



# 2012 annual report

UMPQUA HOLDINGS  
CORPORATION



## to my fellow shareholders,

I'm pleased to report that in a year in which the national economy remained sluggish, your company performed well. In 2012, Umpqua Holdings Corporation earned \$101 million in net income, an increase of 37% from the \$74 million reported in 2011.

These results included an enviable balance sheet, much stronger earnings and a 42% increase in our common stock cash dividends. This is the result of actions management has taken in recent years to position the company for the eventual economic recovery that is now slowly emerging. It is also due to the commitment and hard work of our more than 2,400 associates who continue to embrace and enhance our company culture.

Despite the progress made last year, the market value of our common stock didn't respond accordingly, and management and the board of directors were disappointed in the return we delivered to you, our shareholders. However, both management and the board are encouraged by our prospects and remain focused on implementing initiatives that will advance shareholder returns now and for the long term.

Here we outline results and actions taken last year within all major areas of the company to ensure that we continue to improve your company's performance.

## capital

Maintaining strong capital levels is an essential part of the company's long-term success, providing us with the financial capacity to take advantage of strategic opportunities that lead to future growth. Umpqua remains extremely well capitalized, with our total shareholder equity at \$1.7 billion, comprised entirely of common equity. Our ratio of tangible common equity to tangible assets at year-end was 9.35% compared to 9.14% at the end of 2011, and Umpqua's total risk-based capital level of 16.52% is substantially higher than the regulatory definition of "well capitalized" of 10%.

We understand that there are trade-offs for having such a rich capital level. Namely, excess capital applies pressure to our returns until it's put to work. Management has the experience to proactively deploy capital when the appropriate opportunity arises and/or when we are able to return it to our shareholders through higher dividends or share repurchases.

## credit quality

Our credit quality teams once again demonstrated incredible skill, discipline and hard work, and the results of their efforts are clear in our credit metrics, which continue the steady improvement we've seen in recent years. Umpqua's total non-covered, non-performing assets to total assets ended the year at 0.75%, the lowest reported ratio in more than five years and significantly lower than those of our Northwest regional peers.

Our credit metrics play an important role in strengthening shareholder returns. As they improve, it creates a corresponding reduction in credit workout costs, which, in turn, increases the company's earnings. We are already beginning to see positive results of this progress – last year, our credit quality workout costs were \$21 million, down 12% from \$24 million in 2011. We expect this trend to continue.

## strategic expansion

Because of the company's strong capital position, management is able to focus on our overall growth strategy, actively seeking expansion opportunities that advance our shareholder return and geographic reach, whether organically or through acquisition.

In 2012, this included the continuation of our San Francisco Bay Area expansion, with:

- **The acquisition of California-based Circle Bank, which added six new locations; and**
- **The announcement of new flagship stores in San Jose and San Francisco, which will open in the first half of 2013.**

We also added and expanded key divisions, including:

- **A new Agriculture and Commercial Banking Center in California's Central Coast;**
- **An expanded Commercial Real Estate Division; and**
- **An expanded Home Lending Division with four new Home Lending centers in Oregon, Washington and California.**

This growth allows us to leverage the company's reputation and size, reinforcing our presence in existing markets and enhancing our ability to serve both consumers and businesses.



## loan growth

Umpqua's capital strength also means that we've continued to lend actively to businesses and consumers in the markets we serve. In 2012, our total loan production exceeded \$3.8 billion, a 54% increase over 2011. This is reflected in our loan-to-deposit ratio, which improved from its low of 68% in 2010 to 76% last year. For the year, our total non-covered loans grew by \$793 million, or 13%.

The company's commercial lending continues to be a significant source of loan growth, with \$1.6 billion in production in 2012, an increase of 14% over 2011. This is due to the talent and discipline of our commercial teams and the investments we've made to add professional commercial bankers in strategic markets.

