act and the Federal Deposit Insurance Corporation Improvement Act of 1991, the Bank is subject to restrictions on the payment of cash dividends to its parent company. 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 paid by the Bank 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 unless the debt is fully secured and in the process of collection; all other assets charged-off as required by Oregon bank regulators or a state or federal examiner; and all accrued expenses, interest and taxes of the Bank. In addition, state and federal regulatory authorities are authorized to prohibit banks and holding companies from paying dividends that would constitute an unsafe or unsound banking practice. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve s view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company s capital needs, asset quality and overall financial condition.

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.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (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, 2011.

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

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

Broker-Dealer and Related Regulatory Supervision. Umpqua Investments is a member of, and is subject to the regulatory supervision of, FINRA. Areas subject to this regulatory review include compliance with trading rules, financial reporting, investment suitability for clients, and compliance with stock exchange rules and regulations.

Effects of Government Monetary Policy. Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve

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implements national monetary policy for such purposes as curbing inflation and combating recession, through its open market operations in U.S. Government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits. These activities influence growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

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

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

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. The Bank now has the ability to open additional de novo branches in the states of Oregon, California, Washington, and Nevada.

Section 613 of the Dodd-Frank Act eliminates interstate branching restrictions that were implemented as part of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, and removes many restrictions on de novo interstate branching by national and state-chartered banks. The FDIC and the OCC now have authority to approve applications by insured state

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nonmember banks and national banks, respectively, to establish de novo branches in states other than the bank s home state if the law of the State in which the branch is located, or is to be located, would permit establishment of the branch, if the bank were a State bank chartered by such State. The enactment of this section may significantly increase interstate banking by community banks in western states, where barriers to entry were previously high.

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

The Sarbanes-Oxley Act also requires:

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

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

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

- the Capital Purchase Program allocated $250 billion to Treasury to purchase senior preferred shares and warrants to purchase commons stock from approved financial institutions;
- the Troubled Asset Purchase Program allocated $250 billion to Treasury to purchase troubled assets from financial institutions, with Treasury to also receive securities issued by participating institutions;
- the Temporary Liquidity Guaranty Program (TLGP) authorized the FDIC to insure newly issued senior unsecured debt and insure the total balance in non-interest bearing transactional deposit accounts of those institutions who elect to participate;
- the Commercial Paper and Money Market Investor Funding Facilities authorized the Federal Reserve Bank of New York to purchase rated commercial paper from U.S. companies and to purchase money market instruments from U.S. money market mutual funds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act. On July 21, 2010, President Obama signed the Dodd-Frank Act, which is a sweeping overhaul of financial industry regulation. In general, the Act:

- Creates a systemic-risk council of top regulators, the Financial Stability Oversight Council (FSOC), whose purpose is to identify risks and respond to emerging threats to the financial stability of the U.S. arising from large, interconnected bank holding companies or nonbank financial companies;
- Gives the FDIC authority to unwind large failing financial firms. Treasury would supply funds to cover the up-front costs of winding down the failed firm, but the government would have to put a repayment plan in place. Regulators would recoup any losses incurred from the wind-down afterwards by assessing fees on financial firms with more than $50 billion in assets;
- Directs the FDIC to base deposit-insurance assessments on assets minus tangible capital instead of on domestic deposits and requires the FDIC to increase premium rates to raise the Deposit Insurance Fund s (DIF) minimum reserve ratio from 1.15% to 1.35% by September 30, 2020. Banks, like Umpqua, with consolidated assets greater than $10 billion would pay the increased premiums;
- Extends the FDIC s Transaction Account Guarantee (TAG) program to December 31, 2012. There is no opt-out from the extension;
- Permanently increases FDIC deposit-insurance coverage to $250,000, retroactive to January 1, 2008. The Act eliminates the 1.5% cap on the DIF reserve ratio and automatic dividends when the ratio exceeds 1.35%. Under the agreement, the FDIC would have discretion on whether to provide dividends to DIF members;
- Authorizes banks to pay interest on business checking accounts, which is likely to significantly increase our interest expense;
- Creates a new Consumer Financial Protection Bureau (CFPB), housed under the Federal Reserve and led by a director appointed by the President and confirmed by the Senate. All existing consumer laws and regulations will be transferred to this agency and each existing regulatory agency will contribute their respective consumer regulatory and exam staffs to the CFPB;

Grants to CFPB the authority to write consumer protection rules for banks and nonbank financial firms offering consumer financial services or products and to ensure that consumers are protected from unfair, deceptive, or abusive acts or practices. The CFPB also has authority to examine and enforce regulations for banks, like Umpqua, with greater than $10 billion in assets;

Authorizes the CFPB to require banks to compile and provide reports relating to its consumer lending, marketing and other consumer business activities and to make that information available to the public if it is in the public interest ;

Directs the Federal Reserve to set interchange fees for debit card transactions charged by banks with more than $10 billion in assets. It must establish what it determines are reasonable fees by factoring in their transaction costs compared to those for checks;

Requires loan originators to retain 5% of any loan sold and securitized, unless it is a qualified residential mortgage , which includes standard 30 and 15 year fixed rate loans. It also specifically exempts from risk retention FHA, VA, Farmer Mac and Rural Housing Service loans;

Excludes the proceeds of trust preferred securities from Tier 1 capital except for trust preferred securities issued before May 19, 2010 by bank holding companies, like the Company, with less than $15 billion in assets at December 31, 2009;

Adopts various mortgage lending and predatory lending provisions;

Requires federal regulators jointly to prescribe regulations mandating that financial institutions with more than $1 billion in assets to disclose to their regulators their incentive compensation plans to permit the regulators to determine whether the plans provide executive officers, employees, directors or principal shareholders with excessive compensation, fees or benefits; or could lead to material financial loss to the institution;

Imposes a number of requirements related to executive compensation that apply to all public companies, such as prohibition of broker discretionary voting in connection with a shareholder vote on executive compensation; mandatory shareholder say on pay (every one to three years) and say on golden parachutes ; and clawback of incentive compensation from current or former executive officers following any accounting restatement;

Establishes a modified version of the Volcker Rule and generally prohibits banks from engaging in proprietary trading or holding or obtaining an interest in a hedge fund or private equity fund, to the extent that it would exceed 3% of its Tier 1 capital. A bank s interest in any single hedge fund or private equity fund may not exceed 3% of the assets of that fund.

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ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the factors discussed below. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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

Since 2007, dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment and under-employment have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. We expect only moderate improvement in these conditions in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We face increased regulation of our industry, including as a result of the EESA, the American Recovery and Reinvestment Act of 2009 (the ARRA) and the Dodd-Frank Act. Compliance with such regulation will increase our costs, reduce existing sources of revenue and may limit our ability to pursue business opportunities.

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

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

- We may be required to pay significantly higher Federal Deposit Insurance Corporation premiums in the future if losses further deplete the FDIC deposit insurance fund.

- There may be downward pressure on our stock price.

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

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

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

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

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 cannot mitigate all credit risk. 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

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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 .

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

As of December 31, 2011, approximately 80% of our total loan portfolio is secured by real estate, the majority of which is commercial real estate. As a result of increased levels of commercial and consumer delinquencies and declining real estate values, since 2007 we have experienced elevated levels of net charge-offs and allowances for loan and lease reserves. Increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

Continued deterioration in the real estate market could result in loans that we have restructured to become delinquent and classified as non-accrual loans.

At December 31, 2011, impaired loans of $80.6 million were classified as performing restructured loans. We restructured the loans in response to borrower financial difficulty, and generally provided for a temporary modification of loan repayment terms. Loans are reported as restructured when we grant concessions to a borrower experiencing financial difficulties that we would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending the maturity dates or providing a lower interest rate than would be normally available for a transaction of similar risk. In exchange for these concessions, at the time of restructure, we require additional collateral to bring the loan to value to at most 100%. A further decline in the economic conditions in our general market areas or other factors could adversely impact borrowers with restructured loans and cause borrowers to become delinquent or otherwise default or call into question their ability to repay full interest and principal in accordance with the restructured terms, which would result in the restructured loan being reclassified as non-accrual.

The effects of the current economic recession have been particularly severe in our primary market areas in the Pacific Northwest, Northern California, and Nevada.

Substantially all of our loans are to businesses and individuals in Northern California, Oregon, Washington, and Nevada. The Pacific Northwest has one of the nation s highest unemployment rates and major employers in Oregon and Washington have implemented substantial employee layoffs or scaled back growth plans. Severe declines in housing prices and property values have been particularly acute in our primary market areas. The States of California, Oregon, Washington, and Nevada continue to face fiscal challenges, the long-term effects of which on each State s economy cannot be predicted. A further deterioration in the economic conditions or a prolonged delay in economic recovery in our primary market areas could result in the following consequences, any of which could materially and adversely affect our business: loan delinquencies may increase; problem assets and foreclosures may increase putting further price pressures on valuations generally; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans.

The benefits of our FDIC loss-sharing agreements may be reduced or eliminated.

In connection with Umpqua Bank s assumption of the banking operations of Evergreen Bank, Rainier Pacific Bank, and Nevada Security Bank, the Bank entered into Whole Bank Purchase and Assumption Agreements with Loss-Share. Our decisions regarding the fair value of assets acquired, including the FDIC loss-sharing assets, could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects. Management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss-sharing agreements, we record a loss-sharing asset that reflects our estimate of the timing and amount of future losses that are anticipated to occur in and used to value the acquired loan portfolio. In determining the size of the loss-sharing asset, we analyze the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information.

If our assumptions relating to the timing or amount of expected losses are incorrect, there could be a negative impact on our operating results. Increases in the amount of future losses in response to different economic conditions or adverse developments in the acquired loan portfolio may result in increased credit loss provisions. Changes in our estimate of the timing of those losses, specifically if those losses are to occur beyond the applicable loss-sharing periods, may result in impairments of the FDIC indemnification asset.

Our ability to obtain reimbursement under the loss-sharing agreements on covered assets depends on our compliance with the terms of the loss-sharing agreements.

Management must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss-sharing agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss-sharing coverage. Additionally, management may decide to forgo loss-share coverage on certain assets to allow greater flexibility over the management of certain assets. As of December 31, 2011, $641.9 million, or 5.6%, of the Company s assets were covered by the aforementioned FDIC loss-sharing agreements.

Under the terms of the FDIC loss-sharing agreements, the assignment or transfer of a loss-sharing agreement to another entity generally requires the written consent of the FDIC. In addition, the Bank may not assign or otherwise transfer a loss-sharing agreement during its term without the prior written consent of the FDIC. No assurances can be given that we will manage the covered assets in such a way as to maintain loss-share coverage on all such assets.

Acquisition opportunities may not become available and increased competition may make it more difficult for us to acquire banks in traditional M&A transactions or to successfully bid on failed bank transactions.

Our near-term business strategy includes pursue the acquisition of banks within or in proximity to our geographic footprint that may be operating under capital constraints, regulatory pressure or other competitive disadvantages as well as analyzing and bidding on failing banks that the FDIC plans to place in receivership. Traditional merger and acquisition transactions have been infrequent in the past few years, but we expect that the volume may be increasing as banks work through their problem loan portfolios. However, many target banks may be valued at a discount to their book value, making transactions difficult to conclude. In addition, the FDIC may not place banks that meet our strategic objectives into receivership and the bidding process for failing banks has become very competitive. We may not be able to match or beat the bids of other acquirers unless we bid aggressively by increasing the premium paid on assumed deposits or reducing the discount bid on assets purchased, which could make the acquisition less beneficial to the financial performance of the Bank.

A rapid change in interest rates, or maintenance of rates at historically high or low levels for an extended period, 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. Historically low rates for an extended period of time result in reduced returns from the investment and loan portfolios. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth than previously experienced. See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures about Market Risk .

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

The widening of the credit risk adjusted rate spreads on potential new issuances of junior subordinated debentures above our contractual spreads and reductions in three month LIBOR rates have contributed to cumulative positive fair value adjustments in our junior subordinated debentures carried at fair value over the last three years. Tightening of these credit risk adjusted rate spreads and interest rate volatility may result in recognizing negative fair value adjustments charged to earnings in the future.

The Dodd-Frank Act and other recent legislative and regulatory initiatives contain numerous provisions and requirements that could detrimentally affect the Company s business.

The Dodd-Frank Act and related regulations subject us and other financial institutions to additional restrictions, oversight, reporting obligations and costs, which could have an adverse impact on our business, financial condition, results of operations or the price of our common stock. In addition, this increased regulation of the financial services industry restricts the ability of firms within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Congress or state legislatures could also adopt laws reducing the amount that borrowers are otherwise contractually required to pay under existing loan contracts, require lenders to extend or restructure certain loans or limit foreclosure and collection remedies. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof. Compliance with such current and potential regulation and scrutiny will significantly increase our costs, impede the efficiency of our internal business processes, may require us to increase our regulatory capital and may limit our ability to pursue business opportunities in an efficient manner. In response, we may be required to or choose to raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock.

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

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations or to support future FDIC-assisted acquisitions. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations and pursue our growth strategy could be materially impaired.

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

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

Our wholesale funding sources may prove insufficient to support our future growth or an unexpected reduction in deposits.

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

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

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

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

Various statutory provisions restrict the amount of dividends the Bank can pay to us without regulatory approval. The Bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet the adequately capitalized level in accordance with regulatory capital requirements. It is also possible that, depending upon the financial condition of the Bank and other factors, regulatory authorities could conclude that payment of dividends or other payments, including payments to us, is an unsafe or unsound practice and impose restrictions or prohibit such payments. Under Oregon law, the Bank may not pay dividends in excess of unreserved retained earnings, deducting there from, to the extent not already charged against earnings or reflected in a reserve, the following: (1) all bad debts, which are debts on which interest is past due and unpaid for at least six months, unless the debt is fully secured and in the process of collection; (2) all other assets charged-off as required by Oregon bank regulators or a state or federal examiner; and (3) all accrued expenses, interest and taxes of the institution. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve s view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company s capital needs, asset quality and overall financial condition.

