UMPQUA HOLDINGS CORP
Form 10-Q
November 07, 2014

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: September 30, 2014
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: 217,263,879 shares outstanding as of October 31, 2014

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

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $266,624 | $178,685 |
| Interest bearing deposits and temporary investments (restricted cash of $34,976 and $13,384) | 1,177,086 | 611,738 |
| Total cash and cash equivalents | 1,443,710 | 790,423 |
| Investment securities | | |
| Trading, at fair value | 9,727 | 5,958 |
| Available for sale, at fair value | 2,400,061 | 1,790,978 |
| Held to maturity, at amortized cost | 5,356 | 5,563 |
| Loans held for sale ($265,800 and $104,664 at fair value) | 265,800 | 104,664 |
| Non-covered loans and leases | 14,975,811 | 7,354,403 |
| Allowance for non-covered loan and lease losses | (107,807) | (85,314) |
| Net non-covered loans and leases | 14,868,004 | 7,269,089 |
| Covered loans, net of allowance of $7,828 and $9,771 | 275,562 | 363,992 |
| Restricted equity securities | 120,759 | 30,685 |
| Premises and equipment, net | 314,364 | 177,680 |
| Goodwill | 1,785,407 | 764,305 |
| Other intangible assets, net | 59,835 | 12,378 |
| Residential mortgage servicing rights, at fair value | 118,725 | 47,765 |
| Non-covered other real estate owned | 31,753 | 21,833 |
| Covered other real estate owned | 2,703 | 2,102 |
| FDIC indemnification asset | 7,811 | 23,174 |
| Bank owned life insurance | 293,511 | 96,938 |
| Deferred tax asset, net | 250,910 | 16,627 |
| Other assets | 234,061 | 111,958 |
| Total assets | $22,488,059 | $11,636,112 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Noninterest bearing | $4,741,897 | $2,436,477 |
| Interest bearing | 11,985,713 | 6,681,183 |
| Total deposits | 16,727,610 | 9,117,660 |
| Securities sold under agreements to repurchase | 339,367 | 224,882 |
| Term debt | 1,057,140 | 251,494 |
| Junior subordinated debentures, at fair value | 247,528 | 87,274 |
| Junior subordinated debentures, at amortized cost | 101,657 | 101,899 |
| Other liabilities | 262,249 | 125,477 |
| Total liabilities | 18,735,551 | 9,908,686 |
| COMMITMENTS AND CONTINGENCIES (NOTE 10) | | |
| SHAREHOLDERS' EQUITY | | |
| | 3,515,621 | 1,514,485 |

| | | |
|---|---|---|
| Common stock, no par value, shares authorized: 400,000,000 in 2014 and 200,000,000 in 2013; issued and outstanding: 217,261,722 in 2014 and 111,973,203 in 2013 | | |
| Retained earnings | 230,302 | 217,917 |
| Accumulated other comprehensive income (loss) | 6,585 | (4,976) |
| Total shareholders' equity | 3,752,508 | 1,727,426 |
| Total liabilities and shareholders' equity | $22,488,059 | $11,636,112 |

See notes to condensed consolidated financial statements

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

| (in thousands, except per share amounts) | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| INTEREST INCOME | | | | |
| Interest and fees on non-covered loans and leases | $215,197 | $93,706 | $499,526 | $250,685 |
| Interest and fees on covered loans and leases | 8,775 | 11,837 | 37,424 | 41,167 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 12,136 | 7,882 | 34,155 | 24,629 |
| Exempt from federal income tax | 2,790 | 2,200 | 7,599 | 6,725 |
| Dividends | 81 | 51 | 259 | 165 |
| Interest on temporary investments and interest bearing deposits | 544 | 284 | 1,407 | 937 |
| Total interest income | 239,523 | 115,960 | 580,370 | 324,308 |
| INTEREST EXPENSE | | | | |
| Interest on deposits | 6,773 | 4,845 | 16,696 | 16,587 |
| Interest on securities sold under agreement to repurchase | 54 | 35 | 298 | 99 |
| Interest on term debt | 3,586 | 2,338 | 9,223 | 6,916 |
| Interest on junior subordinated debentures | 3,394 | 1,933 | 8,340 | 5,815 |
| Total interest expense | 13,807 | 9,151 | 34,557 | 29,417 |
| Net interest income | 225,716 | 106,809 | 545,813 | 294,891 |
| PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES | 14,431 | 3,008 | 35,230 | 12,989 |
| RECAPTURE OF PROVISION FOR COVERED LOAN LOSSES | (98) | (1,904) | (230) | (4,744) |
| Net interest income after provision for loan and lease losses | 211,383 | 105,705 | 510,813 | 286,646 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposit accounts | 16,090 | 8,374 | 39,228 | 22,844 |
| Brokerage commissions and fees | 4,882 | 3,854 | 13,173 | 11,152 |
| Residential mortgage banking revenue, net | 25,996 | 15,071 | 60,776 | 62,928 |
| Gain on investment securities, net | 902 | 3 | 1,878 | 18 |
| Loss on junior subordinated debentures carried at fair value | (1,590) | (554) | (3,501) | (1,643) |
| Change in FDIC indemnification asset | (2,728) | (6,474) | (13,169) | (19,841) |
| BOLI income | 2,161 | 763 | 4,864 | 2,432 |
| Other income | 16,211 | 5,107 | 26,211 | 16,766 |
| Total non-interest income | 61,924 | 26,144 | 129,460 | 94,656 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 102,564 | 53,699 | 251,340 | 157,271 |
| Net occupancy and equipment | 33,029 | 16,019 | 78,276 | 45,813 |
| Communications | 3,932 | 2,772 | 11,000 | 8,802 |
| Marketing | 2,739 | 1,596 | 4,901 | 3,753 |
| Services | 14,619 | 6,445 | 33,010 | 18,339 |
| FDIC assessments | 3,038 | 1,709 | 7,476 | 5,032 |
| Net loss (gain) on non-covered other real estate owned | 271 | (27) | 431 | (303) |
| Net loss (gain) on covered other real estate owned | 42 | (68) | 76 | 154 |
| Intangible amortization | 3,103 | 1,186 | 7,105 | 3,595 |

| | | | | |
|---|---|---|---|---|
| Merger related expenses | 8,632 | 4,856 | 72,146 | 7,197 |
| Other expenses | 10,589 | 7,417 | 27,446 | 19,644 |
| Total non-interest expense | 182,558 | 95,604 | 493,207 | 269,297 |
| Income before provision for income taxes | 90,749 | 36,245 | 147,066 | 112,005 |
| Provision for income taxes | 31,760 | 12,768 | 52,092 | 38,914 |
| Net income | $58,989 | $23,477 | $94,974 | $73,091 |

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

| (in thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $58,989 | $23,477 | $94,974 | $73,091 |
| Dividends and undistributed earnings allocated to participating securities | 142 | 196 | 338 | 576 |
| Net earnings available to common shareholders | $58,847 | $23,281 | $94,636 | $72,515 |
| Earnings per common share: | | | | |
| Basic | $0.27 | $0.21 | $0.54 | $0.65 |
| Diluted | $0.27 | $0.21 | $0.54 | $0.65 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 217,245 | 111,912 | 175,627 | 111,934 |
| Diluted | 218,941 | 112,195 | 176,656 | 112,154 |

See notes to condensed consolidated financial statements

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

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $58,989 | $23,477 | $94,974 | $73,091 |
| Available for sale securities: | | | | |
| Unrealized gains (losses) arising during the period | (8,862) | 5,878 | 21,052 | (35,342) |
| Reclassification adjustment for net gains realized in earnings (net of tax expense of $361 and $1 for the three months ended September 30, 2014 and 2013, respectively, and net of tax expense of $751 and $7 for the nine months ended September 30, 2014 and 2013, respectively) | (542) | (2) | (1,127) | (11) |
| Income tax (expense) benefit related to unrealized gains (losses) | 3,545 | (2,351) | (8,421) | 14,137 |
| Net change in unrealized gains (losses) | (5,859) | 3,525 | 11,504 | (21,216) |
| Held to maturity securities: | | | | |
| Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $0 and $7 for the three months ended September 30, 2014 and 2013, respectively, and net of tax benefit of $37 and $29 for the nine months ended September 30, 2014 and 2013, respectively) | — | 11 | 57 | 43 |
| Net change in unrealized losses related to factors other than credit | — | 11 | 57 | 43 |
| Other comprehensive income (loss), net of tax | (5,859) | 3,536 | 11,561 | (21,173) |
| Comprehensive income | $53,130 | $27,013 | $106,535 | $51,918 |

See notes to condensed consolidated financial statements

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

| (in thousands, except shares) | Common Stock Shares | Amount | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| BALANCE AT JANUARY 1, 2013 | 111,889,959 | $1,512,400 | $187,293 | $24,346 | $1,724,039 |
| Net income | | | 98,361 | | 98,361 |
| Other comprehensive loss, net of tax | | | | (29,322) | (29,322) |
| Comprehensive income | | | | | $69,039 |
| Stock-based compensation | | 5,017 | | | 5,017 |
| Stock repurchased and retired | (584,677) | (9,360) | | | (9,360) |
| Issuances of common stock under stock plans and related net tax benefit | 667,921 | 6,428 | | | 6,428 |
| Cash dividends on common stock ($0.60 per share) | | | (67,737) | | (67,737) |
| Balance at December 31, 2013 | 111,973,203 | $1,514,485 | $217,917 | $(4,976) | $1,727,426 |
| | | | | | |
| BALANCE AT JANUARY 1, 2014 | 111,973,203 | $1,514,485 | $217,917 | $(4,976) | $1,727,426 |
| Net income | | | 94,974 | | 94,974 |
| Other comprehensive income, net of tax | | | | 11,561 | 11,561 |
| Comprehensive income | | | | | $106,535 |
| Stock issued in connection with merger (1) | 104,385,087 | 1,989,030 | | | 1,989,030 |
| Stock-based compensation | | 11,597 | | | 11,597 |
| Stock repurchased and retired | (397,132) | (7,062) | | | (7,062) |
| Issuances of common stock under stock plans and related net tax benefit | 1,300,564 | 7,571 | | | 7,571 |
| Cash dividends on common stock ($0.45 per share) | | | (82,589) | | (82,589) |
| Balance at September 30, 2014 | 217,261,722 | $3,515,621 | $230,302 | $6,585 | $3,752,508 |

(1) The amount of common stock issued in connection with the merger is net of $784,000 of issuance costs.

See notes to condensed consolidated financial statements

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

| (in thousands) | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $94,974 | $73,091 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of investment premiums, net | 15,320 | 27,984 |
| Gain on sale of investment securities, net | (1,878) | (18) |
| Loss (gain) on sale of non-covered other real estate owned | 267 | (751) |
| Loss (gain) on sale of covered other real estate owned | 34 | (549) |
| Valuation adjustment on non-covered other real estate owned | 164 | 448 |
| Valuation adjustment on covered other real estate owned | 42 | 703 |
| Provision for non-covered loan and lease losses | 35,230 | 12,989 |
| Recapture of provision for covered loan losses | (230) | (4,744) |
| Proceeds from bank owned life insurance | 681 | 1,173 |
| Change in cash surrender value of bank owned life insurance | (4,008) | (3,618) |
| Change in FDIC indemnification asset | 13,169 | 19,841 |
| Depreciation, amortization and accretion | 24,498 | 13,292 |
| Increase in residential mortgage servicing rights | (16,583) | (15,182) |
| Change in residential mortgage servicing rights carried at fair value | 8,393 | 757 |
| Change in junior subordinated debentures carried at fair value | 4,082 | 1,637 |
| Stock-based compensation | 11,597 | 3,531 |
| Net decrease (increase) in trading account assets | 724 | (265) |
| Gain on sale of loans | (63,729) | (52,899) |
| Change in loans held for sale carried at fair value | (6,894) | 11,099 |
| Origination of loans held for sale | (1,577,920) | (1,368,902) |
| Proceeds from sales of loans held for sale | 1,692,936 | 1,614,097 |
| Excess tax benefits from the exercise of stock options | (2,046) | (40) |
| Change in other assets and liabilities: | | |
| Net decrease in other assets | 19,949 | 37,625 |
| Net increase (decrease) in other liabilities | 23,203 | (11,983) |
| Net cash provided by operating activities | 271,975 | 359,316 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investment securities available for sale | (346,844) | (51,191) |
| Purchases of investment securities held to maturity | — | (2,126) |
| Proceeds from investment securities available for sale | 1,116,539 | 702,910 |
| Proceeds from investment securities held to maturity | 566 | 1,073 |
| Redemption of restricted equity securities | 4,190 | 1,999 |
| Net non-covered loan and lease originations | (867,149) | (352,390) |
| Net covered loan paydowns | 77,358 | 68,819 |
| Proceeds from sales of non-covered loans | 284,274 | 60,298 |
| Proceeds from insurance settlement on loss of property | — | 575 |
| Proceeds from disposals of furniture and equipment | 1,923 | 330 |
| Purchases of premises and equipment | (43,761) | (25,575) |
| Net (payments to) proceeds from FDIC indemnification asset | (2,359) | 4,621 |
| Proceeds from sales of non-covered other real estate owned | 10,626 | 13,940 |

| | | |
|---|---|---|
| Proceeds from sales of covered other real estate owned | 1,142 | 9,794 |
| Net cash paid in branch divestiture | (127,557) | — |
| Cash acquired in merger, net of cash consideration paid | 116,867 | (149,658) |
| Net cash provided by investing activities | $225,815 | $283,419 |

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

| (in thousands) | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase (decrease) in deposit liabilities | $739,173 | $(311,708) |
| Net (decrease) increase in securities sold under agreements to repurchase | (470,261) | 78,235 |
| Repayment of term debt | (47,003) | (211,204) |
| Repayment of junior subordinated debentures | — | (8,764) |
| Dividends paid on common stock | (66,557) | (33,837) |
| Excess tax benefits from stock based compensation | 2,046 | 40 |
| Proceeds from stock options exercised | 5,161 | 2,511 |
| Retirement of common stock | (7,062) | (4,704) |
| Net cash provided (used by) financing activities | 155,497 | (489,431) |
| Net increase in cash and cash equivalents | 653,287 | 153,304 |
| Cash and cash equivalents, beginning of period | 790,423 | 543,787 |
| Cash and cash equivalents, end of period | $1,443,710 | $697,091 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | $38,955 | $32,419 |
| Income taxes | $6,622 | $27,711 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Change in unrealized gains (losses) on investment securities available for sale, net of taxes | $11,504 | $(21,216) |
| Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes | $57 | $43 |
| Cash dividend declared on common stock and payable after period-end | $32,684 | $16,930 |
| Transfer of non-covered loans to non-covered other real estate owned | $12,271 | $14,747 |
| Transfer of covered loans to covered other real estate owned | $1,818 | $2,554 |
| Transfer of covered loans to non-covered loans | $9,484 | $13,366 |
| Transfer from FDIC indemnification asset to due from FDIC and other | $2,194 | $3,530 |
| Acquisitions: | | |
| Assets acquired, including goodwill of $1,021,102 | $9,876,718 | $376,071 |
| Liabilities assumed | $8,765,353 | $219,961 |

See notes to condensed consolidated financial statements

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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 2013 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 2013 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.

In preparing these condensed consolidated financial statements, the Company has evaluated events and transactions subsequent to September 30, 2014 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.

Note 2 – Business Combinations

Sterling Financial Corporation
As of the close of business on April 18, 2014, the Company completed its merger with Sterling Financial Corporation, a Washington corporation ("Sterling"). The results of Sterling's operations are included in the Company's financial results beginning April 19, 2014 and the combined company's banking operations are operating under the Umpqua Bank name and brand.

The structure of the transaction was as follows:

- Sterling merged with and into the Company (the "Merger" or the "Sterling Merger") with the Company as the surviving corporation in the Merger;
- Immediately following the Merger, Sterling's wholly owned banking subsidiary, Sterling Savings Bank merged with and into the Bank (the "Bank Merger"), with the Bank as the surviving bank in the Bank Merger;
- Holders of shares of common stock of Sterling had the right to receive 1.671 shares of the Company's common stock and $2.18 in cash for each share of Sterling common stock;
- Each outstanding warrant issued by Sterling converted into a warrant exercisable for 1.671 shares of the Company's common stock and $2.18 in cash for each warrant when exercised;
- Each outstanding option to purchase a share of Sterling common stock converted into an option to purchase 1.7896 shares of Company's common stock, subject to vesting conditions; and
- Each outstanding restricted stock unit in respect of Sterling common stock converted into a restricted stock unit in respect of 1.7896 shares the Company common stock, subject to vesting conditions.

