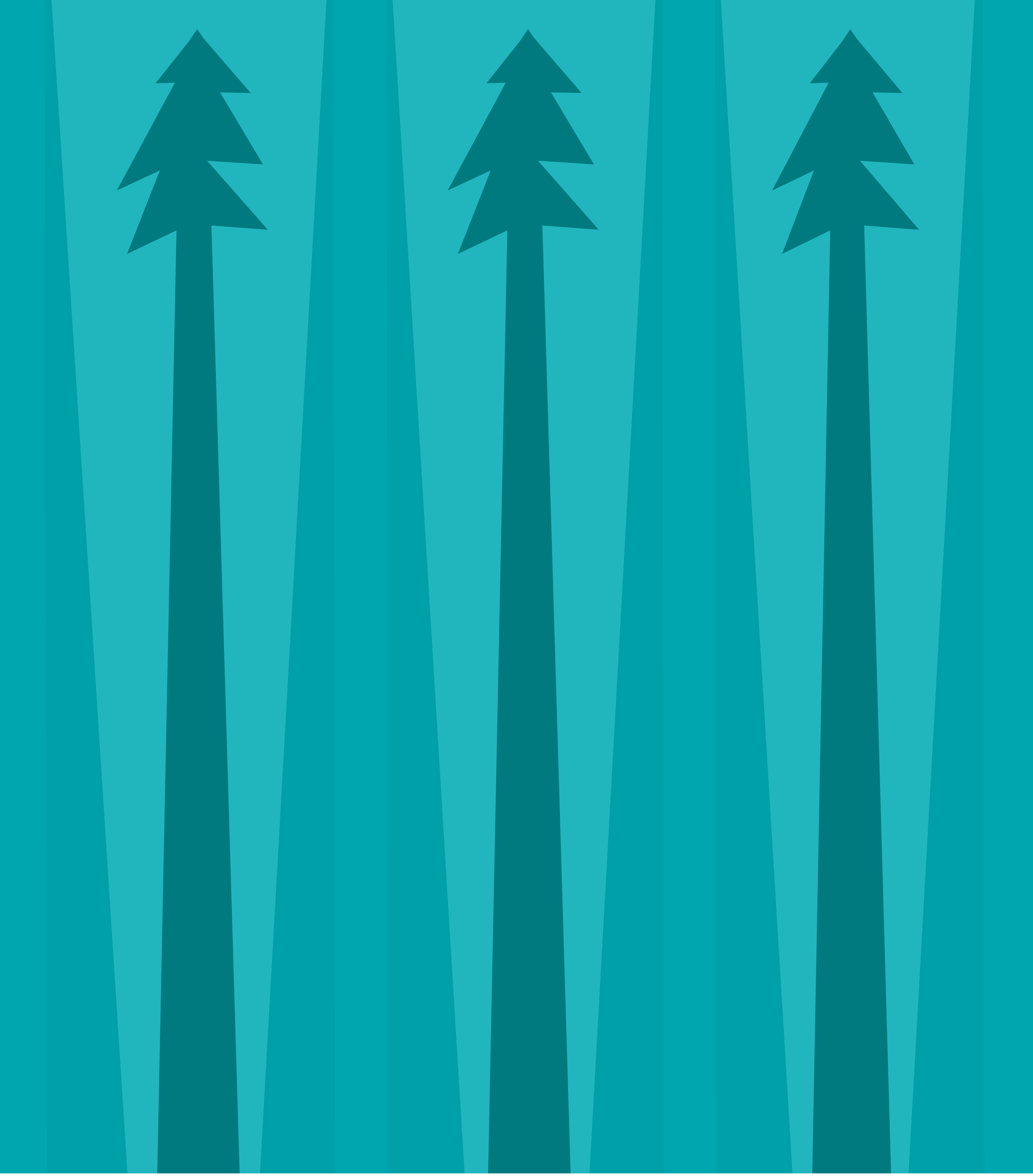
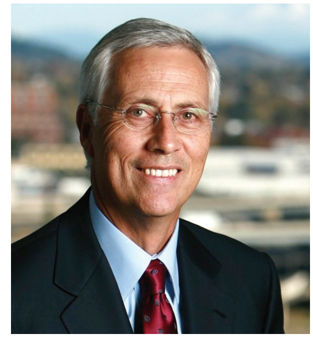


