



2011 annual report

UMPQUA HOLDINGS  
C O R P O R A T I O N



## to my fellow shareholders,

This past year your company earned \$74 million, up 361% from the \$16 million reported for 2010. We believe this improvement is clear evidence that your company is successfully emerging from one of the most difficult economic periods in decades. Much of our progress this past year is due to the hard work of our associates in the four states that make up our geographic footprint. We salute them for their efforts, sacrifices, and continued belief in and support of the culture of Umpqua, which is stronger today than at any other time in our history. The company's total shareholder return also increased this past year (up 4%), surpassing the KBW Regional Bank Index (KRX; down 5%), as indicated by the graph on the next page.

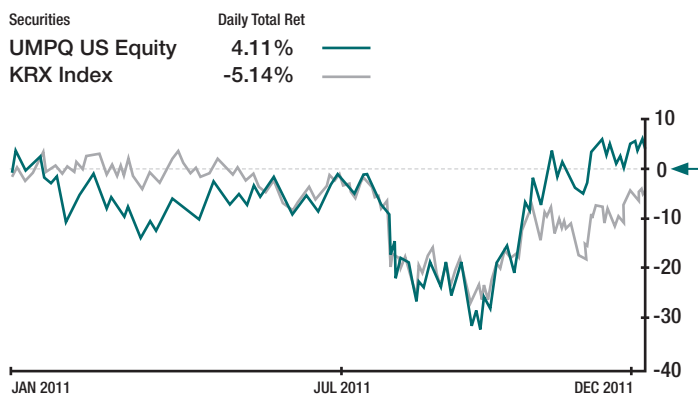
Even though our performance in 2011 was improved, we realize we still have work to do as we continue to position your company for the future and for stronger shareholder returns. This letter recaps the actions taken last year within each major area of the company to ensure that we continue to improve.

## capital

Once again, your company finished this past year with very strong capital levels. Total shareholder equity was \$1.7 billion, comprised entirely of common equity. Our ratio of tangible common equity to tangible assets at year-end was 9.14% compared to 8.74% at the end of 2010. Our total risk-based capital level of 17.16% is substantially higher than the regulatory definition of “well capitalized.” Our enviable capital position is important as we continue to grow your company. However, our excess capital does apply pressure to our return on equity, which makes it important that we employ our excess capital in ways that will provide the greatest return to shareholders. This past year, the board of directors raised our annual cash dividends by 20% and approved a 15 million share repurchase program, while positioning the company to remain opportunistic for potential acquisitions in markets of strategic importance. The board will continue to evaluate all options available to improve our total shareholder return.