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A summary of the consideration paid, the assets acquired and liabilities assumed in the Merger are presented below:
(in thousands)

| | Sterling<br>April 18, 2014 | |
|---|---|---|
| Fair value of consideration to Sterling shareholders: | | |
| Cash paid | | $136,200 |
| Liability recorded for warrants' cash payment per share | | 6,453 |
| Fair value of common shares issued | | 1,939,497 |
| Fair value of warrants, common stock options, and restricted stock exchanged | | 50,317 |
| Total consideration | | 2,132,467 |
| Fair value of assets acquired: | | |
| Cash and cash equivalents | $253,067 | |
| Investment securities | 1,378,300 | |
| Loans held for sale | 214,911 | |
| Non-covered loans and leases | 7,123,168 | |
| Premises and equipment | 116,581 | |
| Residential mortgage servicing rights | 62,770 | |
| Other intangible assets | 54,562 | |
| Non-covered other real estate owned | 8,915 | |
| Bank owned life insurance | 193,246 | |
| Deferred tax asset | 299,627 | |
| Accrued interest receivable | 23,553 | |
| Other assets | 148,018 | |
| Total assets acquired | 9,876,718 | |
| Fair value of liabilities assumed: | | |
| Deposits | 7,086,052 | |
| Securities sold under agreements to repurchase | 584,746 | |
| Term debt | 854,737 | |
| Junior subordinated debentures | 156,171 | |
| Other liabilities | 83,647 | |
| Total liabilities assumed | $8,765,353 | |
| Net assets acquired | | 1,111,365 |
| Preliminary goodwill | | $1,021,102 |

Amounts recorded are preliminary estimates of fair value. During the third quarter of 2014, goodwill increased primarily due to revised estimates of fair value for premises and equipment, as well as the deferred tax asset. The primary reason for the Merger was to continue the Company's growth strategy, including expanding our geographic footprint in markets throughout the West Coast. All of the goodwill recorded has been attributed to the Community Banking segment and reporting unit. None of the goodwill will be deductible for income tax purposes.

Subsequent to acquisition, the Company repaid securities sold under agreements to repurchase acquired of $500.0 million, funded through the sale of acquired investment securities in the second quarter of 2014. On June 20, 2014, the Company completed the required divestiture of six stores acquired in the Merger to another financial institution. The divestiture of the six stores included $211.5 million of deposits and $88.3 million of loans. The assets were sold at a discount of $7.0 million, which was recorded by Sterling prior to the Merger.

As of April 18, 2014, the unpaid principal balance on purchased non-impaired loans was $7.0 billion. The fair value of the purchased non-impaired loans was $6.7 billion, resulting in a discount of $230.5 million being recorded on these loans.

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The following table presents the acquired purchased impaired loans as of the acquisition date:

| (in thousands) | Purchased impaired |
|---|---|
| Contractually required principal payments | $604,136 |
| Nonaccretable difference | (95,614) |
| Cash flows expected to be collected | 508,522 |
| Accretable yield | (110,757) |
| Fair value of purchased non-covered impaired loans | $397,765 |

The operations of Sterling are included in our operating results beginning on April 19, 2014, and contributed the following net interest income, provision for loan losses, non-interest income and expense, income tax benefit, and net income for the three and nine months ended September 30, 2014.

| (in thousands) | Sterling Stand-alone Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
|---|---|---|
| Net interest income | $119,569 | $220,823 |
| Provision for loan losses | 9,688 | 17,423 |
| Non-interest income | 34,192 | 56,494 |
| Non-interest expense, excluding merger expense | 78,239 | 143,371 |
| Merger related expense | 8,632 | 66,163 |
| Income tax provision | 20,495 | 19,394 |
| Net income | $36,707 | $30,966 |

The following table provides a breakout of Merger related expense for the three and nine months ended September 30, 2014.

| (in thousands) | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
|---|---|---|
| Personnel | $1,251 | $16,739 |
| Legal and professional | 4,873 | 18,797 |
| Charitable contributions | — | 10,000 |
| Investment banking fees | — | 9,573 |
| Contract termination | 896 | 9,749 |
| Communication | 53 | 2,064 |
| Other | 1,559 | 5,224 |
| Total Merger related expense | $8,632 | $72,146 |

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The following table presents unaudited pro forma results of operations for the three and nine months ended September 30, 2014 and 2013, as if the Sterling Merger had occurred on January 1, 2013. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2013. The pro forma results include the impact of certain purchase accounting adjustments including accretion of loan discount, intangible assets amortization and deposit and borrowing premium accretion. These purchase accounting adjustments increased pro forma net income by $5.3 million and $12.5 million for the three months ended September 30, 2014 and 2013, respectively, and $77.3 million and $6.2 million for the nine months ended September 30, 2014 and 2013, respectively.

(in thousands, except per share data)

| | Pro Forma | | | | |
|---|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | | |
| | 2014 | 2013 | 2014 | 2013 | |
| Net interest income | $225,716 | $223,203 | $684,528 | $651,484 | (1), (2) |
| Provision for non-covered loan and lease losses | 14,431 | 3,008 | 35,230 | 12,989 | |
| Recapture of provision for covered loan losses | (98) | (1,904) | (230) | (4,744) | |
| Non-interest income | 61,924 | 53,567 | 155,722 | 192,285 | (3), (4), (5) |
| Non-interest expense | 173,926 | 191,159 | 523,805 | 611,075 | (6), (7) |
| Income before provision for income taxes | 99,381 | 84,507 | 281,445 | 224,449 | |
| Provision for income taxes | 35,083 | 28,625 | 103,810 | 73,678 | |
| Net income | 64,298 | 55,882 | 177,635 | 150,771 | |
| Dividends and undistributed earnings allocated to participating securities | 142 | 196 | 338 | 576 | |
| Net earnings available to common shareholders | $64,156 | $55,686 | $177,297 | $150,195 | |
| Earnings per share: | | | | | |
| Basic | $0.30 | $0.26 | $0.82 | $0.70 | |
| Diluted | $0.29 | $0.25 | $0.81 | $0.69 | |
| Average shares outstanding: | | | | | |
| Basic | 217,245 | 216,031 | 216,884 | 216,005 | |
| Diluted | 218,941 | 218,559 | 218,801 | 218,470 | |

(1) Includes $29.4 million of incremental loan discount accretion for the three months ended September 30, 2013, and $31.9 million and $99.2 million for the nine months ended September 30, 2014 and 2013, respectively.
(2) Includes a reduction of interest expense of $5.4 million related to deposit and borrowing premiums amortization for the three months ended September 30, 2013, and $5.9 million and $16.9 million for the nine months ended September 30, 2014 and 2013, respectively.
(3) Includes a reduction of service charges on deposit of $1.4 million as a result of passing the $10 billion asset threshold for the three months ended September 30, 2013, and $1.7 million and $4.3 million for the nine months ended September 30, 2014 and 2013, respectively.
(4) Includes a loss on junior subordinated debentures carried at fair value of $966,000 for the three months ended September 30, 2013, and $1.1 million and $2.9 million for nine months ended September 30, 2014 and 2013, respectively.
(5) The nine months ended September 30, 2014 includes the reversal of the $7.0 million loss on the required divestiture of six Sterling stores in connection with the Merger.
(6) Includes $2.0 million of incremental core deposit intangible amortization for the three months ended September 30, 2013, and $2.1 million and $6.0 million for the nine months ended September 30, 2014 and 2013, respectively.

(7) The three and nine months ended September 30, 2014 were adjusted to exclude $8.6 million and $88.0 million of merger expenses, respectively, the three and nine months ended September 30, 2013 were adjusted to include these charges.

Financial Pacific Holding Corp.
On July 1, 2013, the Bank acquired Financial Pacific Holding Corp. ("FPHC") based in Federal Way, Washington, and its subsidiary, Financial Pacific Leasing, Inc. ("FinPac Leasing"), and its subsidiaries, Financial Pacific Funding, Inc. ("FPF"), Financial Pacific Funding II, Inc. ("FPF II") and Financial Pacific Funding III, Inc. ("FPF III"). As part of the same transaction,

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the Company acquired two related entities, FPC Leasing Corporation ("FPC") and Financial Pacific Reinsurance Co., Ltd. ("FPR"). FPHC, FinPac Leasing, FPF, FPF II, FPF III, FPC and FPR are collectively referred to herein as "FinPac." FinPac provides business-essential commercial equipment leases to various industries throughout the United States and Canada. It originates leases through its brokers, lessors, and direct marketing programs. The results of FinPac's operations are included in the consolidated financial statements as of July 1, 2013.

The aggregate consideration for the FinPac purchase was $158.0 million. Of that amount, $156.1 million was distributed in cash, and $1.9 million was exchanged for restricted shares of the Company's common stock. The restricted shares were issued from the Company's 2013 Incentive Plan pursuant to employment agreements between the Company and certain executives of FinPac, vest over a period of either two or three years, and will be recognized over that time period within the salaries and employee benefits line item on the Consolidated Statements of Income. The structure of the transaction was as follows:

- The Bank acquired all of the outstanding stock of FPHC, a shell holding company, which was the sole shareholder of FinPac Leasing, the primary operating subsidiary of FinPac that engages in equipment leasing and financing activities. FinPac Leasing was also the sole shareholder of FPF, FPF II and FPF III, which are bankruptcy-remote entities that formerly served as lien holder for certain leases. FPF, FPF II and FPF III had no assets and have been dissolved. With the dissolution of FPHC, the Bank holds all of the outstanding stock of FinPac Leasing.
- The Company acquired all of the outstanding stock of FPC, a Canadian leasing subsidiary, and FPR, a corporation organized in the Turks & Caicos Islands that reinsures a portion of the liability risk of each insurance policy that is issued by a third party insurance company on leased equipment when the lessee fails to meet its contractual obligations under the lease or financing agreement to obtain insurance on the leased equipment.

A summary of consideration paid, and the assets acquired and liabilities assumed at their fair values, in the acquisition of FinPac are presented below.
(in thousands)

| | FinPac<br>July 1, 2013 | |
|---|---|---|
| Fair value of consideration: | | |
| Cash | | $156,110 |
| Fair value of assets acquired: | | |
| Cash and equivalents | $6,452 | |
| Non-covered loans and leases, net | 264,336 | |
| Premises and equipment | 491 | |
| Other assets | 8,015 | |
| Total assets acquired | 279,294 | |
| Fair value of liabilities assumed: | | |
| Term debt | 211,204 | |
| Other liabilities | 8,757 | |
| Total liabilities assumed | $219,961 | |
| Net assets acquired | | 59,333 |
| Goodwill | | $96,777 |

The acquisition provides diversification, and a scalable platform that is consistent with expansion initiatives that the Bank has completed over the last three years, including growth in the business banking, agricultural lending and home builder lending groups. The transaction leverages excess capital of the Company and deploys excess liquidity into significantly higher yielding assets, provides growth and diversification, and is anticipated to increase profitability. There is no tax deductible goodwill or other intangibles.

The operations of FinPac are included in our operating results from July 1, 2013, and added revenue of $17.2 million, non-interest expense of $4.2 million, and net income of $4.6 million net of tax, for the three months ended September 30, 2014. For the nine months ended September 30, 2014, FinPac added revenue of $49.5 million, non-interest expense of $12.1 million, and net income of $12.8 million, net of tax. FinPac's results of operations prior to the acquisition are not included in our operating

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results. There are no FinPac merger related expenses for the three and nine months ended September 30, 2014. FinPac merger related expenses were $629,000 and $1.4 million for the three and nine months ended September 30, 2013.

Non-covered leases acquired from FinPac are presented below as of acquisition date:

| (in thousands) | FinPac July 1, 2013 |
|---|---|
| Contractually required payments | $350,403 |
| Purchase adjustment for credit | $(20,520) |
| Balance of non-covered impaired leases, net | $264,336 |

The following table presents unaudited pro forma results of operations for the three and nine months ended September 30, 2013 as if the acquisition of FinPac had occurred on January 1, 2013. The proforma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2013. The pro forma results include the impact of certain purchase accounting adjustments which reduced pro forma earnings available to common shareholders by $1.4 million and $2.7 million for the three and nine months ended September 30, 2013, respectively.

| (in thousands, except per share data) | Pro Forma | |
|---|---|---|
| | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
| Net interest income | $105,688 | $318,904 |
| Provision for non-covered loan and lease losses | 4,532 | 20,826 |
| Recapture of provision for covered loan losses | (1,904) | (4,744) |
| Non-interest income | 26,144 | 95,968 |
| Non-interest expense | 95,130 | 275,783 |
| Income before provision for income taxes | 34,074 | 123,007 |
| Provision for income taxes | 11,900 | 43,039 |
| Net income | 22,174 | 79,968 |
| Dividends and undistributed earnings allocated to participating securities | 248 | 686 |
| Net earnings available to common shareholders | $21,926 | $79,282 |
| Earnings per share: | | |
| Basic | $0.20 | $0.71 |
| Diluted | $0.20 | $0.71 |
| Average shares outstanding: | | |
| Basic | 111,912 | 111,934 |
| Diluted | 112,195 | 112,154 |

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Note 3 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| AVAILABLE FOR SALE: | | | | |
| U.S. Treasury and agencies | $214 | $16 | $— | $230 |
| Obligations of states and political subdivisions | 327,857 | 13,763 | (374) | 341,246 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,059,267 | 15,657 | (18,392) | 2,056,532 |
| Investments in mutual funds and other equity securities | 2,016 | 37 | — | 2,053 |
| | $2,389,354 | $29,473 | $(18,766) | $2,400,061 |
| HELD TO MATURITY: | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $5,223 | $353 | $(17) | $5,559 |
| Other investment securities | 133 | — | — | 133 |
| | $5,356 | $353 | $(17) | $5,692 |

| (in thousands) | December 31, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| AVAILABLE FOR SALE: | | | | |
| U.S. Treasury and agencies | $249 | $20 | $(1) | $268 |
| Obligations of states and political subdivisions | 229,969 | 7,811 | (2,575) | 235,205 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,567,001 | 15,359 | (28,819) | 1,553,541 |
| Investments in mutual funds and other equity securities | 1,959 | 5 | — | 1,964 |
| | $1,799,178 | $23,195 | $(31,395) | $1,790,978 |
| HELD TO MATURITY: | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $5,563 | $330 | $(19) | $5,874 |
| | $5,563 | $330 | $(19) | $5,874 |

Investment securities that were in an unrealized loss position as of September 30, 2014 and December 31, 2013 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.

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| September 30, 2014 (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 | $— | $— | $12,184 | $374 | $12,184 | $374 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 390,787 | 2,626 | 519,115 | 15,766 | 909,902 | 18,392 |
| Total temporarily impaired securities | $390,787 | $2,626 | $531,299 | $16,140 | $922,086 | $18,766 |
| HELD TO MATURITY: | | | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $2,283 | $17 | $— | $— | $2,283 | $17 |
| Total temporarily impaired securities | $2,283 | $17 | $— | $— | $2,283 | $17 |

Unrealized losses on the impaired held to maturity collateralized mortgage obligations include the unrealized losses related to factors other than credit that are included in other comprehensive income.

| December 31, 2013 (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: | | | | | | |
| U.S. Treasury and agencies | $— | $— | $32 | $1 | $32 | $1 |
| Obligations of states and political subdivisions | 48,342 | 2,575 | — | — | 48,342 | 2,575 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 475,982 | 15,951 | 249,695 | 12,868 | 725,677 | 28,819 |
| Total temporarily impaired securities | $524,324 | $18,526 | $249,727 | $12,869 | $774,051 | $31,395 |
| HELD TO MATURITY: | | | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $156 | $19 | $— | $— | $156 | $19 |
| Total temporarily impaired securities | $156 | $19 | $— | $— | $156 | $19 |

The unrealized losses on investments in U.S. Treasury and agency securities were caused by interest rate increases subsequent to the purchase of these securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. 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, the unrealized losses on these investments are not considered other-than-temporarily impaired ("OTTI").