A couple of years ago, management recognized that a protracted low interest rate environment would provide opportunities for our Home Lending Division and began expanding the group to meet demand. That expansion is paying off; in 2012, our Home Lending Division produced \$84.2 million in revenue on \$2.2 billion in loan production, both record numbers. We continue to expand this division into markets where Umpqua's brand and reputation provide a competitive advantage that we can leverage quickly.

In this low rate environment, we are also focused on expanding our product and service offerings for customers in ways that also diversify our revenue streams. Examples of this include the success of our Capital Markets team, which has generated more than \$12 million in revenue in less than two years, and the expansion of our Wealth Management Division into the attractive Puget Sound and San Francisco markets.

## community banking

Umpqua's network of 200 bank stores adds to the strength of our Commercial Banking and Home Lending centers as we continue to emphasize organic growth throughout our footprint. Now located in four states and expanding, Umpqua is taking advantage of our market position as an institution of regional size that continues to operate as a community bank.

As a result of the low interest rate environment, we continue to manage our deposit portfolio carefully, with an emphasis on increasing our low-cost, non-interest-bearing deposits. These products are an important measure of our relationship banking approach, which leverages our store concept and customer experience strategy. Last year we increased non-interest-bearing deposits from 21% to 24% of total deposits. We also successfully transitioned our customers into a new suite of checking products that more closely reflects consumer banking preferences.

Due to the strength of our brand, our reputation and our unique culture, we have made Umpqua a bank of choice for businesses and consumers. The opportunity now is to continue expanding our reach and market share in new and existing markets.

## culture and value

The value proposition we began building nearly 20 years ago is more relevant now than ever before. We're building a financial institution that combines the service and community engagement of a small community bank with the sophisticated products and financial expertise of the big banks. This sets us apart from virtually every other financial institution in our markets and gives us a powerful competitive advantage.

Our culture is critical to the success of this model and our value proposition, and we consider it our most valuable asset.

We're pleased to report that Umpqua's culture remains strong and vibrant, as the following regional and national recognition demonstrates:

- **Named one of *Fortune's* "100 Best Companies to Work For" for the 7th consecutive year;**
- **Named Most Admired Financial Services Company in Oregon by the *Portland Business Journal* for the 8th consecutive year;**
- **Ranked as the best Oregon-based bank and 28th overall on *Forbes* magazine's ranking of America's 100 largest banks;**
- **Placed 5th of large companies on the inaugural *Oregonian's* Top Workplaces list;**
- **Finalist for Best Places to Work in Washington named by the *Puget Sound Business Journal*;**
- **Ranked in the *Sacramento Business Journal's* list of Top 10 in Corporate Giving.**

We also believe that remaining a community bank means supporting and giving back to the communities we serve in meaningful ways. Umpqua's Connect Volunteer Network provides each of 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.

Connect is regularly named by our associates as one of the benefits they value most, and in 2012 Umpqua associates achieved a new industry standard in corporate volunteerism. Last year, our associates provided more than 46,000 combined volunteer hours to 1,757 nonprofit organizations in our communities.

Umpqua's Connect program is an essential resource for non-profit organizations and the communities we serve. It's also a daily reminder for each of our participating associates of our obligations as a community bank.

## our customers and innovation

Umpqua Bank has always been a customer-centric company, one focused on providing our customers with an extraordinary experience.

This is an essential part of our DNA – it is baked into our culture and part of what inspires each of us to strive for excellence. In the age of digital and social media and rapid technological change, it's more important than ever before.

As technology continues to create new tools and resources for consumers, the banking environment must evolve as well. We're actively investing in new technologies that integrate the delivery of our products and services across all channels, including new mobile banking apps, improved ATM capabilities and augmented digital services.

Our innovation in new channels will complement and enhance the in-store experience, and we continue to advance the store as well. Our new flagship location in San Francisco will serve as the evolution of our store concept, incorporating digital and mobile technology in new ways to create an experience that exceeds customer expectations. We look forward to accelerating our initiatives in this area over the next several years – and to continuing to challenge how a bank can and should operate.

