



2014

UMPQUA
HOLDINGS CORPORATION

TO OUR
SHAREHOLDERS,



2014 PROVED TO BE A TRANSFORMATIONAL YEAR

for Umpqua Holdings Corporation and one of the strongest in our company's history. We accomplished a great deal while building momentum and a more robust foundation for our future.

In 2014, we generated record profits, produced strong loan and deposit growth and continued to expand our market presence and customer base, all while maintaining strong credit quality, capital and liquidity levels. These are all good indicators of the company's financial strength.

However, our most significant accomplishment in 2014 was closing on our acquisition of Sterling Financial, headquartered in Washington state. This transaction, the largest in Umpqua's history, made us the West Coast's largest community bank. The combination of the two companies has advanced our goal of building a community bank without borders, the country's first.

Now, as a \$22 billion-asset financial institution, we have the scale to offer our customers products and services similar to those of super-regional and national banks, while remaining focused on doing so as a community bank. Our pledge to shareholders, customers and associates is to continue to work hard to prevent the bureaucracy and unproductive processes that can occur in a larger institution from weakening our iconic company culture. We believe we can accomplish this by remaining true to our basic beliefs of operating with the transparency and local engagement

of a community bank. This, coupled with our reputation for providing a unique and differentiated customer experience, should serve us well in achieving this goal. It's no longer an idea but a reality we live every day – one we strongly believe will position the company well for the future.

As we grow, we also continue to have the same focus on ensuring our company culture remains strong. Let's face it: growth just for the sake of growth can be counter-productive. We believe it must be accompanied by an unwavering commitment to support and enhance our culture and brand. As a result, we continue to invest in our culture – what we consider our most valuable asset – and in the innovative adoption of technology to enhance and evolve our signature customer experience. The result is a strong market position that will help us grow our company and deliver value to our shareholders, associates, customers and communities.

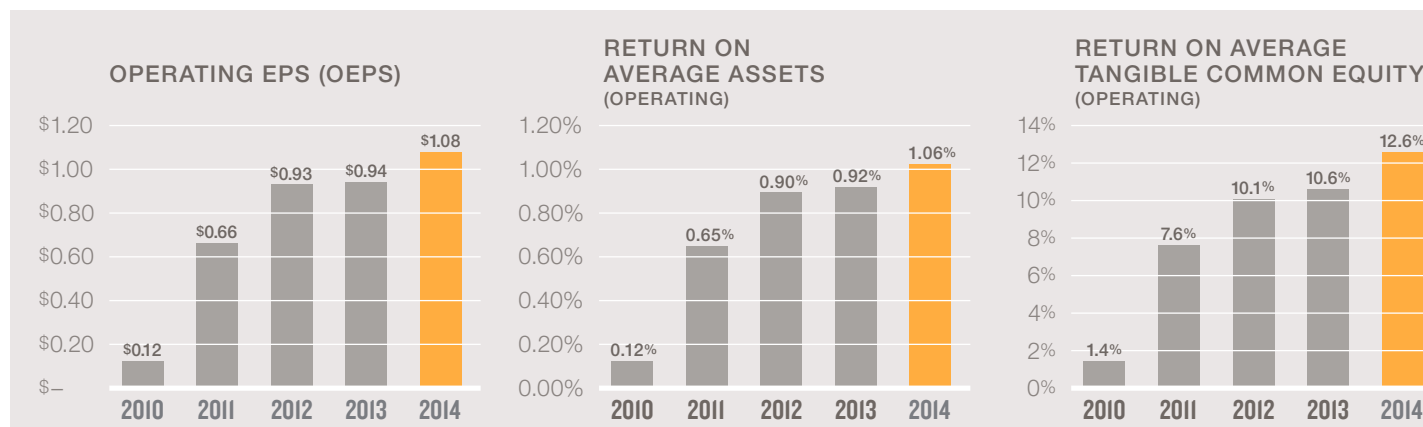
As always, management is committed to building long-term value for our shareholders. In 2014, while in the midst of integrating Sterling, Umpqua was still able to demonstrate the strength of our growth strategies by increasing both organic loans and deposits. This growth, coupled with the Sterling transaction, led the company to report strong operating earnings for the year of \$1.08 per share, an increase of 15% over 2013.