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 published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of September 30, 2014. 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 OTTI.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at September 30, 2014 are issued or guaranteed by governmental agencies. 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 not be settled at a price less than 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

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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 OTTI.

The following table presents the maturities of investment securities at September 30, 2014:

| (in thousands) | Available For Sale | | Held To Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| AMOUNTS MATURING IN: | | | | |
| Three months or less | $7,563 | $7,593 | $— | $— |
| Over three months through twelve months | 52,418 | 53,214 | — | — |
| After one year through five years | 1,746,126 | 1,761,633 | 41 | 42 |
| After five years through ten years | 530,060 | 522,827 | 18 | 19 |
| After ten years | 51,171 | 52,741 | 5,163 | 5,497 |
| Other investment securities | 2,016 | 2,053 | 134 | 134 |
| | $2,389,354 | $2,400,061 | $5,356 | $5,692 |

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 gross realized losses on the sale of securities available for sale for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2014 | | September 30, 2013 | |
| | Gains | Losses | Gains | Losses |
| Obligations of states and political subdivisions | $— | $— | $3 | $— |
| Residential mortgage-backed securities and collateralized mortgage obligations | 902 | — | — | — |
| Other debt securities | — | — | — | — |
| | $902 | $— | $3 | $— |
| | Nine Months Ended | | | |
| | September 30, 2014 | | September 30, 2013 | |
| | Gains | Losses | Gains | Losses |
| Obligations of states and political subdivisions | $3 | $1 | $10 | $1 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,876 | — | — | — |
| Other debt securities | — | — | 9 | — |
| | $1,879 | $1 | $19 | $1 |

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The following table presents, as of September 30, 2014, 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 | $7,526 | $7,842 |
| To state and local governments to secure public deposits | 1,627,608 | 1,634,162 |
| Other securities pledged principally to secure repurchase agreements | 498,315 | 497,031 |
| Total pledged securities | $2,133,449 | $2,139,035 |

Note 4 – Non-Covered Loans and Leases

The following table presents the major types of non-covered loans and leases, net as of September 30, 2014 and December 31, 2013, respectively:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Commercial real estate | | |
| Non-owner occupied term, net | $3,273,932 | $2,328,260 |
| Owner occupied term, net | 2,636,951 | 1,259,583 |
| Multifamily, net | 2,536,710 | 403,537 |
| Construction & development, net | 245,457 | 245,231 |
| Residential development, net | 73,781 | 88,413 |
| Commercial | | |
| Term, net | 1,110,028 | 770,845 |
| LOC & other, net | 1,338,821 | 987,360 |
| Leases and equipment finance, net | 492,221 | 361,591 |
| Residential | | |
| Mortgage, net | 2,085,266 | 597,201 |
| Home equity loans & lines, net | 818,765 | 264,269 |
| Consumer & other, net | 363,879 | 48,113 |
| Total loans and leases, net of deferred fees and costs | $14,975,811 | $7,354,403 |

The non-covered loan balances are net of net deferred loan costs of $20.2 million as of September 30, 2014 and net of net deferred loan fees of $495,000 at December 31, 2013. Net non-covered loans include discounts on acquired loans of $244.2 million and $3.3 million as of September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014, non-covered loans totaling $8.1 billion were pledged to secure borrowings and available lines of credit.

Purchased loans and leases are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased impaired or purchased non-impaired. Purchased impaired loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The outstanding contractual unpaid principal balance of non-covered purchased impaired loans, excluding purchase accounting adjustments, was $519.8 million and $35.1 million at September 30, 2014 and December 31, 2013, respectively. The carrying balance of non-covered purchased impaired loans was $367.1 million and $21.9 million at September 30, 2014 and December 31, 2013, respectively.

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The following table presents the changes in the accretable yield for purchased impaired loans for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, 2014 | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Balance, beginning of period | $105,505 | $170 | $1,140 | $770 |
| Additions | — | — | 110,757 | — |
| Accretion to interest income | (9,779) | (54) | (15,856) | (205) |
| Disposals | (4,111) | (222) | (4,426) | (671) |
| Reclassifications from nonaccretable difference | 2,794 | 1,334 | 2,794 | 1,334 |
| Balance, end of period | $94,409 | $1,228 | $94,409 | $1,228 |

Note 5 – Allowance for Non-Covered 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, 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, 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 with a specific allowance 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.

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The combination of the formula allowance component and the specific allowance component represents the allocated allowance for loan and lease losses.

Unallocated Allowance

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed quarterly based on trends in credit losses, the results of credit reviews, overall economic trends and other qualitative factors.

Management believes that the ALLL was adequate as of September 30, 2014. 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.

Activity in the Non-Covered Allowance for Loan and Lease Losses

The following table summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan and lease portfolio segment for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $51,958 | $32,587 | $11,403 | $2,047 | $97,995 |
| Charge-offs | (595) | (4,212) | (714) | (1,222) | (6,743) |
| Recoveries | 293 | 1,332 | 37 | 462 | 2,124 |
| Provision | 701 | 8,883 | 1,459 | 3,388 | 14,431 |
| Balance, end of period | $52,357 | $38,590 | $12,185 | $4,675 | $107,807 |

| | Three Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $55,249 | $21,587 | $8,250 | $750 | $85,836 |
| Charge-offs | (3,101) | (1,754) | (1,181) | (281) | (6,317) |
| Recoveries | 880 | 1,101 | 41 | 145 | 2,167 |
| Provision | 565 | 2,346 | (68) | 165 | 3,008 |
| Balance, end of period | $53,593 | $23,280 | $7,042 | $779 | $84,694 |

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| (in thousands) | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $53,433 | $24,191 | $6,827 | $863 | $85,314 |
| Charge-offs | (3,119) | (11,979) | (1,296) | (1,728) | (18,122) |
| Recoveries | 1,264 | 3,292 | 204 | 625 | 5,385 |
| Provision | 779 | 23,086 | 6,450 | 4,915 | 35,230 |
| Balance, end of period | $52,357 | $38,590 | $12,185 | $4,675 | $107,807 |

| | Nine Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $54,909 | $22,925 | $6,925 | $632 | $85,391 |
| Charge-offs | (6,595) | (9,541) | (2,813) | (697) | (19,646) |
| Recoveries | 2,830 | 2,554 | 221 | 355 | 5,960 |
| Provision | 2,449 | 7,342 | 2,709 | 489 | 12,989 |
| Balance, end of period | $53,593 | $23,280 | $7,042 | $779 | $84,694 |

The following table presents the allowance and recorded investment in non-covered loans and leases by portfolio segment as of September 30, 2014 and 2013:

| (in thousands) | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for non-covered loans and leases: | | | | | |
| Collectively evaluated for impairment | $51,201 | $38,577 | $12,185 | $4,675 | $106,638 |
| Individually evaluated for impairment | 1,156 | 13 | — | — | 1,169 |
| Loans acquired with deteriorated credit quality | — | — | — | — | — |
| Total | $52,357 | $38,590 | $12,185 | $4,675 | $107,807 |
| Non-covered loans and leases: | | | | | |
| Collectively evaluated for impairment | $8,388,428 | $2,891,941 | $2,858,947 | $363,031 | $14,502,347 |
| Individually evaluated for impairment | 85,804 | 20,445 | — | 128 | 106,377 |
| Loans acquired with deteriorated credit quality | 292,599 | 28,684 | 45,084 | 720 | 367,087 |
| Total | $8,766,831 | $2,941,070 | $2,904,031 | $363,879 | $14,975,811 |

| (in thousands) | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for non-covered loans and leases: | | | | | |
| Collectively evaluated for impairment | $52,199 | $23,270 | $7,042 | $779 | $83,290 |
| Individually evaluated for impairment | 1,394 | 10 | — | — | 1,404 |
| Total | $53,593 | $23,280 | $7,042 | $779 | $84,694 |
| Non-covered loans and leases: | | | | | |
| Collectively evaluated for impairment | $4,235,408 | $2,039,566 | $806,402 | $43,621 | $7,124,997 |
| Individually evaluated for impairment | 97,382 | 12,736 | — | — | 110,118 |
| Total | $4,332,790 | $2,052,302 | $806,402 | $43,621 | $7,235,115 |

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The non-covered loan and lease balances are net of net deferred loans costs of $20.2 million at September 30, 2014 and net of net deferred fees of $6.2 million at September 30, 2013.

Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the RUC and unfunded commitments for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $4,845 | $1,327 | $1,436 | $1,223 |
| Net change to other expense | (457) | 48 | (1,014) | 152 |
| Acquired reserve | — | — | 3,966 | — |
| Balance, end of period | $4,388 | $1,375 | $4,388 | $1,375 |

| (in thousands) | Total |
|---|---|
| Unfunded loan and lease commitments: | |
| September 30, 2014 | $2,949,211 |
| September 30, 2013 | $1,610,735 |

Non-covered 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 loans and leases sold by loan portfolio during the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Commercial real estate | | | | |
| Non-owner occupied term | $— | $4,927 | $14,799 | $7,777 |
| Owner occupied term | 22,884 | — | 71,128 | — |
| Multifamily | 35,306 | — | 60,508 | — |
| Construction & development | — | — | 566 | 3,515 |
| Residential development | — | — | 800 | 363 |
| Commercial | | | | |
| Term | 4,199 | 1,098 | 30,068 | 47,635 |
| LOC & other | 299 | — | 5,361 | — |
| Residential | | | | |
| Mortgage | 54,917 | 1,008 | 60,951 | 1,008 |
| Home equity loans & lines | — | — | 24,445 | — |
| Consumer & other | — | — | 7,344 | — |
| Total | $117,605 | $7,033 | $275,970 | $60,298 |

Asset Quality and Non-Performing Loans and Leases

We manage asset quality and control credit risk through diversification of the non-covered loan and lease portfolio and the application of policies designed to promote sound underwriting and loan and lease monitoring practices. The

Bank's Credit

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Quality Group 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 non-covered 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.

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

The following table summarizes our non-covered non-accrual loans and leases and loans and leases past due, by loan and lease class, as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greater than 30 to 59 Days Past Due | 60 to 89 Days Past Due | 90 Days and Greater and Accruing | Total Past Due | Non-Accrual | Current & Other (1) | Total non-cover Loans and Leases |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $2,290 | $6,180 | $225 | $8,695 | $ 15,675 | $3,249,562 | $3,273,932 |
| Owner occupied term, net | 1,874 | 5,706 | — | 7,580 | 3,555 | 2,625,816 | 2,636,951 |
| Multifamily, net | 422 | — | — | 422 | 1,311 | 2,534,977 | 2,536,710 |
| Construction & development, net | — | 1,204 | — | 1,204 | — | 244,253 | 245,457 |
| Residential development, net | 468 | — | — | 468 | — | 73,313 | 73,781 |
| Commercial | | | | | | | |
| Term, net | 961 | 944 | 17 | 1,922 | 17,051 | 1,091,055 | 1,110,028 |
| LOC & other, net | 950 | 2,672 | 225 | 3,847 | 1,879 | 1,333,095 | 1,338,821 |
| Leases and equipment finance, net | 1,571 | 3,438 | 447 | 5,456 | 2,795 | 483,970 | 492,221 |
| Residential | | | | | | | |
| Mortgage, net | 10 | 1,254 | 5,421 | 6,685 | 3 | 2,078,578 | 2,085,266 |
| Home equity loans & lines, net | 772 | 750 | 959 | 2,481 | — | 816,284 | 818,765 |
| Consumer & other, net | 2,117 | 442 | 122 | 2,681 | 128 | 361,070 | 363,879 |
| Total, net of deferred fees and costs | $11,435 | $22,590 | $7,416 | $41,441 | $ 42,397 | $14,891,973 | $14,975,811 |

(1) Other includes purchased credit impaired non-covered loans of $367.1 million.

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| (in thousands) | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greater than 30 to 59 Days Past Due | 60 to 89 Days Past Due | 90 Days and Greater and Accruing | Total Past Due | Non-Accrual | Current & Other (1) | Total non-cover Loans and Leases |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $3,618 | $352 | $— | $3,970 | $ 9,193 | $2,315,097 | $2,328,260 |
| Owner occupied term, net | 1,320 | 340 | 610 | 2,270 | 6,204 | 1,251,109 | 1,259,583 |
| Multifamily, net | — | — | — | — | 935 | 402,602 | 403,537 |
| Construction & development, net | — | — | — | — | — | 245,231 | 245,231 |
| Residential development, net | — | — | — | — | 2,801 | 85,612 | 88,413 |
| Commercial | | | | | | | |
| Term, net | 901 | 1,436 | — | 2,337 | 8,723 | 759,785 | 770,845 |
| LOC & other, net | 619 | 224 | — | 843 | 1,222 | 985,295 | 987,360 |
| Leases and equipment finance, net | 2,202 | 1,706 | 517 | 4,425 | 2,813 | 354,353 | 361,591 |
| Residential | | | | | | | |
| Mortgage, net | 1,050 | 342 | 2,070 | 3,462 | — | 593,739 | 597,201 |
| Home equity loans & lines, net | 473 | 563 | 160 | 1,196 | — | 263,073 | 264,269 |
| Consumer & other, net | 69 | 75 | 73 | 217 | — | 47,896 | 48,113 |
| Total, net of deferred fees and costs | $10,252 | $5,038 | $3,430 | $18,720 | $ 31,891 | $7,303,792 | $7,354,403 |

(1) Other includes purchased credit impaired non-covered loans of $21.9 million

Non-Covered 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 September 30, 2014 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.

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The following table summarizes our non-covered impaired loans by loan class as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | | |
|---|---|---|---|---|
| | Unpaid | Recorded Investment | | |
| | Principal | Without | With | Related |
| | Balance | Allowance | Allowance | Allowance |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $62,131 | $33,035 | $25,334 | $613 |
| Owner occupied term, net | 11,661 | 3,555 | 7,677 | 378 |
| Multifamily, net | 5,185 | 1,311 | 3,519 | 68 |
| Construction & development, net | 1,091 | — | 1,091 | 7 |
| Residential development, net | 10,285 | 2,675 | 7,607 | 90 |
| Commercial | | | | |
| Term, net | 34,251 | 17,052 | 269 | 9 |
| LOC & other, net | 9,248 | 1,879 | 1,245 | 4 |
| Leases, net | — | — | — | — |
| Residential | | | | |
| Mortgage, net | — | — | — | — |
| Home equity loans & lines, net | 501 | — | — | — |
| Consumer & other, net | 294 | 128 | — | — |
| Total, net of deferred fees and costs | $134,647 | $59,635 | $46,742 | $1,169 |

| (in thousands) | December 31, 2013 | | | |
|---|---|---|---|---|
| | Unpaid | Recorded Investment | | |
| | Principal | Without | With | Related |
| | Balance | Allowance | Allowance | Allowance |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $50,602 | $18,285 | $31,362 | $928 |
| Owner occupied term, net | 11,876 | 6,204 | 5,202 | 198 |
| Multifamily, net | 1,416 | 935 | — | — |
| Construction & development, net | 10,609 | 8,498 | 1,091 | 11 |
| Residential development, net | 22,513 | 5,776 | 11,927 | 648 |
| Commercial | | | | |
| Term, net | 22,750 | 8,723 | 300 | 8 |
| LOC & other, net | 7,144 | 1,222 | 1,258 | 4 |
| Leases, net | — | — | — | — |
| Residential | | | | |
| Mortgage, net | — | — | — | — |
| Home equity loans & lines, net | — | — | — | — |
| Consumer & other, net | — | — | — | — |
| Total, net of deferred fees and costs | $126,910 | $49,643 | $51,140 | $1,797 |

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The following table summarizes our average recorded investment and interest income recognized on impaired non-covered loans by loan class for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, 2014 | | Three Months Ended September 30, 2013 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $55,246 | $573 | $62,246 | $389 |
| Owner occupied term, net | 11,686 | 79 | 8,222 | 49 |
| Multifamily, net | 4,830 | 113 | 1,082 | — |
| Construction & development, net | 5,288 | 11 | 13,607 | 122 |
| Residential development, net | 12,190 | 124 | 19,442 | 165 |
| Commercial | | | | |
| Term, net | 18,381 | 4 | 11,622 | 4 |
| LOC & other, net | 3,478 | 13 | 2,268 | 13 |
| Residential | | | | |
| Mortgage, net | — | — | 238 | — |
| Home equity loans & lines, net | — | — | — | — |
| Consumer & other, net | 64 | — | — | — |
| Total, net of deferred fees and costs | $111,163 | $917 | $118,727 | $742 |

| (in thousands) | Nine Months Ended September 30, 2014 | | Nine Months Ended September 30, 2013 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $53,460 | $1,532 | $67,281 | $1,155 |
| Owner occupied term, net | 11,989 | 231 | 6,475 | 146 |
| Multifamily, net | 2,737 | 113 | 723 | — |
| Construction & development, net | 7,423 | 33 | 15,001 | 363 |
| Residential development, net | 14,128 | 373 | 23,513 | 474 |
| Commercial | | | | |
| Term, net | 14,512 | 12 | 12,688 | 13 |
| LOC & other, net | 2,928 | 38 | 4,389 | 39 |
| Residential | | | | |
| Mortgage, net | — | — | 191 | — |
| Home equity loans & lines, net | — | — | 120 | — |
| Consumer & other, net | 32 | — | 1 | — |
| Total, net of deferred fees and costs | $107,209 | $2,332 | $130,382 | $2,190 |

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

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Non-Covered 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 sound 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 primarily 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 30-59 days past due from the required payment date at month-end.