### Comparative Shareholder Returns

Range 12/31/10 - 12/30/11

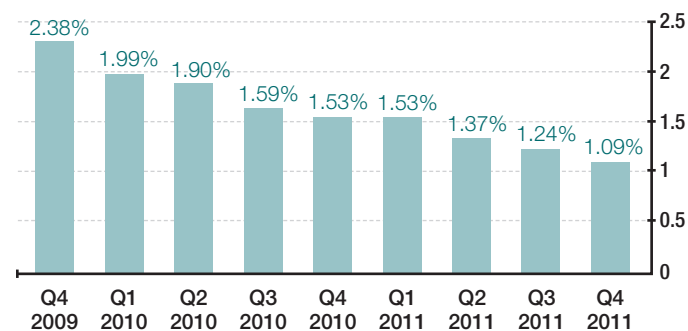


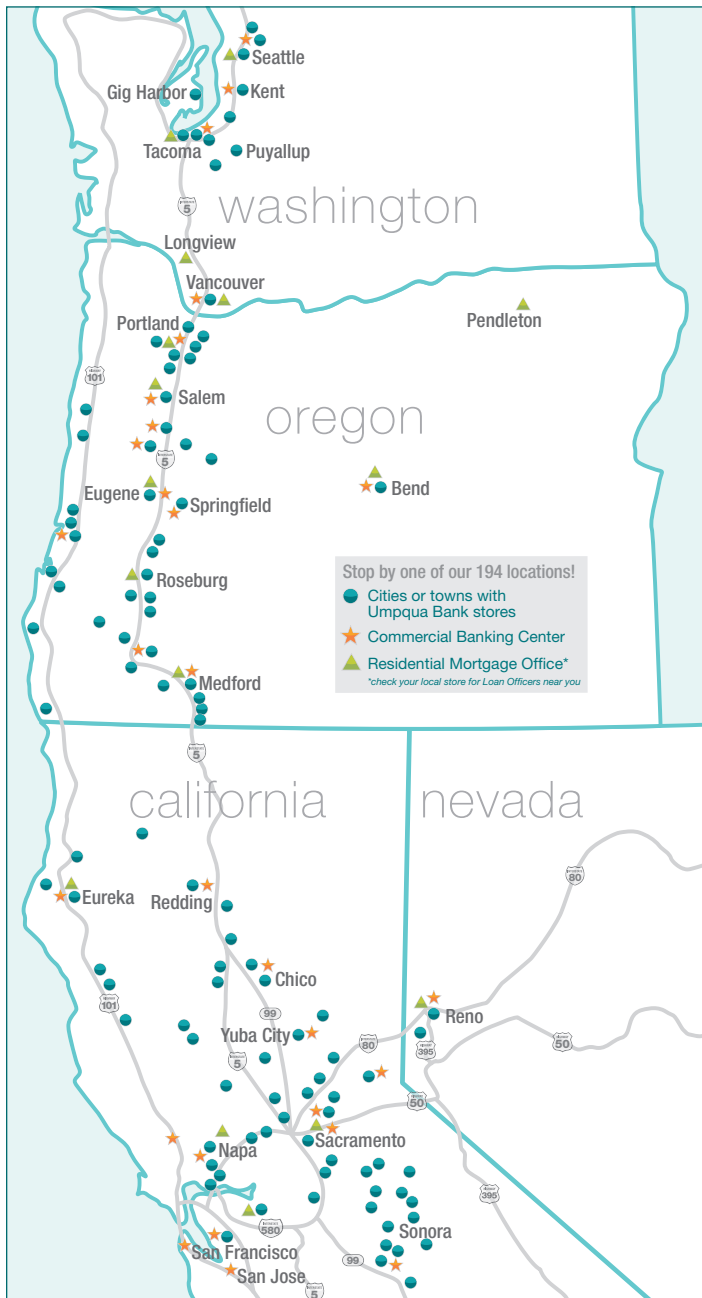
## credit quality

Our credit quality professionals are the best in the business. Their effort to cleanse our balance sheet of troubled loans has resulted in some of the best credit metrics we have reported in years (in comments to follow, we refer to “non-covered” loans meaning those loans that were originated by Umpqua and are not covered by the FDIC loss sharing program from institutions acquired from the FDIC). For example, on a year-over-year basis our non-covered, non-performing assets were down 29% and our provision for non-covered loan losses was down 59%. Total non-covered, non-performing assets to total assets ended the year at 1.09%, the lowest reported ratio since the end of the first quarter of 2008 and significantly lower than those of our northwest regional peers. As our credit metrics continue to improve, we will benefit from a corresponding reduction in credit workout costs which, in turn, should improve the company’s earnings.

### Credit Quality Trends

Non-covered, non-performing assets to total assets %





## loan growth

Over the last several years, many of us have heard that “banks are just not lending.” For those institutions with limited capital, this statement could be true. However, as we mentioned earlier, Umpqua is capital strong and is lending in all of the communities we serve. It’s unfortunate that Umpqua and other banks that are actively making loans don’t get credit for our efforts. But the fact is that this past year our total loan production exceeded \$2.4 billion, a 57% increase over 2010.

During the past few years, many banks have experienced a run-off in total loans outstanding due to pay downs, lower loan demand and a failure to invest in the resources needed to boost loan production. On the other hand, in 2011 your company reported net non-covered loan growth for the year of \$229 million, an increase of 4% over 2010. Our success was due to decisions made months earlier that created the necessary momentum for growth, such as:

- **Creating our Business Banking division to focus on small business loans and**
- **Expanding our Commercial Banking Centers in high-growth markets with an emphasis on commercial and industrial loans.**

During 2011, the company’s Residential Loan division achieved \$1 billion in mortgage loan production and record revenues of \$26.6 million. On an annual basis, our loan production was up 27% and our mortgage revenues increased by 25%. This growth is due to the expanding geographic reach of our mortgage loan professionals and our ongoing commitment to support home buyers with appropriate loan products.

