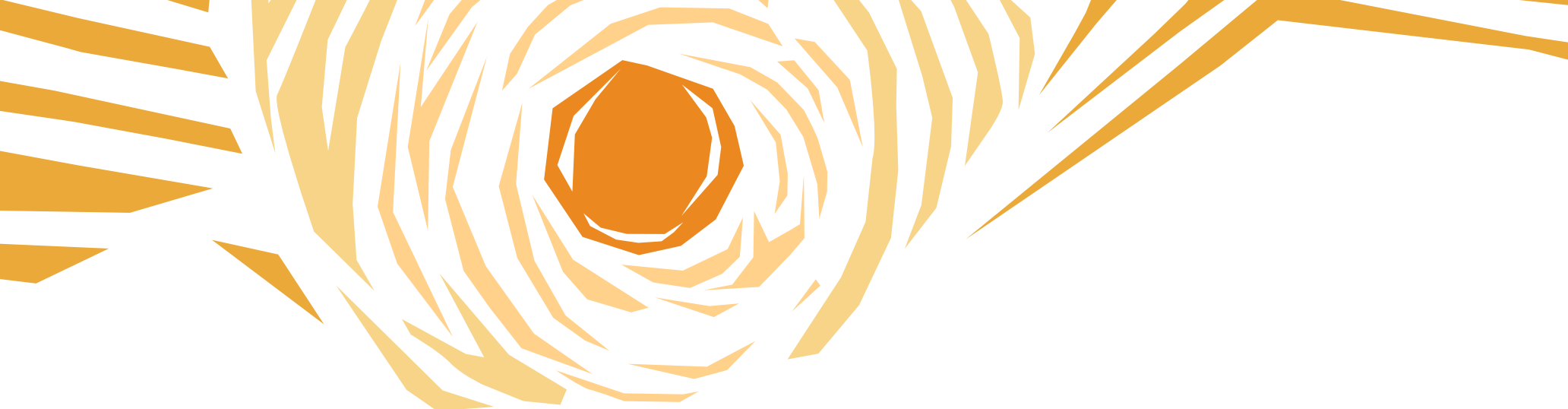





2013 annual report

UMPQUA HOLDINGS
CORPORATION



dear fellow shareholders,

2013 was a landmark year for Umpqua Holdings. We celebrated Umpqua Bank's 60th anniversary – and the investments and actions taken over the last few years delivered significant results. Despite continued uncertainty in the economy, a government shutdown and numerous regulatory changes, Umpqua performed well, delivering a strong total shareholder return of 67% (compared to the KRX regional bank index return of 46%) while continuing to build for the future.

