UMPQUA HOLDINGS CORP
Form 10-Q
May 06, 2016

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: March 31, 2016
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to .

Commission File Number: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

OREGON	93-1261319
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

One SW Columbia Street, Suite 1200
Portland, Oregon 97258
(Address of Principal Executive Offices)(Zip Code)

(503) 727-4100
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

[X] Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the latest practical date:

Common stock, no par value: 220,462,520 shares outstanding as of April 30, 2016

Table of Contents

UMPQUA HOLDINGS CORPORATION
FORM 10-Q
Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except shares)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks (restricted cash of $89,003 and $58,813)	$299,871	$277,645
Interest bearing cash and temporary investments (restricted cash of $575 and $3,938)	613,049	496,080
Total cash and cash equivalents	912,920	773,725
Investment securities		
Trading, at fair value	9,791	9,586
Available for sale, at fair value	2,542,535	2,522,539
Held to maturity, at amortized cost	4,525	4,609
Loans held for sale ($403,288 and $363,275, at fair value)	659,264	363,275
Loans and leases	16,955,583	16,866,536
Allowance for loan and lease losses	(130,243)	(130,322)
Net loans and leases	16,825,340	16,736,214
Restricted equity securities	47,545	46,949
Premises and equipment, net	322,822	328,734
Goodwill	1,787,651	1,787,793
Other intangible assets, net	42,948	45,508
Residential mortgage servicing rights, at fair value	117,172	131,817
Other real estate owned	20,411	22,307
Bank owned life insurance	293,703	291,892
Deferred tax asset, net	108,865	138,082
Other assets	240,194	203,351
Total assets	$23,935,686	$23,406,381
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$5,460,310	$5,318,591
Interest bearing	12,702,664	12,388,598
Total deposits	18,162,974	17,707,189
Securities sold under agreements to repurchase	325,203	304,560
Term debt	903,382	888,769
Junior subordinated debentures, at fair value	256,917	255,457
Junior subordinated debentures, at amortized cost	101,173	101,254
Other liabilities	307,407	299,818
Total liabilities	20,057,056	19,557,047
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, shares authorized: 400,000,000 in 2016 and 2015; issued and outstanding: 220,171,163 in 2016 and 220,171,091 in 2015	3,518,792	3,520,591
Retained earnings	343,421	331,301
Accumulated other comprehensive income (loss)	16,417	(2,558)

Total shareholders' equity	3,878,630	3,849,334
Total liabilities and shareholders' equity	$23,935,686	$23,406,381

See notes to condensed consolidated financial statements

3

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended March 31,	
	2016	2015
INTEREST INCOME		
Interest and fees on loans and leases	$217,928	$213,875
Interest and dividends on investment securities:		
Taxable	13,055	11,789
Exempt from federal income tax	2,235	2,481
Dividends	366	101
Interest on temporary investments and interest bearing deposits	480	825
Total interest income	234,064	229,071
INTEREST EXPENSE		
Interest on deposits	8,413	7,103
Interest on securities sold under agreement to repurchase	36	48
Interest on term debt	4,186	3,464
Interest on junior subordinated debentures	3,727	3,337
Total interest expense	16,362	13,952
Net interest income	217,702	215,119
PROVISION FOR LOAN AND LEASE LOSSES	4,823	12,637
Net interest income after provision for loan and lease losses	212,879	202,482
NON-INTEREST INCOME		
Service charges on deposits	14,516	14,274
Brokerage revenue	4,094	4,769
Residential mortgage banking revenue, net	15,426	28,227
Gain on investment securities, net	696	116
Gain on loan sales, net	2,371	6,728
Loss on junior subordinated debentures carried at fair value	(1,572)	(1,555)
BOLI income	2,139	2,302
Other income	8,281	9,044
Total non-interest income	45,951	63,905
NON-INTEREST EXPENSE		
Salaries and employee benefits	106,538	107,444
Occupancy and equipment, net	38,295	32,150
Communications	5,564	4,794
Marketing	2,850	3,036
Services	10,671	14,126
FDIC assessments	3,721	3,214
Loss on other real estate owned, net	1,389	1,814
Intangible amortization	2,560	2,806
Merger related expenses	3,450	14,082
Goodwill impairment	142	—
Other expenses	8,809	9,153
Total non-interest expense	183,989	192,619
Income before provision for income taxes	74,841	73,768
Provision for income taxes	27,272	26,639

Net income	$47,569	$47,129

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Continued)
(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended March 31,	
	2016	2015
Net income	$47,569	$47,129
Dividends and undistributed earnings allocated to participating securities	29	84
Net earnings available to common shareholders	$47,540	$47,045
Earnings per common share:		
Basic	$0.22	$0.21
Diluted	$0.22	$0.21
Weighted average number of common shares outstanding:		
Basic	220,227	220,349
Diluted	221,052	221,051

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(in thousands)	Three Months Ended March 31,	
	2016	2015
Net income	$47,569	$47,129
Available for sale securities:		
Unrealized gains arising during the period	31,651	12,740
Reclassification adjustment for net gains realized in earnings (net of tax expense of $269 and $45 for the three months ended March 31, 2016 and 2015, respectively)	(427)	(71)
Income tax expense related to unrealized gains	(12,249)	(5,096)
Other comprehensive income, net of tax	18,975	7,573
Comprehensive income	$66,544	$54,702