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 estimated 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 goodwill would occur with a charge to earnings. In the second quarter 2009, we recognized a goodwill impairment charge of $112.0 million related to our Community Banking operating segment. See Management s Discussion and Analysis of Financial Condition and Results of Operations Goodwill and Other Intangible Assets .

We have a gross deferred tax asset position of $124.3 million at December 31, 2011, and we are required to assess the recoverability of this asset on an ongoing basis.

Deferred tax assets are evaluated on a quarterly basis to determine if they are expected to be recoverable in the future. Our evaluation considers positive and negative evidence to assess whether it is more likely than not that a portion of the asset will not be realized. The risk of a valuation allowance increases if continuing operating losses are incurred. Future negative operating performance or other negative evidence may result in a valuation allowance being recorded against some or all of this amount. A valuation allowance on our deferred tax asset could have a material adverse impact on our capital and results of operations.

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 10 other financial institutions. There is no assurance that future acquisitions will be successfully integrated. We have announced our intent to pursue FDIC-assisted acquisition opportunities, traditional M&A transactions, and to open new stores in Oregon, Washington and California 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.

The financial services industry is highly competitive.

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

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

Umpqua Investments 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 Umpqua Investments operations. Umpqua Investments 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 Umpqua Investments income and potentially require the contribution of additional capital to support its operations. Umpqua Investments 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 .

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

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

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

The market for some of the investment securities held in our portfolio has become extremely volatile over the past three years. Volatile market conditions or deteriorating financial performance of the issuer or obligor may detrimentally affect the value of these securities. There can be no assurance that the declines in market value associated with these disruptions will not result in other-than-temporary or permanent impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

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

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

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

Our business involves storing and processing sensitive consumer and business customer data. A cyber security breach may result in theft of such data or disruption of our transaction processing systems. We depend on internal systems and outsourced technology to support these data storage and processing operations. Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations. A material breach of customer data security may negatively impact our business reputation and cause a loss of customers, result in increased expense to contain the event and/or require that we provide credit monitoring services for affected customers, result in regulatory fines and sanctions and may result in class action litigation. Cyber security risk management programs are expensive to maintain and will not protect the Company from all risks associated with maintaining the security of customer data and the Company s proprietary data from external and internal intrusions, disaster recovery and failures in the controls used by our vendors. In addition, Congress and the legislatures of states in which we operate regularly consider legislation that would impose more stringent data privacy requirements.

Our business is highly reliant on third party vendors and our ability to manage the operational risks associated with outsourcing those services.

We rely on third parties to provide services that are integral to our operations. These vendors provide services that support our operations, including the storage and processing of sensitive consumer and business customer data, as well as our sales efforts. A cyber security breach of a vendor s system may result in theft of our data or disruption of business processes. A material breach of customer data security at a service provider s site may negatively impact our business reputation and cause a loss of customers; result in increased expense to contain the event and/or require that we provide credit monitoring services for affected customers, result in regulatory fines and sanctions and may result in litigation. In most cases, we will remain primarily liable to our customers for losses arising from a breach of a vendor s data security system. We rely on our outsourced service providers to implement and maintain prudent cyber security controls. We have procedures in place to assess a vendor s cyber security controls prior to establishing a contractual relationship and to periodically review assessments of those control systems; however, these procedures are not infallible and a vendor s system can be breached despite the procedures we employ. We have alliances with other companies that assist in our sales efforts. In our wealth management business, we have an alliance with Ferguson Wellman, a registered investment advisor to whom we refer customers for investment advice and asset management services. We cannot be sure that we will be able to maintain these relationships on favorable terms. In addition, some of our data processing services are provided by companies associated with our competitors. The loss of these vendor relationships could disrupt the services we provide to our customers and cause us to incur significant expense in connection with replacing these services.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive offices of Umpqua and Umpqua Investments are located at One SW Columbia Street in Portland, Oregon in office space that is leased. The Bank owns its main office located in Roseburg, Oregon. At December 31, 2011, the Bank conducted Community Banking activities or operated Commercial Banking Centers at 194 locations, in Northern California, Oregon and Washington along the I-5 corridor; in the San Francisco Bay area, Inland Foothills, Napa and Coastal regions in California; in Bend and along the Coast of Oregon; in greater Seattle and Bellevue, Washington, and in Reno, Nevada, of which 64 are owned and 130 are leased under various agreements. As of December 31, 2011, the Bank also operated 15 facilities for the purpose of administrative and other functions, such as back-office support, of which five are owned and 10 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, 2011, Umpqua Investments leased three stand-alone offices from unrelated third parties, one stand-alone office from the Bank, and also leased space in eight 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 8 and 20, respectively, of the *Notes to Consolidated Financial Statements* in Item 8 below.

ITEM 3. LEGAL PROCEEDINGS.

In our Form 10-Q for the period ending June 30, 2011, we initially reported on a putative stockholders derivative action filed in the U.S. District Court for the District of Oregon by Plumbers Local No. 137 Pension Fund and Laborers Local #231 Pension Fund naming Umpqua s present directors, certain executive officers and PricewaterhouseCoopers LLP (PwC) as defendants and Umpqua as nominal party. On January 11, 2012, District Court Magistrate Judge, John V. Acosta, ruled on a motion to dismiss filed by Umpqua s present directors and certain executive officers and issued findings and a recommendation that the case be dismissed without prejudice. Plaintiffs filed an Objection to those findings and recommendations and the case is pending resolution of those Objections.

On December 29, 2011, in the United States District Court for the Northern District of California-San Francisco Division (case no. 11-6700), Amber Hawthorne filed a class action lawsuit against Umpqua Bank on behalf of herself and a national class, including a sub-class of California residents seeking in excess of $5 million, plus punitive damages, alleging that Umpqua Bank engaged in unfair and deceptive practices by posting debit items in a high to low order to maximize overdraft fees, automatically enrolling customers in debit Overdraft Protection (ODP) programs before the Regulation E revisions, failing to adequately disclose posting order, manipulating posting to maximize ODP fees and failing to advise customers how to minimize fees. Plaintiff alleges claims for breach of contract, breach of the covenant of good faith and fair dealing, unconscionability, conversion, unjust enrichment, and a violation of California Business & Professions Code 17200 (for the California subclass). The claims are in the initial stage of investigation but Umpqua believes that the claims are not supportable and are overstated and the Company intends to vigorously defend the case.

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

See Note 20 (Legal Proceedings) for a discussion of the Company s involvement in litigation pertaining to Visa, Inc.

ITEM 4. (REMOVED AND RESERVED)

Umpqua Holdings Corporation

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, 2011, there were 200,000,000 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, 2011	$ 12.83	$ 8.35	$ 0.07
September 30, 2011	$ 12.07	$ 8.10	$ 0.07
June 30, 2011	$ 12.10	$ 10.83	$ 0.05
March 31, 2011	$ 12.81	$ 10.40	$ 0.05
December 31, 2010	$ 12.59	$ 10.42	$ 0.05
September 30, 2010	$ 13.15	$ 10.20	$ 0.05
June 30, 2010	$ 15.90	$ 11.34	$ 0.05
March 31, 2010	$ 14.24	$ 10.87	$ 0.05

As of December 31, 2011, our common stock was held by approximately 4,754 shareholders of record, a number that does not include beneficial owners who hold shares in street name , or shareholders from previously acquired companies that have not exchanged their stock. At December 31, 2011, a total of 2.2 million stock options, 585,000 shares of restricted stock and 219,000 restricted stock units were outstanding. Additional information about stock options, restricted stock and restricted stock units is included in Note 22 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 2011, Umpqua s Board of Directors declared a quarterly cash dividend of $0.05 per common share for the first and second quarters and $0.07 per common share for the third and fourth quarters. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy.

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

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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, 2011.

(shares in thousands)

			Equity Compensation Plan Information
Plan category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(B) Weighted average exercise price of outstanding options, warrants and rights(4)	(C) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A)
Equity compensation plans approved by security holders			
2003 Stock Incentive Plan(1)	1,773	$ 15.09	1,378
2007 Long Term Incentive Plan(2)	219		679
Other(3)	416	$ 11.95	
Total	2,408	$ 14.48	2,057
Equity compensation plans not approved by security holders			
Total	2,408	$ 14.48	2,057

(1) At Umpqua s 2010 Annual Meeting, shareholders approved an amendment to the 2003 Stock Incentive Plan to make an additional two million shares of stock available for issuance 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. The Plan s termination date was extended to June 30, 2015.

(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 65,000 and maximum grants of 114,000 were approved to be issued in 2009, and target grants of 60,000 and maximum grants of 105,000 were approved to be issued in 2011 under this plan. During 2009, 23,000 units vested and were released and 57,000 units forfeited upon the retirement of an executive. During 2010, 16,000 units vested and were released and 94,000 units forfeited upon the retirement of an executive. During 2011, 63,300 units vested and were released and 47,475 units forfeited. As of December 31, 2011, 212,000 restricted stock units are expected to vest if the current estimate of performance-based targets is satisfied, and would result in 685,000 securities available for future issuance.

(3) Includes other Umpqua stock plans and stock plans assumed through previous mergers.

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

(b) Not applicable.

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Umpqua Holdings Corporation

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2011:

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
10/1/11 - 10/31/11	231	$ 8.73	251,194	14,748,806
11/1/11 - 11/30/11	70	$ 12.14	2,120,769	12,628,037
12/1/11 - 12/31/11		$	4,301	12,623,736
Total for quarter	301	$ 9.52	2,376,264	

(1) Shares repurchased by the Company during the quarter consist of cancellation of 301 restricted shares to pay withholding taxes. There were no shares tendered in connection with option exercises and 2.4 million shares were repurchased pursuant to the Company s publicly announced corporate stock repurchase plan described in (2) below.

(2) The Company s share repurchase plan, which was first approved by the Board and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. The repurchase program will run through June 2013. As of December 31, 2011, a total of 12.6 million shares remained available for repurchase. The Company repurchased 2.5 million shares in 2011 and no shares under the repurchase plan in 2010 or 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.

During the year ended December 31, 2011, there were 8,135 shares tendered in connection with option exercises. During the year ended December 31, 2010, there were 4,515 shares tendered in connection with option exercises. Restricted shares cancelled to pay withholding taxes totaled 23,158 and 12,443 shares during the years ended December 31, 2011 and 2010, respectively. Restricted stock units cancelled to pay withholding taxes totaled 22,349 during the year ended December 31, 2011. Restricted stock units cancelled to pay withholding taxes totaled 5,583 during the year ended December 31, 2010.

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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, 2011, 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, 2006, 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, 2006 to December 31, 2011, was obtained by using the NASDAQ closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2006	**12/31/2007**	**12/31/2008**	**12/31/2009**	**12/31/2010**	**12/31/2011**
Umpqua Holdings Corporation	$ 100.00	$ 54.01	$ 53.19	$ 50.28	$ 46.42	$ 48.33
Nasdaq Bank Stocks	$ 100.00	$ 80.09	$ 62.84	$ 52.60	$ 60.04	$ 53.74
Nasdaq U.S.	$ 100.00	$ 110.66	$ 66.42	$ 96.54	$ 114.06	$ 113.16
S&P 500	$ 100.00	$ 105.49	$ 66.46	$ 84.05	$ 96.71	$ 98.76

Umpqua Holdings Corporation

ITEM 6. SELECTED FINANCIAL DATA.

