2007
annual report

Umpqua Holdings Corporation

dear shareholders,

In the last 14 years, we have grown Umpqua from a small bank with five locations in Southern Oregon and $140 million in assets, into one of the largest community banks on the West coast with 147 stores and more than $8 billion in assets.

This growth has been the result of a unique strategy that combines a focus on innovation with a deep commitment to remaining a community bank at any size. We have revolutionized the concept of a bank branch, creating vibrant stores that engage and delight customers. We have created a culture of customer service recognized nationally and internationally. And we have developed new ways to serve our communities, including our Connect volunteer program, which provides each associate with up to 40 hours of paid time-off to invest in their communities. In 2007 alone, our associates dedicated more than 22,000 hours to service.

In addition, we have built one of the industry's strongest financial teams, a group able to navigate both challenging times and positive growth effectively. The expertise of this team is the reason we've seen a number of successes in the past year despite one of the toughest economic environments the financial services industry has seen. We have identified and resolved issues in a timely, direct and honest manner and have built a strong reputation in the financial markets as a result. And due to our hard work this past year, we are of the opinion that as this cycle ends, Umpqua Holdings will emerge as strong as ever.

Credit Overview

Because of Umpqua's experienced credit and management teams and guiding principles, the company has not participated in sub-prime lending and does not have any investments on our balance sheet that are backed by sub-prime loans. In other words, we have no exposure to this segment of the market. In spite of this foresight, Umpqua Holdings Corporation has not been immune to the impact of the housing crisis.

At year-end, the company's loan portfolio was $6.1 billion. Of this amount, $81.3 million were non-accrual loans. Total non-performing assets at year-end represented 1.18% of Umpqua's total assets. Net charge-offs to average loans were 0.38% for the year and our allowance for credit losses was 1.42% of total loans and leases.

Umpqua's non-performing loan issues have been primarily limited to the portion of our total loan portfolio labeled "residential development loans." These are loans made to land developers and builders to acquire and develop land for single family residences. At year-end, the company's residential development loans totaled $674.2 million, or 11% of the total portfolio. Within this category of loans, $282.8 million or 5% of the total portfolio were located in Northern California, one of the areas hardest hit by the housing downturn.

The Umpqua Holdings board of directors is pleased and proud to have one of the industry's strongest teams of credit experts working through these troubled loans. Across all areas—including our credit administrators, loan officers and special assets department—we believe we have tremendous depth of talent and skill level that will serve us well.

Earnings Report

Organic growth was 5% this past year in loans and deposits—lower than years past but reflective of the current economic environment. And our dividends were increased to $0.74 per share compared to $0.60 in 2006, representing a 23% increase.

For the year 2007, the company reported operating earnings of $65.3 million, or $1.08 per diluted share. This is down from last year's $1.65 per diluted share for two primary reasons. First, due to the current interest rate environment we experienced a decrease in our net-interest margin of 50 basis points or approximately $0.33 per diluted share. Second, we increased our loan loss provision by $39.2 million, which represented approximately $0.39 per diluted share. As conditions become more stable, we expect these ratios to normalize and we will once again look forward to improved operating results.

These factors resulted in a decline in Umpqua's stock price, which ended the year trading at $15.34 per share. This decline was in line with the rest of the industry, but is not satisfactory to any of us and we are diligently working to improve on 2007 results.

Expansion, Innovation and Recognition

Despite the challenges facing the industry this past year, Umpqua continued to pursue its growth strategy. During 2007 we completed the acquisition of North Bay Bancorp, a $727.8 million asset financial institution located in the Napa/Solano counties of California. This added 10 new bank stores to the Umpqua footprint in a thriving market that Umpqua will be able to serve and compete in effectively. We have also continued to expand our neighborhood store concept with the addition of two new locations during the year. These stores are a powerful part of our growth strategy, making it possible for us to expand our physical presence in key markets with minimum capital.

In November, we announced the opening of our Innovation Laboratory in Portland. This one-of-a-kind bank store was conceived by our Creative Strategies division in collaboration with strategic partners to deliver new technologies to Umpqua that allow us to enhance our customers' banking experience. The Lab will also serve as an incubation store for new ideas, technology and delivery systems, allowing Umpqua to test these ideas within a store environment before committing the resources necessary for a rollout across our store network. In fact, our 2008 annual shareholder meeting will be held at our Innovation Lab, and we invite you to attend.

for the second straight year, Umpqua Bank was listed on *Fortune* Magazine's "Top 100 Best Companies to Work For" list.