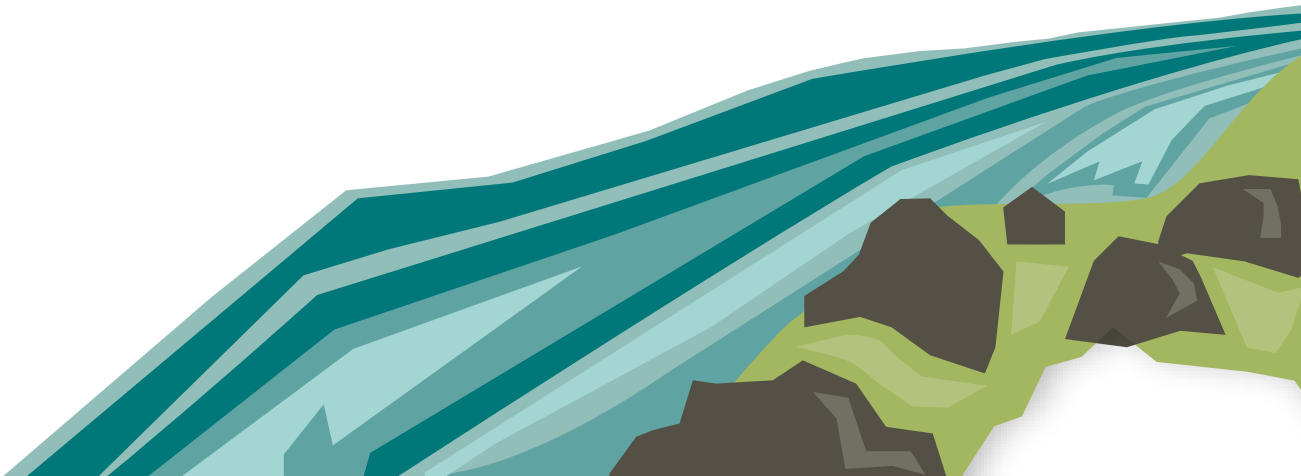


This year's results clearly demonstrate the strength of our strategy and value proposition, which have not wavered over the past two decades. Our goal is to create an organization that offers the products and services of a large bank yet chooses to operate with the local engagement of a community bank and the customer experience of the country's most innovative retailers. This model creates a powerful competitive advantage that delivers value to our shareholders, associates, customers and communities.

The success of Umpqua's strategy relies on intangible elements of our company that differentiate us from all other banks. They include Umpqua's iconic culture, as well as our highly respected brand and reputation, and ability to attract top talent. It also

depends on our commitment to the unique customer experience Umpqua is recognized for. As a result, we continue to invest aggressively in our culture and brand – and in the evolution of our signature store experience as we build a compelling and intuitive digital platform that will expand Umpqua's competitive position.

Below we share key results and actions taken last year that were essential to our success. As always, the company's performance was the result of the incredible hard work of our more than 2,400 associates. Without their commitment to our company and our culture, this success would not have been possible.



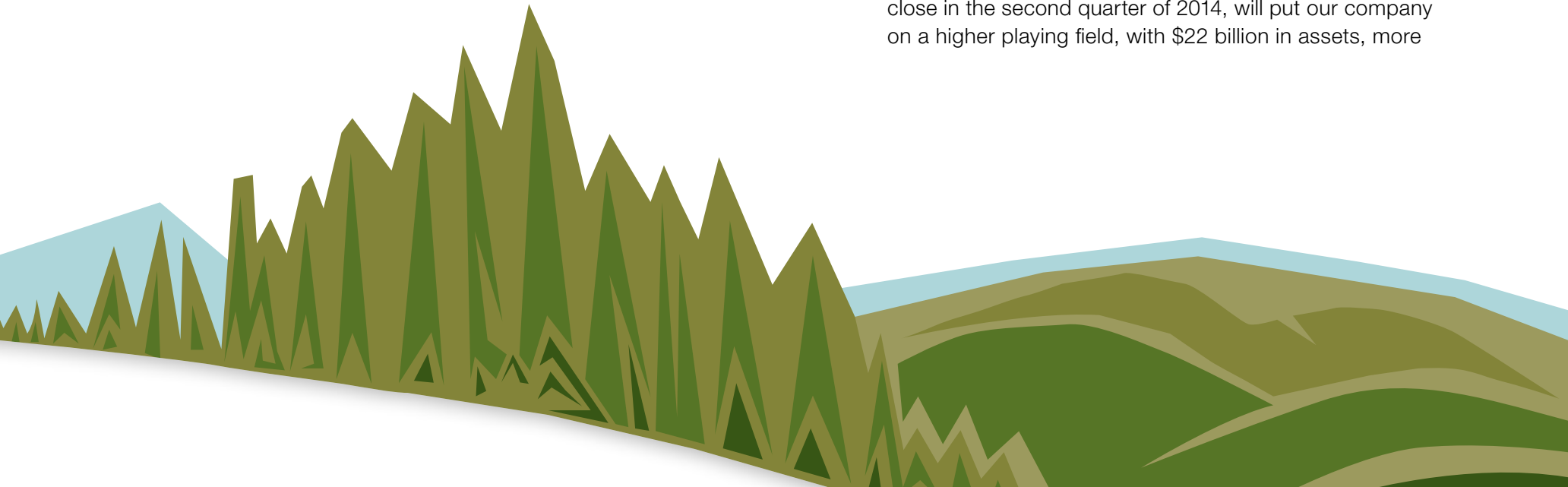
highlights for the year

Umpqua's financial performance in 2013 was affected by many business, industry and economic factors. While the company's net income declined slightly as a result of higher merger expenses, total operating earnings net of tax for the year were \$105.7 million, up slightly from 2012. Following are the major areas of the company that played a significant role.

acquisition activity

In last year's letter we mentioned our intention to seek new ways to diversify revenues while remaining proactive in identifying potential merger and acquisition possibilities. We're pleased to report that we accomplished both. In April we announced Umpqua's acquisition of Financial Pacific Leasing (FinPac), a national equipment leasing and small business lender headquartered in Federal Way, Washington. This acquisition is already diversifying our revenues and opening new market opportunities across the country.