Umpqua Holdings Corporation

Annual Financial Trends

(in thousands, except per share data)

	2011	2010	2009	2008	2007
Interest income	$ 501,753	$ 488,596	$ 423,732	$ 442,546	$ 488,392
Interest expense	73,301	93,812	103,024	152,239	202,438
Net interest income	428,452	394,784	320,708	290,307	285,954
Provision for non-covered loan and lease losses	46,220	113,668	209,124	107,678	41,730
Provision for covered loan and lease losses	16,141	5,151			
Non-interest income	84,118	75,904	73,516	107,118	64,829
Non-interest expense	338,611	311,063	267,178	215,588	210,804
Goodwill impairment			111,952	982	
Merger related expenses	360	6,675	273		3,318
Income (loss) before provision for (benefit from) income taxes	111,238	34,131	(194,303)	73,177	94,931
Provision for (benefit from) income taxes	36,742	5,805	(40,937)	22,133	31,663
Net income (loss)	74,496	28,326	(153,366)	51,044	63,268
Preferred stock dividends		12,192	12,866	1,620	
Dividends and undistributed earnings allocated to participating securities	356	67	30	154	187
Net earnings (loss) available to common shareholders	$ 74,140	$ 16,067	$ (166,262)	$ 49,270	$ 63,081
YEAR END					
Assets	$ 11,563,355	$ 11,668,710	$ 9,381,372	$ 8,597,550	$ 8,340,053
Earning assets	10,263,923	10,374,131	8,344,203	7,491,498	7,146,841
Non-covered loans and leases(1)	5,888,098	5,658,987	5,999,267	6,131,374	6,055,635
Covered loans and leases	622,451	785,898			
Deposits	9,236,690	9,433,805	7,440,434	6,588,935	6,589,326
Term debt	255,676	262,760	76,274	206,531	73,927
Junior subordinated debentures, at fair value	82,905	80,688	85,666	92,520	131,686
Junior subordinated debentures, at amortized cost	102,544	102,866	103,188	103,655	104,680
Common shareholders equity	1,672,413	1,642,574	1,362,182	1,284,830	1,239,938
Total shareholders equity	1,672,413	1,642,574	1,566,517	1,487,008	1,239,938
Common shares outstanding	112,165	114,537	86,786	60,146	59,980
AVERAGE					
Assets	$ 11,600,435	$ 10,830,486	$ 8,975,178	$ 8,342,005	$ 7,897,568
Earning assets	10,332,242	9,567,341	7,925,014	7,215,001	6,797,834
Non-covered loans and leases(1)	5,723,771	5,783,452	6,103,666	6,118,540	5,822,907
Covered loans and leases	707,026	681,569			
Deposits	9,301,978	8,607,980	7,010,739	6,459,576	6,250,521
Term debt	257,496	261,170	129,814	194,312	57,479
Junior subordinated debentures	184,115	184,134	190,491	226,349	221,833
Common shareholders equity	1,671,893	1,589,393	1,315,953	1,254,730	1,222,628
Total shareholders equity	1,671,893	1,657,544	1,519,119	1,281,220	1,222,628
Basic common shares outstanding	114,220	107,922	70,399	60,084	59,828

Diluted common shares outstanding	114,409	108,153	70,399	60,424	60,404
PER COMMON SHARE DATA					
Basic earnings (loss)	$ 0.65	$ 0.15	$ (2.36)	$ 0.82	$ 1.05
Diluted earnings (loss)	0.65	0.15	(2.36)	0.82	1.04
Book value	14.91	14.34	15.70	21.36	20.67
Tangible book value(2)	8.87	8.39	8.33	8.76	7.92
Cash dividends declared	0.24	0.20	0.20	0.62	0.74

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(dollars in thousands)

	2011	2010	2009	2008	2007
PERFORMANCE RATIOS					
Return on average assets(3)	0.64%	0.15%	-1.85%	0.59%	0.80%
Return on average common shareholders equity(4)	4.43%	1.01%	-12.63%	3.93%	5.16%
Return on average tangible common shareholders equity(5)	7.47%	1.76%	-26.91%	9.99%	13.05%
Efficiency ratio(6), (7)	65.58%	66.90%	95.34%	54.08%	60.62%
Average common shareholders equity to average assets	14.41%	14.68%	14.66%	15.04%	15.48%
Leverage ratio(8)	10.91%	10.56%	12.79%	12.38%	9.24%
Net interest margin (fully tax equivalent)(9)	4.19%	4.17%	4.09%	4.07%	4.24%
Non-interest revenue to total net revenue(10)	16.41%	16.13%	18.65%	26.95%	18.48%
Dividend payout ratio(11)	36.92%	133.33%	-8.47%	75.61%	70.48%
ASSET QUALITY					
Non-covered, non-performing loans	$ 91,383	$ 145,248	$ 199,027	$ 133,366	$ 91,099
Non-covered, non-performing assets	125,558	178,039	223,593	161,264	98,042
Allowance for non-covered loan and lease losses	92,968	101,921	107,657	95,865	84,904
Net non-covered charge-offs	55,173	119,404	197,332	96,717	21,994
Non-covered, non-performing loans to non-covered loans and leases	1.55%	2.57%	3.32%	2.18%	1.50%
Non-covered, non-performing assets to total assets	1.09%	1.53%	2.38%	1.88%	1.18%
Allowance for non-covered loan and lease losses to total non-covered loans and leases	1.58%	1.80%	1.79%	1.56%	1.40%
Allowance for non-covered credit losses to non-covered loans and leases	1.59%	1.82%	1.81%	1.58%	1.42%
Net charge-offs to average non-covered loans and leases	0.96%	2.06%	3.23%	1.58%	0.38%

(1) Excludes loans held for sale
(2) Average common shareholders equity less average intangible assets (excluding MSR) divided by shares outstanding at the end of the year. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Overview for the reconciliation of non-GAAP financial measures, in Item 7 of this report.
(3) Net earnings (loss) available to common shareholders divided by average assets.
(4) Net earnings (loss) available to common shareholders divided by average common shareholders equity.
(5) Net earnings (loss) available to common shareholders divided by average common shareholders equity less average intangible assets. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Overview for the reconciliation of non-GAAP financial measures, in Item 7 of this report.
(6) Non-interest expense divided by the sum of net interest income (fully tax equivalent) and non-interest income.
(7) The efficiency ratio calculation includes goodwill impairment charges of $112.0 million and $1.0 million in 2009 and 2008, respectively. Goodwill impairment losses are a non-cash expense that have no direct effect on the Company s or the Bank s liquidity or capital ratios.
(8) 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.
(9) Net interest margin (fully tax equivalent) is calculated by dividing net interest income (fully tax equivalent) by average interest earnings assets.
(10) Non-interest revenue divided by the sum of non-interest revenue and net interest income
(11) Dividends declared per common share divided by basic earnings per common share.

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

FORWARD LOOKING STATEMENTS AND RISK FACTORS

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

EXECUTIVE OVERVIEW

Significant items for the year ended December 31, 2011 were as follows:

Financial Performance

Net earnings per diluted common share was $0.65 in 2011, as compared to net earnings of $0.15 per diluted common share earned in 2010. The increase in net earnings per diluted common share is principally attributed to reduced provision for loan and lease losses. Operating earnings per diluted common share, defined as earnings available to common shareholders before gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains on acquisitions, net of tax, merger related expenses, net of tax, and goodwill impairment divided by the same diluted share total used in determining diluted earnings per common share, was $0.66 in 2011, as compared to operating earnings per diluted common share of $0.12 in 2010. Operating earnings per diluted common share is considered a non-GAAP financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading *Results of Operations Overview* below.

Net interest margin, on a tax equivalent basis, increased to 4.19% in 2011 from 4.17% in 2010. The increase in net interest margin resulted from the increase in average covered loans and investment balances, increased covered loan yields, and declining costs of interest bearing deposits, partially offset by lower average non-covered loan balances, lower non-covered loan yields, and decreased investment yields. Excluding the impact of loan disposal gains and interest and fee reversals on non-accrual loans, our core net interest margin was 3.95% for 2011, as compared to core net interest margin of 3.92% for 2010. Core net interest margin is considered a non-GAAP financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading *Results of Operations Overview* below.

Mortgage banking revenue was $26.6 million in 2011, compared to $21.2 million in 2010. Closed mortgage volume increased 27% in the current year to a record $994.5 million due to an increase in purchase and refinancing activity, resulting from historically low mortgage interest rates.

We recorded loss of $2.2 million in the income statement representing the change in fair value on our junior subordinated debentures measured at fair value in 2011, compared to gains of $5.0 million in 2010.

Total gross non-covered loans and leases increased to $5.9 billion as of December 31, 2011, an increase of $229.1 million, or 4.0%, as compared to December 31, 2010. This increase is principally attributable to net loan originations of $336.9 million during the year offset by charge-offs of $65.1 million, transfers to non-covered other real estate owned of $47.4 million, and sales of non-covered loans of $11.2 million.

Total deposits were $9.2 billion as of December 31, 2011, a decrease of $197.1 million, or 2.1%, as compared to December 31, 2010, resulting from the run-off of higher priced deposits.

Total consolidated assets were $11.6 billion as of December 31, 2011, compared to $11.7 billion as of December 31, 2010, representing a decrease of $105.4 million or 0.9%.

Credit Quality

Non-covered, non-performing assets decreased to $125.6 million, or 1.09% of total assets, as of December 31, 2011, compared to $178.0 million, or 1.53% of total assets as of December 31, 2010. Non-covered, non-performing loans decreased to $91.4 million, or 1.55% of non-covered total loans, as of

December 31, 2011, compared to $145.2 million, or 2.57% of total non-covered loans as of December 31, 2010. Non-covered, non-accrual loans have been written-down to their estimated net realizable values.

Net charge-offs were $55.2 million in 2011, or 0.96% of average non-covered loans and leases, as compared to net charge-offs of $119.4 million, or 2.06% of average non-covered loans and leases in 2010. The decrease in net charge-offs in the current year is consistent with the overall improving trends in credit quality indicators.

Provision for non-covered loan and lease losses in 2011 was $46.2 million as compared to $113.7 million in 2010. The decrease reflects continued improvement and stabilization of credit quality and the decline of non-performing loans outstanding.

Capital and Growth Initiatives

Total risk based capital ratio was 17.2% as of December 31, 2011, compared to 17.6% as of December 31, 2010, due to an increase in risk weighted assets primarily related to non-covered loans and $29.8 million of common stock repurchased.

Declared cash dividends of $0.05 per common share for the first and second quarters of the year and $0.07 per common share for the third and fourth quarters of 2011. In determining the amount of dividends to be paid, we consider capital preservation, expected asset growth, projected earnings and our overall dividend pay-out ratio.

Opened a new Commercial Banking Center in San Jose, California, and ten Community Banking stores in Portland, Oregon, Seattle, Washington, and northern California.

Launched our new Business Banking Division and expanded offerings from our Debt Capital Markets Group to provide additional products and services to our business and commercial customers.

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 Non-Covered Loan and Lease Losses and Reserve for Unfunded Commitments

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. Consumer and residential loan portfolios are reviewed monthly for their performance as a pool of loans, since no single loan is individually significant or judged by its risk rating, size or potential risk of loss. In contrast, the monitoring process for the commercial and commercial real estate portfolios includes periodic reviews of individual loans with risk ratings assigned to each loan and performance judged on a loan by loan basis. The Company s risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management Allowance for Loan and Lease Losses (ALLL) Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank s Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

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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 for collateral dependent loans. A loan is considered collateral dependent if repayment of the loan is expected to be provided solely by the underlying collateral and there are no other available and reliable sources of repayment. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses.

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 10% of the allowance, but may be maintained at higher levels during times of economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of December 31, 2011, the unallocated allowance amount represented 5% of 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, 2011. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 80% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses.

Covered Loans and Indemnification Asset

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

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

Mortgage Servicing Rights

In accordance with FASB ASC 860, Transfers and Servicing (ASC 860). 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 and to report changes in fair value through earnings. Fair value adjustments encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are separately reported. Under the fair value method, the MSR is carried in the balance sheet at fair value and the changes in fair value are reported in earnings under the caption mortgage banking revenue in the period in which the change occurs.

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

The expected life of the loan can vary from management s estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management s estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in the model, which we base on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights. Additional information is included in Note 10 of the *Notes to Consolidated Financial Statements*.

Valuation of Goodwill and Intangible Assets

At December 31, 2011, we had $677.2 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstance indicate impairment potentially exists.

The Company performed a goodwill impairment analysis of the Community Banking reporting segment as of June 30, 2009, due to a decline in the Company s market capitalization below the book value of equity and continued weakness in the banking industry. The Company engaged an independent valuation consultant to assist us in determining whether our goodwill asset was impaired. The valuation of the reporting unit was determined using discounted cash flows of forecasted earnings, estimated sales price multiples based on recent observable market transactions and market capitalization based on current stock price. The results of the Company s and valuation specialist s step one test indicated that the reporting unit s fair value was less than its carrying value, and therefore the Company performed a step two analysis. In the step two analysis, we calculated the fair value for the reporting unit s assets and liabilities, as well as its unrecognized identifiable intangible assets, such as the core deposit intangible and trade name, in order to determine the implied fair value of goodwill. Fair value adjustments to items on the balance sheet primarily related to investment securities held to maturity, loans, other real estate owned, Visa Class B common stock, deferred taxes, deposits, term debt, and junior subordinated debentures. Based on the

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results of the step two analysis, the Company determined that the implied fair value of the goodwill was greater than its carrying amount on the Company s balance sheet, and as a result, recognized a goodwill impairment loss of $112.0 million. This write-down of goodwill is a non-cash charge that did not affect the Company s or the Bank s liquidity or operations. In addition, because goodwill is excluded in the calculation of regulatory capital, the Company s well-capitalized capital ratios were not affected by this charge.

The Company performed its annual goodwill impairment analysis of the Community Banking reporting segment as of December 31, 2011. In the first step of the goodwill impairment test the Company determined that the fair value of the Community Banking reporting unit exceeded its carrying amount. This determination is consistent with the events occurring after the Company recognized the $112.0 million impairment of goodwill in the second quarter of 2009. First, the market capitalization and estimated fair value of the Company increased significantly subsequent to the recognition of the impairment charge as the fair value of the Company s stock increased 60% from June 30, 2009 to December 31, 2011. Secondly, the Company s successful public common stock offerings in the third quarter of 2009 and first quarter of 2010 diluted the carrying value of the reporting unit s book equity on a per share basis. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption will not result in additional impairment of all, or some portion of, goodwill. Additional information is included in Note 9 of the *Notes to Consolidated Financial Statements*.

Stock-based Compensation

Consistent with the provisions of FASB ASC 718, *Stock Compensation* (ASC 718), we recognize expense for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each 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

FASB ASC 820, *Fair Value Measurements and Disclosures,* establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 24 of the *Notes to Consolidated Financial Statements* for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. The Update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. The ASU also ends the deferral issued in January 2010 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The provisions of ASU No. 2011-02 and the disclosure requirements of ASU No. 2010-20 are effective for the Company s interim reporting period ending September 30, 2011. The guidance applies retrospectively to restructurings occurring on or after January 1, 2011. The adoption of this ASU did not have a material impact on the Company s consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The Update amends existing guidance to remove from the assessment of effective control, the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and, as well, the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for the Company s reporting period beginning on or after December 15, 2011. The guidance applies prospectively to transactions or modification of existing transactions that occur on or after the effective date and early adoption is not permitted. The adoption of this ASU will not have a material impact on the Company s consolidated financial statements.