*This letter includes forward-looking statements within the meaning of the “Safe-Harbor” provisions of the Private Securities Litigation Reform Act of 1995, which management believes are a benefit to shareholders. These statements are necessarily subject to risk and uncertainty and actual results could differ materially due to certain risk factors, including those set forth from time to time in our filings with the SEC. You should not place undue reliance on forward-looking statements and we do not intend to correct or update any such statements. In this letter, we make forward-looking statements about improving total shareholder returns, reduced credit workout costs, improved earnings, becoming one of the top three commercial banks in each of our markets, locating new stores in the San Francisco bay area, our ability to compete with more than price and continuing to reinvent our customer experience through technology and new delivery channels. Specific risks that could cause results to differ from the forward-looking statements include those that are set forth in our filings with the SEC, further deterioration of the economy and internal and external events that would negatively impact credit costs and earnings, delays in siting and building new stores, unanticipated changes in our competitive environment and delay or inability to implement new technologies.*

## commercial banking programs

As your company grows, management continues to add pertinent services for our commercial clients. Over the last couple of years, we have added an International Banking division and in 2011 we expanded our commercial services by adding a Debt Capital Markets Department and a Leasing Group, and by upgrading our Treasury Management offerings. These segments of your company are important to our growth prospects as we strive to become one of the top three commercial banks of choice within every market we serve. Umpqua has the ability to grow with our commercial customers, providing them with a complete suite of commercial banking services.

## community banking

This past year, we opened nine new bank stores, the most we have ever opened in a single year. Our 194 bank store network now spans four states and supports our 26 Commercial Banking Centers as we continue to focus on organic growth throughout our footprint. Our strategy in 2011 was to increase the density of our bank store network in Portland, Ore., and Washington's Puget Sound area. Now that these facilities are open, we have turned our attention to the greater San Francisco Bay Area market. We plan to open the first Umpqua Bank "flagship" bank store in San Francisco by the end of 2012.

Due to the low rate environment, Umpqua saw its cost of interest bearing deposits drop to 0.74%, down from 1.08% for 2010, a 34 basis point decrease. During this period we also benefited from a positive change in our deposit mix, with our non-interest bearing deposits growing from 17% to 21% of total deposits. On a year-over-year basis, total deposits contracted 2%, made up entirely of time deposits that proved to be rate sensitive.

Umpqua continues to embrace the relationship banking strategy that has proven successful for many years. Due to the strength of our brand, our reputation and unique culture, we have made Umpqua a bank of choice for businesses and consumers and are able to compete effectively on more than price.

## culture and value

Over the years we have consistently reported to you about the strength of the "Umpqua culture." This year is no exception. Management and the board of your company are committed to continuing to build a community bank—one that combines the service and community engagement of a small community bank with the sophisticated products and financial expertise of the big banks. We don't believe this has been accomplished before in the financial industry, since for many institutions, growth comes at the expense of their culture.

We will not let bureaucracy and process run your company. It's refreshing to us that the company's culture is stronger and more vibrant today than at any other time in our history. This is the result of the talent and commitment to excellence that our fellow associates continue to demonstrate. In 2011, your company was recognized for sustaining the culture we are so well known for throughout the financial industry, including the following:

- **For the seventh year in a row Umpqua was named the most admired financial services company in Oregon,**
- **For the sixth year in a row named one of Fortune magazine's "100 Best Companies to Work For" in the United States, and**
- **Was ranked highest in customer satisfaction for the Northwest region by J.D. Power and Associates in its 2011 Retail Banking Satisfaction Study.**

Another area we are particularly proud of is the company's Connect program. This program provides our associates with up to 40 hours a year of paid time off to volunteer for youth-focused organizations, schools or community development programs of their choice. Remaining a community bank means supporting and giving back to the communities we serve, and in 2011 Umpqua Bank attained a new industry standard with more than 90% associate participation resulting in 44,946 combined volunteer hours. Our Connect program delivers untold benefits to non-profit organizations as well as to each of our participating associates.

## our customers and innovation

As technology continues to advance new tools and resources for customers, the banking environment must evolve as well. Umpqua will continue to meet the needs of our existing clients, while adding innovative offerings to attract the next generation of Umpqua customers. Our goal is to provide both our commercial and consumer clients with a consistent banking experience across all delivery channels that exceeds their service expectations. We are committed to continuing to invest in new technologies, including customer-facing initiatives that deliver our products and services through multiple channels such as new apps for mobile banking, enhanced ATM capabilities and web-based services. Our bank stores continue to play a critical role and our innovation in new channels will complement and enhance our in-store experience. We look forward to accelerating our initiatives in this area over the next several years.