2010 ANNUAL REPORT

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

To My Fellow Shareholders,



This past year, our country continued to suffer from the effects of what has been called "the great recession." Like many financial experts, we believe that this recession actually ended in early 2009. Unfortunately, we continue to reel from the lasting impact it has had on all of us. Like the devastation Hurricane Katrina left on the Gulf Coast in 2005, this "economic storm" has proven to be as destructive, and consequently, it will take time for the nation's economy to recover. The good news is that the economy is making progress, painfully slow, but progress. This has been substantiated by recent economic reports indicating that disposable income is up, new jobs are being created and corporate profits are on the rebound. Most importantly, the improvements appear sustainable.

Within the financial industry, 2009 and 2010 are viewed by many analysts as "the bottom," with 2011 forecasted to be the transition year that leads our industry back to improved performance levels in 2012. Your management team agrees with this sentiment and took many necessary actions in 2010 to position Umpqua to emerge from this cycle stronger than ever.

THE YEAR 2010 IN REVIEW

Despite the weak economy, your company made progress in many areas this past year. Highlights include:

New Capital and FDIC Assisted Acquisitions:

- In January, the company successfully assumed the banking operations of EvergreenBank in Seattle, Wash., from the FDIC. This transaction added seven bank store locations and $353 million in assets to our expanding footprint. EvergreenBank has been successfully integrated into Umpqua, the stores redesigned and staff training completed.
- In February, the company announced the closing of a $304 million common stock offering. This capital was raised to position the company for incremental growth via additional FDIC assumptions, as well as to repurchase the preferred stock sold to the government under the Capital Purchase Program in November 2008.
- On February 17, the company repurchased the government's $214 million preferred stock investment in Umpqua. During the short period the company held these funds, we paid the government $13.5 million in dividends as well as $4.5 million for the warrant repurchase for a return of 8.4%.
- On February 26, the company assumed the banking operations of Rainier Pacific Bank, headquartered in Tacoma, Wash., with 14 locations and $721 million in assets. Rainier Pacific Bank has also been completely integrated into Umpqua.
- On June 18, the company assumed the banking operations of Nevada Security Bank, including its Calif. division, Silverado Bank, our fourth FDIC assisted transaction. This transaction added a new state, Nevada, to our footprint, four additional stores and $438 million in assets. Like the two transactions mentioned above, Nevada Security's integration into Umpqua is complete.

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 an improving economy, lower loan loss provisions and strengthened "core earnings," positioning Umpqua to be stronger than many of its peers, higher yields on excess liquidity, future acquisition opportunities, improved loan demand, growth of our small business and mortgage lending businesses, the cost of regulatory compliance, continued deposit growth, progress in our Wealth Management Division, improved net income, maintaining the strength of our culture and remaining a community bank as we grow. 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 our loan loss provision, reduced "core" earnings, lower deposit growth that negatively impacts franchise value, unanticipated obstacles to loan growth, further regulatory reductions in non-interest income, unanticipated increases in non-interest expense and factors that would weaken our culture.

FINANCIAL PERFORMANCE

This past year, the company returned to profitability, earning $0.15 per diluted share for common shareholders. Management is the first to admit this level of earnings is not satisfactory and must, and will, improve. Early indicators that earnings are on the rebound include the lower year-over-year loan loss provision and the strengthening of our "core earnings."

Additions to the non-covered loan loss provision during the year totaled $114 million compared to $209 million for 2009, a decrease of 46%. Our non-covered, non-performing asset ratio has on average been lower than 2% of assets during the worst of the recession. This compares favorably with our regional bank peers, who have averaged more than 5% during the same period, and reflects the outstanding performance of Umpqua's loan professionals in managing our troubled credits. We also attribute our success in credit quality to identifying losses early in the cycle and aggressively resolving troubled loans.