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

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

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

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

RESULTS OF OPERATIONS OVERVIEW

For the year ended December 31, 2011, net earnings available to common shareholders was $74.1 million, or $0.65 per diluted common share, as compared to net earnings available to common shareholders of $16.1 million, or $0.15 per diluted common share for the year ended December 31, 2010. The increase in net earnings available to common shareholders in 2011 is principally attributable to increased net interest income, increased non-interest income, and decreased provision for loan losses, partially offset by increased non-interest expense.

For the year ended December 31, 2010, net earnings available to common shareholders was $16.1 million, or $0.15 per diluted common share, as compared to net loss available to common shareholders of $166.3 million, or $2.36 per diluted common share for the year ended December 31, 2009. The increase in net earnings available to common shareholders in 2010, as compared to 2009, is principally attributable to increased net interest income, increased non-interest income, decreased provision for loan losses, and decreased non-interest expense. Non-interest income for 2010 includes a bargain purchase gain on acquisition of $6.4 million relating to the acquisition of Evergreen. We assumed certain assets and liabilities of Evergreen, Rainier, and Nevada Security on January 22, 2010, February 26, 2010, and June 18, 2010, respectively, and the results of the acquired operations are included in our financial results starting on January 23, 2010, February 27, 2010, and June 19, 2010, respectively.

We recognize gains or losses on our junior subordinated debentures carried at fair value resulting from the estimated market credit risk adjusted spread and changes in interest rates that do not directly correlate with the Company s operating performance. Also, we incur significant expenses related to the completion and integration of mergers and acquisitions. Additionally, we may recognize goodwill impairment losses that have no direct effect on the Company s or the Bank s cash balances, liquidity, or regulatory capital ratios. Lastly, we may recognize one-time bargain purchase gains on certain FDIC-assisted acquisitions that are not reflective of Umpqua s on-going earnings power. Accordingly, management believes that our operating results are best measured on a comparative basis excluding the impact of gains or losses on junior subordinated debentures measured at fair value, net of tax, merger-related expenses, net of tax, and other charges related to business combinations such as goodwill impairment charges or bargain purchase gains, net of tax. We define *operating earnings* as earnings available to common shareholders before gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains on acquisitions, net of tax, merger related expenses, net of tax, and goodwill impairment, and we calculate *operating earnings per diluted share* by dividing operating earnings by the same diluted share total used in determining diluted earnings per common share (see Note 25 of the *Notes to Consolidated Financial Statements* in Item 8 below). Operating earnings and operating earnings 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.

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The following table presents a reconciliation of operating earnings (loss) and operating earnings (loss) per diluted share to net earnings (loss) and net earnings (loss) per diluted common share for years ended December 31, 2011, 2010 and 2009:

Reconciliation of Operating Earnings (Loss) to Net (Loss) Earnings Available to Common Shareholders

Years Ended December 31,

(in thousands, except per share data)

	2011	2010	2009
Net earnings (loss) available to common shareholders	$ 74,140	$ 16,067	$ (166,262)
Net loss (gain) on junior subordinated debentures carried at fair value, net of tax (1)	1,318	(2,988)	(3,889)
Bargain purchase gain on acquisitions, net of tax(1)		(3,862)	
Goodwill impairment			111,952
Merger-related expenses, net of tax(1)	216	4,005	164
Operating earnings (loss)	$ 75,674	$ 13,222	$ (58,035)
Per diluted common share:			
Net earnings (loss) available to common shareholders	$ 0.65	$ 0.15	$ (2.36)
Net loss (gain) on junior subordinated debentures carried at fair value, net of tax	0.01	(0.03)	(0.06)
Bargain purchase gain on acquisitions, net of tax		(0.04)	
Goodwill impairment			1.59
Merger-related expenses, net of tax		0.04	0.01
Operating earnings (loss)	$ 0.66	$ 0.12	$ (0.82)

(1) Adjusted for income tax effect of pro forma operating earnings at 40%.

Management believes core net interest income and core net interest margin are useful financial measures because they enable investors to evaluate the underlying growth or compression in these values excluding interest income adjustments related to credit quality. Management uses these measures to evaluate core net interest income operating results exclusive of credit costs, in order to monitor our effectiveness in growing higher interest yielding assets and managing our cost of interest bearing liabilities over time. Core net interest income is calculated as net interest income, adjusting tax exempt interest income to its taxable equivalent, adding back interest and fee reversals related to new non-accrual loans during the period, and deducting the interest income gains recognized from loan disposition activities within covered loan pools. Core net interest margin is calculated by dividing annualized core net interest income by a period s average interest earning assets. Core net interest income and core net interest margin are considered non-GAAP financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the *Financial Statements and Supplementary Data* in Item 8 below.

Umpqua Holdings Corporation

The following table presents a reconciliation of net interest income to core net interest income and net interest margin to core net interest margin for years ended December 31, 2011, 2010 and 2009:

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

Years Ended December 31,

(dollars in thousands)

	2011	2010	2009
Net interest income tax equivalent basis(1)	$ 432,748	$ 399,054	$ 324,436
Adjustments:			
Interest and fee reversals on non-accrual loans	1,751	3,259	4,432
Covered loan disposal gains	(26,327)	(26,945)	
Core net interest income tax equivalent basis(1)	$ 408,172	$ 375,368	$ 328,868
Average interest earning assets	$ 10,332,242	$ 9,567,341	$ 7,925,014
Net interest margin consolidated(1)	4.19%	4.17%	4.09%
Core net interest margin consolidated(1)	3.95%	3.92%	4.15%

(1) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $4.3 million, $4.3 million, and $3.7 million for the years ended 2011, 2010 and 2009, respectively.

The following table presents the returns on average assets, average common shareholders equity and average tangible common shareholders equity for the years ended December 31, 2011, 2010 and 2009. For each of the years presented, the table includes the calculated ratios based on reported net earnings (loss) available to common shareholders and operating earnings (loss) as shown in the table above. Our return on average common shareholders equity is negatively impacted as a result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger-related intangible assets, we believe it beneficial to also consider the return on average common tangible shareholders equity. The return on average common tangible shareholders equity is calculated by dividing net earnings (loss) available to common shareholders by average common shareholders common equity less average goodwill and intangible assets, net (excluding MSRs). The return on average tangible common shareholders equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders equity.

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

For the Years Ended December 31,

(dollars in thousands)

	2011	2010	2009
RETURNS ON AVERAGE ASSETS:			
Net earnings (loss) available to common shareholders	0.64%	0.15%	-1.85%
Operating earnings (loss)	0.65%	0.12%	-0.65%
RETURNS ON AVERAGE COMMON SHAREHOLDERS EQUITY:			
Net earnings (loss) available to common shareholders	4.43%	1.01%	-12.63%
Operating earnings (loss)	4.53%	0.83%	-4.41%
RETURNS ON AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Net earnings (loss) available to common shareholders	7.47%	1.76%	-26.91%
Operating earnings (loss)	7.63%	1.45%	-9.39%

CALCULATION OF AVERAGE TANGIBLE COMMON SHAREHOLDERS EQUITY:			
Average common shareholders equity	$ 1,671,893	$ 1,589,393	$ 1,315,953
Less: average goodwill and other intangible assets, net	(679,588)	(674,597)	(698,223)
Average tangible common shareholders equity	$ 992,305	$ 914,796	$ 617,730

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

The following table provides a reconciliation of ending shareholders equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of December 31, 2011 and December 31, 2010:

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

(dollars in thousands)

	2011	2010
Total shareholders equity	$ 1,672,413	$ 1,642,574
Subtract:		
Goodwill and other intangible assets, net	677,224	681,969
Tangible common shareholders equity	$ 995,189	$ 960,605
Total assets	$ 11,563,355	$ 11,668,710
Subtract:		
Goodwill and other intangible assets, net	677,224	681,969
Tangible assets	$ 10,886,131	$ 10,986,741
Tangible common equity ratio	9.14%	8.74%

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

NET INTEREST INCOME

Net interest income is the largest source of our operating income. Net interest income for 2011 was $428.5 million, an increase of $33.7 million, or 9% over 2010. Net interest income for 2010 was $394.8 million, an increase of $74.1 million, or 23% over 2009. The negative impact to net interest income of the reversal of interest income and fees on loans during the year was $1.7 million in 2011 and $3.3 million and $4.4 million in 2010 and 2009, respectively. The increase in net interest income in 2011 as compared to 2010 is attributable to growth in outstanding average interest-earning assets, primarily average covered loans and average investment securities, increased covered loan yields, decreased cost of deposits and investing excess interest earning cash into the investment portfolio, partially offset by a decline in average non-covered loans outstanding, lower non-covered loan yields, lower investment yields, and increased average interest bearing deposit balances.

The increase in net interest income in 2010 as compared to 2009 is attributable to growth in outstanding average interest-earning assets, primarily covered loans and investment securities, partially offset by a decline in non-covered loans outstanding. In addition to organic growth, the FDIC-assisted purchase and assumption of certain assets and liabilities of Evergreen, Rainier, and Nevada Security, which were completed on January 22, 2010, February 26, 2010, and June 18, 2010, respectively, contributed to an increase in interest earning assets and interest bearing liabilities in 2010 over 2009.

The net interest margin (net interest income as a percentage of average interest earnings assets) on a fully tax-equivalent basis was 4.19% for 2011, an increase of 2 basis points as compared to the same period in 2010. The increase in net interest margin primarily resulted from an increase in average covered loans and investment balances, a decrease in interest bearing cash, and a decrease in our interest expense to earning assets of 27 basis points due to declining costs of interest bearing deposits, partially offset by a decrease in average non-covered loan balances, and decline in investment yields.

Loan disposal related activities within the covered loan portfolio, either through loans being paid off in full or transferred to other real estate owned (OREO), result in gains within covered loan interest income to the extent assets received in satisfaction of debt (such as cash or the net realizable value of OREO received) exceeds the allocated carrying value of the loan disposed of from the pool. Loan disposal activities contributed $26.3 million of interest income for 2011, compared to $26.9 million of loan disposal gains recognized during 2010. While dispositions of covered loans positively impact net interest margin, we recognize a corresponding decrease to the change in FDIC indemnification asset at the incremental loss-sharing rate within other non-interest income.

The net interest margin on a fully tax-equivalent basis was 4.17% for 2010, an increase of 8 basis points as compared to the same period in 2009. The increase in net interest margin primarily resulted from an increase in average covered loans outstanding, increased yield on the covered loan portfolio as a result of payoffs ahead of expectations, and a decrease in our interest expense to earning assets of 32 basis points due to declining costs of interest bearing deposits, partially offset by the interest reversals of new non-accrual loans (contributing to a 4 basis point decline), a decline in non-covered loans outstanding, and the impact of holding much higher levels of interest bearing cash with the Federal Reserve Bank (at 25 basis points). The increase in net interest margin related to covered loan yields was offset by a corresponding decrease to the change in FDIC indemnification asset in other non-interest income.

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Our net interest income is affected by changes in the amount and mix of interest earnings assets and interest bearing liabilities, as well as changes in the yields earned on interest earnings assets and rates paid on deposits and borrowed funds. The following table presents condensed average balance sheet information, together with interest income and yields on average interest earnings assets, and interest expense and rates paid on average interest bearing liabilities for the years ended December 31, 2011, 2010 and 2009:

Average Rates and Balances

(dollars in thousands)

			2011			2010			2009
	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:									
Non-covered loans and leases(1)	$ 5,794,106	$ 319,702	5.52%	$ 5,828,637	$ 336,320	5.77%	$ 6,145,927	$ 355,195	5.78%
Covered loans and leases	707,026	86,011	12.17%	681,569	73,812	10.83%			NA
Taxable securities	2,968,501	85,797	2.89%	1,946,222	67,402	3.46%	1,386,960	60,217	4.34%
Non-taxable securities(2)	224,085	12,949	5.78%	227,589	13,109	5.76%	198,641	11,522	5.80%
Temporary investments and interest bearing deposits	638,524	1,590	0.25%	883,324	2,223	0.25%	193,486	526	0.27%
Total interest earning assets	10,332,242	506,049	4.90%	9,567,341	492,866	5.15%	7,925,014	427,460	5.39%
Allowance for non-covered loan and lease losses	(96,748)			(102,016)			(96,916)		
Other assets	1,364,941			1,365,161			1,147,080		
Total assets	$ 11,600,435			$ 10,830,486			$ 8,975,178		
INTEREST BEARING LIABILITIES:									
Interest bearing checking and savings accounts	$ 4,765,091	$ 20,647	0.43%	$ 4,203,109	$ 31,632	0.75%	$ 3,333,088	$ 32,341	0.97%
Time deposits	2,754,533	35,096	1.27%	2,875,706	44,609	1.55%	2,358,697	56,401	2.39%
Securities sold under agreements to repurchase and federal funds purchased	113,129	539	0.48%	54,696	517	0.95%	60,722	680	1.12%
Term debt	257,496	9,255	3.59%	261,170	9,229	3.53%	129,814	4,576	3.53%
Junior subordinated debentures	184,115	7,764	4.22%	184,134	7,825	4.25%	190,491	9,026	4.74%
Total interest bearing liabilities	8,074,364	73,301	0.91%	7,578,815	93,812	1.24%	6,072,812	103,024	1.70%
Noninterest bearing deposits	1,782,354			1,529,165			1,318,954		
Other liabilities	71,824			64,962			64,293		
Total liabilities	9,928,542			9,172,942			7,456,059		
Preferred equity				68,151			203,166		
Common equity	1,671,893			1,589,393			1,315,953		
Total shareholders equity	1,671,893			1,657,544			1,519,119		
Total liabilities and shareholders equity	$ 11,600,435			$ 10,830,486			$ 8,975,178		
NET INTEREST INCOME(2)		$ 432,748			$ 399,054			$ 324,436	
NET INTEREST SPREAD			3.99%			3.91%			3.69%

AVERAGE YIELD ON EARNING ASSETS(1), (2)	4.90%	5.15%	5.39%
INTEREST EXPENSE TO EARNING ASSETS	0.71%	0.98%	1.30%
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN(1), (2)	4.19%	4.17%	4.09%

Umpqua Holdings Corporation

(1) Non-covered, non-accrual loans and loans held for sale are included in the average balance.
(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $4.3 million, $4.3 million, and $3.7 million for the years ended 2011, 2010 and 2009, respectively.