## the new normal

As we enter 2012, the financial industry will continue to face strong headwinds as it searches for its "new normal" in financial performance. The large financial institutions will have to deal with global financial issues and capital constraints, while community

banks will need to seek out strategies to perpetuate their businesses. The financial world has changed significantly. Size and scalability are more important now than ever. We believe this new financial environment will lead to consolidation within our industry as some institutions realize their ability to return meaningful results to shareholders is diminished.

Umpqua is well positioned to take advantage of opportunities that may arise. At almost \$12 billion in assets, your company has the strength and capability to compete effectively in this environment and well into the future by leveraging our reputation for providing an exceptional customer experience.

## your board of directors

Over the years we have often commented that a major reason for Umpqua's continued success has been the board's willingness to evolve and our ability to attract top talent. Their continued leadership is outstanding and demonstrated clearly in Umpqua Bank's growth and success.

On behalf of all of Umpqua's associates and our Board of Directors we thank you for your support and encouragement.



Raymond P. Davis  
President and CEO



Allyn Ford  
Chairman

*This is the last annual letter from our current chairman, Allyn Ford, as he retires from the board after 40 years of service. We will miss him greatly for his wise counsel and leadership. Nobody understands the need to continue to refresh our board with new talent more than Allyn, so in 2012 we welcome Peggy Fowler as our new board chair.*

## financial highlights

(dollars in thousands, except per share data)

<b>Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings</b>	<b>2011</b>	<b>2010</b>	<b>% Change</b>
Net earnings available to common shareholders	\$74,140	\$16,067	361%
Net loss (gain) on junior subordinated debentures carried at fair value, net of tax	1,318	(2,988)	-144%
Bargain purchase gain on acquisitions, net of tax	-	(3,862)	NM
Merger-related expenses, net of tax	216	4,005	-95%
Operating earnings	<u>\$75,674</u>	<u>\$13,222</u>	472%
Basic earnings per common share	\$0.65	\$0.15	333%
Basic operating earnings per common share	0.66	0.12	450%
Diluted earnings per common share	0.65	0.15	333%
Diluted operating earnings per common share	0.66	0.12	450%
	<b>2011</b>	<b>2010</b>	<b>% Change</b>
Total assets	\$11,563,355	\$11,668,710	-1%
Total non-covered loans	5,888,098	5,658,987	4%
Total covered loans	622,451	785,898	-21%
Total deposits	9,236,690	9,433,805	-2%
Total shareholders' equity	1,672,413	1,642,574	2%
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Return on average assets	0.64%	0.15%	-1.85%
Return on average common shareholders' equity	4.43%	1.01%	-12.63%
Return on average assets - operating basis (1)	0.65%	0.12%	-0.65%
Return on average common shareholders' equity - operating basis (1)	4.53%	0.83%	-4.41%
Net interest margin (fully tax equivalent)	4.19%	4.17%	4.09%
Total loans as a percentage of deposits	70.49%	68.32%	80.63%
Dividend payout ratio	36.92%	133.33%	-8.47%
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Asset Quality Ratios			
Allowance for non-covered credit losses to total non-covered loans	1.59%	1.82%	1.81%
Non-covered, non-performing assets to total assets	1.09%	1.53%	2.38%
Net charge-offs to average non-covered loans	0.96%	2.06%	3.23%

(1) Based on operating earnings.

NM - not meaningful

# UMPQUA HOLDINGS

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## Stock Trading Market

Umpqua Holdings Corporation trades on the NASDAQ Global Select Market under the symbol UMPQ.

## Headquarters and Investor Information

Umpqua Holdings Corporation  
One SW Columbia Street, Suite 1200  
Portland, OR 97258  
503.268.6675  
[www.umpquaholdingscorp.com](http://www.umpquaholdingscorp.com)

## Transfer Agent

Computershare  
*(formerly BNY Mellon Shareowner Services)*  
480 Washington Blvd.  
Jersey City, NJ 07310-1900  
1.800.922.2641  
[www.bnymellon.com/shareowner/equityaccess](http://www.bnymellon.com/shareowner/equityaccess)

## Annual Shareholders' Meeting

The annual meeting of Umpqua Holdings Corporation will be held at 6:00 pm, local time, on April 17, 2012 at the RiverPlace Hotel, 1510 SW Harbor Way, Portland, Oregon