2014 FINANCIAL OVERVIEW

We believe our success in 2014 was guided by our strong resolve to grow our company with a steady, consistent and disciplined approach focused on the long term. Our results are evidenced by organic growth in non-covered loans and deposits of 4% and 6%, respectively. In addition, core deposits increased to \$14.8 billion. The company's net-interest margin also expanded in 2014 to 4.73%, while overall operating earnings grew to \$202 million, a 91% increase primarily due to the addition of Sterling.

Now that the "Great Recession" has ended, our credit quality metrics no longer receive the high level of external scrutiny they once did. Even though the quality of our loan portfolio is excellent, we remained focused on continual reductions in our non-performing asset totals (NPAs). With the strength of our credit quality professionals and an improvement in the overall economy, we are pleased to report that at year-end our non-covered NPAs declined to 0.42% of total assets. This ratio is in line with pre-recessionary levels and significantly lower than our peer bank average of 0.98%, which is a testament to the strength of our credit culture.

As the charts below indicate, during 2014 we generated higher operating earnings per share and improved our return on average assets and return on average tangible common equity on an operating basis.



While the company's overall financial performance was strong, we recognize that the value of our stock did not keep pace. The market appears to be waiting for Umpqua to successfully complete our integration of Sterling and capture the financial synergies we first projected in April of 2014. We are optimistic that once all synergies have been achieved and we continue to grow, investors will respond and our total shareholder returns should improve. On a positive note, our quarterly dividends now exceed a 3.5% yield to shareholders, one of the highest in the industry.

Despite a highly competitive environment and the transition that comes with an acquisition of this size, our lending professionals have continued to perform well. New commercial loan production exceeded \$3 billion, with new non-covered loans and leases adding \$583 million to our total outstanding loan balances. Financial Pacific Leasing (FinPac), our equipment leasing subsidiary, also continued to perform well with total leases and equipment finance loans of \$523 million, a 45% increase over 2013, and an annual yield of over 15%.

Our home lending division generated mortgage banking revenue of \$77.3 million, compared to \$78.9 million in 2013. Total home loan production for the year was \$3.1 billion, compared with \$1.9 billion in 2013. If the current interest rate environment remains low we should benefit from a higher demand for mortgage re-finances, and 2015 should be another strong year for our home lending teams.

STERLING ACQUISITION UPDATE

With every potential acquisition we consider two key questions. First, is there a strong strategic rationale for the transaction? And second, will our shareholders realize improved financial performance? The acquisition of Sterling Financial easily met both of these requirements.

The strategic rationale is clear. Together, we have the size and resources to achieve new levels of scale and efficiency. And our shared cultural values allow us to achieve these goals without sacrificing Umpqua's culture or the value proposition that allows us to compete with more than price as a community bank.

The financial metrics were also strong, with projected annualized cost savings of \$87 million resulting in a transaction that we have forecasted to be 12% accretive to OEPS following integration.

Although not yet completed, during 2014 we made great

progress integrating our two companies culturally, operationally and financially. At the same time we are focused on balancing the need to achieve efficiencies of scale with making smart investments that will build momentum for the future.

From our initial announcement of the acquisition, we implemented a "best of the best" strategy to make sure that every decision – whether related to systems, stores, products or staffing – would significantly advance the company and reinforce our value proposition. This approach means that the company you'll see post-integration in 2015 will be stronger and more efficient. For example, the technology systems upgrades we're implementing do more than just combine us onto one system platform – they will leverage Umpqua's brand and strategy to create an enhanced customer experience that will allow us to continue to differentiate the company. And the 27 bank stores we consolidated in late 2014

streamlined our physical distribution and balanced it with changing consumer preferences. We also rebranded all acquired stores within weeks of close and worked proactively to create a smooth cultural integration, providing all new associates with our cultural training to help them transition into Umpqua.

The hard work that went into integrating our two companies in 2014 was an essential part of laying the foundation for continued financial performance and organic growth in 2015. Once we have captured the remaining synergies and leveraged the investments made for the company's future growth, Umpqua should shine.