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 2011 compared to 2010 and 2010 compared to 2009. 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)

	2011 COMPARED TO 2010 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN			2010 COMPARED TO 2009 INCREASE (DECREASE) IN INTEREST INCOME AND EXPENSE DUE TO CHANGES IN		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
INTEREST EARNING ASSETS:						
Non-covered loans and leases	$ (1,983)	$ (14,635)	$ (16,618)	$ (18,309)	$ (566)	$ (18,875)
Covered loans and leases	2,836	9,363	12,199	73,812		73,812
Taxable securities	30,950	(12,555)	18,395	21,009	(13,824)	7,185
Non-taxable securities(1)	(203)	43	(160)	1,668	(81)	1,587
Temporary investments and interest bearing deposits	(610)	(23)	(633)	1,739	(42)	1,697
Total(1)	30,990	(17,807)	13,183	79,919	(14,513)	65,406
INTEREST BEARING LIABILITIES:						
Interest bearing checking and savings accounts	3,799	(14,784)	(10,985)	7,424	(8,133)	(709)
Time deposits	(1,816)	(7,697)	(9,513)	10,694	(22,486)	(11,792)
Securities sold under agreements to repurchase and federal funds purchased	365	(343)	22	(64)	(99)	(163)
Term debt	(131)	157	26	4,642	11	4,653
Junior subordinated debentures	(1)	(60)	(61)	(293)	(908)	(1,201)
Total	2,216	(22,727)	(20,511)	22,403	(31,615)	(9,212)
Net increase in net interest income(1)	$ 28,774	$ 4,920	$ 33,694	$ 57,516	$ 17,102	$ 74,618

(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 non-covered loan and lease losses was $46.2 million for 2011, compared to $113.7 million for 2010 and $209.1 million for 2009. As a percentage of average outstanding loans, the provision for loan losses recorded for 2011 was 0.81%, a decrease of 116 basis points from 2010 and a decrease of 262 basis points from 2009, respectively.

The decrease in the provision for loan and lease losses in 2011 as compared to 2010 and 2010 compared to 2009 is principally attributable to the declining levels of non-performing loans and the decreases in net charge-offs during the periods. The decrease in the provision for loan and lease losses is also attributable to a reduction in downgrades within the portfolio, an easing in the velocity of declining real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio and reflects continued improvement and stabilization of credit quality.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Therefore, the non-covered, non-accrual loans of $80.6 million as of December 31, 2011 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

The provision for non-covered loan and lease losses is based on management s evaluation of inherent risks in the loan portfolio and a corresponding analysis of the allowance for 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.

The provision for covered loan and lease losses for the year ended December 31, 2011 was $16.1 million, compared to $5.2 million for 2010. Provisions for covered loan and leases are recognized subsequent to acquisition to the extent it is probable we will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when determined losses of unpaid principal incurred exceed previous loss expectations to-date, or future cash flows previously expected to be collectible are no longer probable of collection. Provisions for covered loan and lease losses, including amounts advanced subsequent to acquisition, are not reflected in the allowance for non-covered loan and lease losses, rather as a valuation allowance netted against the carrying value of the covered loan and lease balance accounted for under ASC 310-30, in accordance with the guidance.

NON-INTEREST INCOME

Non-interest income in 2011 was $84.1 million, an increase of $8.2 million, or 11%, compared to 2010. Non-interest income in 2010 was $75.9 million, an increase of $2.4 million, or 3%, compared to 2009. The following table presents the key components of non-interest income for years ended December 31, 2011, 2010 and 2009:

Non-Interest Income

Years Ended December 31,

(dollars in thousands)

			2011 compared to 2010				2010 compared to 2009	
			Change	Change			Change	Change
	2011	2010	Amount	Percent	2010	2009	Amount	Percent
Service charges on deposit accounts	$ 33,096	$ 34,874	$ (1,778)	-5%	$ 34,874	$ 32,957	$ 1,917	6%
Brokerage commissions and fees	12,787	11,661	1,126	10%	11,661	7,597	4,064	53%
Mortgage banking revenue, net	26,550	21,214	5,336	25%	21,214	18,688	2,526	14%
Gain (loss) on investment securities, net	7,376	1,912	5,464	286%	1,912	(1,677)	3,589	-214%
(Loss) gain on junior subordinated debentures carried at fair value	(2,197)	4,980	(7,177)	-144%	4,980	6,482	(1,502)	-23%
Bargain purchase gain on acquisition		6,437	(6,437)	-100%	6,437		6,437	100%
Change in FDIC indemnification asset	(6,168)	(16,445)	10,277	-62%	(16,445)		(16,445)	100%
Other income	12,674	11,271	1,403	12%	11,271	9,469	1,802	19%
Total	$ 84,118	$ 75,904	$ 8,214	11%	$ 75,904	$ 73,516	$ 2,388	3%

The decrease in deposit service charges in 2011 compared to 2010 is principally attributable to reductions in non-sufficient funds and overdraft fee income from regulatory reform changes, which took place in the third quarter of 2010, offset by increases in ATM income and increased other deposit account service charges. The increase in deposit service charges in 2010 compared to 2009 is principally attributable to increased non-sufficient funds and overdraft fee income due to higher average overdraft balances and due to increased deposit service charges related to the deposits acquired in the Rainier, Evergreen and Nevada Security acquisitions, offset by reductions in non-sufficient funds and overdraft fee income from regulatory reform changes, which took place in the third quarter of 2010.

Brokerage commissions and fees in 2011 increased 10%, primarily due to the increase in managed account fees at Umpqua Investments. In 2011, assets under management at Umpqua Investments, a part of the Wealth Management segment, increased to $2.09 billion as compared to $2.06 billion at December 31, 2010. Brokerage commissions and fees in 2010 increased 53% as compared to 2009 as a result of the increase in assets under management due to the new leadership s ability to recruit new brokers in 2009.

Mortgage banking revenue in 2011 increased due to an increase in purchase and refinancing activity, compared to 2010. Closed mortgage volume for 2011 was $994.5 million, representing a 27% increase over 2010 production. Closed mortgage volume for 2010 was $785.4 million, representing a 4% increase over 2009 production. The continuing low mortgage interest rate environment has led to elevated levels of refinance activity, contributing to a $3.0 million decline in fair value on the mortgage servicing right (MSR) asset in 2011, compared to a $3.9 million decline in fair value recognized in 2010. As of December 31, 2011, the Company serviced $2.0 billion of mortgage loans for others, and the related mortgage servicing right asset is valued at $18.2 million, or 0.90% of the total serviced portfolio principal balance.

The net gain on investment securities recognized in 2011 represents the realized gain on sale of investment securities of $7.7 million offset by an other-than-temporary impairment (OTTI) charge of $359,000. During the year, the Company sold longer duration investment securities in order to reduce the price risk of the securities portfolio and hedge the potential future adverse effects of rising interest rates on accumulated other comprehensive income if interest rates were to significantly increase in future periods. The net gain on investment securities recognized in 2010 represents the realized gain on sale of investment securities of $2.3 million offset by an OTTI charge of $414,000. The net gain on investment securities recognized in 2009 represents an OTTI charge of $10.6 million, partially offset by the realized gain on sale of investment securities of $8.9 million. The OTTI charge recognized in earnings for all periods primarily related to held to maturity non-agency collateralized mortgage obligations, and the amount recognized in earnings represents our estimate of the credit loss component of the total impairments. Additional discussion on the OTTI charges and gain on sale of investment securities are provided in Note 4 of the *Notes to Consolidated Financial Statements* and under the heading *Investment Securities*.

A loss of $2.2 million recognized in 2011 as compared to a gain of $5.0 million in 2010 represents the change of fair value on the junior subordinated debentures recorded at fair value. Absent future changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional value at their expected redemption dates. This will result in recognizing losses on junior subordinated debentures carried at fair value on a quarterly basis within non-interest income. The decrease in the gain recognized from 2010 to the loss recognized in 2011 and the decrease in the gain recognized from 2009 to 2010 primarily resulted from the widening of the credit risk adjusted spread over the contractual rate of each junior subordinated debenture measured at fair value. Additional information on the junior subordinated debentures carried at fair value is included in Note 18 of the *Notes to Consolidated Financial Statements* and under the heading *Junior Subordinated Debentures*.

A bargain purchase gain of $6.4 million recognized in 2010 represents the excess of the estimated fair value of the assets acquired over the estimated fair value of the liabilities assumed in the Evergreen acquisition. Additional information on the bargain purchase gain is included in Note 2 of the *Notes to Consolidated Financial Statements* and under the heading *Business Combinations*.

The change in FDIC indemnification asset represents a change in cash flows expected to be recoverable under the loss-share agreements entered into with the FDIC in connection with the Evergreen, Rainier, and Nevada Security FDIC-assisted acquisitions. Additional information on the FDIC indemnification asset is included in Note 7 of the *Notes to Consolidated Financial Statements* and under the heading *Covered Assets* below.

Other income increased in 2011 over 2010 by $1.4 million, primarily attributable to the initiation of an interest rate swap program with commercial banking customers to facilitate their risk management strategies, offset by various non-recurring sundry recoveries recognized in 2010. Other income increased in 2010 over 2009 by $1.8 million, primarily attributable to various non-recurring sundry recoveries.

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NON-INTEREST EXPENSE

Non-interest expense for 2011 was $339.0 million, an increase of $21.2 million or 7% compared to 2010. Non-interest expense for 2010 was $317.7 million, a decrease of $61.7 million or 16% compared to 2009. The following table presents the key elements of non-interest expense for the years ended December 31, 2011, 2010 and 2009.

Non-Interest Expense

Years Ended December 31,

(dollars in thousands)

			2011 compared to 2010				2010 compared to 2009	
			Change	Change			Change	Change
	2011	2010	Amount	Percent	2010	2009	Amount	Percent
Salaries and employee benefits	$ 179,480	$ 162,875	$ 16,605	10%	$ 162,875	$ 126,850	$ 36,025	28%
Net occupancy and equipment	51,284	45,940	5,344	12%	45,940	39,673	6,267	16%
Communications	11,214	10,464	750	7%	10,464	7,671	2,793	36%
Marketing	6,138	6,225	(87)	-1%	6,225	4,529	1,696	37%
Services	24,170	22,576	1,594	7%	22,576	21,918	658	3%
Supplies	2,824	3,998	(1,174)	-29%	3,998	3,257	741	23%
FDIC assessments	10,768	15,095	(4,327)	-29%	15,095	15,825	(730)	-5%
Net loss on non-covered other real estate owned	10,690	8,097	2,593	32%	8,097	23,204	(15,107)	-65%
Net loss (gain) on covered other real estate owned	7,481	(2,172)	9,653	-444%	(2,172)		(2,172)	NM
Intangible amortization and impairment	4,948	5,389	(441)	-8%	5,389	6,165	(776)	-13%
Goodwill impairment						111,952	(111,952)	NM
Merger related expenses	360	6,675	(6,315)	NM	6,675	273	6,402	NM
Other expenses	29,614	32,576	(2,962)	-9%	32,576	18,086	14,490	80%
Total	$ 338,971	$ 317,738	$ 21,233	7%	$ 317,738	$ 379,403	$ (61,665)	-16%

NM Not meaningful

Management believes there are several categories of non-interest expense which are outside of the control of the Company or depend on changes in market values, including FDIC deposit insurance assessments, gain or loss on other real estate owned, as well as infrequently occurring expenses such as merger related costs and goodwill impairments. Excluding the impact of these non-controllable, valuation related or infrequently occurring items, non-interest expense increased $19.6 million, or 7%, in 2011 over 2010. The increase primarily relates to increased salary and benefits expense related to mortgage and commercial banking loan production and the phase in costs related to ten new stores opened in the second half of 2011. Excluding the impact of these non-controllable or infrequently occurring items, non-interest expense increased $61.9 million, or 27%, in 2010 over 2009, in line with the 24% growth in assets in 2010 and reflecting the additional costs of acquired institutions during that year.

Of the $16.6 million increase in total salaries and employee benefits expense in 2011 compared to 2010, approximately $8.4 million of the increase is due to mortgage and commercial banking production in the current year. The remainder primarily results from the increase in by 70 full-time equivalent employees throughout the Company to support growth initiatives. Of the $36.0 million increase in total salaries and employee benefits expense in 2010 compared to 2009, approximately $13.8 million of the increase is the result of the FDIC-assisted acquisition of Rainier, Evergreen, and Nevada Security, respectively, $1.2 million is the result of variable mortgage compensation based on increased volume and revenue, $724,000 is a result of reduced loan origination activity related to lower customer demand, resulting in a reduced offset to compensation expense for deferred loan costs. The remainder primarily results from the increase in employees (not through acquisition) by 108 in full-time equivalents in 2010.