And in September, we announced our pending merger with Sterling Financial Corporation, a \$10 billion asset financial institution headquartered in Spokane, Washington, in one of the country's largest financial transactions of 2013. This merger, which we expect to close in the second quarter of 2014, will put our company on a higher playing field, with \$22 billion in assets, more



resources, more bank store density and higher earnings. It will also significantly accelerate our ability to demonstrate what it means to be a community bank at any size.

When we announced this transaction, we shared publicly the expected financial benefits of completing the merger. They include: expanding Umpqua's geographic footprint with approximately 180 new stores, realizing expense synergies of more than \$85 million, and 12% accretion to operating earnings per share once integration is complete.


This merger is conditional on the approvals of all regulatory agencies as well as shareholders of both companies. We're pleased to report that Umpqua shareholders overwhelmingly approved the merger at the special meeting February 25. In addition, all activities essential to a successful integration are proceeding as scheduled, including: organization structure, branding, data processing conversion, associate training, product mapping and customer communications, to name a few.

lending

Our lending teams – together with the addition of FinPac's expertise in the second half of the year – generated new loan growth of 10% in 2013. These results demonstrate the strength of our lending professionals and value proposition, particularly in this economic and interest rate environment. On the commercial side, our new loan production exceeded \$1.4 billion, with new non-covered loans and leases adding \$422 million to our total loan balances outstanding.

Home lending also reported another strong year despite the downturn in refinance applications that impacted all mortgage lenders throughout the country. Total home lending revenues for the year were \$78.9 million, compared to \$84.2 million for 2012. Total home loan production for the year was \$1.9 billion, down from \$2.2 billion in 2012.

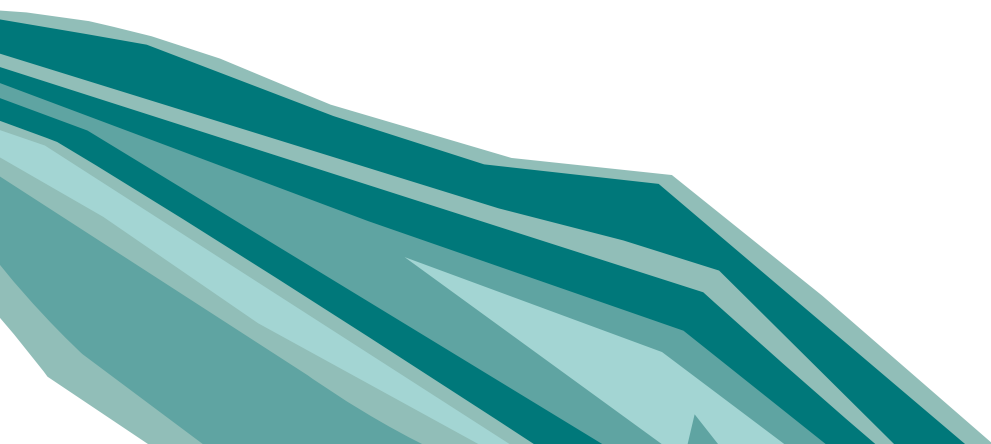
Our credit administration professionals have continued to improve the company's credit quality metrics, which are now at pre-recession levels. The company's loan portfolio is very strong, with total non-covered non-performing assets decreasing to just 0.49% of total assets. This accomplishment is the result of the hard work and discipline of our credit teams. Because of their great efforts, Umpqua's balance sheet has emerged from this past recession stronger than before, and for this we owe them a great deal of gratitude.