Umpqua's "core earnings" are earnings prior to credit costs (loan loss provision, OREO gains and losses, and workout expenses), non-operating items, preferred stock dividends and income taxes. This number is important, as it reflects the strength of the earnings of the bank. To put this in perspective, Umpqua's core earnings for 2010 were $162 million compared to $150 million for 2009, an 8% increase on a year-over-year basis. In other words, the core engine of the bank is running on all cylinders and getting stronger. Many financial institutions will emerge from this economic cycle with little or no core earnings potential, meaning that after taxes and credit costs, their earnings power will be weak. This will potentially lead to new opportunities for those institutions with strong capital and solid core earnings. We are positioning Umpqua to be one of those strong institutions.

At year-end, the company reported strong capital levels with our total risk-based capital exceeding 17% and our tangible common equity ratio at 8.74%. Both of these ratios are well above all regulatory minimum levels.

Your company is also very liquid. At year end, the company had approximately $900 million in cash on deposit with the Federal Reserve. With additional off balance sheet liquidity available to us, total liquidity exceeds $4.5 billion. While strong liquidity provides flexibility, it also has negative connotations since the cash on deposit is earning only 0.25% at year-end compared to current average loan yields of 5%. This puts downward pressure on our net-interest margin and earnings per share in general. We want to put that cash to work by making loans. Once loan demand strengthens we look forward to realizing higher yields on our excess liquidity.

Combining the strength of our core earnings and capital base with the flexibility of our liquidity levels, Umpqua is well positioned to continue pursuing our growth strategy.

"COMBINING THE STRENGTH OF OUR CORE EARNINGS AND CAPITAL BASE WITH THE FLEXIBILITY OF OUR LIQUIDITY LEVELS, UMPQUA IS WELL POSITIONED TO CONTINUE PURSUING OUR GROWTH STRATEGY."

COMMUNITY INVOLVEMENT AND AWARDS AND RECOGNITION

- In 2010, more than 1,700 Umpqua associates volunteered more than 36,000 hours of paid time to 1,132 non-profit organizations throughout our region. We are very proud of the more than 150,000 hours contributed by associates since our "Connect" program's inception. Now in its seventh year, Connect offers our full time associates the opportunity to volunteer up to 40 workday hours per year to schools and non-profits in their communities.
- For the fifth year in a row, Umpqua Bank was named one of the "100 Best Companies to Work For," by *FORTUNE magazine*. Considering the company has successfully integrated 23 financial institution brands into Umpqua we are particularly proud of this accomplishment and all of the teams that assist in the training of new associates and other integration efforts.
- For the sixth year in a row, the company was selected by CEOs throughout Oregon as the "Most Admired Financial Services Company."
- The company's "Wish Upon a Star" program entered its 15th year by granting holiday wishes to families in need. This program has fulfilled more than $430,000 in wishes since its inception and is now a highly-anticipated program in participating communities.

CREDIT QUALITY

As you are aware, credit costs have taken their toll on banks over the last several years and Umpqua has suffered as well. We acknowledge that credit costs have been too high over the last several years. Our credit professionals have demonstrated they have the necessary discipline to do "the right thing," however painful. It does us no good to ignore problem credits and potential losses; consequently, we will continue our policy of remaining transparent in reporting the facts of our credit quality while we aggressively tackle troubled credits. We do take solace in knowing that due to our credit policies we are stronger coming out of this recession than when we entered it. This is no small achievement.

This past year, we have been pleased that the migration of performing loans to non-performing status has slowed and we have upgraded more loans than we have downgraded by a margin of more than two to one. For the fourth quarter of 2010, the dollar amount of upgraded loans nearly doubled downgraded loan totals. Our allowance for credit losses ended the year at 1.82% of total non-covered loans, which management feels is adequate. Our non-covered non-performing asset ratio ended the year at 1.5% of total assets, while our total non-covered classified loan to total capital ratio ended the year at a three-year low of 39.5%. In 2008 Umpqua began the practice of charging off all impairments of collateral-dependent loans, instead of maintaining a higher reserve and deferring the write downs. Some institutions have opted to maintain their loan impairments within their allowance account, waiting to charge off these amounts until a later date. We believe our method is a more accurate and more appropriate way of reporting troubled loans and our allowance.