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

Doubtful—A homogeneous doubtful loan or lease, risk rated 9, is 90-179 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.

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 30-89 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 90-180 days past due from the required payment date at month-end or a closed-end loan 90-120 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.

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The following table summarizes our internal risk rating by loan and lease class for the non-covered loan and lease portfolio as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired (1) | Total |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $3,004,702 | $107,055 | $103,479 | $327 | $— | $58,369 | $3,273,932 |
| Owner occupied term, net | 2,469,495 | 68,393 | 86,640 | 571 | 620 | 11,232 | 2,636,951 |
| Multifamily, net | 2,515,322 | 10,213 | 6,345 | — | — | 4,830 | 2,536,710 |
| Construction & development, net | 236,693 | 4,367 | 3,306 | — | — | 1,091 | 245,457 |
| Residential development, net | 61,061 | 776 | 1,662 | — | — | 10,282 | 73,781 |
| Commercial | | | | | | | |
| Term, net | 1,063,690 | 14,065 | 14,690 | 251 | 11 | 17,321 | 1,110,028 |
| LOC & other, net | 1,272,032 | 40,874 | 22,476 | 225 | 90 | 3,124 | 1,338,821 |
| Leases and equipment finance, net | 484,056 | 3,687 | 1,351 | 2,551 | 576 | — | 492,221 |
| Residential | | | | | | | |
| Mortgage, net | 2,061,460 | 4,811 | 7,545 | — | 11,450 | — | 2,085,266 |
| Home equity loans & lines, net | 810,760 | 4,468 | 1,591 | — | 1,946 | — | 818,765 |
| Consumer & other, net | 360,396 | 2,769 | 360 | — | 226 | 128 | 363,879 |
| Total, net of deferred fees and costs | $14,339,667 | $261,478 | $249,445 | $3,925 | $14,919 | $106,377 | $14,975,811 |

(1) Impaired loans includes 6.3% classified as watch, 2.8% classified as special mentioned, 89.7% classified as substandard, and 1.2% classified as doubtful.

| (in thousands) | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired (1) | Total |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $2,073,366 | $108,263 | $96,984 | $— | $— | $49,647 | $2,328,260 |
| Owner occupied term, net | 1,182,865 | 27,615 | 37,524 | 173 | — | 11,406 | 1,259,583 |
| Multifamily, net | 385,335 | 5,574 | 11,693 | — | — | 935 | 403,537 |
| Construction & development, net | 230,262 | 2,054 | 3,326 | — | — | 9,589 | 245,231 |
| Residential development, net | 67,019 | 1,836 | 1,855 | — | — | 17,703 | 88,413 |
| Commercial | | | | | | | |
| Term, net | 718,778 | 23,393 | 19,651 | — | — | 9,023 | 770,845 |
| LOC & other, net | 951,109 | 24,197 | 9,574 | — | — | 2,480 | 987,360 |
| Leases and equipment finance, net | 351,971 | 4,585 | 1,706 | 2,996 | 333 | — | 361,591 |
| Residential | | | | | | | |
| Mortgage, net | 593,723 | 1,405 | 743 | — | 1,330 | — | 597,201 |
| Home equity loans & lines, net | 263,070 | 1,038 | 25 | — | 136 | — | 264,269 |
| Consumer & other, net | 47,895 | 144 | 33 | — | 41 | — | 48,113 |
| | $6,865,393 | $200,104 | $183,114 | $3,169 | $1,840 | $100,783 | $7,354,403 |

Total, net of deferred fees and costs

(1) Impaired loans includes 6.4% classified as watch, 3.7% classified as special mentioned, and 89.9% classified as substandard.

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Troubled Debt Restructurings

At September 30, 2014 and December 31, 2013, impaired loans of $63.5 million and $68.8 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 September 30, 2014 and December 31, 2013.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan segment as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | |
|---|---|---|---|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate, net | $61,657 | $4,808 | $66,465 |
| Commercial, net | 1,245 | 2,510 | 3,755 |
| Residential, net | 605 | — | 605 |
| Total, net of deferred fees and costs | $63,507 | $7,318 | $70,825 |

| (in thousands) | December 31, 2013 | | |
|---|---|---|---|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate, net | $67,060 | $2,196 | $69,256 |
| Commercial, net | 1,258 | 2,603 | 3,861 |
| Residential, net | 473 | — | 473 |
| Total, net of deferred fees and costs | $68,791 | $4,799 | $73,590 |

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 types of modifications offered can generally be described in the following categories:

Rate Modification—A modification in which the interest rate is modified.

Term Modification —A modification in which the maturity date, timing of payments, or frequency of payments is changed.

Interest Only Modification—A modification in which the loan is converted to interest only payments for a period of time.

Payment Modification—A modification in which the payment amount is changed, other than an interest only modification described above.

Combination Modification—Any other type of modification, including the use of multiple types of modifications.

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The following table presents newly non-covered restructured loans that occurred during the three and nine months ended September 30, 2014 and three and nine months ended September 30, 2013:

| (in thousands) | Three Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $1,088 | $— | $— | $— | $1,088 |
| Commercial, net | — | — | — | — | — | — |
| Residential, net | — | — | — | — | — | — |
| Consumer & other, net | — | — | — | — | — | — |
| Total, net of deferred fees and costs | $— | $1,088 | $— | $— | $— | $1,088 |

| | Three Months Ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $— | $— | $— | $— | $— |
| Commercial, net | — | — | — | — | 3,588 | 3,588 |
| Residential, net | — | — | — | — | — | — |
| Consumer & other, net | — | — | — | — | — | — |
| Total, net of deferred fees and costs | $— | $— | $— | $— | $3,588 | $3,588 |

| | Nine Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $2,332 | $— | $— | $3,519 | $5,851 |
| Commercial, net | — | — | — | — | — | — |
| Residential, net | — | — | — | — | 138 | 138 |
| Consumer & other, net | — | — | — | — | — | — |
| Total | $— | $2,332 | $— | $— | $3,657 | $5,989 |

| (in thousands) | Nine Months Ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $— | $4,291 | $— | $— | $4,291 |
| Commercial, net | — | — | — | — | 4,040 | 4,040 |
| Residential, net | — | — | — | — | 478 | 478 |
| Consumer & other, net | — | — | — | — | — | — |
| | $— | $— | $4,291 | $— | $4,518 | $8,809 |

Total, net of deferred fees
and costs

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

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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 and nine months ended September 30, 2014 and 2013.

Note 6 – Covered Assets and Indemnification Asset

Covered Loans, Net
Loans acquired in a Federal Deposit Insurance Corporation ("FDIC")-assisted acquisition that are subject to a loss-share agreement are referred to as covered loans and reported separately in our statements of financial condition. Covered loans are reported exclusive of the cash flow reimbursements expected from the FDIC.

The following table presents the major types of covered loans as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Commercial real estate | | |
| Non-owner occupied term, net | $149,521 | $206,902 |
| Owner occupied term, net | 45,919 | 49,817 |
| Multifamily, net | 29,001 | 37,671 |
| Construction & development, net | 2,359 | 3,455 |
| Residential development, net | 3,068 | 7,286 |
| Commercial | | |
| Term, net | 9,630 | 15,719 |
| LOC & other, net | 5,920 | 6,698 |
| Residential | | |
| Mortgage, net | 17,067 | 22,316 |
| Home equity loans & lines, net | 17,289 | 19,637 |
| Consumer & other, net | 3,616 | 4,262 |
| Total, net of deferred fees and costs | $283,390 | $373,763 |
| Allowance for covered loans | (7,828) | (9,771) |
| Total | $275,562 | $363,992 |

The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at September 30, 2014 was $336.9 million as compared to $462.4 million at December 31, 2013.

In estimating the fair value of the covered loans at the acquisition date, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments and (b) estimated the amount and timing of undiscounted expected principal and interest payments. The difference between these two amounts represents the nonaccretable difference.

On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the "accretable yield." The accretable yield is then measured at each financial reporting date and represents the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans.

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The following table presents the changes in the accretable yield for the three and nine months ended September 30, 2014 and 2013 for the covered loan portfolio:

(in thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $95,022 | $154,803 | $126,484 | $183,388 |
| Accretion to interest income | (8,478) | (11,457) | (36,461) | (40,041) |
| Disposals | (2,723) | (3,726) | (19,977) | (11,179) |
| Reclassifications from nonaccretable difference | 6,201 | 2,696 | 19,976 | 10,148 |
| Balance, end of period | $90,022 | $142,316 | $90,022 | $142,316 |

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Allowance for Covered Loan Losses

The following table summarizes activity related to the allowance for covered loan losses by covered loan portfolio segment for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $4,962 | $2,839 | $550 | $149 | $8,500 |
| Charge-offs | (509) | (212) | (13) | (47) | (781) |
| Recoveries | 100 | 80 | 12 | 15 | 207 |
| (Recapture) provision | (271) | (66) | 238 | 1 | (98) |
| Balance, end of period | $4,282 | $2,641 | $787 | $118 | $7,828 |

| | Three Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $8,871 | $4,512 | $808 | $176 | $14,367 |
| Charge-offs | (553) | (406) | (48) | (88) | (1,095) |
| Recoveries | 182 | 156 | 59 | 153 | 550 |
| (Recapture) provision | (1,466) | (367) | (16) | (55) | (1,904) |
| Balance, end of period | $7,034 | $3,895 | $803 | $186 | $11,918 |

| (in thousands) | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $6,105 | $2,837 | $660 | $169 | $9,771 |
| Charge-offs | (1,555) | (1,126) | (177) | (110) | (2,968) |
| Recoveries | 729 | 326 | 147 | 53 | 1,255 |
| (Recapture) provision | (997) | 604 | 157 | 6 | (230) |
| Balance, end of period | $4,282 | $2,641 | $787 | $118 | $7,828 |

| | Nine Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $12,129 | $4,980 | $804 | $362 | $18,275 |
| Charge-offs | (1,321) | (1,219) | (156) | (420) | (3,116) |
| Recoveries | 669 | 428 | 185 | 221 | 1,503 |
| (Recapture) provision | (4,443) | (294) | (30) | 23 | (4,744) |
| Balance, end of period | $7,034 | $3,895 | $803 | $186 | $11,918 |

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The following table presents the allowance and recorded investment in covered loans by portfolio segment as of September 30, 2014 and 2013:

| (in thousands) | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | $4,200 | $2,537 | $733 | $71 | $7,541 |
| Collectively evaluated for impairment (2) | 82 | 104 | 54 | 47 | 287 |
| Total | $4,282 | $2,641 | $787 | $118 | $7,828 |
| Covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | $229,469 | $8,924 | $29,227 | $1,312 | $268,932 |
| Collectively evaluated for impairment (2) | 399 | 6,626 | 5,129 | 2,304 | 14,458 |
| Total | $229,868 | $15,550 | $34,356 | $3,616 | $283,390 |

| (in thousands) | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | $6,648 | $3,691 | $752 | $135 | $11,226 |
| Collectively evaluated for impairment (2) | 386 | 204 | 51 | 51 | 692 |
| Total | $7,034 | $3,895 | $803 | $186 | $11,918 |
| Covered loans: | | | | | |
| Loans acquired with deteriorated credit quality (1) | $329,044 | $17,799 | $38,887 | $2,000 | $387,730 |
| Collectively evaluated for impairment (2) | 2,852 | 10,542 | 5,114 | 2,763 | 21,271 |
| Total | $331,896 | $28,341 | $44,001 | $4,763 | $409,001 |

(1) The valuation allowance is netted against the carrying value of the covered loan balance.
(2) The allowance on covered loan losses includes an allowance on covered loan advances on acquired loans subsequent to acquisition.

The valuation allowance on covered loans was reduced by recaptured provision of $311,000 and $1.6 million for the three and nine months ended September 30, 2014, respectively, and $2.4 million and $7.9 million for the three and nine months ended September 30, 2013, respectively.

Covered Credit Quality Indicators

Covered loans are risk rated in a manner consistent with non-covered loans. 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 10 risk rating groupings are described fully in Note 5. The following table includes loans acquired with deteriorated credit quality and advances made subsequent to acquisition on covered loans.

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The following table summarizes our internal risk rating grouping by covered loans, net as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Total |
| Commercial real estate | | | | | | |
| Non-owner occupied term, net | $93,662 | $18,128 | $35,905 | $— | $— | $147,695 |
| Owner occupied term, net | 28,917 | 4,874 | 11,028 | — | — | 44,819 |
| Multifamily, net | 18,061 | 1,664 | 8,820 | — | — | 28,545 |
| Construction & development, net | 1,160 | — | 830 | — | — | 1,990 |
| Residential development, net | — | 221 | 2,313 | — | — | 2,534 |
| Commercial | | | | | | |
| Term, net | 3,361 | 536 | 3,199 | — | — | 7,096 |
| LOC & other, net | 5,813 | — | — | — | — | 5,813 |
| Residential | | | | | | |
| Mortgage, net | 17,005 | — | — | — | — | 17,005 |
| Home equity loans & lines, net | 16,486 | — | 79 | — | — | 16,565 |
| Consumer & other, net | 3,500 | — | — | — | — | 3,500 |
| Total, net of deferred fees and costs and allowance for loan losses | $187,965 | $25,423 | $62,174 | $— | $— | $275,562 |

| (in thousands) | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Total |
| Commercial real estate | | | | | | |
| Non-owner occupied term, net | $133,452 | $26,321 | $44,279 | $— | $— | $204,052 |
| Owner occupied term, net | 30,119 | 3,370 | 14,971 | 213 | — | 48,673 |
| Multifamily, net | 24,213 | 2,563 | 10,409 | — | — | 37,185 |
| Construction & development, net | 1,117 | — | 1,686 | — | — | 2,803 |
| Residential development, net | 492 | 224 | 5,541 | 54 | — | 6,311 |
| Commercial | | | | | | |
| Term, net | 3,753 | 3,141 | 6,128 | 258 | — | 13,280 |
| LOC & other, net | 4,630 | 991 | 681 | — | — | 6,302 |
| Residential | | | | | | |
| Mortgage, net | 22,175 | — | — | — | — | 22,175 |
| Home equity loans & lines, net | 19,043 | — | 76 | — | — | 19,119 |
| Consumer & other, net | 4,092 | — | — | — | — | 4,092 |
| Total, net of deferred fees and costs and allowance for loan losses | $243,086 | $36,610 | $83,771 | $525 | $— | $363,992 |

FDIC Indemnification Asset

The Company has elected to account for amounts receivable under the loss-share agreements as an indemnification asset. The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into non-interest income over the life of the

FDIC indemnification asset.