After just six months, the company's acquisition of FinPac has already delivered strong results. The acquisition has contributed significantly to our lending capabilities and revenue diversification. In six months they added \$0.10 to operating earnings per share, more than 50 basis points to Umpqua's net interest margin, and produced a 45% increase in their monthly lease production, which represents an annualized growth rate of 40%. FinPac is recognized nationally as a leader in the equipment leasing industry and the quality of their team reinforces Umpqua's reputation. In addition to generating solid financial numbers, FinPac also integrated quickly into Umpqua's culture.

capital management

Capital management is a critical aspect of managing a financial institution. Over the last several quarters, your management team has clearly demonstrated that remaining a well-capitalized bank in the eyes of regulators is mandatory. Because of careful oversight, Umpqua has been a capital-rich company, and management and the board will continue to be diligent on how and where to deploy excess capital. Our strategy has been successful to-date, as shown by our acquisition of FinPac, our pending merger with Sterling Financial, and the 76% increase over 2012 in cash dividends paid out to common shareholders. Even with these actions, we can say with confidence that Umpqua's capital position remains very strong and in compliance with all regulatory requirements.



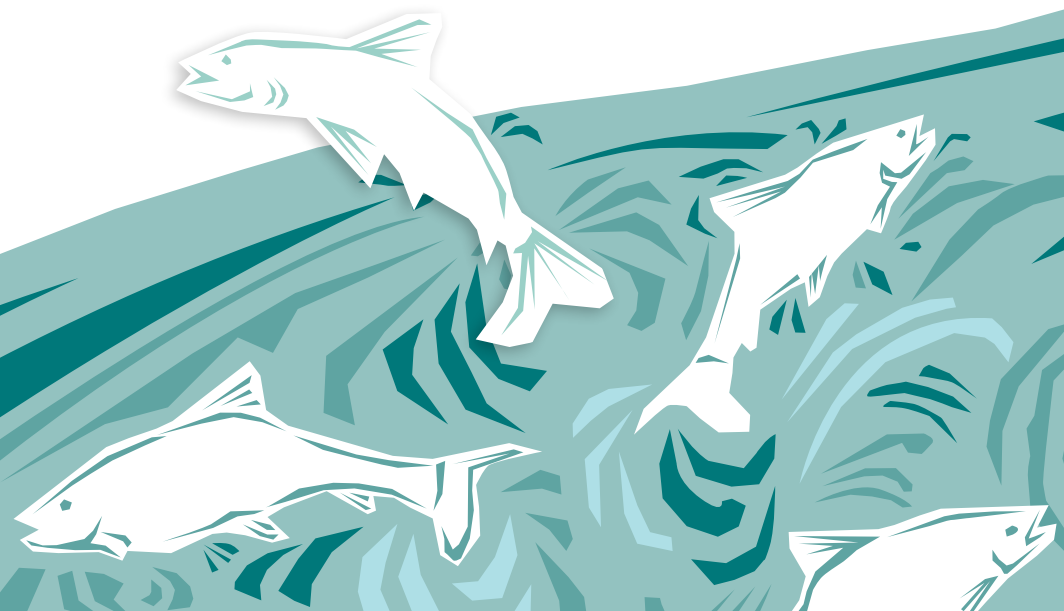
regulatory

On the regulatory front, we support thoughtful regulations that help organizations conduct themselves with integrity and full transparency and actually help consumers. We recognize that the additional burden and cost of new regulatory requirements is simply “the new normal” for all financial institutions and that today’s regulatory environment is now part of the basics of banking. In other words, smart institutions will accept this new environment and build the systems necessary to excel at complying with all regulations. Umpqua’s management team and board have taken a strong position that clearly indicates our commitment to remain in good standing with all regulatory agencies, now and in the future.

expansion

This past year Umpqua also continued to advance our customer experience as we expanded into new markets with new products and services. In August, we opened a flagship store in San Francisco that was just named the Retail Design Institute’s Store of The Year – the first time a financial institution has received this award. The store is the latest evolution of Umpqua’s unique retail bank store concept, which combines new technologies with service options to create a one-of-kind customer banking experience. We look forward to leveraging up our San Francisco store this year by adding neighborhood bank stores that advance Umpqua’s brand in one of the West Coast’s most important cities.