## the new normal

The financial industry is facing costly new regulations and a challenging interest rate environment, and continues to search for its “new normal” for financial performance. In this reality, size and the ability to leverage economies of scale are more important than ever. We expect this environment will lead to more consolidation within the industry as financial institutions' boards of directors recognize that increasing shareholder return will be more challenging and, in some cases, simply not possible.

Umpqua is well positioned to take advantage of opportunities this situation presents. At almost \$12 billion in assets, we believe that our size, financial strength and reputation make us an attractive alternative for smaller banks looking for a “safe harbor.”

## your board of directors

Over the years, our board's willingness to evolve and our ability to attract top talent have been essential to Umpqua's strength and continued growth.

2012 was no exception, with the addition of exceptional new directors and leadership. Their continued guidance is outstanding and demonstrated clearly in Umpqua Bank's success.

In this, the start of Umpqua's 60th year, we are pleased to report that despite the economic challenges that remain, the future of your company is strong. On behalf of Umpqua's associates and our Board of Directors, thank you for your continued support.



Raymond P. Davis  
President and CEO



Peggy Fowler  
Board Chair

*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 deploying capital to improve shareholder returns, seeking strategic growth opportunities, reducing credit workout costs, diversifying sources of revenue, investing in new technologies, continuing to reinvent our customer experience through technology and new delivery channels and taking advantage of industry consolidation. 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, credit costs and earnings, delays in siting and building new stores, unsuccessful capital deployment, unanticipated changes in our competitive environment and delay or inability to implement new technologies.*

## financial highlights

(dollars in thousands, except per-share data)

<b>Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings</b>	<b>2012</b>	<b>2011</b>	<b>% Change</b>
Net earnings available to common shareholders	\$101,209	\$74,140	37%
Net loss on junior subordinated debentures carried at fair value, net of tax	1,322	1,318	0%
Merger-related expenses, net of tax	1,403	216	550%
Operating earnings	<u>\$103,934</u>	<u>\$75,674</u>	37%
Basic earnings per common share	\$0.90	\$0.65	38%
Basic operating earnings per common share	0.93	0.66	41%
Diluted earnings per common share	0.90	0.65	38%
Diluted operating earnings per common share	0.93	0.66	41%
	<b>2012</b>	<b>2011</b>	<b>% Change</b>
Total assets	\$11,795,443	\$11,562,858	2%
Total non-covered loans	6,681,080	5,888,098	13%
Total covered loans	477,078	622,451	-23%
Total deposits	9,379,275	9,236,690	2%
Total shareholders' equity	1,724,039	1,672,413	3%
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Selected Performance Ratios</b>			
Return on average assets	0.88%	0.64%	0.15%
Return on average common shareholders' equity	5.95%	4.43%	1.01%
Return on average assets - operating basis (1)	0.90%	0.65%	0.12%
Return on average common shareholders' equity - operating basis (1)	6.11%	4.53%	0.83%
Net interest margin (fully tax equivalent)	4.02%	4.19%	4.17%
Total loans as a percentage of deposits	76.32%	70.49%	68.32%
Dividend payout ratio	37.78%	36.92%	133.33%
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Asset Quality Ratios</b>			
Allowance for non-covered credit losses to total non-covered loans	1.30%	1.59%	1.82%
Non-covered, non-performing assets to total assets	0.75%	1.09%	1.53%
Net charge-offs to average non-covered loans	0.48%	0.96%	2.06%

(1) Based on operating earnings.

# UMPQUA HOLDINGS

C O R P O R A T I O N

## Stock Trading Market

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

## Headquarters and Investor Information

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## Annual Shareholders' Meeting

The annual meeting of Umpqua Holdings Corporation will be held at 6:00 pm, local time, on April 16, 2013 at the RiverPlace Hotel, 1510 SW Harbor Way, Portland, Oregon