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(in thousands, except shares)	Common Stock		Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Earnings	Income (Loss)	
BALANCE AT JANUARY 1, 2015	220,161,120	$3,519,316	$246,242	$ 12,068	$3,777,626
Net income			222,539		222,539
Other comprehensive loss, net of tax				(14,626)	(14,626)
Stock-based compensation		14,383			14,383
Stock repurchased and retired	(844,215)	(14,589)			(14,589)
Issuances of common stock under stock plans and related net tax benefit	854,186	1,481			1,481
Cash dividends on common stock ($0.62 per share)			(137,480)		(137,480)
Balance at December 31, 2015	220,171,091	$3,520,591	$331,301	$ (2,558)	$3,849,334
BALANCE AT JANUARY 1, 2016	220,171,091	$3,520,591	$331,301	$ (2,558)	$3,849,334
Net income			47,569		47,569
Other comprehensive income, net of tax				18,975	18,975
Stock-based compensation		3,227			3,227
Stock repurchased and retired	(370,016)	(5,539)			(5,539)
Issuances of common stock under stock plans and related net tax benefit	370,088	513			513
Cash dividends on common stock ($0.16 per share)			(35,449)		(35,449)
Balance at March 31, 2016	220,171,163	$3,518,792	$343,421	$ 16,417	$3,878,630

See notes to condensed consolidated financial statements

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$47,569	$47,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premiums, net	4,602	5,605
Gain on sale of investment securities, net	(696)	(116)
Gain on sale of other real estate owned, net	(34)	(578)
Valuation adjustment on other real estate owned	1,423	2,392
Provision for loan and lease losses	4,823	12,637
Change in cash surrender value of bank owned life insurance	(2,208)	(2,336)
Depreciation, amortization and accretion	14,828	11,490
Loss on sale of premises and equipment	299	1,340
Increase in residential mortgage servicing rights	(5,980)	(8,837)
Change in residential mortgage servicing rights carried at fair value	20,625	9,731
Change in junior subordinated debentures carried at fair value	1,460	1,358
Stock-based compensation	3,227	3,433
Net increase in trading account assets	(205)	(453)
Gain on sale of loans	(33,340)	(34,692)
Change in loans held for sale carried at fair value	(4,861)	(4,875)
Origination of loans held for sale	(764,076)	(862,155)
Proceeds from sales of loans held for sale	759,893	775,309
Tax deficiency (excess tax benefits) from the exercise of stock options	122	(586)
Goodwill impairment	142	—
Change in other assets and liabilities:		
Net (increase) decrease in other assets	(19,966)	511
Net increase in other liabilities	15,193	20,253
Net cash provided (used) by operating activities	42,840	(23,440)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(96,603)	(394,872)
Proceeds from investment securities available for sale	103,629	165,100
Proceeds from investment securities held to maturity	111	164
Purchases of restricted equity securities	(600)	—
Redemption of restricted equity securities	4	2,116
Net change in loans and leases	(505,995)	(303,577)
Proceeds from sales of loans	151,466	79,575
Net change in premises and equipment	(10,099)	(20,040)
Proceeds from bank owned life insurance death benefits	25	—
Proceeds from sales of other real estate owned	2,461	5,528
Net cash used in investing activities	$(355,601)	$(466,006)

Table of Contents

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(UNAUDITED)

(in thousands)	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposit liabilities	$456,620	$331,988
Net increase in securities sold under agreements to repurchase	20,643	7,881
Proceeds from term debt borrowings	115,000	—
Repayment of term debt borrowings	(100,000)	(39,999)
Dividends paid on common stock	(35,281)	(33,109)
(Tax deficiency) excess tax benefits from stock based compensation	(122)	586
Proceeds from stock options exercised	635	22
Retirement of common stock	(5,539)	(2,220)
Net cash provided by financing activities	451,956	265,149
Net increase (decrease) in cash and cash equivalents	139,195	(224,297)
Cash and cash equivalents, beginning of period	773,725	1,605,171
Cash and cash equivalents, end of period	$912,920	$1,380,874
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$18,313	$16,673
Income taxes	$8,165	$5,936
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Change in unrealized gains on investment securities available for sale, net of taxes	$18,975	$7,573
Cash dividend declared on common stock and payable after period-end	$35,247	$33,126
Transfer of loans to loans held for sale	$255,976	$—
Change in GNMA mortgage loans recognized due to repurchase option	$(5,021)	$(2,912)
Transfer of loans to other real estate owned	$2,210	$1,464
Transfers from other real estate owned to loans due to internal financing	$256	$—
Receivable from BOLI death benefits	$372	$1,935

See notes to condensed consolidated financial statements

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation conform to accounting principles generally accepted in the United States of America. The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The condensed consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2015 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2015 Annual Report filed on Form 10-K. All references in this report to "Umpqua," "we," "our," "us," the "Company" or similar references mean Umpqua Holdings Corporation, and include our consolidated subsidiaries where the context so requires. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser. The Bank also has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company. Pivotus Ventures, Inc., a wholly-owned subsidiary of Umpqua Holdings Corporation, focuses on advancing bank innovation by developing new bank platforms that could have a significant impact on the experience and economics of banking.

In preparing these condensed consolidated financial statements, the Company has evaluated events and transactions subsequent to March 31, 2016 for potential recognition or disclosure. In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Umpqua identified an error related to the accounting for loans sold to Ginnie Mae (“GNMA”) that have become past due 90 days or more. Pursuant to GNMA purchase and sales agreements, Umpqua has the unilateral right to repurchase loans that become past due 90 days or more. As a result of this unilateral right, once the delinquency criteria has been met, and regardless of whether the repurchase option has been exercised, the loan should be recognized, with an offsetting liability, to account for these loans that no longer meet the true-sale criteria. The Company has continued to grow the portfolio of GNMA loans sold and serviced, which has led to an increasing number and amount of delinquent loans. As such, the Company has recorded an adjustment to record the balance of the GNMA loans sold and serviced that are over 90 days past due, but not repurchased, as loans, with a corresponding other liability. Management evaluated the materiality of the error from qualitative and quantitative perspectives and concluded that the error was immaterial to the prior period financial statements taken as a whole. To provide consistency in the amounts reported in the comparable periods, the Company has recognized the delinquent GNMA loans for which the Company has the unconditional repurchase option, as well as the corresponding other liability, for the periods reported. As of December 31, 2015, this change resulted in an increase in loans and leases, net loans and leases, total assets, other liabilities, and total liabilities of $19.2 million. As of March 31, 2016, the adjustment related to these same line items of the balance sheet was $14.2 million. This change did not affect net income or shareholders' equity for any period.