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Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered assets. These adjustments are measured on the same basis as the related covered loans and covered OREO. Any increases in cash flow of the covered assets over those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to non-interest income. The resulting carrying value of the indemnification asset represents the amounts recoverable from the FDIC for future expected losses, and the amounts due from the FDIC for claims related to covered losses the Company has incurred less amounts due back to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC indemnification asset for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $11,293 | $36,263 | $23,174 | $52,798 |
| Change in FDIC indemnification asset | (2,728) | (6,474) | (13,169) | (19,841) |
| Transfers to due from FDIC and other | (754) | (362) | (2,194) | (3,530) |
| Balance, end of period | $7,811 | $29,427 | $7,811 | $29,427 |

Note 7–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, 2013, and the nine months ended September 30, 2014. Goodwill and all other intangible assets are related to the Community Banking segment.

| (in thousands) | Goodwill | | |
|---|---|---|---|
| | Gross | Accumulated Impairment | Total |
| Balance, December 31, 2012 | $781,106 | $(112,934) | $668,172 |
| Net additions | 96,777 | — | 96,777 |
| Reductions | (644) | — | (644) |
| Balance, December 31, 2013 | 877,239 | (112,934) | 764,305 |
| Net additions | 1,021,102 | — | 1,021,102 |
| Reductions | — | — | — |
| Balance, September 30, 2014 | $1,898,341 | $(112,934) | $1,785,407 |

Goodwill represents the excess of the total purchase price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. Additional information on the acquisitions and purchase price allocations is provided in Note 2. The reduction to goodwill in 2013 of $644,000 relates to purchase accounting adjustments.

| (in thousands) | Other Intangible Assets | | |
|---|---|---|---|
| | Gross | Accumulated Amortization | Net |
| Balance, December 31, 2012 | $58,909 | (41,750) | $17,159 |
| Net additions | — | — | — |
| Amortization | — | (4,781) | (4,781) |
| Balance, December 31, 2013 | 58,909 | (46,531) | 12,378 |
| Net additions | 54,562 | — | 54,562 |

| | | | |
|---|---|---|---|
| Amortization | — | (7,105) | (7,105) |
| Balance, September 30, 2014 | $113,471 | $(53,636) | $59,835 |

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Intangible additions in 2014 relate to the Merger and represent the value of the core deposits, which includes all deposits except certificates of deposit. The value of the core deposit intangible assets were determined by an analysis of the cost differential between the core deposits inclusive of estimated servicing costs and alternative funding sources. The core deposit intangible recorded in connection with the Merger will be amortized on an accelerated basis over a period of 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 nine months ended September 30, 2014, management determined that no trigger events occurred that required an impairment analysis. The table below presents the forecasted amortization expense for intangible assets acquired in all mergers:

(in thousands)

| Year | Expected Amortization |
|---|---|
| Remainder of 2014 | $3,102 |
| 2015 | 11,225 |
| 2016 | 8,622 |
| 2017 | 6,756 |
| 2018 | 6,166 |
| Thereafter | 23,964 |
| | $59,835 |

Note 8 – Residential Mortgage Servicing Rights

The following table presents the changes in the Company's residential mortgage servicing rights ("MSR") for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $114,192 | $38,192 | $47,765 | $27,428 |
| Acquired/purchased MSR | — | — | 62,770 | — |
| Additions for new MSR capitalized | 8,813 | 4,072 | 16,583 | 15,182 |
| Changes in fair value: | | | | |
| Due to changes in model inputs or assumptions(1) | (672) | 3,406 | (2,543) | 3,739 |
| Other(2) | (3,608) | (3,817) | (5,850) | (4,496) |
| Balance, end of period | $118,725 | $41,853 | $118,725 | $41,853 |

(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 residential mortgage serviced loan portfolio as of September 30, 2014 and December 31, 2013 is as follows:

| (dollars in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Balance of residential mortgage loans serviced for others | $11,300,947 | $4,362,499 |
| MSR as a percentage of serviced loans | 1.05% | 1.09% |

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The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in residential mortgage banking revenue, was $6.2 million and $14.5 million for the three and nine months ended September 30, 2014, as compared to $2.7 million and $7.5 million for the three and nine months ended September 30, 2013.

Key assumptions used in measuring the fair value of MSR as of September 30, 2014 and December 31, 2013 are as follows:

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Constant prepayment rate | 11.52 % | 12.74 % |
| Discount rate | 9.16 % | 8.69 % |
| Weighted average life (years) | 6.7 | 6.0 |

A sensitivity analysis of the current fair value to changes in discount and prepayment speed assumptions as of September 30, 2014 and December 31, 2013 is as follows:

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Constant prepayment rate | | |
| Effect on fair value of a 10% adverse change | $(4,822) | $(2,255) |
| Effect on fair value of a 20% adverse change | $(9,275) | $(4,323) |
| | | |
| Discount rate | | |
| Effect on fair value of a 100 basis point adverse change | $(4,722) | $(1,832) |
| Effect on fair value of a 200 basis point adverse change | $(9,120) | $(3,534) |

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.

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Note 9 – Junior Subordinated Debentures

Following is information about the Company's wholly-owned trusts ("Trusts") as of September 30, 2014:

| (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 | $15,028 | Floating rate, LIBOR plus 3.35%, adjusted quarterly | 4.92% | October 2032 |
| Umpqua Statutory Trust III | October 2002 | 30,928 | 22,736 | Floating rate, LIBOR plus 3.45%, adjusted quarterly | 5.01% | November 2032 |
| Umpqua Statutory Trust IV | December 2003 | 10,310 | 7,104 | Floating rate, LIBOR plus 2.85%, adjusted quarterly | 4.48% | January 2034 |
| Umpqua Statutory Trust V | December 2003 | 10,310 | 7,081 | Floating rate, LIBOR plus 2.85%, adjusted quarterly | 4.49% | March 2034 |
| Umpqua Master Trust I | August 2007 | 41,238 | 23,281 | Floating rate, LIBOR plus 1.35%, adjusted quarterly | 2.81% | September 2037 |
| Umpqua Master Trust IB | September 2007 | 20,619 | 13,684 | Floating rate, LIBOR plus 2.75%, adjusted quarterly | 4.50% | December 2037 |
| Sterling Capital Trust III | April 2003 | 14,433 | 11,075 | Floating rate, LIBOR plus 3.25%, adjusted quarterly | 4.55% | April 2033 |
| Sterling Capital Trust IV | May 2003 | 10,310 | 7,824 | Floating rate, LIBOR plus 3.15%, adjusted quarterly | 4.46% | May 2033 |
| Sterling Capital Statutory Trust V | May 2003 | 20,619 | 15,708 | Floating rate, LIBOR plus 3.25%, adjusted quarterly | 4.57% | June 2033 |
| Sterling Capital Trust VI | June 2003 | 10,310 | 7,802 | Floating rate, LIBOR plus 3.20%, adjusted quarterly | 4.54% | September 2033 |
| Sterling Capital Trust VII | June 2006 | 56,702 | 33,170 | Floating rate, LIBOR plus 1.53%, adjusted quarterly | 3.00% | June 2036 |
| Sterling Capital Trust VIII | September 2006 | 51,547 | 30,511 | Floating rate, LIBOR plus 1.63%, adjusted quarterly | 3.15% | December 2036 |
| Sterling Capital Trust IX | July 2007 | 46,392 | 26,334 | Floating rate, LIBOR plus 1.40%, adjusted quarterly | 2.88% | October 2037 |
| Lynnwood Financial Statutory Trust I | March 2003 | 9,279 | 6,987 | Floating rate, LIBOR plus 3.15%, adjusted quarterly | 4.50% | March 2033 |
| | June 2005 | 10,310 | 6,357 | | 3.30% | June 2035 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Lynnwood Financial Statutory Trust II | | | | Floating rate, LIBOR plus 1.80%, adjusted quarterly | | |
| Klamath First Capital Trust I | July 2001 | 15,464 | 12,846 | Floating rate, LIBOR plus 3.75%, adjusted semiannually | 4.91% | July 2031 |
| | | $379,390 | $247,528 | | | |
| AT AMORTIZED COST: | | | | | | |
| HB Capital Trust I | March 2000 | $5,310 | $6,175 | 10.875% | 8.44% | March 2030 |
| Humboldt Bancorp Statutory Trust I | February 2001 | 5,155 | 5,790 | 10.200% | 8.41% | February 2031 |
| Humboldt Bancorp Statutory Trust II | December 2001 | 10,310 | 11,231 | Floating rate, LIBOR plus 3.60%, adjusted quarterly | 3.04% | December 2031 |
| Humboldt Bancorp Statutory Trust III | September 2003 | 27,836 | 30,246 | Floating rate, LIBOR plus 2.95%, adjusted quarterly | 2.50% | September 2033 |
| CIB Capital Trust | November 2002 | 10,310 | 11,099 | Floating rate, LIBOR plus 3.45%, adjusted quarterly | 3.03% | November 2032 |
| Western Sierra Statutory Trust I | July 2001 | 6,186 | 6,186 | Floating rate, LIBOR plus 3.58%, adjusted quarterly | 3.82% | July 2031 |
| Western Sierra Statutory Trust II | December 2001 | 10,310 | 10,310 | Floating rate, LIBOR plus 3.60%, adjusted quarterly | 3.83% | December 2031 |
| Western Sierra Statutory Trust III | September 2003 | 10,310 | 10,310 | Floating rate, LIBOR plus 2.90%, adjusted quarterly | 3.13% | September 2033 |
| Western Sierra Statutory Trust IV | September 2003 | 10,310 | 10,310 | Floating rate, LIBOR plus 2.90%, adjusted quarterly | 3.13% | September 2033 |
| | | 96,037 | 101,657 | | | |
| | Total | $475,427 | $349,185 | | | |

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(1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of September 30, 2014.

The Trusts are reflected as junior subordinated debentures in the Condensed Consolidated Balance Sheets. The common stock issued by the Trusts is recorded in other assets in the Condensed Consolidated Balance Sheets, and totaled $14.3 million at September 30, 2014 and $6.9 million at December 31, 2013. As of September 30, 2014, all of the junior subordinated debentures were redeemable at par, at their applicable quarterly or semiannual interest payment dates.

The Company selected the fair value measurement option for junior subordinated debentures originally issued by the Company (the Umpqua Statutory Trusts) and for junior subordinated debentures acquired from Sterling. Refer to Note 16 for discussion of the rational for election of fair value and the approach used to fair value the selected junior subordinated debentures.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments, the discounts will reverse over time in a manner similar to the effective interest rate method as if these instruments were accounted for under the amortized cost method. Losses recorded resulting from the change in the fair value of these instruments were $1.6 million and $554,000 for the three months ended September 30, 2014 and 2013 and $3.5 million and $1.6 million for the nine months ended September 30, 2014 and 2013.

Note 10 – Commitments and Contingencies

Lease Commitments — As of September 30, 2014, the Bank leased 289 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three and nine months ended September 30, 2014 was $9.8 million and $23.6 million, respectively, and for the three and nine months ended September 30, 2013 was $4.9 million and $14.2 million, respectively. Rent expense was partially offset by rent income for the three and nine months ended September 30, 2014 of $170,000 and $441,000, respectively, and for the three and nine months ended September 30, 2013 of $148,000 and $596,000, respectively.

Financial Instruments with Off-Balance-Sheet Risk — The Company's financial statements do not reflect various commitments and contingent liabilities that arise in the normal course of the Bank's business and involve elements of credit, liquidity, and interest rate risk.

The following table presents a summary of the Bank's commitments and contingent liabilities:

| (in thousands) | As of September 30, 2014 |
|---|---|
| Commitments to extend credit | $2,899,299 |
| Commitments to extend overdrafts | $944,855 |
| Forward sales commitments | $383,413 |
| Commitments to originate residential mortgage loans held for sale | $226,946 |

| | |
|---|---|
| Standby letters of credit | $67,527 |

The Bank is a party to financial instruments with off-balance-sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve elements of credit and interest-rate risk similar to the risk involved in on-balance sheet items recognized in the Condensed Consolidated Balance Sheets. The contract or notional amounts of those instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit, and financial guarantees written, is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any covenant or condition established in the applicable contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. While most standby letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral varies but may include cash, accounts receivable, inventory, premises and equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank was not required to perform on any financial guarantees during the three and nine months ended September 30, 2014 and September 30, 2013. At September 30, 2014, approximately $48.6 million of standby letters of credit expire within one year, and $18.9 million expire thereafter. Upon issuance, the Bank recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $1.6 million as of September 30, 2014.

Residential mortgage loans sold into the secondary market are sold with limited recourse against the Company, meaning that the Company may be obligated to repurchase or otherwise reimburse the investor for incurred losses on any loans that suffer an early payment default, are not underwritten in accordance with investor guidelines or are determined to have pre-closing borrower misrepresentations. As of September 30, 2014, the Company had a residential mortgage loan repurchase reserve liability of $3.5 million.

Legal Proceedings—The Bank owns 483,806 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4121 per Class A share. As of September 30, 2014, the value of the Class A shares was $213.37 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $42.5 million as of September 30, 2014, and has not been reflected in the accompanying financial statements. The shares of Visa Inc. Class B common stock are restricted and may not be transferred. Visa member banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa Inc. may sell additional Class A shares and use the proceeds to settle litigation, thereby reducing the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

On July 13, 2012, Visa Inc. announced that it had entered into a memorandum of understanding obligating it to enter into a settlement agreement to resolve the multi-district interchange litigation brought by the class plaintiffs in the matter styled In re Payment Card Interchange Fee and Merchant Discount Antitrust Litigation, Case No. 5-MD-1720 (JG) (JO) pending in the U.S. District Court for the Eastern District of New York. The claims originally were brought by a class of U.S. retailers in 2005. The settlement was approved by the court on December 13, 2013, but that decision is currently being appealed. Visa's share of the previously agreed settlement amount was approximately $4.4 billion. The effect of this proposed settlement and pending appeal on the value of the Bank's Class B common stock is unknown at this time.

In the ordinary course of business, various claims and lawsuits are brought by and against the Company and its subsidiaries, including the Bank and Umpqua Investments. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the Company's consolidated financial condition or results of operations.

Concentrations of Credit Risk— The Bank grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, Idaho, and Nevada. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 79% and 74% of the Bank's non-covered loan and lease portfolio at September 30, 2014 and December 31, 2013, respectively. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Bank's primary market areas in particular, could have an adverse impact on the repayment of these loans.  Personal and

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business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

The Bank recognizes the credit risks inherent in dealing with other depository institutions. Accordingly, to prevent excessive exposure to any single correspondent, the Bank has established general standards for selecting correspondent banks as well as internal limits for allowable exposure to any single correspondent. In addition, the Bank has an investment policy that sets forth limitations that apply to all investments with respect to credit rating and concentrations with an issuer.

Note 11 – Derivatives

The Bank may use derivatives to hedge the risk of changes in the fair values of interest rate lock commitments, residential mortgage loans held for sale, and residential mortgage servicing rights. None of the Company's derivatives are designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company primarily utilizes forward interest rate contracts in its derivative risk management strategy.

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2014 and 2013. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2014, the Bank had commitments to originate mortgage loans held for sale totaling $226.9 million and forward sales commitments of $383.4 million.

The Bank's mortgage banking derivative instruments do not have specific credit risk-related contingent features. The forward sales commitments do have contingent features that may require transferring collateral to the broker/dealers upon their request. However, this amount would be limited to the net unsecured loss exposure at such point in time and would not materially affect the Company's liquidity or results of operations.

The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of September 30, 2014, the Bank had 300 interest rate swaps with an aggregate notional amount of $1.5 billion related to this program.

In connection with the interest rate swap program with commercial customers, the Bank has agreements with its derivative counterparties that contain a provision where if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligations. The Bank also has agreements with its derivative counterparties that contain a provision where if the Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations under the agreements. Similarly, the Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as if the Bank were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels. If the Bank had breached any of these provisions at September 30, 2014, it could have been required to settle its obligations under the agreements at the termination value.

As of September 30, 2014, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $21.0 million. The Bank has collateral posting requirements for initial or variation margins with its counterparties and has been required to post collateral against its obligations under these agreements of $31.3 million and $13.0 million as of September 30, 2014 and December 31, 2013, respectively.