"DUE TO OUR CREDIT POLICIES WE ARE STRONGER

LOAN PRODUCTION

One of the biggest challenges facing financial institutions today is to grow outstanding commercial loan balances. This is primarily due to low loan demand, businesses finding it more difficult to qualify for credit, and lower usage of lines of credit by existing borrowers. Although Umpqua originated over $1.6 billion in new loans during this past year, we experienced a decrease in total loans outstanding in our Umpqua "classic" portfolio (excluding loans obtained through acquisitions), due to regular loan payments, charge-offs and unscheduled pay downs. Total loans in this portfolio finished the year at $5.7 billion, down from 2009 year-end totals of $6.0 billion.

To combat this negative trend, management took multiple actions, including;

- Hiring new commercial/corporate lending teams in markets with the most potential for loan growth, which include Seattle, Portland and the San Francisco Bay area. These new professionals have brought years of commercial lending experience to the company and have built strong pipelines of potential new loans for the coming year;
- Providing additional resources to grow our International Banking division in order to attract new corporate clients;
- Creating our new Debt Capital Markets division, which will focus on syndications and interest rate hedging products, giving our clients more options as they expand and grow their businesses; and
- Reinventing our small business banking strategy to ensure the company is appropriately serving this large market segment, where we believe there is substantial opportunity for growth.

One of the bright spots for the company this past year was our Residential Mortgage division. Total loan production this year was $785 million and for the first time revenues exceeded $21 million. Though some of this unprecedented growth was aided by historically low interest rates, we give credit to our mortgage professionals and support staff who are committed to sustaining the growth of this business into future years.

COST OF REGULATION

The government's actions to reform the financial industry have been expensive and will continue to increase Umpqua's costs. The exact cost of implementing new regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the anticipated regulations coming out of the new Consumer Financial Protection Agency, as well as new capital and liquidity requirements, to name a few, has yet to be determined. However, it will be significant and it will be ongoing. Your company supports financial reform, however, we all should be aware that adding new regulations to an already over regulated industry is costly. These costs come in the form of additional compliance and legal professionals, new systems to track and report, as well as increased assessments paid to the FDIC. As an example, in 2010, Umpqua paid more than $15 million in deposit premiums to the FDIC; this is an increase of more than $13 million from the year ended 2007. This increase is totally absorbed by shareholders.

COMING OUT OF THIS RECESSION THAN WHEN WE ENTERED IT. THIS IS NO SMALL ACHIEVEMENT."

COMMUNITY BANKING

This past year has been another exceptional year for deposit growth in our community banking division. Total deposits for the year increased by $2 billion. Organic deposit growth represented 50% of total deposit growth while acquisitions made up the balance, and our mix of deposits has improved as well.

The company opened six new bank stores during the year ending 2010 with 184 total locations within the states of Oregon, Washington, California and Nevada. We have also announced the plan to open an additional 10 new bank stores in 2011. Some people question why we are interested in growing deposits when it has been difficult to originate new loans. The answer is simple. Deposits represent the true value of a banking franchise and downturns in the economy can present opportunities for strong institutions to capture market share, enabling the bank to meet future loan demand. Consequently, through our proven growth strategy we will continue to capture deposits as we advance the company.

WEALTH MANAGEMENT DIVISION

Our Wealth Management division, started in 2009, has quickly become well rounded. Product offerings now include our retail brokerage unit, Umpqua Investments, Umpqua Private Bank, which specializes in financial services for high net worth clients, Umpqua Trust Services, which provides a full line of trust products and services for clients, and a strategic alliance with our outside asset manager, Ferguson Wellman. Now that this division is fully operational we look forward to reporting on its progress in future reports.