Table of Contents

Note 2 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
Obligations of states and political subdivisions	$292,128	$ 12,164	$ (618)	$303,674
Residential mortgage-backed securities and collateralized mortgage obligations	2,221,653	19,775	(4,597)	2,236,831
Investments in mutual funds and other equity securities	1,959	71	—	2,030
	$2,515,740	$ 32,010	$ (5,215)	$2,542,535
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$4,525	$ 982	$ —	$5,507
	$4,525	$ 982	$ —	$5,507

(in thousands)	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
Obligations of states and political subdivisions	$300,998	$ 12,741	$ (622)	$313,117
Residential mortgage-backed securities and collateralized mortgage obligations	2,223,742	7,218	(23,540)	2,207,420
Investments in mutual funds and other equity securities	1,959	43	—	2,002
	$2,526,699	$ 20,002	$ (24,162)	$2,522,539
HELD TO MATURITY:				
Residential mortgage-backed securities and collateralized mortgage obligations	$4,609	$ 981	$—	$5,590
	$4,609	$ 981	$—	$5,590

Investment securities that were in an unrealized loss position as of March 31, 2016 and December 31, 2015 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

March 31, 2016

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
Obligations of states and political subdivisions	$14,031	$ 171	$3,751	$ 447	$17,782	$ 618
Residential mortgage-backed securities and collateralized mortgage obligations	101,107	254	534,964	4,343	636,071	4,597
Total temporarily impaired securities	$115,138	$ 425	$538,715	$ 4,790	$653,853	$ 5,215

11

Table of Contents

December 31, 2015

(in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
Obligations of states and political subdivisions	$2,530	$ 83	$8,208	$ 539	$10,738	$ 622
Residential mortgage-backed securities and collateralized mortgage obligations	1,256,994	14,465	334,981	9,075	1,591,975	23,540
Total temporarily impaired securities	$1,259,524	$ 14,548	$343,189	$ 9,614	$1,602,713	$ 24,162

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors the published credit ratings of these securities for material rating or outlook changes. As of March 31, 2016, 94% of these securities were rated A3/A- or higher by rating agencies. Substantially all of the Company's obligations of states and political subdivisions are general obligation issuances. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at March 31, 2016 are issued or guaranteed by government sponsored enterprises. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will be settled at a price at least equal to the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, these investments are not considered other-than-temporarily impaired.

The following table presents the maturities of investment securities at March 31, 2016:

(in thousands)	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$17,287	$17,344	$—	$—
Over three months through twelve months	77,419	78,313	5	5
After one year through five years	1,529,310	1,548,750	137	375
After five years through ten years	613,289	615,665	319	799
After ten years	276,476	280,433	4,064	4,328
Other investment securities	1,959	2,030	—	—
	$2,515,740	$2,542,535	$4,525	$5,507

Table of Contents

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties. The following table presents the gross realized gains and losses on the sale of securities available for sale for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended			
	March 31, 2016		March 31, 2015	
	Gains	Losses	Gains	Losses
Obligations of states and political subdivisions	$696	$ —	$—	$ —
Residential mortgage-backed securities and collateralized mortgage obligations	—	—	316	200
	$696	$ —	$316	$ 200

The following table presents, as of March 31, 2016, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

(in thousands)	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$707	$727
To state and local governments to secure public deposits	1,646,550	1,666,384
Other securities pledged principally to secure repurchase agreements	447,746	450,494
Total pledged securities	$2,095,003	$2,117,605

Note 3 – Loans and Leases

The following table presents the major types of loans and leases, net of deferred fees and costs, as of March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016	December 31, 2015
Commercial real estate		
Non-owner occupied term, net	$3,165,154	$3,140,845
Owner occupied term, net	2,731,228	2,691,921
Multifamily, net	2,945,826	3,074,918
Construction & development, net	343,519	301,892
Residential development, net	121,025	99,459
Commercial		
Term, net	1,437,992	1,425,009
LOC & other, net	1,041,516	1,043,076
Leases and equipment finance, net	791,798	729,161
Residential		
Mortgage, net	2,879,600	2,909,399
Home equity loans & lines, net	943,254	923,667
Consumer & other, net	554,671	527,189
Total loans and leases, net of deferred fees and costs	$16,955,583	$16,866,536

The loan balances are net of deferred fees and costs of $57.7 million and $47.0 million as of March 31, 2016 and December 31, 2015, respectively. Net loans include discounts on acquired loans of $83.9 million and $105.6 million as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016, loans totaling $10.0 billion were pledged to secure borrowings and available lines of credit.

Table of Contents

The outstanding contractual unpaid principal balance of purchased impaired loans, excluding acquisition accounting adjustments, was $486.2 million and $540.4 million at March 31, 2016 and December 31, 2015, respectively. The carrying balance of purchased impaired loans was $362.3 million and $438.1 million at March 31, 2016 and December 31, 2015, respectively.