The Bank incorporates credit valuation adjustments ("CVA") to appropriately reflect nonperformance risk in the fair value measurement of its derivatives. As of September 30, 2014, the net CVA decreased the settlement values of the Bank's net derivative assets by $1.4 million. During the three and nine months ended September 30, 2014, the Bank recognized a gain of $107,000 and a loss of $2.9 million, respectively, and during the three and nine months ended September 30, 2013, the Bank

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recognized a loss of $738,000 and a gain of $1.1 million, respectively related to CVA on nonhedge derivative instruments, which is included in noninterest income. Various factors impact changes in the CVA over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

The following tables summarize the types of derivatives, separately by assets and liabilities, and the fair values of such derivatives as of September 30, 2014 and December 31, 2013:

| (in thousands) | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| Derivatives not designated as hedging instrument | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
| Interest rate lock commitments | $2,180 | $706 | $— | $— |
| Interest rate forward sales commitments | 246 | 1,250 | 1,010 | 6 |
| Interest rate swaps | 18,963 | 15,965 | 20,276 | 14,556 |
| Total | $21,389 | $17,921 | $21,286 | $14,562 |

The fair values of the derivatives are recorded in other assets and other liabilities. The following table summarizes the types of derivatives and the gains (losses) recorded during the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three months ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Derivatives not designated as hedging instrument | 2014 | 2013 | 2014 | 2013 |
| Interest rate lock commitments | $(5,475) | $2,370 | $1,312 | $1,530 |
| Interest rate forward sales commitments | 1,788 | (3,239) | (14,228) | 11,508 |
| Interest rate swaps | 107 | (738) | (2,893) | 1,101 |
| Total | $(3,580) | $(1,607) | $(15,809) | $14,139 |

The gains and losses on the Company's mortgage banking derivatives are included in mortgage banking revenue. The gains and losses on the Company's interest rate swaps are included in other income.

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The following table summarizes the derivatives that have a right of offset as of September 30, 2014 and December 31, 2013:

| (in thousands) | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets/Liabilities presented in the Statement of Financial Position | Financial Instruments | Collateral Posted | Net Amount |
| September 30, 2014 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | $ 18,963 | $— | $ 18,963 | $ 2,406 | $ (15,946 ) | $ 5,423 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | $ 20,276 | $— | $ 20,276 | $ 2,406 | $ (22,682 ) | $— |
| December 31, 2013 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | $ 15,965 | $— | $ 15,965 | $ (4,852 ) | $ (2,207 ) | $ 8,906 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | $ 14,556 | $— | $ 14,556 | $ (4,852 ) | $ (9,704 ) | $— |

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Note 12 – Shareholders' Equity and Stock Compensation

On April 18, 2014, the Company completed the Merger with Sterling. The details of the conversion of Sterling common stock, stock options, and restricted stock units are included in Note 2. The conversion resulted in the issuance of 104,385,087 shares of common stock, 994,214 restricted stock units, and 439,921 stock options granted. Additionally, the 2,960,238 outstanding Sterling warrants were converted into warrants exercisable to receive 1.671 shares of Umpqua stock per warrant, with an exercise price of $12.88 as of the merger date. As of September 30, 2014, there were 3,025,886 warrants outstanding, with an exercise price of $12.60. Adjustments to the number and exercise price of these outstanding warrants occurred in the second and third quarter of 2014, due to dividend distributions triggering an anti-dilutive provision.

At a special meeting on February 25, 2014, the Company's shareholders approved an amendment to the Company's articles of incorporation, effective on April 18, 2014, increasing the number of authorized shares of common stock to 400,000,000.

At the annual meeting on April 16, 2013, shareholders approved the Company's 2013 Incentive Plan (the "2013 Plan"), which, among other things, authorizes the issuance of equity awards to directors and employees and reserves 4,000,000 shares of the Company's common stock for issuance under the plan. With the adoption of the 2013 Plan, no additional awards will be issued from the 2003 Stock Incentive Plan or the 2007 Long Term Incentive Plan.

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was $3.7 million and $8.8 million for the three and nine months ended September 30, 2014, as compared to $1.3 million and $3.5 million for the three and nine months ended September 30, 2013. The total income tax benefit recognized related to stock-based compensation was $1.4 million and $3.4 million for the three and nine months ended September 30, 2014 as compared to $524,000 and $1.4 million for the three and nine months ended September 30, 2013. During the three months ended September 30, 2014, vesting was accelerated for certain restricted stock units and stock options issued in connection with the Sterling Merger, resulting in $2.8 million of accelerated compensation expense which was recorded in merger related expense.

The following table summarizes information about stock option activity for the nine months ended September 30, 2014:

| (in thousands, except per share data) | Nine Months Ended September 30, 2014 | | | |
|---|---|---|---|---|
| | Options Outstanding | Weighted-Avg Exercise Price | Weighted-Avg Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| Balance, beginning of period | 981 | $16.17 | | |
| Granted/Assumed | 440 | $12.12 | | |
| Exercised | (563) | $11.91 | | |
| Forfeited/expired | (42) | $19.28 | | |
| Balance, end of period | 816 | $16.77 | 3.96 | $2,228 |
| Options exercisable, end of period | 680 | $17.69 | 3.26 | $1,638 |

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three and nine months ended September 30, 2014 was $241,000 and $3.1 million, respectively, as compared to the three and nine months ended September 30, 2013 of $630,000 and $767,000, respectively.

During the three and nine months ended September 30, 2014, the amount of cash received from the exercise of stock options was $239,000 and $4.5 million, as compared to the three and nine months ended September 30, 2013 of $1.7 million and $2.5 million. Total consideration was $483,000 and $6.7 million for the three and nine months ended September 30, 2014, as compared to the three and nine months ended September 30, 2013 of $1.7 million and $2.5 million.

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The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. There were no stock options granted in the nine months ended September 30, 2014 and September 30, 2013. The following weighted average assumptions were used to determine the fair value of stock options grants assumed during the nine months ended September 30, 2014:

| | Nine Months Ended September 30, 2014 | |
|---|---|---|
| Dividend yield | 3.25 | % |
| Expected life (years) | 6.79 | |
| Expected volatility | 31 | % |
| Risk-free rate | 0.91 | % |
| Weighted average fair value of options on date of grant | $3.22 | |

The Company grants restricted stock periodically for the benefit of employees and directors. Restricted shares issued prior to 2011 generally vest on an annual basis over five years. Restricted shares issued since 2011 generally vest over a three year period, subject to time or time plus performance vesting conditions. The following table summarizes information about nonvested restricted share activity for the nine months ended September 30, 2014:

| (in thousands, except per share data) | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|
| | Restricted Shares Outstanding | | Weighted Average Grant Date Fair Value |
| Balance, beginning of period | 992 | | $12.79 |
| Granted/Assumed | 839 | | $17.33 |
| Released | (374 | ) | $12.13 |
| Forfeited/expired | (66 | ) | $14.37 |
| Balance, end of period | 1,391 | | $15.63 |

The total fair value of restricted shares vested and released during the three and nine months ended September 30, 2014 was $615,000 and $7.0 million as compared to the three and nine months ended September 30, 2013 of $108,000 and $1.9 million.

The Company granted restricted stock units as a part of the 2007 Long Term Incentive Plan for the benefit of certain executive officers. In addition, the Company granted restricted stock units in connection with the acquisition of Sterling as replacement awards. Restricted stock unit grants may be subject to performance-based vesting as well as other approved vesting conditions. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements.

| (in thousands, except per share data) | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|
| | Restricted Stock Units Outstanding | | Weighted Average Grant Date Fair Value |
| Balance, beginning of period | 95 | | $10.41 |
| Granted/Assumed | 1,024 | | $18.34 |
| Released | (339 | ) | $16.90 |
| Forfeited/expired | (49 | ) | $18.58 |
| Balance, end of period | 731 | | $18.34 |

As of September 30, 2014, there was $425,000 of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 1.92 years. As of September 30, 2014, there was $13.2 million of total unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 1.50 years. As of September 30, 2014, there was $9.3 million of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 2.54 years, assuming expected performance conditions are met.

For the three and nine months ended September 30, 2014, the Company received income tax benefits of $469,000 and $6.2 million, respectively, as compared to the three and nine months ended September 30, 2013 of $294,000 and $1.1 million, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. In the nine months ended September 30, 2014, the Company had net excess tax benefit (tax benefit resulting from tax deductions greater than the compensation cost recognized) of $1.2 million, as compared to $20,000 of net tax deficiencies (tax deficiency resulting from tax deductions greater than the compensation cost recognized) for the nine months ended September 30, 2013.  Only gross excess tax benefits are classified as financing cash flows.

Note 13 – Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as in the majority of states and in Canada. The Company acquired a $276.8 million net deferred tax asset before purchase accounting adjustments in the Merger, including $238.4 million of federal and state net operating loss ("NOL") and tax credit carry-forwards. The Merger triggered an "ownership change" as defined in Section 382 of the Internal Revenue Service Code ("Section 382"). As a result of being subject to Section 382, the Company will be limited in the amount of federal NOL carry-forwards that can be used annually to offset future taxable income. The Company believes it is more likely than not that it will be able to fully realize the benefit of its federal NOL carry-forwards. The Company also believes that it is more likely than not that the benefit from certain state NOL carry-forwards will not be realized and therefore has provided a valuation allowance of $3.3 million against the deferred tax assets relating to these state NOL carry-forwards.

The Company had gross unrecognized tax benefits of $2.6 million as of September 30, 2014, including $2.0 million assumed in the Merger.  If recognized, the unrecognized tax benefit would reduce the 2014 annual effective tax rate by 1.0%.  During the three months and nine months ended September 30, 2014, the Company accrued $44,000 and $49,000, respectively, of interest relating to its liability for unrecognized tax benefits.  Interest on unrecognized tax benefits is reported by the Company as a component of tax expense.  As of September 30, 2014, the accrued interest related to unrecognized tax benefits was $370,000, including $128,000 assumed in the Merger.

Note 14 – Earnings Per Common Share

Nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of earnings per share pursuant to the two-class method.  The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested restricted stock awards qualify as participating securities.

Net earnings is allocated between the common stock and participating securities pursuant to the two-class method. Basic earnings per common share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.

Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. For all periods presented, stock options, certain restricted stock awards and restricted stock units are the only potentially dilutive non-participating instruments issued by the Company. Next, we determine and include in diluted earnings per common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Undistributed losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

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The following is a computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2014 and 2013:

| (in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| NUMERATORS: | | | | |
| Net income | $58,989 | $23,477 | $94,974 | $73,091 |
| Less: | | | | |
| Dividends and undistributed earnings allocated to participating securities (1) | 142 | 196 | 338 | 576 |
| Net earnings available to common shareholders | $58,847 | $23,281 | $94,636 | $72,515 |
| DENOMINATORS: | | | | |
| Weighted average number of common shares outstanding - basic | 217,245 | 111,912 | 175,627 | 111,934 |
| Effect of potentially dilutive common shares (2) | 1,696 | 283 | 1,029 | 220 |
| Weighted average number of common shares outstanding - diluted | 218,941 | 112,195 | 176,656 | 112,154 |
| EARNINGS PER COMMON SHARE: | | | | |
| Basic | $0.27 | $0.21 | $0.54 | $0.65 |
| Diluted | $0.27 | $0.21 | $0.54 | $0.65 |

(1) Represents dividends paid and undistributed earnings allocated to nonvested restricted stock awards.

(2) Represents the effect of the assumed exercise of stock options, vesting of non-participating restricted shares, and vesting of restricted stock units and warrants that were converted into warrants exercisable for Umpqua common shares in connection with the Sterling acquisition, based on the treasury stock method.

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three and nine months ended September 30, 2014 and 2013.

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Stock options | 5 | 363 | 398 | 738 |

Note 15 – Segment Information

The Company operates two primary segments: Community Banking and Home Lending. The Community Banking segment's principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of September 30, 2014, the Community Banking segment operated 408 locations throughout Oregon, Washington, California, Idaho, and Nevada.

The Home Lending segment, which operates as a division of the Bank, originates, sells and services residential mortgage loans.

In the second quarter of 2014, the Company combined its Wealth Management segment into the Community Banking segment as Wealth Management no longer met the definition of an operating segment. The segment results for comparable periods have been modified to reflect the current period presentation.

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Summarized financial information concerning the Company's reportable segments and the reconciliation to the consolidated financial results is shown in the following tables:

| (in thousands) | Three Months Ended September 30, 2014 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $219,268 | $20,255 | $239,523 |
| Interest expense | 12,003 | 1,804 | 13,807 |
| Net interest income | 207,265 | 18,451 | 225,716 |
| Provision for non-covered loan and lease losses | 14,431 | — | 14,431 |
| Recapture of provision for covered loan losses | (98) | — | (98) |
| Non-interest income | 30,198 | 31,726 | 61,924 |
| Non-interest expense | 160,559 | 21,999 | 182,558 |
| Income before income taxes | 62,571 | 28,178 | 90,749 |
| Provision for income taxes | 21,898 | 9,862 | 31,760 |
| Net income | 40,673 | 18,316 | 58,989 |
| Dividends and undistributed earnings allocated to participating securities | 142 | — | 142 |
| Net earnings available to common shareholders | $40,531 | $18,316 | $58,847 |

| (in thousands) | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $536,922 | $43,448 | $580,370 |
| Interest expense | 30,858 | 3,699 | 34,557 |
| Net interest income | 506,064 | 39,749 | 545,813 |
| Provision for non-covered loan and lease losses | 35,230 | — | 35,230 |
| Recapture of provision for covered loan losses | (230) | — | (230) |
| Non-interest income | 62,663 | 66,797 | 129,460 |
| Non-interest expense | 445,189 | 48,018 | 493,207 |
| Income before income taxes | 88,538 | 58,528 | 147,066 |
| Provision for income taxes | 30,090 | 22,002 | 52,092 |
| Net income | 58,448 | 36,526 | 94,974 |
| Dividends and undistributed earnings allocated to participating securities | 338 | — | 338 |
| Net earnings available to common shareholders | $58,110 | $36,526 | $94,636 |

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| (in thousands) | Three Months Ended September 30, 2013 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $110,594 | $5,366 | $115,960 |
| Interest expense | 8,537 | 614 | 9,151 |
| Net interest income | 102,057 | 4,752 | 106,809 |
| Provision for non-covered loan and lease losses | 3,008 | — | 3,008 |
| Recapture of provision for covered loan losses | (1,904) | — | (1,904) |
| Non-interest income | 11,040 | 15,104 | 26,144 |
| Non-interest expense | 85,859 | 9,745 | 95,604 |
| Income before income taxes | 26,134 | 10,111 | 36,245 |
| Provision for income taxes | 8,724 | 4,044 | 12,768 |
| Net income | 17,410 | 6,067 | 23,477 |
| Dividends and undistributed earnings allocated to participating securities | 196 | — | 196 |
| Net earnings available to common shareholders | $17,214 | $6,067 | $23,281 |

| | Nine Months Ended September 30, 2013 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $307,900 | $16,408 | $324,308 |
| Interest expense | 27,471 | 1,946 | 29,417 |
| Net interest income | 280,429 | 14,462 | 294,891 |
| Provision for non-covered loan and lease losses | 12,989 | — | 12,989 |
| Recapture of provision for covered loan losses | (4,744) | — | (4,744) |
| Non-interest income | 31,411 | 63,245 | 94,656 |
| Non-interest expense | 238,411 | 30,886 | 269,297 |
| Income before income taxes | 65,184 | 46,821 | 112,005 |
| Provision for income taxes | 20,186 | 18,728 | 38,914 |
| Net income | 44,998 | 28,093 | 73,091 |
| Dividends and undistributed earnings allocated to participating securities | 576 | — | 576 |
| Net earnings available to common shareholders | $44,422 | $28,093 | $72,515 |

| (in thousands) | September 30, 2014 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Total assets | $20,078,945 | $2,409,114 | $22,488,059 |
| Total loans and leases (covered and non-covered) | $13,211,330 | $2,047,871 | $15,259,201 |
| Total deposits | $16,660,992 | $66,618 | $16,727,610 |

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| (in thousands) | December 31, 2013 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Total assets | $10,949,050 | $687,062 | $11,636,112 |
| Total loans and leases (covered and non-covered) | $7,186,366 | $532,029 | $7,718,395 |
| Total deposits | $9,090,959 | $26,701 | $9,117,660 |