This past year we also expanded our wealth management services into the greater Puget Sound (Seattle) and San Francisco markets. Our reputation allows us to attract top talent, and the teams in both regions are already building strong footholds with outstanding growth potential.






culture

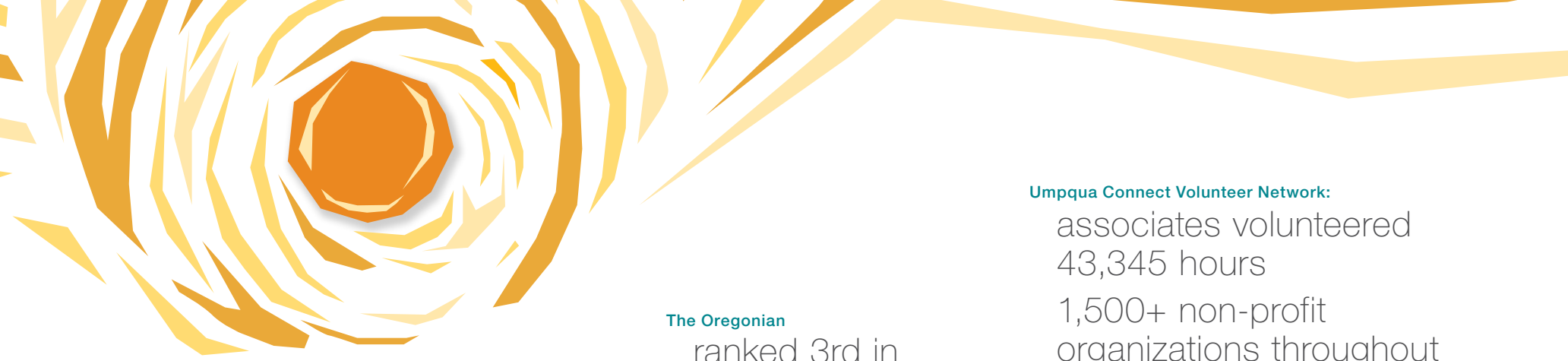
This would not be an Umpqua annual report without a comment on the strength of the company's culture. It is with great pride that we can report to you that the company's culture is stronger and more vibrant than ever.

Umpqua's culture is unique, built around empowering every one of our associates, and sustaining it is not a part-time job. It takes a tremendous amount of attention, communication, access to leadership, self-discipline, and yes, even a dose of tough love every now and then. Our focus on building a community bank at any size has been challenged by others for the simple reason that it's never been accomplished before in our industry.

This is a challenge we gladly accept, and are well on our way to achieving. Because of our culture, Umpqua today delivers the products and services of our larger competitors without the bureaucracy associated with being "big." That must not – and will not – change.

Despite what others may say, remaining a community bank has nothing to do with size and everything to do with how you choose to operate your company. At Umpqua, we're driven by a passionate focus on serving our customers and communities with integrity and local engagement. Our management team is focused on that goal – as are the company's 2,400 associates – and we're pleased to share a few of the highlights from the past year that reinforce the strength of our commitment.





Retail Design Institute

SF flagship:
store of the year

The Oregonian

ranked 3rd in
top workplaces

Forbes Magazine

19th best bank,
up from 28th

Umpqua Connect Volunteer Network:

associates volunteered
43,345 hours
1,500+ non-profit
organizations throughout
our region

82% participation,
far exceeding national
averages of 17-31%

our culture remains strong and vibrant.

Portland Business Journal

most admired ceo
in financial services
for 3rd year

American Banker

ranked 3rd best
bank to work for
*banks with assets over \$10b

Fortune Magazine

8th year in a row as
one of the 100 best
companies to work for

Sacramento Business Journal

ranked 4th in best
places to work

Northern Nevada HR Association

finalist: best
places to work

Portland Business Journal

9 straight years:
most admired financial
services company

Puget Sound Business Journal

finalist: washington's
best places to work

Workplace Dynamics

top national
workplaces #126

a bright horizon

This is the 20th year I've had the privilege to address you in my annual shareholder letter as Umpqua's CEO. When I came on board, Umpqua was a small, locally owned community bank with just \$150 million in assets and a handful of locations in southern Oregon. It also had the potential to become something special.

Since then, we've been focused on reaching that potential, on creating one of the West Coast's most vibrant and important financial institutions – and one of our country's great companies. Despite many significant milestones over these past 20 years, this year will be the most important in Umpqua's history.