The following table presents the changes in the accretable yield for purchased impaired loans for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31,	
	2016	2015
Balance, beginning of period	$132,829	$201,699
Accretion to interest income	(14,198)	(13,283)
Disposals	(8,513)	(6,913)
Reclassifications from nonaccretable difference	4,217	4,084
Balance, end of period	$114,335	$185,587

Loans and leases sold

In the course of managing the loan and lease portfolio, at certain times, management may decide to sell loans and leases. The following table summarizes the carrying value of loans and leases sold by major loan type during the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31,	
	2016	2015
Commercial real estate		
Non-owner occupied term, net	$8,509	$—
Owner occupied term, net	9,661	3,319
Multifamily, net	129,430	435
Commercial		
Term, net	1,494	2,340
Residential		
Mortgage, net	—	66,753
Total	$149,094	$72,847

As of March 31, 2016, the Company transferred $170.8 million of portfolio residential mortgage loans and $85.2 million of multi-family loans to held for sale, which are expected to be sold during the second quarter of 2016. These loans were transferred to held for sale at the lower of cost or market, and no gain or loss has been recorded.

Note 4 – Allowance for Loan and Lease Loss and Credit Quality

The Bank's methodology for assessing the appropriateness of the Allowance for Loan and Lease Loss ("ALLL") consists of three key elements: 1) the formula allowance; 2) the specific allowance; and 3) the unallocated allowance. By incorporating these factors into a single allowance requirement analysis, we believe all risk-based activities within the loan and lease portfolios are simultaneously considered.

Formula Allowance

When loans and leases are originated or acquired, they are assigned a risk rating that is reassessed periodically during the term of the loan or lease through the credit review process. The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the formula allowance.

The formula allowance is calculated by applying risk factors to various segments of pools of outstanding loans and leases. Risk factors are assigned to each portfolio segment based on management's evaluation of the losses inherent within each segment. Segments or regions with greater risk of loss will therefore be assigned a higher risk factor.

Base risk – The portfolio is segmented into loan categories, and these categories are assigned a Base risk factor based on an evaluation of the loss inherent within each segment.

Extra risk – Additional risk factors provide for an additional allocation of ALLL based on the loan and lease risk rating system and loan delinquency, and reflect the increased level of inherent losses associated with more adversely classified loans and leases.

Risk factors may be changed periodically based on management's evaluation of the following factors: loss experience; changes in the level of non-performing loans and leases; regulatory exam results; changes in the level of adversely classified loans and leases; improvement or deterioration in local economic conditions; and any other factors deemed relevant.

Specific Allowance

Regular credit reviews of the portfolio identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when, based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows or estimated note sale price, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral-dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired are excluded from the formula allowance so as not to double-count the loss exposure. The non-accrual impaired loans as of period-end have already been partially charged-off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

The combination of the formula allowance component and the specific allowance component represents the allocated allowance for loan and lease losses. There is currently no unallocated allowance.

Management believes that the ALLL was adequate as of March 31, 2016. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses.

The reserve for unfunded commitments ("RUC") is established to absorb inherent losses associated with our commitment to lend funds, such as with a letter or line of credit. The adequacy of the ALLL and RUC are monitored on a regular basis and are based on management's evaluation of numerous factors. These factors include the quality of the current loan portfolio; the trend in the loan portfolio's risk ratings; current economic conditions; loan concentrations; loan growth rates; past-due and non-performing trends; evaluation of specific loss estimates for all significant problem loans; historical charge-off and recovery experience; and other pertinent information.

There have been no significant changes to the Bank's ALLL methodology or policies in the periods presented.

15

Table of Contents

Activity in the Allowance for Loan and Lease Losses

The following table summarizes activity related to the allowance for loan and lease losses by loan and lease portfolio segment for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31, 2016				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$54,085	$ 47,695	$ 22,017	$ 6,525	$130,322
Charge-offs	(502)	(4,655)	(337)	(2,356)	(7,850)
Recoveries	500	1,173	231	1,044	2,948
(Recapture) Provision	(2,847)	6,782	(1,014)	1,902	4,823
Balance, end of period	$51,236	$ 50,995	$ 20,897	$ 7,115	$130,243

	Three Months Ended March 31, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$55,184	$ 41,216	$ 15,922	$ 3,845	$116,167
Charge-offs	(1,329)	(8,937)	(399)	(1,880)	(12,545)
Recoveries	223	1,071	31	2,520	3,845
Provision	1,104	10,850	667	16	12,637
Balance, end of period	$55,182	$ 44,200	$ 16,221	$ 4,501	$120,104

The valuation allowance on purchased impaired loans was increased by provision expense, which includes amounts related to subsequent deterioration of purchased impaired loans of $8,000 and $1.6 million for the three months ended March 31, 2016 and 2015, respectively. The increase due to the provision expense of the valuation allowance on purchased impaired loans was offset by recaptured provision of $777,000 and $185,000 for the three months ended March 31, 2016 and 2015, respectively.

The following table presents the allowance and recorded investment in loans and leases by portfolio segment as of March 31, 2016 and 2015:

(in thousands)	March 31, 2016				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for loans and leases:					
Collectively evaluated for impairment	$48,855	$50,464	$20,223	$7,058	$126,600
Individually evaluated for impairment	317	482	—	—	799
Loans acquired with deteriorated credit quality	2,064	49	674	57	2,844
Total	$51,236	$50,995	$20,897	$7,115	$130,243
Loans and leases:					
Collectively evaluated for impairment	$8,986,638	$3,234,076	$3,767,604	$553,723	$16,542,041
Individually evaluated for impairment	27,547	23,701	—	—	51,248
Loans acquired with deteriorated credit quality	292,567	13,529	55,250	948	362,294
Total	$9,306,752	$3,271,306	$3,822,854	$554,671	$16,955,583

Table of Contents

(in thousands)	March 31, 2015				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for loans and leases:					
Collectively evaluated for impairment	$49,543	$41,436	$15,521	$4,437	$110,937
Individually evaluated for impairment	1,081	319	—	—	1,400
Loans acquired with deteriorated credit quality	4,558	2,445	700	64	7,767
Total	$55,182	$44,200	$16,221	$4,501	$120,104
Loans and leases:					
Collectively evaluated for impairment	$8,475,620	$2,919,336	$3,132,805	$413,882	$14,941,643
Individually evaluated for impairment	66,481	27,859	—	—	94,340
Loans acquired with deteriorated credit quality	422,878	28,154	68,939	1,153	521,124
Total	$8,964,979	$2,975,349	$3,201,744	$415,035	$15,557,107

The loan and lease balances are net of deferred fees and costs of $57.7 million and $31.7 million at March 31, 2016 and March 31, 2015, respectively.

Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the RUC and unfunded commitments for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31,	
	2016	2015
Balance, beginning of period	$3,574	$3,539
Net change to other expense	(92)	(345)
Balance, end of period	$3,482	$3,194

(in thousands)	
	Total
Unfunded loan and lease commitments:	
March 31, 2016	$3,703,352
March 31, 2015	$3,993,400

Asset Quality and Non-Performing Loans and Leases

We manage asset quality and control credit risk through diversification of the loan and lease portfolio and the application of policies designed to promote sound underwriting and loan and lease monitoring practices. The Bank's Credit Quality Administration is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. Reviews of non-performing, past due loans and leases and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on an ongoing basis. These reviews consider such factors as the financial strength of borrowers, the value of the applicable collateral, loan and lease loss experience, estimated loan and lease losses, growth in the loan and lease portfolio, prevailing economic conditions and other factors.

Table of Contents

Non-Accrual Loans and Leases and Loans and Leases Past Due

The following table summarizes our non-accrual loans and leases and loans and leases past due, by loan and lease class, as of March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016						
	Greater than 30 to 59 Days Past Due	60 to 89 Days Past Due	Greater than 90 Days and Accruing	Total Past Due	Non-Accrual	Current & Other (1)	Total Loans and Leases
Commercial real estate							
Non-owner occupied term, net	$175	$343	$430	$948	$ 2,648	$3,161,558	$3,165,154
Owner occupied term, net	3,551	4,298	1,801	9,650	5,352	2,716,226	2,731,228
Multifamily, net	—	—	—	—	511	2,945,315	2,945,826
Construction & development, net	—	—	—	—	—	343,519	343,519
Residential development, net	—	—	—	—	—	121,025	121,025
Commercial							
Term, net	463	465	—	928	14,810	1,422,254	1,437,992
LOC & other, net	1,605	4,887	—	6,492	664	1,034,360	1,041,516
Leases and equipment finance, net	4,874	1,961	1,327	8,162	6,060	777,576	791,798
Residential							
Mortgage, net (2)	1,351	—	29,051	30,402	—	2,849,198	2,879,600
Home equity loans & lines, net	849	1,216	3,234	5,299	—	937,955	943,254
Consumer & other, net	2,252	764	456	3,472	—	551,199	554,671
Total, net of deferred fees and costs	$15,120	$13,934	$36,299	$65,353	$ 30,045	$16,860,185	$16,955,583

(1) Other includes purchased credit impaired loans of $362.3 million.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $14.2 million at March 31, 2016.

Table of Contents

(in thousands)	December 31, 2015						
	Greater than 30 to 59 Days Past Due	60 to 89 Days Past Due	Greater than 90 Days and Accruing	Total Past Due	Non-Accrual	Current & Other (1)	Total Loans and Leases
Commercial real estate							
Non-owner occupied term, net	$1,312	$2,776	$ 137	$4,225	$ 2,633	$3,133,987	$3,140,845
Owner occupied term, net	2,394	1,150	423	3,967	5,928	2,682,026	2,691,921
Multifamily, net	408	—	—	408	—	3,074,510	3,074,918
Construction & development, net	—	2,959	—	2,959	—	298,933	301,892
Residential development, net	—	—	—	—	—	99,459	99,459
Commercial							
Term, net	298	333	—	631	15,185	1,409,193	1,425,009
LOC & other, net	1,907	92	8	2,007	664	1,040,405	1,043,076
Leases and equipment finance, net	2,933	3,499	822	7,254	4,801	717,106	729,161
Residential							
Mortgage, net (2)	31	2,444	29,233	31,708	—	2,877,691	2,909,399
Home equity loans & lines, net	1,084	643	3,080	4,807	—	918,860	923,667
Consumer & other, net	3,271	889	642	4,802	4	522,383	527,189
Total, net of deferred fees and costs	$13,638	$14,785	$ 34,345	$62,768	$ 29,215	$16,774,553	$16,866,536

(1) Other includes purchased credit impaired loans of $438.1 million.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $19.2 million at December 31, 2015.

Impaired Loans

Loans with no related allowance reported generally represent non-accrual loans. The Bank recognizes the charge-off on impaired loans in the period it arises for collateral-dependent loans. Therefore, the non-accrual loans as of March 31, 2016 have already been written down to their estimated net realizable value and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

Table of Contents

The following table summarizes our impaired loans by loan class as of March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016			
	Unpaid	Recorded Investment		
	Principal	Without	With	Related
	Balance	Allowance	Allowance	Allowance
Commercial real estate				
Non-owner occupied term, net	$8,660	$2,036	$ 6,247	$ 185
Owner occupied term, net	5,845	5,299	183	11
Multifamily, net	4,025	511	3,519	30
Construction & development, net	1,864	—	1,862	37
Residential development, net	7,889	—	7,890	54
Commercial				
Term, net	25,834	14,512	6,203	269
LOC & other, net	3,470	664	2,322	213
Residential				
Mortgage, net	—	—	—	—
Home equity loans & lines, net	—	—	—	—
Consumer & other, net	—	—	—	—
Total, net of deferred fees and costs	$57,587	$23,022	$ 28,226	$ 799