As we continue to grow the company, it is vital to our success that we maintain and enhance the quality of our company culture. As we have said many times, our culture is the single most valuable asset the company possesses. And the loss of our culture is our greatest risk if we sacrifice it for the sake of growth. We are pleased to report to you that at the end of 2007, the company's culture is stronger than ever. Our annual associate culture survey reflects improvement in our infrastructure, communications, and commitment to the communities we serve. It is also important to note that for the second straight year, Umpqua Bank was listed on Fortune Magazine's "Top 100 Best Companies to Work For" list. This year the company ranked 13th, moving up from 34th place last year. Umpqua was also selected, for the third consecutive year, as the most admired financial services company in the state of Oregon by the *Portland Business Journal*.

Although it is difficult to place a monetary value on these accolades, they are of great significance to the success of our company. It is these "off balance sheet" attributes that motivate and inspire our associates to approach each day as an opportunity to build on the company's success. You can rest assured that Umpqua's culture will continue to be a major contributor to our future successes.

This is our first year under the SEC's new "e-proxy" rules. Many of you will receive a brief "Notice of Internet Availability" that tells you how to access your proxy materials online. However, we will mail printed materials to you at your request, and you will be able to access proxy materials at our website, www.umpquaholdingscorp.com. We want this transition to be easy for you and we hope you will call our Investor Relations team at 503-727-4109 if you have any questions or concerns.

The board and management team at Umpqua are fully engaged in facing the challenges that lie ahead in 2008 and beyond. We believe that we have the right team in place to work through this economic downturn resulting from the housing crisis. We are working diligently to position the company for future growth and emerge from this cycle as one of the strongest community banks. We look forward to hearing from you throughout the year and will continue to update you on our progress.

Sincerely,

Ray Davis
President/CEO

Allyn Ford
Chairman

selected highlights

Reconciliation of Net Income to Operating Earnings	2007	2006	% Change
Net income	$63,268	$84,447	-25%
Add back: merger-related expenses, net of tax	1,991	2,864	-30%
Operating earnings	$65,259	$87,311	-25%
Basic earnings per share	$1.06	$1.61	-34%
Basic operating earnings per share	1.09	1.67	-35%
Diluted earnings per share	1.05	1.59	-34%
Diluted operating earnings per share	1.08	1.65	-35%
Total shareholders' equity	$1,239,938	$1,156,211	7%
Total assets	8,340,053	7,344,236	14%
Total loans	6,055,635	5,361,862	13%
Total deposits	6,589,326	5,840,294	13%

Selected Performance Ratios	2007	2006	2005
Return on average assets	0.80%	1.31%	1.38%
Return on average shareholders' equity	5.17%	8.70%	9.80%
Return on average assets - operating basis (1)	0.83%	1.35%	1.38%
Return on average shareholders' equity - operating basis (1)	5.34%	9.00%	9.82%
Return on average tangible shareholders' equity - operating basis (1)	13.50%	21.55%	22.96%
Net interest margin (fully tax equivalent)	4.24%	4.74%	4.84%
Loans as a percentage of deposits	91.90%	91.81%	91.49%
Average shareholders' equity to average assets	15.48%	15.04%	14.08%
Dividend payout ratio	69.81%	37.27%	20.38%

Asset Quality Ratios	2007	2006	2005
Allowance for loan losses to total loans	1.40%	1.12%	1.12%
Non-performing loans to total loans	1.50%	0.17%	0.16%
Net charge-offs to average loans	0.38%	0.01%	0.08%

(dollars in thousands, except per share data)

(1) Based on operating earnings.

corporate information

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 2008 Annual Meeting of Umpqua Holdings Corporation will be held at 6:00pm on April 15, 2008 at the Umpqua Bank Innovation Lab, 3606 SW Bond Avenue, Portland, OR 97239.

This report 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 the company's filings with the SEC. You should not place undue reliance on forward-looking statements, and we undertake no obligation to update such statements. In this letter, we make forward-looking statements about improved financial performance, new store development and our ability to maintain our culture as we grow the company.