Our pending integration with Sterling represents a transformational moment for Umpqua. We look forward to bringing new resources, reach and scale to our customers and communities, and demonstrating what it means to be a community bank at any size.

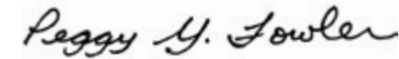
On behalf of Umpqua's management team and board of directors, we thank all of our associates, past and present, for their incredible commitment to Umpqua. We've come a long way, and yet our vision challenges us to go even further. We are motivated and inspired to welcome change, embrace new regulatory rules, reach out for new opportunities, and strive to deliver strong shareholder returns.

As we look ahead, the future for Umpqua Bank has never been brighter. Thank you for your continued investment and confidence in Umpqua Bank. We hope you continue to enjoy the ride.

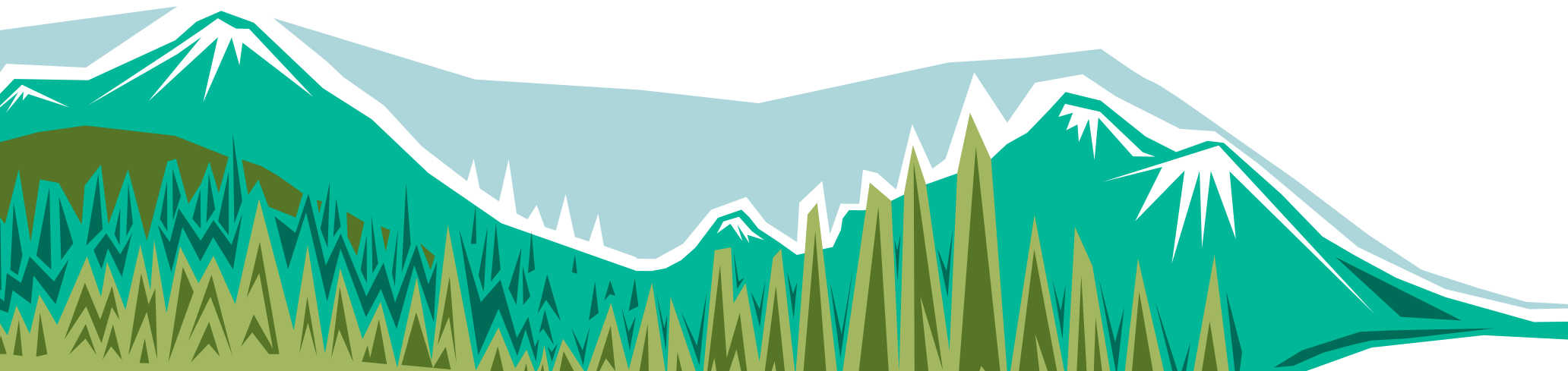
Sincerely,



Raymond P. Davis
President and CEO



Peggy Y. Fowler
Board Chair



financial highlights

(dollars in thousands, except per-share data)

Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings	2013	2012	% Change
Net earnings available to common shareholders	\$97,573	\$101,209	-4%
Net loss on junior subordinated debentures carried at fair value, net of tax	1,318	1,322	0%
Merger-related expenses, net of tax	6,820	1,403	386%
Operating earnings	<u>\$105,711</u>	<u>\$103,934</u>	2%
Basic earnings per common share	\$0.87	\$0.90	-3%
Basic operating earnings per common share	0.94	0.93	1%
Diluted earnings per common share	0.87	0.90	-3%
Diluted operating earnings per common share	0.94	0.93	1%
	2013	2012	% Change
Total assets	\$11,636,112	\$11,795,443	-1%
Total non-covered loans and leases	7,354,403	6,681,080	10%
Total covered loans, net	363,992	477,078	-24%
Total deposits	9,117,660	9,379,275	-3%
Total shareholders' equity	1,727,426	1,724,039	0%
	2013	2012	2011
Selected Performance Ratios			
Return on average assets	0.85%	0.88%	0.64%
Return on average common shareholders' equity	5.64%	5.95%	4.43%
Return on average assets - operating basis (1)	0.92%	0.90%	0.65%
Return on average common shareholders' equity - operating basis (1)	6.11%	6.11%	4.53%
Net interest margin (fully tax equivalent)	4.01%	4.02%	4.19%
Total loans as a percentage of deposits	84.65%	76.32%	70.49%
Dividend payout ratio	68.97%	37.78%	36.92%
	2013	2012	2011
Asset Quality Ratios			
Allowance for non-covered credit losses to total non-covered loans and leases	1.18%	1.30%	1.59%
Non-covered, non-performing assets to total assets	0.49%	0.75%	1.09%
Net charge-offs to average non-covered loans and leases	0.24%	0.48%	0.96%

(1) Based on operating earnings.