Umpqua Holdings Corporation

Net occupancy and equipment expense continues to increase primarily as a result of the growth in the number of our Company s locations. The growth in 2011 is the result of the cost of the addition of ten de novo Community Banking locations, one Mortgage Office and an administrative facility in Hillsboro, Oregon. The growth in 2010 is the result of the cost of operating new locations through the FDIC-assisted acquisition of Rainier, Evergreen and Nevada Security, respectively, the addition of five de novo Community Banking locations, in Portland, Oregon, Seattle, Washington, and Santa Rosa, California, the opening of one new Commercial Banking Center in Walnut Creek, California and two Mortgage Offices in Tigard, Oregon, and Longview, Washington. Additionally, in 2010, we remodeled 48 stores, including locations acquired.

Communications costs increased in 2011 compared to 2010 primarily due to increased data processing cost as a result of the Company s continued growth and expansion. Marketing and supplies expenses decreased as compared to 2010 due to cost containment efforts and a reduced spend associated with FDIC assumptions and expansion into new markets in 2010. Services expense increased as compared to 2010 primarily due to increased legal and professional fees. Communications, marketing and supplies fluctuated in 2010 as compared to 2009 as a result of normal operations and the FDIC assumptions.

The decrease in FDIC assessments in 2011 as compared to 2010 resulted from the adoption by the FDIC of a final rule which changed the assessment rate and the assessment base (from a domestic deposit base to a scorecard based assessment system for banks with more than $10 billion in assets), effective in the second quarter of 2011. The decrease in FDIC assessments in 2010 as compared to 2009 resulted from the one-time $4.0 million special assessment incurred in the second quarter of 2009, partially offset by the industry wide increase in the assessment rate, organic deposit growth, and deposit growth resulting from the FDIC-assisted acquisitions. Additional discussion on FDIC insurance assessments is provided in Item 1 *Business* above, under the heading *Federal Deposit Insurance.*

The economic downturn and depressed real estate values continued to detrimentally affect our loan portfolio and has led to a continued elevated level of foreclosures on related properties and movement of the properties into other real estate owned (OREO). In 2011, declines in the market values of these properties after foreclosure have resulted in additional losses on the sale of the properties or by valuation adjustments. As a result, during 2011, the Company recognized losses on sale of non-covered OREO of $1.7 million and non-covered valuation adjustments of $8.9 million and net gains on sale of covered OREO properties of $1.2 million and valuation adjustments of covered OREO properties of $8.7 million. During 2010, the Company recognized losses on sale of non-covered OREO of $4.0 million and non-covered valuation adjustments of $4.1 million and net gains on sale of covered OREO properties of $4.1 million and valuation adjustments of covered OREO properties of $1.9 million. During 2009, the Company recognized losses on sale of non-covered OREO of $11.0 million and non-covered valuation adjustments of $12.2 million. Gains on sale of covered OREO represents proceeds received in excess of their estimated acquisition date fair values. As the estimated credit losses realized on these properties were less than originally anticipated at acquisition date, there is a corresponding decrease in non-interest income within the Change in FDIC indemnification asset line item representing the reduction of anticipated covered credit losses. Additional discussion regarding our procedures to determine and recognize valuation adjustments on other real estate owned is provided under the heading *Asset Quality and Non-Performing Assets* below.

The decrease in intangible amortization in 2011 as compared to 2010 results primarily from the run-off of intangible assets from prior years completing their scheduled amortization. The decrease in intangible amortization in 2010 as compared to 2009 results primarily from an $804,000 impairment recognized in the fourth quarter of 2009 related to the merchant servicing portfolio obtained through a prior acquisition, partially offset by the run-off of intangible assets in 2009 that were amortized on an accelerated basis.

The goodwill impairment charge incurred in 2009 relates to the Community Banking operating segment. This charge primarily resulted from a decline in the fair value of the Community Banking reporting unit, which corresponded to the decline in the Company s market capitalization and the banking industry in general, and its effect on the implied fair value of the goodwill. Discussion related to the goodwill impairment charge is provided in Note 9 of the *Notes to Consolidated Financial Statements* and under the heading *Goodwill and Other Intangible Assets* below.

We 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 following table presents the merger-related expenses by major category for the year ended December 31, 2011, 2010 and 2009. The merger-related expenses incurred in 2010 and 2011 relate to the FDIC-assisted acquisitions of Evergreen, Rainier, and Nevada Security. The merger-related expenses incurred in 2009 relate to the FDIC-assisted purchase and assumption of certain assets and liabilities of the Bank of Clark County. We do not expect to incur any additional significant merger-related expenses in connection with the Evergreen, Rainier, Nevada Security, Bank of Clark County or any other previous acquisition.

Merger-Related Expense

Years Ended December 31,

(in thousands)

	2011	2010	2009
Professional fees	$ 173	$ 2,984	$ 143
Compensation and relocation		962	39
Communications		330	61
Premises and equipment	82	630	2
Travel	11	710	
Other	94	1,059	28
Total	$ 360	$ 6,675	$ 273

Other non-interest expense decreased in 2011 over 2010 primarily as a result of non-recurring settlement costs recognized in 2010 partially offset by increased expenses related to problem covered and non-covered loans and covered and non-covered other real estate owned as well as various other growth initiatives underway. Other non-interest expense increased in 2010 over 2009 primarily as a result of expenses related to problem covered and non-covered loans and covered and non-covered other real estate owned as well as various other growth initiatives underway.

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2011 was 33.0%, compared to 17.0% for 2010 and 21.0% for 2009. The effective tax rates were below the federal statutory rate of 35% and the apportioned state rate of 4.1% (net of the federal tax benefit) principally because of the non-deductible impairment loss on goodwill (for 2009), 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. The income tax expense from income taxes in 2011 is a result of the operating income recognized in the period.

Additional information on income taxes is provided in Note 13 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 Umpqua Investments for sale to its clients and securities invested in trust for the benefit of former employees of acquired institutions as required by agreements. Trading securities were $2.3 million at December 31, 2011, as compared to $3.0 million at December 31, 2010. The decrease is principally attributable to a decrease of $985,000 in Umpqua Investments inventory of trading securities, offset by increases in the fair market value of investments securities invested for the benefit of former employees and contributions made to supplemental retirement plans for the benefit of certain executives of $271,000.

Investment securities available for sale increased $249.4 million to $3.2 billion as of December 31, 2011, as compared to December 31, 2010. This increase is principally attributable to purchases of $1.2 billion of investment securities available for sale, which were partially offset by paydowns of $927.3 million and amortization of net purchase price premiums of $36.1 million.

Investment securities held to maturity were $4.7 million as of December 31, 2011, as compared to $4.8 million at December 31, 2010. This decrease is principally attributable to paydowns and maturities of investment securities held to maturity of $1.7 million, offset by purchases of $1.6 million.

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

Summary of Investment Securities

As of December 31,

(in thousands)

			December 31,
	2011	2010	2009
AVAILABLE FOR SALE:			
U.S. Treasury and agencies	$ 118,465	$ 118,789	$ 11,794
Obligations of states and political subdivisions	253,553	216,726	211,825
Residential mortgage-backed securities and collateralized mortgage obligations	2,794,355	2,581,504	1,569,849
Other debt securities	134	152	159
Investments in mutual funds and other equity securities	2,071	2,009	1,989
	$ 3,168,578	$ 2,919,180	$ 1,795,616
HELD TO MATURITY:			
Obligations of states and political subdivisions	$ 1,335	$ 2,370	$ 3,216
Residential mortgage-backed securities and collateralized mortgage obligations	3,379	2,392	2,845
	$ 4,714	$ 4,762	$ 6,061

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The following table presents information regarding the amortized cost, fair value, average yield and maturity structure of the investment portfolio at December 31, 2011.

Investment Securities Composition*

December 31, 2011

(dollars in thousands)

	Amortized Cost	Fair Value	Average Yield
U.S. TREASURY AND AGENCIES			
One year or less	$ 71,668	$ 72,083	1.14%
One to five years	45,347	46,134	1.56%
Five to ten years	217	248	3.68%
	117,232	118,465	1.31%
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS			
One year or less	21,276	21,514	5.45%
One to five years	75,980	80,535	5.62%
Five to ten years	138,081	149,221	5.71%
Over ten years	3,300	3,620	7.96%
	238,637	254,890	5.69%
OTHER DEBT SECURITIES			
Over ten years	151	134	6.29%
Serial maturities	2,758,532	2,797,777	2.67%
Other investment securities	1,959	2,071	3.67%
Total securities	$ 3,116,511	$ 3,173,337	2.86%

*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 2.7 years. These mortgage-related securities provide yield spread to U.S. Treasury or agency securities; however, the cash flows arising from them can be volatile due to refinancing of the underlying mortgage loans.

The equity security in Other investment securities in the table above at December 31, 2011 principally represents an investment in a Community Reinvestment Act investment fund comprised largely of mortgage-backed securities, although funds may also invest in municipal bonds, certificates of deposit, repurchase agreements, or securities issued by other investment companies.

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

Prior to the second quarter of 2009, the Company would assess an OTTI or permanent impairment based on the nature of the decline and whether the Company had the ability and intent to hold the investments until a market price recovery. If the Company determined a security to be other-than-temporarily or permanently impaired, the full amount of impairment would be recognized through earnings in its entirety. New guidance related to the recognition and presentation of OTTI of debt securities became effective in the second quarter of 2009. Rather than asserting whether a company has the ability and intent to

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hold an investment until a market price recovery, a company must consider whether they intend to sell a security or if it is likely that they would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity.

For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (OCI). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is reevaluated accordingly to the procedures described above.

Prior to the Company s adoption of the new guidance related to the recognition and presentation of OTTI of debt securities which became effective in the second quarter of 2009, the Company recorded a $2.1 million OTTI charge in the three months ended March 31, 2009. This charge related to three non-agency collateralized mortgage obligations carried as held to maturity for which the default rates and loss severities of the underlying collateral and credit coverage ratios of the security indicated that it was probable that credit losses were expected to occur. Upon adoption of the new OTTI guidance in the second quarter of 2009, the Company analyzed these securities as well as other securities where OTTI had been previously recognized, and determined that as of the adoption date such losses were credit related. As such, there was no cumulative effect adjustment to the opening balance of retained earnings or a corresponding adjustment to accumulated OCI.

The following table presents the OTTI losses for the years ended December 31, 2011, 2010, and 2009.

	2011		2010		2009	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total other-than-temporary impairment losses	$ 190	$	$ 93	$	$ 12,317	$ 239
Portion of other-than-temporary impairment losses transferred from (recognized in) other comprehensive income(1)	169		321		(1,983)	
Net impairment losses recognized in earnings(2)	$ 359	$	$ 414	$	$ 10,334	$ 239

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

The OTTI recognized on investment securities held to maturity primarily relates to 29 non-agency collateralized mortgage obligations for all periods presented. Each of these securities holds various levels of credit subordination. The underlying mortgage loans of these securities were originated from 2003 through 2007. At origination, the weighted average loan-to-value of the underlying mortgages was 69%; the underlying borrowers had weighted average FICO scores of 731, and 59% were limited documentation loans. These securities were valued by third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. We estimated the cash flows of the underlying collateral for each security considering credit, interest and prepayment risk models that incorporate management s estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then used a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows were then discounted at the interest rate used to recognize interest income on each security. We review the actual collateral performance of these securities on a quarterly basis and update the inputs as appropriate to determine the projected cash flows.

The following table presents a summary of the significant inputs utilized to measure management s estimate of the credit loss component on these non-agency residential collateralized mortgage obligations as of December 31, 2011 and 2010:

			2011			2010
		Range	Weighted		Range	Weighted
	Minimum	Maximum	Average	Minimum	Maximum	Average
Constant prepayment rate	10.0%	20.0%	14.0%	5.0%	20.0%	14.9%
Collateral default rate	5.0%	60.0%	22.6%	5.0%	15.0%	10.6%
Loss severity	27.5%	50.0%	32.5%	25.0%	55.0%	37.9%

Gross unrealized losses in the available for sale investment portfolio was $4.0 million at December 31, 2011. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $4.0 million. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral. Additional information about the investment securities portfolio is provided in Note 4 of the *Notes to Consolidated Financial Statements* in Item 8 below.

RESTRICTED EQUITY SECURITIES

Restricted equity securities were $32.6 million at December 31, 2011 and $34.5 million at December 31, 2010. The decrease of $1.9 million is attributable to stock redemption by the Federal Home Loan Bank (FHLB) of San Francisco. Of the $32.6 million at December 31, 2011, $28.6 million and $2.7 million represent the Bank s investment in the Federal Home Loan Banks (FHLB) of Seattle and San Francisco, respectively.

FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par. The remaining restricted equity securities primarily represent investments in Pacific Coast Bankers Bancshares stock.

Although as of December 31, 2011, the FHLB of Seattle complies with all of its regulatory requirements (including the risk-based capital requirement), it remains classified as undercapitalized by the Federal Housing Finance Agency (Finance Agency). Under Finance Agency regulations, a FHLB that fails to meet any regulatory capital requirement may not declare a dividend or redeem or repurchase capital stock in excess of what is required for members current loans.

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

Moody s Investors Services rating of the FHLB of Seattle as Aaa was confirmed in August 2011, but a negative outlook was assigned as Moody s revised the rating outlook to negative for U.S. government debt and all issuers Moody s considers directly-linked to the U.S. government. Standard and Poors rating is AA+, but it also issued a negative outlook with the action reflecting the downgrade of the long-term sovereign credit rating of the U.S. in 2011. Based on the above, the Company has determined there is not an other-than-temporary impairment on the FHLB stock investment as of December 31, 2011.

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Umpqua Holdings Corporation

LOANS AND LEASES

Non-covered loans and leases

Total non-covered loans and leases outstanding at December 31, 2011 were $5.9 billion, an increase of $229.1 million, or 4.0%, from year-end 2010. This increase is principally attributable to non-covered net loan originations of $336.9 million during the period and covered loans transferred to non-covered loans of $12.3 million, offset by charge-offs of $65.1 million, transfers to other real estate owned of $47.4 million, and sales of non-covered loans sold of $11.2 million.