IN SUMMARY

Our growth strategy has remained constant for the last 16 years. That is to sustain a value proposition that enables our professionals to compete effectively with more than price while the company grows organically. Our value proposition is centered on the culture we have built here at Umpqua, which has created a strong brand and name recognition throughout the footprint of communities we serve. Our culture has become our most cherished asset, one that we continue to nourish and strengthen as we grow.

This past year, though difficult, was one of good progress as we positioned the company to emerge from this economic cycle by building momentum now instead of waiting for a magical "all clear" signal. We have acknowledged that our earnings were not satisfactory and yet realize this is primarily due to the recent credit cycle.

The momentum we have built addresses this issue, specifically by aggressively dealing with problem credits, positioning the company for higher loan growth, building out our store footprint, capturing market share, remaining opportunistic in evaluating potential acquisitions, and by staying focused on the culture and value proposition we have built over many years. Through these efforts we strongly believe that our core earnings will continue to expand and, when credit costs normalize, net income will again rebound.

We believe that here at Umpqua we are successfully doing something never before accomplished within our industry. That is to continue to grow our company's presence throughout the western United States and take advantage of economies of scale as they are developed, while continuing to operate as a community bank.

We thank you for your support.

Raymond P. Davis
President and CEO

Allyn Ford
Chairman

FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

Reconciliation of Net Earnings (Loss) Available to Common Shareholders to Operating Earnings (Loss)	**2010**	**2009**	**2008**
Net earnings (loss) available to common shareholders	$16,067	$(166,262)	$49,270
Net gain on junior subordinated debentures carried at fair value, net of tax	(2,988)	(3,889)	(23,342)
Bargain purchase gain on acquisitions, net of tax	(3,862)	-	-
Goodwill impairment	-	111,952	982
Merger-related expenses, net of tax	4,005	164	-
Operating earnings (loss)	$13,222	$(58,035)	$26,910
Basic earnings (loss) per common share	$0.15	$(2.36)	$0.82
Basic operating earnings (loss) per common share	0.12	(0.82)	0.45
Diluted earnings (loss) per common share	0.15	(2.36)	0.82
Diluted operating earnings (loss) per common share	0.12	(0.82)	0.45

	2010	**2009**	**% Change**
Total assets	$11,668,710	$9,381,372	24%
Total non-covered loans	5,658,987	5,999,267	-6%
Total covered loans	785,898	-	NM
Total deposits	9,433,805	7,440,434	27%
Total shareholders' equity	1,642,574	1,566,517	5%
Total common shareholders' equity	1,642,574	1,362,182	21%

Selected Performance Ratios	**2010**	**2009**	**2008**
Return on average assets	0.15%	-1.85%	0.59%
Return on average common shareholders' equity	1.01%	-12.63%	3.93%
Return on average assets - operating basis (1)	0.12%	-0.65%	0.32%
Return on average common shareholders' equity - operating basis (1)	0.83%	-4.41%	2.14%
Net interest margin (fully tax equivalent)	4.17%	4.09%	4.07%
Loans as a percentage of deposits	68.32%	80.63%	93.06%
Dividend payout ratio	133.33%	-8.47%	75.61%

Asset Quality Ratios	**2010**	**2009**	**2008**
Allowance for non-covered credit losses to total non-covered loans	1.82%	1.81%	1.58%
Non-covered, non-performing assets to total assets	1.53%	2.38%	1.88%
Net charge-offs to average non-covered loans	2.06%	3.23%	1.58%

(1) Based on operating earnings.
NM - not meaningful

"OUR VALUE PROPOSITION IS CENTERED ON THE CULTURE WE HAVE BUILT HERE AT UMPQUA, WHICH HAS CREATED A STRONG BRAND AND NAME RECOGNITION THROUGHOUT THE FOOTPRINT OF COMMUNITIES WE SERVE."

UMPQUA HOLDINGS CORPORATION

Parent company for Umpqua Bank and Umpqua Investments, Inc.

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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www.bnymellon.com

Annual Shareholders' Meeting
The annual meeting of Umpqua Holdings Corporation will be held at 6:00 pm, local time, on April 19, 2011 at the RiverPlace Hotel, 1510 SW Harbor Way, Portland, Oregon

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