Stock Trading Market

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

Headquarters and Investor Information

Umpqua Holdings Corporation
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Portland, OR 97258
503-268-6675 www.umpquaholdingscorp.com

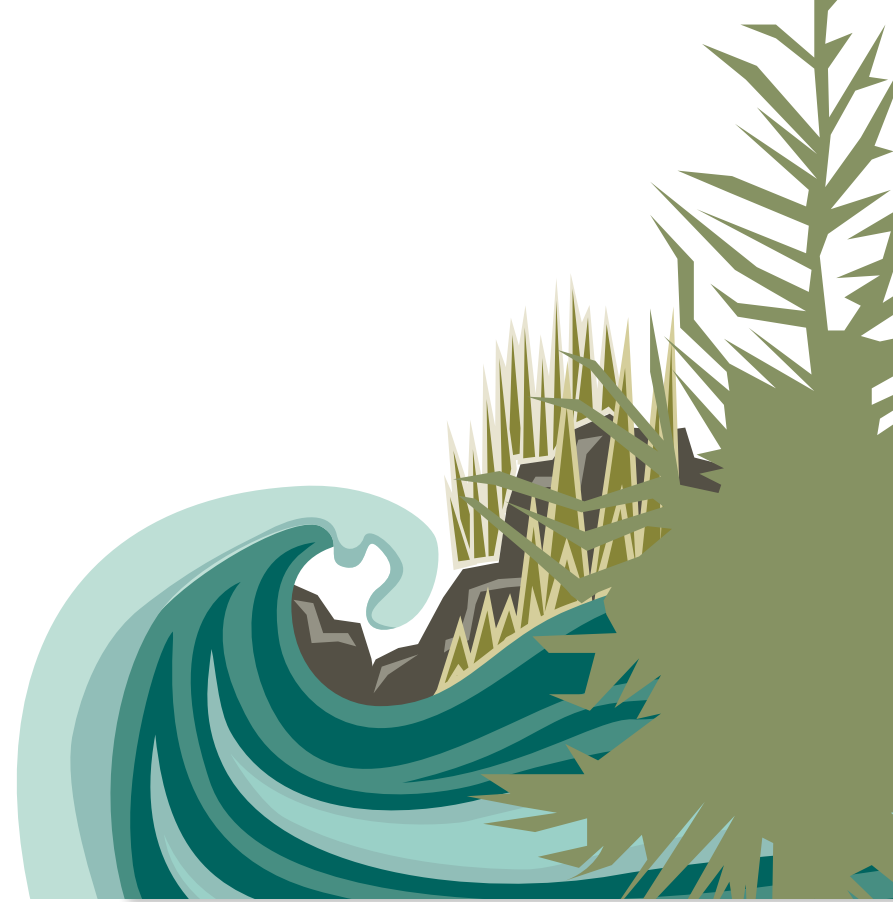
Transfer Agent Computershare

PO Box 30170 College Station, TX 02940-3006
1-800-922-2641 www.computershare.com/investor

Annual Shareholders' Meeting

The annual meeting of Umpqua Holdings Corporation will be held at 6:00 pm, local time, on April 15, 2014 at the RiverPlace Hotel, 1510 SW Harbor Way, Portland, OR 97201

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 investing in technology, culture and brand to evolve the store experience to a digital platform, increased store density and resources as well as expense synergies and earnings accretion related to the pending Sterling Financial merger; adding neighborhood stores in the San Francisco market and providing strong financial returns to shareholders. 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, deterioration of the economy, internal and external events that would negatively impact loan growth and earnings, delays in siting and building new stores in San Francisco, delays in the successful integration of Sterling Financial, unanticipated changes in our competitive or regulatory environment and delay or inability to implement new technologies.



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



 **umpqua investments** inc.