(in thousands)	December 31, 2015			
	Unpaid	Recorded Investment		
	Principal	Without	With	Related
	Balance	Allowance	Allowance	Allowance
Commercial real estate				
Non-owner occupied term, net	$8,633	$1,946	$ 6,260	$ 91
Owner occupied term, net	7,476	4,340	3,072	40
Multifamily, net	3,519	—	3,519	49
Construction & development, net	1,091	—	1,091	11
Residential development, net	7,889	—	7,891	90
Commercial				
Term, net	26,106	14,788	6,220	283
LOC & other, net	3,470	664	2,322	224
Residential				
Mortgage, net	—	—	—	—
Home equity loans & lines, net	—	—	—	—
Consumer & other, net	—	—	—	—
Total, net of deferred fees and costs	$58,184	$21,738	$ 30,375	$ 788

Table of Contents

The following table summarizes our average recorded investment and interest income recognized on impaired loans by loan class for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial real estate				
Non-owner occupied term, net	$8,767	$ 63	$38,071	$ 323
Owner occupied term, net	7,554	53	15,606	65
Multifamily, net	3,775	30	3,669	31
Construction & development, net	1,476	19	1,091	11
Residential development, net	7,912	81	9,622	103
Commercial				
Term, net	21,248	73	19,907	3
LOC & other, net	3,028	20	10,491	47
Residential				
Mortgage, net	—	—	—	—
Home equity loans & lines, net	—	—	—	—
Consumer & other, net	—	—	—	—
Total, net of deferred fees and costs	$53,760	$ 339	$98,457	$ 583

The impaired loans for which these interest income amounts were recognized primarily relate to accruing restructured loans.

Credit Quality Indicators

As previously noted, the Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The Bank differentiates its lending portfolios into homogeneous loans and leases and non-homogeneous loans and leases. The 10 risk rating categories can be generally described by the following groupings for non-homogeneous loans and leases:

Minimal Risk—A minimal risk loan or lease, risk rated 1, is to a borrower of the highest quality. The borrower has an unquestioned ability to produce consistent profits and service all obligations and can absorb severe market disturbances with little or no difficulty.

Low Risk—A low risk loan or lease, risk rated 2, is similar in characteristics to a minimal risk loan. Margins may be smaller or protective elements may be subject to greater fluctuation. The borrower will have a strong demonstrated ability to produce profits, provide ample debt service coverage and to absorb market disturbances.

Modest Risk—A modest risk loan or lease, risk rated 3, is a desirable loan or lease with excellent sources of repayment and no currently identifiable risk associated with collection. The borrower exhibits a very strong capacity to repay the credit in accordance with the repayment agreement. The borrower may be susceptible to economic cycles, but will have reserves to weather these cycles.

Average Risk—An average risk loan or lease, risk rated 4, is an attractive loan or lease with sound sources of repayment and no material collection or repayment weakness evident. The borrower has an acceptable capacity to pay in accordance with the agreement. The borrower is susceptible to economic cycles and more efficient competition, but should have modest reserves sufficient to survive all but the most severe downturns or major setbacks.

Acceptable Risk—An acceptable risk loan or lease, risk rated 5, is a loan or lease with lower than average, but still acceptable credit risk. These borrowers may have higher leverage, less certain but viable repayment sources, have limited financial reserves and may possess weaknesses that can be adequately mitigated through collateral, structural or credit enhancement. The borrower is susceptible to economic cycles and is less resilient to negative market forces or financial events. Reserves may be insufficient to survive a modest downturn.

Watch—A watch loan or lease, risk rated 6, is still pass-rated, but represents the lowest level of acceptable risk due to an emerging risk element or declining performance trend. Watch ratings are expected to be temporary, with issues resolved or manifested to the extent that a higher or lower rating would be appropriate. The borrower should have a plausible plan, with reasonable certainty of success, to correct the problems in a short period of time.

Special Mention—A special mention loan or lease, risk rated 7, has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the institution's credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans and leases in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a substandard classification. A special mention loan or lease has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date.

Substandard—A substandard asset, risk rated 8, is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans and leases are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan or lease normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard.

Doubtful—Loans or leases classified as doubtful, risk rated 9, have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a loss (and immediate charge-off) is deferred until more exact status may be determined. Pending factors include proposed merger, acquisition, liquidation procedures, capital injection, and perfection of liens on additional collateral and refinancing plans. In certain circumstances, a doubtful rating will be temporary, while the Bank is awaiting an updated collateral valuation. In these cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged-off. The remaining balance, properly margined, may then be upgraded to substandard, however must remain on non-accrual.

Loss—Loans or leases classified as loss, risk rated 10, are considered un-collectible and of such little value that the continuance as an active Bank asset is not warranted. This rating does not mean that the loan or lease has no recovery or salvage value, but rather that the loan or lease should be charged-off now, even though partial or full recovery may be possible in the future.

Impaired—Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay. This generally includes all loans classified as non-accrual and troubled debt restructurings. Impaired loans are risk rated for internal and regulatory rating purposes, but presented separately for clarification.

Homogeneous loans and leases are not risk rated until they are greater than 30 days past due, and risk rating is based on the past due status of the loan or lease. The risk rating categories can be generally described by the following groupings for commercial and commercial real estate homogeneous loans and leases:

Special Mention—A homogeneous special mention loan or lease, risk rated 7, is greater than 30 to 59 days past due from the required payment date at month-end.

Substandard—A homogeneous substandard loan or lease, risk rated 8, is 60 to 89 days past due from the required payment date at month-end.

Doubtful—A homogeneous doubtful loan or lease, risk rated 9, is 90 to 179 days past due from the required payment date at month-end.

Loss—A homogeneous loss loan or lease, risk rated 10, is 180 days and more past due from the required payment date. These loans are generally charged-off in the month in which the 180 day time period elapses.

Table of Contents

The risk rating categories can be generally described by the following groupings for residential and consumer and other homogeneous loans:

Special Mention—A homogeneous retail special mention loan, risk rated 7, is greater than 30 to 89 days past due from the required payment date at month-end.