CAPITAL MANAGEMENT

Careful capital management remains a high priority to ensure that Umpqua continues to be a well-capitalized financial institution. Because of smart oversight on the part of the board and management, Umpqua's capital position is very strong, allowing us to deploy excess capital strategically both for future company growth as well as for our shareholders.

YEAR IN REVIEW HIGHLIGHTS

This is particularly important as requirements of the Dodd-Frank Act Stress Testing (DFAST) come into effect for us in 2015. Umpqua's program to comply with DFAST is well underway and, when complete, will demonstrate the strength of the company's overall capital position. Together with the Basel III rules that are scheduled to be implemented in March 2015, this will provide regulators with greater certainty regarding our capital and liquidity requirements. As always, we will continue to maintain our strong balance sheet and allocate capital appropriately.

REGULATORY ENVIRONMENT

All banks are facing new government regulations that have increased the cost of doing business. It's one of the reasons size and scale matter more today than perhaps ever before. Umpqua continues to support thoughtful regulations that help financial institutions operate with integrity and transparency. As always, we are committed to remaining in good standing with all regulatory agencies.

Umpqua's size and continued growth help us adapt to the new regulatory environment successfully. We're able to attract quality

professionals and acquire the systems needed to stay up-to-date on new regulations and rules. We will continue to sustain a strong "tone at the top" on this topic to make sure our people can successfully monitor our standing and progress on any needed improvements.

INNOVATION + CUSTOMER EXPERIENCE

Umpqua has for many years been recognized for our distinctive customer experience and store strategy. Together with our corporate culture, it differentiates us in the marketplace. However, consumer and business banking customer behaviors are changing due to the rapid development of new technologies. All financial institutions are going to have to adopt and adapt to these new systems if they are to compete effectively now and into the future. In other words, we have to accept and embrace change or be left behind. At Umpqua we have a reputation for being innovative and agile when it comes to delivery systems and the customer experience. We view new technologies as an important tool to allow us to continue to enhance our customer experience.

In 2014, our technology teams worked incredibly hard to set the stage for the company to complete multiple system upgrades in 2015. These include: a new core bank processing system, an enhanced consumer online banking system, more digital and mobile banking capabilities, a new in-house mortgage loan servicing platform, an advanced commercial loan processing and origination system and an upgraded commercial online banking system. Together, these new systems will create a technology platform on which we can create an intuitive, highly differentiated experience wherever and however our customers choose to engage with us.

As mentioned earlier, our success in 2014 is due in large part to the strength of Umpqua's most valuable asset: our culture. It's recognized throughout our industry, and for good reason. It is the driving force behind our value proposition, customer experience and differentiation.

CULTURE

Umpqua's culture empowers every associate to deliver our unique customer experience – and at the same time demands excellence from each of us, challenging us to strive harder, hold one another accountable and refuse to settle for “good enough.”

In a year that saw enormous change across all parts of the organization and potential risk to our culture, we embraced an ambitious goal: to sustain our culture so it would be even stronger at \$22 billion than it was at \$12 billion.

Today, we're pleased to report that Umpqua's culture is indeed stronger than ever. In fact, it has served as an essential point of connection during integration, bringing associates and teams together across companies, systems and geography.

WE BELIEVE THE ACHIEVEMENTS ON THE NEXT PAGE SPEAK FOR THEMSELVES.

Formed the Umpqua Bank Charitable Foundation with a \$10 million initial investment to augment our current community giving to organizations that expand access to education and create economic opportunity for children and families.

Umpqua ranked 16th on Forbes' list of America's Best Banks in 2015.

For the 10th year in a row, Umpqua was selected by CEOs throughout Oregon as the "Most Admired Financial Services Company" in the state.

For the eighth year in a row, in 2014 Umpqua was named one of FORTUNE magazine's "100 Best Companies to Work For."

We were also recognized as one of the leading companies to work for by The Oregonian, the Puget Sound and Sacramento business journals, and Oregon Business Magazine.

The Independent Community Bankers of America ranked our social media #1.