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 non-covered loan portfolio as of December 31 for each of the last five years.

Non-covered Loan Portfolio Composition

As of December 31,

(dollars in thousands)

	2011		2010		2009		2008		2007	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Commercial real estate	$ 3,813,434	64.8%	$ 3,879,102	68.5%	$ 4,115,593	68.6%	$ 4,139,289	67.5%	$ 4,187,819	69.2%
Commercial	1,458,765	24.8%	1,256,872	22.2%	1,390,491	23.2%	1,503,400	24.5%	1,438,505	23.8%
Residential	588,119	10.0%	501,001	8.9%	468,486	7.8%	465,361	7.6%	404,900	6.6%
Consumer & other	38,860	0.6%	33,043	0.6%	36,098	0.6%	34,774	0.6%	35,700	0.6%
Deferred loan fees, net	(11,080)	-0.2%	(11,031)	-0.2%	(11,401)	-0.2%	(11,450)	-0.2%	(11,289)	-0.2%
Total loans and leases	$ 5,888,098	100.0%	$ 5,658,987	100.0%	$ 5,999,267	100.0%	$ 6,131,374	100.0%	$ 6,055,635	100.0%

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

Non-Covered Loan Concentrations

As of December 31, 2011 and 2010

(dollars in thousands)

	2011		2010	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Term & multifamily	$ 3,558,295	60.5%	$ 3,483,475	61.6%
Construction & development	165,066	2.8%	247,814	4.4%
Residential development	90,073	1.5%	147,813	2.6%
Commercial				
Term	625,766	10.6%	509,453	9.0%
LOC & other	832,999	14.1%	747,419	13.2%
Residential				
Mortgage	315,927	5.4%	222,416	3.9%

Home equity loans & lines	272,192	4.6%	278,585	4.9%
Consumer & other	38,860	0.7%	33,043	0.6%
Deferred loan fees, net	(11,080)	-0.2%	(11,031)	-0.2%
Total	$ 5,888,098	100.0%	$ 5,658,987	100.0%

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The following table presents the maturity distribution of our non-covered loan portfolios and the sensitivity of these loans to changes in interest rates as of December 31, 2011:

Maturities and Sensitivities of Non-covered 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 real estate	$ 406,360	$ 1,388,399	$ 2,018,675	$ 3,813,434	$ 707,080	$ 2,699,994
Commercial(1)	$ 702,814	$ 468,393	$ 257,945	$ 1,429,152	$ 439,414	$ 286,924

(1) Excludes the lease portfolio.

In order to assist with understanding the concentrations and risks associated with our portfolio, we are providing several additional tables to provide details of the most significant classes of the Company s non-covered loan portfolio. The classification of non-covered loan balances are presented in accordance with how management monitors and manages the risks of the non-covered loan portfolio, including how the Company applies its allowance for non-covered loan and lease losses methodology.

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Umpqua Holdings Corporation

The following table presents a distribution of the non-covered commercial real estate term & multifamily portfolio by type and region as of December 31, 2011 and December 31, 2010.

Non-Covered Commercial Real Estate Term & Multifamily Portfolio by Type and Region

(in thousands)

	December 31, 2011							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2010
Non-owner occupied:								
Commercial building	$ 137,362	$ 4,938	$ 29,425	$ 51,557	$ 56,891	$ 127,825	$ 407,998	$ 390,783
Medical office	87,420	217	8,991		8,683	15,614	120,925	112,856
Professional office	152,048	4,980	51,580	19,961	105,690	59,489	393,748	417,969
Storage	40,786	144	15,899	4,044	11,261	45,352	117,486	127,285
Multi-family	69,555	485	13,477	9,721	17,978	40,599	151,815	116,591
Resort	124		666			392	1,182	6,111
Retail	180,805	6,040	30,990	12,309	167,227	64,638	462,009	468,482
Residential	28,773	96	7,711	4,225	4,534	20,377	65,716	74,400
Farmland & agricultural	2,228	11				16,324	18,563	23,966
Apartments	67,575		9,134	15,557	17,857	15,833	125,956	114,797
Assisted living	111,688		56,978	190	10,310	22,359	201,525	211,191
Hotel & motel	60,842		817	690	17,294	41,804	121,447	129,593
Industrial	42,674	2,301	4,717	5,339	29,804	22,006	106,841	92,237
RV park	33,425		18,934		3,023	6,073	61,455	56,654
Warehouse	10,107				617	2,196	12,920	13,115
Other	18,591	245	1,057	302	1,517	4,621	26,333	43,635
Total	$ 1,044,003	$ 19,457	$ 250,376	$ 123,895	$ 452,686	$ 505,502	$ 2,395,919	$ 2,399,665
Owner occupied:								
Commercial building	$ 198,831	$ 2,925	$ 36,580	$ 21,835	$ 63,927	$ 130,793	$ 454,891	$ 389,809
Medical office	95,204	3,593	24,664	930	8,872	26,623	159,886	149,151
Professional office	73,623	2,190	10,351	2,197	19,953	21,008	129,322	115,673
Storage								
Multi-family	758		42	3,740		134	4,674	4,143
Resort	8,730		4,201		2,771	780	16,482	13,930
Retail	42,710	620	12,280	3,568	42,739	49,647	151,564	159,941
Residential	3,709	142	2,146		771	2,917	9,685	12,481
Farmland & agricultural	7,002		1,252	1,825		51,936	62,015	58,347
Apartments	418		694			29	1,141	2,405
Assisted living								
Hotel & motel								
Industrial	53,584	637	11,744	7,280	11,097	35,361	119,703	122,584
RV park	663		951			1,812	3,426	4,606
Warehouse	9,857		607			6,489	16,953	17,956
Other	29,617		130	943		1,944	32,634	32,784
Total	$ 524,706	$ 10,107	$ 105,642	$ 42,318	$ 150,130	$ 329,473	$ 1,162,376	$ 1,083,810
Total	$ 1,568,709	$ 29,564	$ 356,018	$ 166,213	$ 602,816	$ 834,975	$ 3,558,295	$ 3,483,475

December 31, 2010

	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total non-owner occupied	$ 1,047,254	$ 22,688	$ 276,514	$ 110,451	$ 490,052	$ 452,706	$ 2,399,665
Total owner occupied	477,752	13,117	96,299	33,451	161,894	301,297	1,083,810
Total	$ 1,525,006	$ 35,805	$ 372,813	$ 143,902	$ 651,946	$ 754,003	$ 3,483,475

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The following table presents a distribution of the non-covered term commercial real estate portfolio by type and year of origination as of December 31, 2011:

Non-Covered Commercial Real Estate Term & Multifamily Portfolio by Type and Year of Origination

(in thousands)

	Prior to 2001	2001 - 2005	2006 - 2007	2008 - 2009	2010 - 2011	Total
Non-owner occupied:						
Commercial building	$ 8,000	$ 89,342	$ 80,574	$ 136,106	$ 93,976	$ 407,998
Medical office	2,516	53,002	12,393	32,832	20,182	120,925
Professional office	11,909	179,541	57,218	72,878	72,202	393,748
Storage	2,401	44,234	28,801	18,754	23,296	117,486
Multi-family	2,701	30,432	24,269	31,551	62,862	151,815
Resort	392	124		666		1,182
Retail	12,269	212,146	110,638	74,826	52,130	462,009
Residential	1,099	10,953	16,753	16,574	20,337	65,716
Farmland & agricultural	1,310	3,240	1,304	10,099	2,610	18,563
Apartments	911	21,443	20,694	35,808	47,100	125,956
Assisted living	12,539	70,761	45,015	41,645	31,565	201,525
Hotel & motel	16,235	51,303	12,200	37,788	3,921	121,447
Industrial	2,510	58,166	11,396	6,251	28,518	106,841
RV park	3,043	19,540	13,000	11,087	14,785	61,455
Warehouse	987	8,406	3,527			12,920
Other	67	8,550	10,046	5,504	2,166	26,333
Total	$ 78,889	$ 861,183	$ 447,828	$ 532,369	$ 475,650	$ 2,395,919
Owner occupied:						
Commercial building	$ 14,206	$ 84,620	$ 112,144	$ 141,000	$ 102,921	$ 454,891
Medical office	3,474	21,532	25,308	88,381	21,191	159,886
Professional office	3,914	46,627	30,724	21,054	27,003	129,322
Storage						
Multi-family	158	1,457			3,059	4,674
Resort	690	9,603		2,841	3,348	16,482
Retail	7,391	44,487	69,090	22,099	8,497	151,564
Residential	448	4,500	2,971	1,033	733	9,685
Farmland & agricultural	2,555	3,502	11,441	20,473	24,044	62,015
Apartments	29		694		418	1,141
Assisted living						
Hotel & motel						
Industrial	3,597	47,526	14,767	24,907	28,906	119,703
RV park	788	1,190	299	144	1,005	3,426
Warehouse	103	8,248	3,193	4,888	521	16,953
Other		4,975	25,690	1,019	950	32,634
Total	$ 37,353	$ 278,267	$ 296,321	$ 327,839	$ 222,596	$ 1,162,376
Total	$ 116,242	$ 1,139,450	$ 744,149	$ 860,208	$ 698,246	$ 3,558,295

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Umpqua Holdings Corporation

The following table presents a distribution of the non-covered term commercial real estate portfolio by type and year of maturity as of December 31, 2011:

Non-Covered Commercial Real Estate Term & Multifamily Portfolio by Type and Year of Maturity

(in thousands)

							December 31, 2011
	2012	2013	2014 - 2015	2016 - 2017	2018 - 2022	2023 & Later	Total
Non-owner							
Commercial building	$ 31,552	$ 33,706	$ 65,672	$ 87,428	$ 174,157	$ 15,483	$ 407,998
Medical office	10,510	5,940	10,610	20,702	62,425	10,738	120,925
Professional office	26,415	54,669	84,886	92,952	122,141	12,685	393,748
Storage	481	17,367	21,487	22,705	53,867	1,579	117,486
Multi-family	4,175	6,733	28,182	22,799	82,717	7,209	151,815
Resort		666	516				1,182
Retail	23,093	38,843	134,311	132,076	127,023	6,663	462,009
Residential	15,402	7,411	7,987	10,649	18,076	6,191	65,716
Farmland & agricultural	459	1,172	6,726	2,123	4,459	3,624	18,563
Apartments	4,456	5,902	22,338	15,113	76,330	1,817	125,956
Assisted living	27,420	4,464	31,014	60,355	76,167	2,105	201,525
Hotel & motel	7,399	8,084	37,476	15,548	40,438	12,502	121,447
Industrial	5,633	6,529	25,597	31,537	28,366	9,179	106,841
RV park	638	4,202	13,463	10,057	30,327	2,768	61,455
Warehouse	1,008	4,352	2,082	1,188	3,273	1,017	12,920
Other	3,964	1,691	4,349	9,549	3,143	3,637	26,333
Total	$ 162,605	$ 201,731	$ 496,696	$ 534,781	$ 902,909	$ 97,197	$ 2,395,919
Owner occupied:							
Commercial building	$ 16,781	$ 26,134	$ 46,190	$ 78,576	$ 230,720	$ 56,490	$ 454,891
Medical office	1,837	363	8,651	14,648	115,961	18,426	159,886
Professional office	3,122	10,220	18,919	35,003	55,337	6,721	129,322
Storage							
Multi-family		566	891	42	3,175		4,674
Resort		102	3,461	3,963	4,856	4,100	16,482
Retail	9,829	12,432	29,313	45,353	47,035	7,602	151,564
Residential	1,025	782	4,314	493	1,236	1,835	9,685
Farmland & agricultural	3,568	3,115	11,435	9,440	27,824	6,633	62,015
Apartments			29	694	418		1,141
Assisted living							
Hotel & motel							
Industrial	5,847	4,348	21,116	25,660	56,738	5,994	119,703
RV park	82	774	1,123	299	299	849	3,426
Warehouse	874		6,876	4,362	4,673	168	16,953
Other	3,194	754	661	3,514	24,243	268	32,634
Total	$ 46,159	$ 59,590	$ 152,979	$ 222,047	$ 572,515	$ 109,086	$ 1,162,376
Total	$ 208,764	$ 261,321	$ 649,675	$ 756,828	$ 1,475,424	$ 206,283	$ 3,558,295

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The following table presents a distribution of the non-covered commercial real estate construction portfolio by type and region as of December 31, 2011 and December 31, 2010.

Non-Covered Commercial Real Estate Construction and Development Portfolio by Type and Region

(in thousands)

	December 31, 2011							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2010
Non-owner occupied:								
Commercial building	$ 7,408	$	$ 2,705	$ 562	$ 11,166	$ 836	$ 22,677	$ 25,877
Medical office								13,888
Professional office						1,897	1,897	23,077
Storage	5,387						5,387	8,447
Multi-family	4,990			6,072			11,062	10,705
Retail	13,743				2,030		15,773	13,498
Residential	18,958		5,154	3,950	19,853	5,007	52,922	62,058
Apartments	24,637						24,637	13,324
Assisted living					5,854		5,854	20,389
Hotel & motel								5,447
Industrial								
Other	87					5,783	5,870	3,104
Total	$ 75,210	$	$ 7,859	$ 10,584	$ 38,903	$ 13,523	$ 146,079	$ 199,814
Owner occupied:								
Commercial building	$ 5,443	$	$ 1,087	$	$ 575	$ 4,645	$ 11,750	$ 25,379
Medical office	430						430	14,479
Professional office								
Storage								
Multi-family								
Retail								
Residential	1,455					578	2,033	5,944
Apartments								
Assisted living								
Hotel & motel								
Industrial	2,521		71				2,592	2,198
Other						2,182	2,182	
Total	$ 9,849	$	$ 1,158	$	$ 575	$ 7,405	$ 18,987	$ 48,000
Total	$ 85,059	$	$ 9,017	$ 10,584	$ 39,478	$ 20,928	$ 165,066	$ 247,814

	December 31, 2010						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total non-owner occupied	$ 99,309	$ 310	$ 8,357	$ 4,921	$ 61,897	$ 25,020	$ 199,814
Total owner occupied	34,592		243		584	12,581	48,000
Total	$ 133,901	$ 310	$ 8,600	$ 4,921	$ 62,481	$ 37,601	$ 247,814

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Umpqua Holdings Corporation

The following table presents a distribution of the non-covered commercial loan portfolio (excluding leases) by type and region as of December 31, 2011 and December 31, 2010.