Substandard—A homogeneous retail substandard loan, risk rated 8, is an open-end loan 90 to 180 days past due from the required payment date at month-end or a closed-end loan 90 to 120 days past due from the required payment date at month-end.

Loss—A homogeneous retail loss loan, risk rated 10, is a closed-end loan that becomes past due 120 cumulative days or an open-end retail loan that becomes past due 180 cumulative days from the contractual due date. These loans are generally charged-off in the month in which the 120 or 180 day period elapses.

The following table summarizes our internal risk rating by loan and lease class for the loan and lease portfolio as of March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	Total
Commercial real estate							
Non-owner occupied term, net	$3,003,342	$74,533	$ 78,588	$ —	$408	$8,283	$3,165,154
Owner occupied term, net	2,582,762	77,095	64,132	722	1,035	5,482	2,731,228
Multifamily, net	2,918,318	6,537	16,941	—	—	4,030	2,945,826
Construction & development, net	329,238	10,336	2,083	—	—	1,862	343,519
Residential development, net	111,432	397	1,306	—	—	7,890	121,025
Commercial							
Term, net	1,378,277	5,466	33,181	196	157	20,715	1,437,992
LOC & other, net	1,005,035	18,224	15,271	—	—	2,986	1,041,516
Leases and equipment finance, net	776,698	5,733	1,961	6,650	756	—	791,798
Residential							
Mortgage, net (2)	2,833,427	1,866	38,726	—	5,581	—	2,879,600
Home equity loans & lines, net	936,744	3,005	1,115	—	2,390	—	943,254
Consumer & other, net	551,157	3,024	312	—	178	—	554,671
Total, net of deferred fees and costs	$16,426,430	$206,216	$ 253,616	$ 7,568	$10,505	$51,248	$16,955,583

(1) The percentage of impaired loans classified as pass/watch, special mention and substandard was 5.3%, 4.7% and 90.0%, respectively, as of March 31, 2016.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $14.2 million at March 31, 2016.

Table of Contents

(in thousands)	December 31, 2015						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired (1)	Total
Commercial real estate							
Non-owner occupied term, net	$2,963,339	$82,538	$ 86,213	$ 270	$279	$8,206	$3,140,845
Owner occupied term, net	2,553,909	60,042	68,522	675	1,361	7,412	2,691,921
Multifamily, net	3,047,889	5,641	17,869	—	—	3,519	3,074,918
Construction & development, net	288,018	10,659	2,124	—	—	1,091	301,892
Residential development, net	89,706	507	1,355	—	—	7,891	99,459
Commercial							
Term, net	1,369,230	13,620	20,953	36	162	21,008	1,425,009
LOC & other, net	1,004,946	19,183	15,959	1	1	2,986	1,043,076
Leases and equipment finance, net	716,190	3,849	3,499	4,889	734	—	729,161
Residential							
Mortgage, net (2)	2,871,516	3,557	21,195	—	13,131	—	2,909,399
Home equity loans & lines, net	917,919	2,189	803	—	2,756	—	923,667
Consumer & other, net	522,339	4,174	458	—	218	—	527,189
Total, net of deferred fees and costs	$16,345,001	$205,959	$ 238,950	$ 5,871	$18,642	$52,113	$16,866,536

(1) The percentage of impaired loans classified as pass/watch, special mention and substandard was 5.0%, 4.6%, and 90.4%, respectively, as of December 31, 2015.
(2) Includes government guaranteed GNMA mortgage loans that Umpqua has the right but not the obligation to repurchase that are past due 90 days or more, totaling $19.2 million at December 31, 2015.

Troubled Debt Restructurings

At March 31, 2016 and December 31, 2015, impaired loans of $31.4 million and $31.4 million, respectively, were classified as accruing restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. Impaired restructured loans carry a specific allowance and the allowance on impaired restructured loans is calculated consistently across the portfolios.

There were no available commitments for troubled debt restructurings outstanding as of March 31, 2016 and December 31, 2015.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate, net	$18,041	$ —	$ 18,041
Commercial, net	8,524	8,422	16,946
Residential, net	4,844	—	4,844
Total, net of deferred fees and costs	$31,409	$ 8,422	$ 39,831

24

Table of Contents

(in thousands)	December 31, 2015		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate, net	$17,895	$ 1,324	$ 19,219
Commercial, net	8,543	8,528	17,071
Residential, net	4,917	—	4,917
Total, net of deferred fees and costs	$31,355	$ 9,852	$ 41,207

The Bank's policy is that loans placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appears relatively certain. The Bank's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

The following table presents newly restructured loans that occurred during the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31, 2016					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial real estate, net	$—	$ —	$ —	$ —	$ 209	$ 209
Residential, net	—	—	—	—	132	132
Total, net of deferred fees and costs	$—	$ —	$ —	$ —	$ 341	$ 341

	Three Months Ended March 31, 2015					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total Modifications
Commercial, net	$—	$ —	$ —	$ —	$ 3,349	$ 3,349
Residential, net	—	74	—	—	2,944	3,018
Total, net of deferred fees and costs	$—	$ 74	$ —	$ —	$ 6,293	$ 6,367

For the periods presented in the tables above, the outstanding recorded investment was the same pre and post modification.

There were no financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three months ended March 31, 2016 and none for the three months ended March 31, 2015.

Note 5–Goodwill and Other Intangible Assets

The following tables summarize the changes in the Company's goodwill and other intangible assets for the year ended December 31, 2015, and the three months ended March 31, 2016. Goodwill and all other intangible assets are related to the Community Banking segment.