Note 16 – Fair Value Measurement

The following table presents estimated fair values of the Company's financial instruments as of September 30, 2014 and December 31, 2013, whether or not recognized or recorded at fair value in the Condensed Consolidated Balance Sheets:

| (in thousands) | | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|
| | Level | Carrying Value | Fair Value | Carrying Value | Fair Value |
| FINANCIAL ASSETS: | | | | | |
| Cash and cash equivalents | 1 | $1,443,710 | $1,443,710 | $790,423 | $790,423 |
| Trading securities | 1,2 | 9,727 | 9,727 | 5,958 | 5,958 |
| Securities available for sale | 2 | 2,400,061 | 2,400,061 | 1,790,978 | 1,790,978 |
| Securities held to maturity | 3 | 5,356 | 5,692 | 5,563 | 5,874 |
| Loans held for sale | 2 | 265,800 | 265,800 | 104,664 | 104,664 |
| Non-covered loans and leases, net | 3 | 14,868,004 | 14,845,248 | 7,269,089 | 7,250,596 |
| Covered loans, net | 3 | 275,562 | 309,804 | 363,992 | 409,555 |
| Restricted equity securities | 1 | 120,759 | 120,759 | 30,685 | 30,685 |
| Residential mortgage servicing rights | 3 | 118,725 | 118,725 | 47,765 | 47,765 |
| Bank owned life insurance assets | 1 | 293,511 | 293,511 | 96,938 | 96,938 |
| FDIC indemnification asset | 3 | 7,811 | 2,978 | 23,174 | 6,001 |
| Derivatives | 2,3 | 21,389 | 21,389 | 17,921 | 17,921 |
| Visa Class B common stock | 3 | — | 40,414 | — | 41,700 |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits | 1,2 | $16,727,610 | $16,728,741 | $9,117,660 | $9,125,832 |
| Securities sold under agreements to repurchase | 2 | 339,367 | 339,367 | 224,882 | 224,882 |
| Term debt | 2 | 1,057,140 | 1,079,457 | 251,494 | 270,004 |
| Junior subordinated debentures, at fair value | 3 | 247,528 | 247,528 | 87,274 | 87,274 |
| Junior subordinated debentures, at amortized cost | 3 | 101,657 | 73,321 | 101,899 | 72,009 |
| Derivatives | 2 | 21,286 | 21,286 | 14,562 | 14,562 |

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| FINANCIAL ASSETS: | | | | |
| Trading securities | | | | |
| Obligations of states and political subdivisions | $219 | $— | $219 | $— |
| Equity securities | 4,918 | 4,918 | — | — |
| Other investments securities(1) | 4,590 | — | 4,590 | — |
| Available for sale securities | | | | |
| U.S. Treasury and agencies | 230 | — | 230 | — |
| Obligations of states and political subdivisions | 341,246 | — | 341,246 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,056,532 | — | 2,056,532 | — |
| Investments in mutual funds and other equity securities | 2,053 | — | 2,053 | — |
| Loans held for sale, at fair value | 265,800 | | 265,800 | |
| Residential mortgage servicing rights, at fair value | 118,725 | — | — | 118,725 |
| Derivatives | | | | |
| Interest rate lock commitments | 2,180 | — | — | 2,180 |
| Interest rate forward sales commitments | 246 | — | 246 | — |
| Interest rate swaps | 18,963 | — | 18,963 | — |
| Total assets measured at fair value | $2,815,702 | $4,918 | $2,689,879 | $120,905 |
| FINANCIAL LIABILITIES: | | | | |
| Junior subordinated debentures, at fair value | $247,528 | $— | $— | $247,528 |
| Derivatives | | | | |
| Interest rate lock commitments | — | — | — | — |
| Interest rate forward sales commitments | 1,010 | — | 1,010 | — |
| Interest rate swaps | 20,276 | — | 20,276 | — |
| Total liabilities measured at fair value | $268,814 | $— | $21,286 | $247,528 |

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| (in thousands) | December 31, 2013 | | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| FINANCIAL ASSETS: | | | | |
| Trading securities | | | | |
| Obligations of states and political subdivisions | $2,366 | $— | $2,366 | $— |
| Equity securities | 3,498 | 3,498 | — | — |
| Other investments securities(1) | 94 | — | 94 | — |
| Available for sale securities | | | | |
| U.S. Treasury and agencies | 268 | — | 268 | — |
| Obligations of states and political subdivisions | 235,205 | — | 235,205 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,553,541 | — | 1,553,541 | — |
| Investments in mutual funds and other equity securities | 1,964 | — | 1,964 | — |
| Loans held for sale, at fair value | 104,664 | | 104,664 | |
| Residential mortgage servicing rights, at fair value | 47,765 | — | — | 47,765 |
| Derivatives | | | | |
| Interest rate lock commitments | 706 | — | — | 706 |
| Interest rate forward sales commitments | 1,250 | — | 1,250 | — |
| Interest rate swaps | 15,965 | — | 15,965 | — |
| Total assets measured at fair value | $1,967,286 | $3,498 | $1,915,317 | $48,471 |
| FINANCIAL LIABILITIES: | | | | |
| Junior subordinated debentures, at fair value | $87,274 | $— | $— | $87,274 |
| Derivatives | | | | |
| Interest rate lock commitments | — | — | — | — |
| Interest rate forward sales commitments | 6 | — | 6 | — |
| Interest rate swaps | 14,556 | — | 14,556 | — |
| Total liabilities measured at fair value | $101,836 | $— | $14,562 | $87,274 |

(1) Principally represents U.S. Treasury and agencies or residential mortgage-backed securities issued or guaranteed by governmental agencies.

The following methods were used to estimate the fair value of each class of financial instrument above:

Cash and Cash Equivalents—For short-term instruments, including cash and due from banks, and interest bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

Securities— Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, or broker indicative bids, when market quotes are not readily accessible or available.

Loans Held for Sale— Fair value is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights.

Non-covered Loans and Leases - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type, including commercial, real estate and consumer loans. Each loan category is further segregated by fixed and adjustable rate loans. The fair value of loans is calculated by discounting expected cash flows at rates which similar loans are currently being made. These amounts are discounted further by embedded probable losses expected to be realized in the portfolio.

Covered Loans – Covered loans are initially measured at their estimated fair value on their date of acquisition as described in Note 6. Subsequent to acquisition, the fair value of covered loans is measured using the same methodology as that of non-covered loans.

Restricted Equity Securities – The carrying value of restricted equity securities approximates fair value as the shares can only be redeemed by the issuing institution at par.

Residential Mortgage Servicing Rights - The fair value of mortgage servicing rights is estimated using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income net of servicing costs. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Management believes the significant inputs utilized are indicative of those that would be used by market participants.

Bank Owned Life Insurance Assets – Fair values of insurance policies owned are based on the insurance contract's cash surrender value.

FDIC Indemnification Asset - The FDIC indemnification asset is calculated as the expected future cash flows under the loss-share agreement discounted by a rate reflective of the creditworthiness of the FDIC as would be required from the market.

Visa Inc. Class B Common Stock - The fair value of Visa Class B common stock is estimated by applying a 5% discount to the value of the unredeemed Class A equivalent shares. The discount primarily represents the risk related to the further potential reduction of the conversion ratio between Class B and Class A shares and a liquidity risk premium.

Deposits—The fair value of deposits with no stated maturity, such as non-interest bearing deposits, savings and interest checking accounts, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold under Agreements to Repurchase - For short-term instruments, including securities sold under agreements to repurchase and federal funds purchased, the carrying amount is a reasonable estimate of fair value.

Term Debt—The fair value of medium term notes is calculated based on the discounted value of the contractual cash flows using current rates at which such borrowings can currently be obtained.

Junior Subordinated Debentures - The fair value of junior subordinated debentures is estimated using an income approach valuation technique. The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. The Company periodically utilizes an external valuation firm to determine or validate the reasonableness of inputs and factors that are used to determine the fair value. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, we have classified this as a Level 3 fair value measure.

Derivative Instruments - The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The pull-through rate assumptions are considered Level 3 valuation inputs and are significant to the interest rate lock commitment valuation; as such, the interest rate lock commitment derivatives are classified as Level 3. The fair value of the interest rate swaps is determined using a discounted cash flow technique incorporating credit valuation adjustments to reflect nonperformance risk in the measurement of fair value. Although the Bank has determined that the majority of the inputs used to value its interest rate swap derivatives fall within Level 2 of the fair value hierarchy, the CVA associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2014, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its interest rate swap positions and has determined that the CVA are not significant to the overall valuation of its interest rate swap derivatives. As a result, the Bank has classified its interest rate swap derivative valuations in Level 2 of the fair value hierarchy.

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Assets and Liabilities Measured at Fair Value Using Significant Unobservable Inputs (Level 3)

The following table provides a description of the valuation technique, unobservable input, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at September 30, 2014:

| Financial Instrument | Valuation Technique | Unobservable Input | Weighted Average (Range) |
|---|---|---|---|
| Residential mortgage servicing rights | Discounted cash flow | | |
| | | Constant Prepayment Rate | 11.52% |
| | | Discount Rate | 9.16% |
| Interest rate lock commitment | Internal Pricing Model | | |
| | | Pull-through rate | 76.6% |
| Junior subordinated debentures | Discounted cash flow | | |
| | | Credit Spread | 6.18% |

Generally, any significant increases in the constant prepayment rate and discount rate utilized in the fair value measurement of the residential mortgage servicing rights will result in negative fair value adjustments (and a decrease in the fair value measurement). Conversely, a decrease in the constant prepayment rate and discount rate will result in a positive fair value adjustment (and increase in the fair value measurement).

An increase in the pull-through rate utilized in the fair value measurement of the interest rate lock commitment derivative will result in positive fair value adjustments (and an increase in the fair value measurement.) Conversely, a decrease in the pull-through rate will result in a negative fair value adjustment (and a decrease in the fair value measurement.)

Management believes that the credit risk adjusted spread utilized in the fair value measurement of the junior subordinated debentures carried at fair value is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. The widening of the credit risk adjusted spread above the Company's contractual spreads has primarily contributed to the positive fair value adjustments. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of September 30, 2014, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments (and decrease the fair value measurement). Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments (and increase the fair value measurement).

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The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the three and nine months ended September 30, 2014 and 2013.

(in thousands)

| Three Months Ended September 30, | Beginning Balance | Change included in earnings | Purchases and issuances | Sales and settlements | Ending Balance | Net change in unrealized gains or (losses) relating to items held at end of period |
|---|---|---|---|---|---|---|
| 2014 | | | | | | |
| Residential mortgage servicing rights | $114,192 | $(4,280) | $8,813 | $— | $118,725 | $(3,554) |
| Interest rate lock commitment, net | 4,405 | 3,250 | 1,929 | (7,404) | 2,180 | 2,180 |
| Junior subordinated debentures, at fair value | 246,077 | 3,745 | — | (2,294) | 247,528 | 3,745 |
| 2013 | | | | | | |
| Residential mortgage servicing rights | $38,192 | $(411) | $4,072 | $— | $41,853 | $746 |
| Interest rate lock commitment, net | 638 | (638) | 17,695 | (14,687) | 3,008 | 3,008 |
| Junior subordinated debentures, at fair value | 86,159 | 1,533 | — | (974) | 86,718 | 1,533 |

(in thousands)

| Nine Months Ended September 30, | Beginning Balance | Change included in earnings | Purchases and issuances | Sales and settlements | Ending Balance | Net change in unrealized gains or (losses) relating to items held at end of period |
|---|---|---|---|---|---|---|
| 2014 | | | | | | |
| Residential mortgage servicing rights | $47,765 | $(8,393) | $79,353 | $— | $118,725 | $(6,424) |
| Interest rate lock commitment, net | 706 | (868) | 18,106 | (15,764) | 2,180 | 2,180 |
| Junior subordinated debentures, at fair value | 87,274 | 8,512 | 156,840 | (5,098) | 247,528 | 8,512 |
| 2013 | | | | | | |
| Residential mortgage servicing rights | $27,428 | $(757) | $15,182 | $— | $41,853 | $(755) |
| Interest rate lock commitment, net | 1,478 | (1,478) | 52,192 | (49,184) | 3,008 | 3,008 |
| Junior subordinated debentures, at fair value | 85,081 | 4,563 | — | (2,926) | 86,718 | 4,563 |

Losses on residential mortgage servicing rights carried at fair value are recorded in residential mortgage banking revenue within non-interest income. Gains (losses) on interest rate lock commitments carried at fair value are recorded in residential mortgage banking revenue within non-interest income. Gains (losses) on junior subordinated debentures carried at fair value are recorded within its own line item in non-interest income. The contractual interest expense on the junior subordinated debentures is recorded on an accrual basis as interest on junior subordinated debentures within interest expense. Settlements related to the junior subordinated debentures represent the payment of accrued interest that is embedded in the fair value of these liabilities.

Additionally, from time to time, certain assets are measured at fair value on a nonrecurring basis. These adjustments to fair value generally result from the application of lower-of-cost-or-market accounting or write-downs of individual assets due to impairment.

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Fair Value of Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table presents information about the Company's assets and liabilities measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded during the reporting period. The amounts disclosed below represent the fair values at the time the nonrecurring fair value measurements were made, and not necessarily the fair value as of the dates reported upon.

| (in thousands) | September 30, 2014 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Non-covered loans and leases | $17,549 | $— | $— | $17,549 |
| Non-covered other real estate owned | — | — | — | — |
| Covered other real estate owned | 234 | — | — | 234 |
| | $17,783 | $— | $— | $17,783 |

| (in thousands) | December 31, 2013 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Non-covered loans and leases | $20,421 | $— | $— | $20,421 |
| Non-covered other real estate owned | 1,986 | — | — | 1,986 |
| Covered other real estate owned | 2,770 | — | — | 2,770 |
| | $25,177 | $— | $— | $25,177 |

The following table presents the losses resulting from nonrecurring fair value adjustments for the three and nine months ended September 30, 2014 and 2013:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Non-covered loans and leases | $2,326 | $5,663 | $7,585 | $18,126 |
| Non-covered other real estate owned | 49 | 11 | 164 | 448 |
| Covered other real estate owned | 41 | 24 | 41 | 704 |
| Total loss from nonrecurring measurements | $2,416 | $5,698 | $7,790 | $19,278 |

The non-covered loans and leases amount above represents impaired, collateral-dependent loans that have been adjusted to fair value. When we identify a collateral-dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral-dependent loans for fair value adjustments based on the fair value of collateral.

The non-covered and covered other real estate owned amount above represents impaired real estate that has been adjusted to fair value. Non-covered other real estate owned represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. The loss represents impairments on non-covered other real estate owned for fair value adjustments based on the fair value of the real estate.

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Fair Value Option

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale accounted for under the fair value option as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Fair Value | Aggregate Unpaid Principal Balance | Fair Value Less Aggregate Unpaid Principal Balance | Fair Value | Aggregate Unpaid Principal Balance | Fair Value Less Aggregate Unpaid Principal Balance |
| Loans held for sale | $265,800 | $256,037 | $9,763 | $104,664 | $101,795 | $2,869 |

Residential mortgage loans held for sale accounted for under the fair value option are measured initially at fair value with subsequent changes in fair value recognized in earnings. Gains and losses from such changes in fair value are reported as a component of mortgage banking revenue, net in the Consolidated Statements of Income. For the three and nine months ended September 30, 2014 the Company recorded a net decrease of $5.7 million and a net increase of $6.9 million, respectively. For the three and nine months ended September 30, 2013, the Company recorded a net increase of $5.7 million and a net decrease $11.1 million, respectively, representing the change in fair value reflected in earnings.

There were no nonaccrual residential mortgage loans held for sale or residential mortgage loans held for sale 90 days or more past due and still accruing interest as of September 30, 2014 and December 31, 2013, respectively.

The Company selected the fair value measurement option for existing junior subordinated debentures (the Umpqua Statutory Trusts) and for junior subordinated debentures acquired from Sterling. The remaining junior subordinated debentures were acquired through previous business combinations and were measured at fair value at the time of acquisition and subsequently measured at amortized cost.