Commercial Loan Portfolio by Type and Region

(in thousands)

	December 31, 2011							
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total	December 31, 2010
Commercial line of credit	$ 184,047	$ 530	$ 15,990	$ 12,377	$ 146,643	$ 112,920	$ 472,507	$ 372,319
Asset-based line of credit	143,684	1,857	15,941	23,262	11,123	52,220	248,087	206,185
Term loans	154,282	2,310	20,640	28,561	79,406	87,773	372,972	343,967
Agricultural	21,027	148	1,087	1,917	336	67,363	91,878	83,332
Municipal	16,923		16,274		36,765	3,585	73,547	71,994
SBA						84,221	84,221	57,529
Small business lending	25,569	1,246	14,903	5,452	11,979	25,504	84,653	89,090
Total	$ 545,532	$ 6,091	$ 84,835	$ 71,569	$ 286,252	$ 433,586	$ 1,427,865	$ 1,224,416

	December 31, 2010						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Total	$ 448,158	$ 5,004	$ 77,343	$ 50,369	$ 293,369	$ 350,173	$ 1,224,416

Covered Loans and Leases, Net

Total covered loans and leases outstanding at December 31, 2011 were $622.5 million, a decrease of $163.4 million as compared to year-end 2010. This decrease is principally attributable to net covered loan paydowns and maturities of $119.8 million, transfers to covered other real estate owned of $15.3 million, and covered loans transferred to non-covered loans of $12.3 million.

The following table presents the composition of the covered loan portfolio as of December 31 for 2011 and 2010.

Covered Loan Portfolio Composition

As of December 31,

(dollars in thousands)

	2011		2010	
	Amount	Percentage	Amount	Percentage
Commercial real estate	$ 506,637	79.4%	$ 619,248	78.5%
Commercial	57,576	9.1%	78,003	9.9%
Residential	64,588	10.2%	80,504	10.2%
Consumer & other	7,970	1.3%	10,864	1.4%
Total	636,771	100.0%	788,619	100.0%

Allowance for covered loans	(14,320)	(2,721)
Total	$ 622,451	$ 785,898

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The following table presents the concentration distribution of our covered loan portfolio at December 31, 2011 and December 31, 2010.

Covered Loan and Leases Concentrations

(dollars in thousands)

	2011		2010	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Term & multifamily	$ 474,054	74.3%	$ 569,642	72.2%
Construction & development	14,820	2.3%	24,713	3.1%
Residential development	17,763	2.8%	24,893	3.2%
Commercial				
Term	34,150	5.4%	42,776	5.4%
LOC & other	23,426	3.7%	35,227	4.5%
Residential				
Mortgage	35,503	5.6%	44,824	5.7%
Home equity loans & lines	29,085	4.6%	35,680	4.5%
Consumer & other	7,970	1.3%	10,864	1.4%
Total	636,771	100.0%	788,619	100.0%
Allowance for covered loans	(14,320)		(2,721)	
Total	$ 622,451		$ 785,898	

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

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

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

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

ASSET QUALITY AND NON-PERFORMING ASSETS

Non-Covered Loans and Leases

We manage asset quality and control credit risk through diversification of the non-covered loan portfolio and the application of policies designed to promote sound underwriting and loan monitoring practices. The Bank s Credit Quality Group is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. The provision for non-covered 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 non-covered 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 non-covered loans and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on 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-covered, non-performing loans, which include non-covered, non-accrual loans and non-covered accruing loans past due over 90 days, totaled $91.4 million or 1.55% of total non-covered loans as of December 31, 2011, as compared to $145.2 million, or 2.57% of total non-covered loans, at December 31, 2010. Non-covered, non-performing assets, which include non-covered, non-performing loans and non-covered, foreclosed real estate (other real estate owned), totaled $125.6 million, or 1.09% of total assets as of December 31, 2011 compared with $178.0 million, or 1.53% of total assets as of December 31, 2010. The decrease in non-performing assets in 2011 is attributable to the improving economic environment, an easing in the velocity of declining real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio.

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

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

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess whether a lower price reflects the market value of the property and would enable us to sell the property. In addition, we update appraisals on other real estate owned property six to nine months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on a) updated appraisals received during the period, or b) management s authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan moving to other real estate owned. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan or market value of the property less expected selling costs. Non-covered other real estate owned at December 31, 2011 totaled $34.2 million and consisted of 63 properties.

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

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

Umpqua Holdings Corporation

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

Non-Covered, Non-Performing Assets

As of December 31,

(dollars in thousands)

	2011	2010	2009	2008	2007
Non-covered loans on non-accrual status	$ 80,562	$ 138,177	$ 193,118	$ 127,914	$ 81,317
Non-covered loans past due 90 days or more and accruing	10,821	7,071	5,909	5,452	9,782
Total non-covered non-performing loans	91,383	145,248	199,027	133,366	91,099
Non-covered other real estate owned	34,175	32,791	24,566	27,898	6,943
Total non-covered non-performing assets	$ 125,558	$ 178,039	$ 223,593	$ 161,264	$ 98,042
Restructured loans(1)	$ 80,563	$ 84,441	$ 134,439	$ 23,540	$
Allowance for non-covered loan and lease losses	$ 92,968	$ 101,921	$ 107,657	$ 95,865	$ 84,904
Reserve for unfunded commitments	940	818	731	983	1,182
Allowance for credit losses	$ 93,908	$ 102,739	$ 108,388	$ 96,848	$ 86,086
Asset quality ratios:					
Non-covered non-performing assets to total assets	1.09%	1.53%	2.38%	1.88%	1.18%
Non-covered non-performing loans to total non-covered loans	1.55%	2.57%	3.32%	2.18%	1.50%
Allowance for non-covered loan losses to total non-covered loans	1.58%	1.80%	1.79%	1.56%	1.40%
Allowance for non-covered credit losses to total non-covered loans	1.59%	1.82%	1.81%	1.58%	1.42%
Allowance for non-covered credit losses to total non-covered non-performing loans	103%	71%	54%	73%	94%

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

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The following tables summarize our non-covered non-performing assets by loan type and region as of December 31, 2011 and December 31, 2010:

Non-Covered, Non-Performing Assets by Type and Region

(in thousands)

							December 31, 2011
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Loans on non-accrual status:							
Commercial real estate							
Term & multifamily	$ 27,183	$ 617	$ 2,286	$ 1,159	$ 7,494	$ 5,747	$ 44,486
Construction & development	921		568		1,859		3,348
Residential development	9,226			4,172	63	2,375	15,836
Commercial							
Term	724	1,814	239	157	1,462	3,724	8,120
LOC & other	5,457	147	95	1,114		1,959	8,772
Residential							
Mortgage							
Home equity loans & lines							
Consumer & other							
Total	43,511	2,578	3,188	6,602	10,878	13,805	80,562
Loans past due 90 days or more and accruing:							
Commercial real estate							
Term & multifamily	$	$	$	$	$	$	$
Construction & development					575		575
Residential development							
Commercial							
Term						1,179	1,179
LOC & other					47	1,350	1,397
Residential							
Mortgage	4,342						4,342
Home equity loans & lines	773	200	294		572	810	2,649
Consumer & other	475		155	2	6	41	679
Total	5,590	200	449	2	1,200	3,380	10,821
Total non-performing loans	49,101	2,778	3,637	6,604	12,078	17,185	91,383
Other real estate owned:							
Commercial real estate							
Term & multifamily	$ 4,673	$ 140	$ 786	$	$ 7,618	$ 2,700	$ 15,917
Construction & development	2,383	400			3,166		5,949
Residential development	1,487	944	1,457	589	3,494	784	8,755
Commercial							
Term							
LOC & other	50	306		521			877
Residential							
Mortgage	2,099						2,099
Home equity loans & lines			212		366		578
Consumer & other							
Total other real estate owned	10,692	1,790	2,455	1,110	14,644	3,484	34,175
Total non-performing assets	$ 59,793	$ 4,568	$ 6,092	$ 7,714	$ 26,722	$ 20,669	$ 125,558

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Umpqua Holdings Corporation

	December 31, 2010						
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Loans on non-accrual status:							
Commercial real estate							
Term & multifamily	$ 24,180	$ 4,816	$ 537	$ 1,898	$ 9,010	$ 8,721	$ 49,162
Construction & development	12,726		472		6,817	109	20,124
Residential development	10,191	110	2,122	3,033	10,761	8,369	34,586
Commercial							
Term	710	1,679	320	373	98	3,092	6,272
LOC & other	7,586	878	768	6,830	8,628	3,343	28,033
Residential							
Mortgage							
Home equity loans & lines							
Consumer & other							
Total	55,393	7,483	4,219	12,134	35,314	23,634	138,177
Loans past due 90 days or more and accruing:							
Commercial real estate							
Term & multifamily	$ 79	$	$	$ 176	$ 2,753	$	$ 3,008
Construction & development							
Residential development							
Commercial							
Term							
LOC & other							
Residential							
Mortgage	2,925						2,925
Home equity loans & lines	73				159		232
Consumer & other	880				26		906
Total	3,957			176	2,938		7,071
Total non-performing loans	59,350	7,483	4,219	12,310	38,252	23,634	145,248
Other real estate owned:							
Commercial real estate							
Term & multifamily	$ 5,396	$	$ 1,656	$	$ 3,091	$ 5,686	$ 15,829
Construction & development	3,443	539		313	4,392		8,687
Residential development	674	1,844	1,368	112		1,118	5,116
Commercial							
Term							
LOC & other							
Residential							
Mortgage	954						954
Home equity loans & lines							
Consumer & other					481	1,724	2,205
Total other real estate owned	10,467	2,383	3,024	425	7,964	8,528	32,791
Total non-performing assets	$ 69,817	$ 9,866	$ 7,243	$ 12,735	$ 46,216	$ 32,162	$ 178,039

As of December 31, 2011, non-covered, non-performing assets of $125.6 million have been written down by 38%, or $76.3 million, from their current par balance of $201.9 million.

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

The following table summarizes our non-covered loans past due 30-89 days by loan type and by region as of December 31, 2011 and December 31, 2010. Loans past due 30-89 days have decreased 27% between the two periods.

Non-Covered Loans Past Due 30-89 Days by Type and Region

(in thousands)

							December 31, 2011
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate							
Term & multifamily	$ 1,721	$	$ 1,029	$	$ 6,867	$ 8,886	$ 18,503
Construction & development				662			662
Residential development					4,171		4,171
Commercial							
Term	760		166		461	1,426	2,813
LOC & other	141		98		5,616	699	6,554
Residential							
Mortgage	1,180						1,180
Home equity loans & lines	22		94			567	683
Consumer & other	578		36	10	4	33	661
Total	$ 4,402	$	$ 1,423	$ 672	$ 17,119	$ 11,611	$ 35,227

							December 31, 2010
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate							
Term & multifamily	$ 6,636	$ 1,719	$	$	$ 5,524	$ 9,045	$ 22,924
Construction & development	373				8,525		8,898
Residential development					480	160	640
Commercial							
Term	354			64	868	1,655	2,941
LOC & other	1,542		17	1,670	1,291	1,961	6,481
Residential							
Mortgage	2,414						2,414
Home equity loans & lines	469			200	1,778		2,447
Consumer & other	1,339			100	32	1	1,472
Total	$ 13,127	$ 1,719	$ 17	$ 2,034	$ 18,498	$ 12,822	$ 48,217

Non-covered Restructured Loans

At December 31, 2011 and December 31, 2010, impaired loans of $80.6 million and $84.4 million were classified as non-covered performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The non-covered performing restructured loans on accrual status and two loans included in loans past due 30+ days and accruing represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered performing and on accrual status, the loan s collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company had obligations of $205,000 to lend additional funds on the restructured loans as of December 31, 2011.

Residential Modification Program

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

A and B Note Workout Structures

The Bank performs A note/B note workout structures as a subset of the Bank s troubled debt restructuring strategy. The amount of loans restructured using this structure was $21.4 million and $20.5 million as of December 31, 2011 and December 31, 2010, respectively.

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

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

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

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The following tables summarize our non-covered performing restructured loans by loan type and region as of December 31, 2011 and December 31, 2010:

Non-Covered Restructured Loans by Type and Region

(in thousands)

							December 31, 2011
	Northwest Oregon	Central Oregon	Southern Oregon	Washington	Greater Sacramento	Northern California	Total
Commercial real estate							
Term & multifamily	$ 10,148	$	$ 5,243	$	$ 4,618	$ 2,602	$ 22,611
Construction & development	8,967				8,171	2,858	19,996
Residential development	14,195	943			18,826		33,964
Commercial							
Term					3,191	672	3,863
LOC & other							
Residential							
Mortgage							
Home equity loans & lines							