(in thousands)	Goodwill		
	Gross	Accumulated Impairment	Total
Balance, December 31, 2014	$1,899,159	$ (112,934)	$1,786,225
Net additions	1,568	—	1,568
Balance, December 31, 2015	1,900,727	(112,934)	1,787,793

Reductions	—	(142)	(142)
Balance, March 31, 2016	$1,900,727	$(113,076)	$1,787,651

Table of Contents

Goodwill represents the excess of the total acquisition price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. The reduction to goodwill of $142,000 relates to a goodwill impairment loss recognized during the quarter related to a small subsidiary that is winding down operations. The additions to goodwill in 2015 of $1.6 million related to correcting immaterial errors in acquisition accounting adjustments.

(in thousands)	Other Intangible Assets		
	Gross	Accumulated Amortization	Net
Balance, December 31, 2014	$113,471	$ (56,738)	$56,733
Amortization	—	(11,225)	(11,225)
Balance, December 31, 2015	113,471	(67,963)	45,508
Amortization	—	(2,560)	(2,560)
Balance, March 31, 2016	$113,471	$ (70,523)	$42,948

Core deposit intangible assets values were determined by an analysis of the cost differential between the core deposits inclusive of estimated servicing costs and alternative funding sources for core deposits acquired through acquisitions. The core deposit intangible assets are amortized on an accelerated basis over a period of approximately 10 years.

The Company conducts its annual evaluation of goodwill for impairment as of its year end of December 31. Goodwill and other intangibles are required to be analyzed for impairment if certain triggering events occur. During the three months ended March 31, 2016, management determined that no triggering events occurred that required an impairment analysis. The table below presents the forecasted amortization expense for other intangible assets acquired in all mergers:

(in thousands)

Year	Expected Amortization
Remainder of 2016	$ 6,062
2017	6,756
2018	6,166
2019	5,618
2020	4,986
Thereafter	13,360
	$ 42,948

Table of Contents

Note 6 – Residential Mortgage Servicing Rights

The following table presents the changes in the Company's residential mortgage servicing rights ("MSR"), which are carried at fair value, for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31,	
	2016	2015
Balance, beginning of period	$131,817	$117,259
Additions for new MSR capitalized	5,980	8,837
Changes in fair value:		
Due to changes in model inputs or assumptions(1)	(10,251)	(4,143)
Other(2)	(10,374)	(5,588)
Balance, end of period	$117,172	$116,365

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.
(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of March 31, 2016 and December 31, 2015 is as follows:

(dollars in thousands)	March 31, 2016	December 31, 2015
Balance of loans serviced for others	$13,304,468	$13,047,266
MSR as a percentage of serviced loans	0.88 %	1.01 %

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in residential mortgage banking revenue, was $7.6 million for the three months ended March 31, 2016, as compared to $6.5 million for the three months ended March 31, 2015.

Key assumptions used in measuring the fair value of MSR as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	December 31, 2015
Constant prepayment rate	13.78 %	11.70 %
Discount rate	9.69 %	9.68 %
Weighted average life (years)	5.7	6.5

A sensitivity analysis of the current fair value to changes in discount and prepayment speed assumptions as of March 31, 2016 and December 31, 2015 is as follows:

(in thousands)	March 31, 2016	December 31, 2015
Constant prepayment rate		
Effect on fair value of a 10% adverse change	$(5,395)	$ (5,337)
Effect on fair value of a 20% adverse change	$(10,356)	$ (10,283)
Discount rate		
Effect on fair value of a 100 basis point adverse change	$(4,189)	$ (4,936)
Effect on fair value of a 200 basis point adverse change	$(8,067)	$ (9,494)

The sensitivity analysis presents the hypothetical effect on fair value of the MSR. The effect of such hypothetical change in assumptions generally cannot be extrapolated because the relationship of the change in an assumption to the change in fair value is not linear. Additionally, in the analysis, the impact of an adverse change in one assumption is calculated independent of any impact on other assumptions. In reality, changes in one assumption may change another assumption.

Table of Contents

Note 7 – Junior Subordinated Debentures

Following is information about the Company's wholly-owned trusts ("Trusts") as of March 31, 2016:

(dollars in thousands) Trust Name	Issue Date	Issued Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date
AT FAIR VALUE:						
Umpqua Statutory Trust II	October 2002	$20,619	$15,514	Floating rate, LIBOR plus 3.35%, adjusted quarterly	5.27%	October 2032
Umpqua Statutory Trust III	October 2002	30,928	23,443	Floating rate, LIBOR plus 3.45%, adjusted quarterly	5.37%	November 2032
Umpqua Statutory Trust IV	December 2003	10,310	7,369	Floating rate, LIBOR plus 2.85%, adjusted quarterly	4.86%	January 2034
Umpqua Statutory Trust V	December 2003	10,310	7,333	Floating rate, LIBOR plus 2.85%, adjusted quarterly	4.91%	March 2034
Umpqua Master Trust I	August 2007	41,238	24,465	Floating rate, LIBOR plus 1.35%, adjusted quarterly	3.34%	September 2037
Umpqua Master Trust IB	September 2007	20,619	14,139	Floating rate, LIBOR plus 2.75%, adjusted quarterly	4.93%	December 2037
Sterling Capital Trust III	April 2003	14,433	11,363	Floating rate, LIBOR plus 3.25%, adjusted quarterly	4.91%	April 2033
Sterling Capital Trust IV	May 2003	10,310	8,031	Floating rate, LIBOR plus 3.15%, adjusted quarterly	4.84%	May 2033
Sterling Capital Statutory Trust V	May 2003	20,619	16,106	Floating rate, LIBOR plus 3.25%, adjusted quarterly	4.97%	June 2033
Sterling Capital Trust VI	June 2003	10,310	8,004	Floating rate, LIBOR plus 3.20%, adjusted quarterly	4.94%	September 2033
Sterling Capital Trust VII	June 2006	56,702	34,815	Floating rate, LIBOR plus 1.53%, adjusted quarterly	3.52%	June 2036
Sterling Capital Trust VIII						