The Hub Cup was awarded to our San Francisco flagship store, for excellence in brand and retail experience.

OUR CULTURE REMAINS STRONG AND VIBRANT.

CONNECT VOLUNTEER NETWORK

In 2014, a year of tremendous change and transition, 67% of our associates participated in our Connect Volunteer Network, volunteering 53,545 hours of paid time off to more than 2,200 nonprofit organizations throughout our region.

Since the program began in 2004, Umpqua associates have contributed more than 335,000 hours through Connect, the equivalent of 162 full time employees.

MOMENTUM FOR THE FUTURE

Umpqua accomplished a great deal in 2014. It was a challenging, inspiring, transformative year, and because of the hard work, passion and commitment of Umpqua's now 4,500 associates, it was also a highly successful one.

As a result of our willingness to embrace and even seek out change, we demonstrated what it means to be a community bank at any size while paving the way for the future. As we look ahead, we will continue to challenge ourselves to reach even higher for our customers, communities, associates and shareholders.

Thank you for your continued investment and interest in Umpqua Bank. We look forward to great things ahead.

Sincerely,



Raymond P. Davis
President and CEO



Peggy Y. Fowler
Board Chair

(dollars in thousands, except per-share data)

RECONCILIATION OF NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS TO OPERATING EARNINGS	2014	2013	%CHANGE
Net earnings available to common shareholders	\$147,036	\$97,573	51%
Net loss on junior subordinated debentures carried at fair value, net of tax	3,054	1,318	132%
Merger-related expenses, net of tax	52,311	6,820	667%
Operating earnings	\$202,401	\$105,711	91%
Diluted earnings per common share	\$0.78	\$0.87	-10%
Diluted operating earnings per common share	1.08	0.94	15%
Total assets	\$22,613,274	\$11,636,112	94%
Loans and leases (Note: Covered and non-covered loans are now combined)	15,327,732	7,728,166	98%
Deposits	16,892,099	9,117,660	85%
Total shareholders' equity	3,780,997	1,727,426	119%
SELECTED PERFORMANCE RATIOS	2014	2013	2012
Return on average assets	0.77%	0.85%	0.88%
Return on average common equity	4.69%	5.64%	5.95%
Return on average assets - operating basis (1)	1.06%	0.92%	0.90%
Return on average common shareholders' equity – operating basis (1)	6.45%	6.11%	6.11%
Net interest margin (fully tax equivalent)	4.73%	4.01%	4.02%
Total loans as a percentage of deposits	90.70%	84.65%	76.32%
Dividend payout ratio	78.11%	68.97%	37.78%
ASSET QUALITY RATIOS			
Allowance for non-covered credit losses to covered loans and leases	0.75%	1.18%	1.30%
Non-covered, non-performing assets to total assets	0.42%	0.49%	0.75%
Net charge-offs to average non-covered loans and leases (annualized)	0.13%	0.24%	0.48%

(1) Based on operating earnings.

**FINANCIAL
HIGHLIGHTS**
2014



UMPQUA HOLDINGS
CORPORATION
Parent company for Umpqua Bank and Umpqua Investments, Inc.

 **umpqua investments**

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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www.umpquaholdingscorp.com

Transfer Agent

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1-800-922-2641
www.computershare.com/investor

Annual Shareholders' Meeting

The annual meeting of Umpqua Holdings Corporation will be held at 2:00 pm, local time, on April 15, 2015 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, technology system upgrades and enhanced customer experience, capital allocation, ability to attract talented associates, regulatory compliance, mortgage loan production, achieving expense synergies and earnings accretion targets related to the Sterling Financial merger, completion of merger integration projects, our ability to continue to operate as a community bank at any size, future growth and performance, and shareholder value and returns. 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 the successful integration of Sterling Financial, unanticipated changes in our competitive or regulatory environment and delay or inability to implement new technologies.

This letter includes the following non-GAAP financial measures: Operating earnings (OEPS), return on average assets (operating basis) and return on average tangible common equity (operating basis). A reconciliation to the comparable GAAP measurement is included herein and in our annual report on Form 10-K accompanying this letter. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, we urge you to review the GAAP results.