Accounting for the selected junior subordinated debentures at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost are presented as separate line items on the balance sheet. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants under current market conditions as of the measurement date.

Due to inactivity in the junior subordinated debenture market and the lack of observable quotes of our, or similar, junior subordinated debenture liabilities or the related trust preferred securities when traded as assets, we utilize an income approach valuation technique to determine the fair value of these liabilities using our estimation of market discount rate assumptions. The Company monitors activity in the trust preferred and related markets, to the extent available, changes related to the current and anticipated future interest rate environment, and considers our entity-specific creditworthiness, to validate the reasonableness of the credit risk adjusted spread and effective yield utilized in our discounted cash flow model. Regarding the activity in and condition of the junior subordinated debt market, we noted no observable changes in the current period as it relates to companies comparable to our size and condition, in either the primary or secondary markets. Relating to the interest rate environment, we considered the change in slope and shape of the forward LIBOR swap curve in the current period, the effects of which did not result in a significant change in the fair value of these liabilities.

Note 17 – Subsequent Event

On November 3, 2014, the Company announced the commencement of a secondary public offering of 31,190,716 shares of the Company's common stock, including 28,300,720 shares by certain funds affiliated with Thomas H. Lee Partners, L.P. and Warburg Pincus LLC (collectively, the "Selling Stockholders"), and 2,889,996 shares related to warrants originally issued to the Selling Stockholders. The warrants were net exercised in full for 2,889,996 shares of the Company's common stock and $6,596,431, purchased from the Selling Stockholders. No shares of common stock were sold and no proceeds of the offering were received by the Company. The offering was completed November 7, 2014 and the Selling Stockholders no longer own any warrants or shares of the Company's common stock.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for "forward-looking statements" provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as "anticipates," "expects," "believes," "estimates" and "intends" and words or phrases of similar meaning. We make forward-looking statements regarding our liquidity and projected sources of funds and use of proceeds; availability of acquisition and growth opportunities; dividends; adequacy of our allowance for loan and lease losses and reserve for unfunded commitments; provision for loan and lease losses; performance of troubled debt restructurings; our commercial real estate portfolio, stress testing results and subsequent charge-offs; our covered loan portfolio and the FDIC indemnification asset; the benefits of the Sterling and FinPac acquisitions; cost of interest bearing deposits and pricing strategy; valuation and the potential redemption of junior subordinated debentures; the impact of Basel III on our capital ratios; tax rates; the impact, and mitigation of, LIBOR changes with respect to junior subordinated debentures; and the impact of accounting pronouncements. Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission (the "SEC") and the following factors that might cause actual results to differ materially from those presented:

- our ability to attract new deposits and loans and leases;
- demand for financial services in our market areas;
- competitive market pricing factors;
- deterioration in economic conditions that could result in increased loan and lease losses;
- risks associated with concentrations in real estate related loans;
- market interest rate volatility;
- compression of our net interest margin;
- stability of funding sources and continued availability of borrowings;
- changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;
- our ability to recruit and retain key management and staff;
- availability of, and competition for acquisition opportunities;
- risks associated with merger and acquisition integration;
- significant decline in the market value of the Company that could result in an impairment of goodwill;
- our ability to raise capital or incur debt on reasonable terms;
- regulatory limits on the Bank's ability to pay dividends to the Company;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and related rules and regulations on the Company's business operations and competitiveness, including the impact of executive compensation restrictions, which may affect the Company's ability to retain and recruit executives in competition with firms in other industries who do not operate under those restrictions;
- the impact of the Dodd-Frank Act on the Company's interest expense, FDIC deposit insurance assessments, regulatory compliance expenses, and interchange fee revenue, which includes a maximum permissible interchange fee that an issuer may receive for an electronic debit transaction, resulting in a decrease in interchange revenue on an average transaction; and
- the impact of "Basel III" capital rules that could require the Company to adjust the fair value, including the acceleration of losses, of the trust preferred securities.
- benefits from the Merger may not be fully realized or may take longer to realize than expected, including as a result of changes in general economic and market conditions, interest rates, monetary policy, laws and regulations and their

enforcement, and the degree of competition in the geographic and business areas in which we operate;

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- Sterling's business may not be integrated into Umpqua's successfully, or such integration may take longer to accomplish than expected;
- the anticipated growth opportunities and cost savings from the Merger may not be fully realized or may take longer to realize than expected;
- operating costs, customer losses and business disruption following the Merger, including adverse developments in relationships with employees, may be greater than expected; and
- management's time and effort will be diverted to the resolution of Merger-related issues.

There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Forward-looking statements are made as of the date of this Form 10-Q. We do not intend to update these forward-looking statements. Readers should consider any forward-looking statements in light of this explanation, and we caution readers about relying on forward-looking statements.

General

Umpqua Holdings Corporation (referred to in this report as "we," "our," "Umpqua," and "the Company"), an Oregon corporation, is a financial holding company with two principal operating subsidiaries, Umpqua Bank (the "Bank") and Umpqua Investments, Inc. ("Umpqua Investments").

Headquartered in Roseburg, Oregon, the Bank is considered one of the most innovative community banks in the United States and has implemented a variety of retail marketing strategies to increase revenue and differentiate the Bank from its competition. The Bank combines a high touch customer experience with the sophisticated products and expertise of a commercial bank. The Bank provides a wide range of banking, wealth management, mortgage and other financial services to corporate, institutional and individual customers. The Bank also owns Financial Pacific Leasing, Inc., a commercial equipment leasing company.

Along with its subsidiaries, the Company is subject to the regulations of state and federal agencies and undergoes periodic examinations by these regulatory agencies.

Umpqua Investments is a registered broker-dealer and investment advisor with offices in Portland, Lake Oswego, and Medford, Oregon, and Santa Rosa, California, and also offers products and services through certain Bank stores. The firm is one of the oldest investment companies in the Northwest and is actively engaged in the communities it serves. Umpqua Investments offers a full range of investment products and services including: stocks, fixed income securities (municipal, corporate, and government bonds, certificates of deposit, and money market instruments), mutual funds, annuities, options, retirement planning, money management services and life insurance.

Executive Overview

Significant items for the three and nine months ended September 30, 2014 were as follows:

- Net earnings available to common shareholders per diluted common share were $0.27 and $0.54 for the three and nine months ended September 30, 2014, respectively, as compared to $0.21 and $0.65 for the three and nine months ended September 30, 2013, respectively.  Operating income per diluted common share, defined as earnings available to common shareholders before net gains or losses on junior subordinated debentures carried at fair value, net of tax and merger related expenses, net of tax, divided by the same diluted share total used in determining diluted earnings per common share, were $0.30 and $0.81 for the three and nine months ended September 30, 2014, respectively, as compared to operating income per diluted common share of $0.24 and $0.69 for the three and nine months ended September 30, 2013, respectively.  Operating income per diluted share is considered a "non-GAAP" financial measure.  More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading Results of Operations - Overview below.

- Net interest margin, on a tax equivalent basis, was 4.75% and 4.74% for the three and nine months ended September 30, 2014, respectively, as compared to 4.22% and 3.91% for the three and nine months ended September 30, 2013, respectively. The increase in net interest margin for the three and nine months ended September 30, 2014 was primarily attributable to the acquisitions of Sterling and FinPac and the related loan discount and deposit premium accretion. Excluding the impact of loan disposal gains from the covered loan portfolio, and interest and fee reversals on non-accrual loans, our adjusted net interest margin was 4.71% and 4.63% for the three and nine months ended September 30, 2014, respectively, as compared to adjusted net interest margin of 4.16% and 3.81% for the three and nine months ended September 30, 2013, respectively. Adjusted net interest margin is considered a "non-GAAP" financial measure. More information regarding this measurement and reconciliation to the comparable Generally Accepted Accounting Principles ("GAAP") measurement is provided under the heading Results of Operations - Overview below.

- The provision for non-covered loan and lease losses was $14.4 million and $35.2 million for the three and nine months ended September 30, 2014, respectively, as compared to the $3.0 million and $13.0 million recognized for the three and nine months ended September 30, 2013, respectively. This increase in the provision related primarily to new loan production from former Sterling offices, growth in the FinPac lease portfolio and organic loan growth.

- Residential mortgage banking revenue was $26.0 million and $60.8 million for the three and nine months ended September 30, 2014, respectively, compared to $15.1 million and $62.9 million for the three and nine months ended September 30, 2013, respectively. Closed for sale mortgage volume increased 94.7% in the three months ended September 30, 2014, compared to the prior year same period, due to the Sterling Merger, partially offset by lower refinance activity. The 14.7% increase in closed for sale mortgage volume in the nine months ended September 30, 2014, compared to the prior year same period was due to the Sterling Merger, offset by lower refinance activity.

- Total gross non-covered loans and leases were $15.0 billion as of September 30, 2014, an increase of $7.6 billion, as compared to December 31, 2013. In addition to the loans acquired in the Sterling Merger, organic loan growth (gross of sales) of $771.7 million contributed to the increase.

- Total deposits were $16.7 billion as of September 30, 2014, an increase of $7.6 billion, as compared to December 31, 2013. The increase was primarily attributed to the deposits acquired in the Sterling Merger along with organic deposit growth of $749.1 million.

- Total consolidated assets were $22.5 billion as of September 30, 2014, compared to $11.6 billion at December 31, 2013. The increase was primarily related to the Sterling Merger.

- Non-covered, non-performing assets were $81.6 million, or 0.36% of total assets, as of September 30, 2014, as compared to $57.2 million, or 0.49% of total assets, as of December 31, 2013. Non-covered, non-performing loans were $49.8 million, or 0.33% of total non-covered loans, as of September 30, 2014, as compared to $35.3 million, or 0.48% of total non-covered loans as of December 31, 2013.

- Net charge-offs on non-covered loans were $4.6 million for the three months ended September 30, 2014, or 0.12% of average non-covered loans and leases (annualized), as compared to net charge-offs of $4.2 million, or 0.23% of average non-covered loans and leases (annualized), for the three months ended September 30, 2013. Net charge-offs on non-covered loans were $12.7 million for the nine months ended September 30, 2014, or 0.14% of average non-covered loans and leases (annualized), as compared to net charge-offs of $13.7 million, or 0.26% of average non-covered loans and leases (annualized), for the nine months ended September 30, 2013.

- Total risk based capital was 14.9% as of September 30, 2014, compared to 14.7% as of December 31, 2013.

- Cash dividends declared in the third quarter of 2014 were $0.15 per common share, comparable to the same period of the prior year.

- The Company completed the Merger with Sterling on April 18, 2014. After fair value adjustments, Umpqua Bank acquired assets totaling $9.9 billion, non-covered loans and leases totaling $7.1 billion, and deposits totaling $7.1 billion. The Company recorded $1.0 billion of goodwill in connection with the Merger. Subsequent to the Merger, and prior to the end of the second quarter of 2014, the Company completed the required divestiture of six stores to another financial institution, which included $88.3 million of loans and $211.5 million of deposits. The operations of Sterling are included in our operating results beginning on April 19, 2014.

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Summary of Critical Accounting Policies

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements for the year ended December 31, 2013 included in the Form 10-K filed with the SEC on February 14, 2014. Not all of these critical accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC's definition.

Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan 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 allowance for loan and lease losses. The Bank has a management Allowance for Loan and Lease Losses ("ALLL") Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans and leases with similar risk rating. Credit loss factors may vary by region based on management's belief that there may ultimately be different credit loss rates experienced in each region.

Regular credit reviews of the portfolio also 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, 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 component 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. The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses.

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends.

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.

Management believes that the ALLL and RUC was adequate as of September 30, 2014. There is, however, no assurance that future loan 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. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 79% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the ALLL.

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Covered Loans and FDIC Indemnification Asset

Loans acquired in an FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as "covered loans" and reported separately in our statements of financial condition. The acquired loans were aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flows were estimated for each pool. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The cash flows expected to be received over the life of the pool were estimated by management with the assistance of a third party valuation specialist. These cash flows were input into an accounting loan system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions are periodically reassessed and updated within the accounting model to update our expectation of future cash flows. The excess of the cash flows expected to be collected over a pool's carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows.

The Company has elected to account for amounts receivable under the loss-share agreements as an indemnification asset. The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the relevant loss-share agreement. The difference between the carrying value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted or amortized into non-interest income over the life of the FDIC indemnification asset, which is maintained at the loan pool level.

Residential Mortgage Servicing Rights ("MSR")

The Company determines its classes of servicing assets based on the asset type being serviced along with the methods used to manage the risk inherent in the servicing assets, which includes the market inputs used to value the servicing assets. The Company measures its residential mortgage servicing assets at fair value and reports changes in fair value through earnings.  Fair value adjustments encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, which are separately reported. Under the fair value method, the MSR is carried on the balance sheet at fair value and the changes in fair value are reported in earnings under the caption residential mortgage banking revenue in the period in which the change occurs.

Retained MSR are measured at fair values as of the date of sale. We use quoted market prices when available. Subsequent fair value measurements are determined using a discounted cash flow model. In order to determine the fair value of the MSR, the present value of expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income net of servicing costs. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available.

The expected life of the loan can vary from management's estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management's estimates would negatively impact the recorded value of the MSR. The value of the MSR is also dependent upon the discount rate used in the model, which is based on management's ongoing review of current market rates. A significant increase in the discount rate would reduce the value of the MSR. Additional information is included in Note 8 of the Notes to Consolidated Financial Statements.

Valuation of Goodwill and Intangible Assets

Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for goodwill on an annual basis as of December

31. Additionally, goodwill and other intangible assets are evaluated on an interim basis when events or circumstance indicate impairment potentially exists. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption may result in impairment of all, or some portion of, goodwill or other intangible assets.

The Company has the option to perform a qualitative assessment before completing the goodwill impairment test two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step the Company calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same

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manner as goodwill recognized in a business combination. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess. The Company performs the qualitative assessment on an annual basis and in between if certain events or circumstances indicate goodwill may be impaired.

Stock-based Compensation

We recognize expense in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each grant is estimated as of the grant date using the Black-Scholes option-pricing model or a Monte Carlo simulation pricing model. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the pricing model, and ultimately, the expense that will be recognized over the life of the option. Additional information is included in Note 12 of the Notes to Consolidated Financial Statements.

Fair Value

A hierarchical disclosure framework is used based on the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 16 of the Notes to Consolidated Financial Statements for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board "FASB" issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. No new recurring disclosures are required. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2013 and are to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of ASU No. 2013-11 did not have a material impact on the Company's consolidated financial statements.
In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-04 permit an entity to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the income statement as a

component of income tax expense (benefit). The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and should be applied prospectively. The Company is currently reviewing the requirements of ASU No. 2014-01, but does not expect the ASU to have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon foreclosure. ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2)

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the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which creates Topic 606 and supersedes Topic 605, Revenue Recognition. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the new guidance requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The standard is effective for public entities for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. For financial reporting purposes, the standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company is currently evaluating the provisions of ASU No. 2014-09 to determine the potential impact the new standard will have on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The ASU also requires new and expanded disclosures. This ASU is effective for the first interim or annual period beginning after December 15, 2014. The adoption of ASU No. 2014-11 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU can be applied prospectively or retrospectively and are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 with early adoption permitted. The Company is currently reviewing the requirements of ASU No. 2014-12, but does not expect the ASU to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14, Receivables -Troubled Debt Restructuring by Creditors. Under certain government-sponsored loan guarantee programs, such as those offered by the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA), qualifying creditors can extend mortgage loans to borrowers with a guarantee that entitles the creditor to recover all or a portion of the unpaid principal balance from the government if the borrower defaults. The objective of this Update is to reduce diversity in practice by addressing the classification of foreclosed mortgage loans that are fully or partially guaranteed under government programs.

Currently, some creditors reclassify those loans to real estate as with other foreclosed loans that do not have guarantees; others reclassify the loans to other receivables. The amendments affect creditors that hold government-guaranteed mortgage loans, including those guaranteed by the FHA and the VA. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 with early adoption permitted. The Company is currently reviewing the requirements of ASU No. 2014-14.

## Results of Operations

### Overview

For the three months ended September 30, 2014, net earnings available to common shareholders were $58.8 million, or $0.27 per diluted common share, as compared to net earnings available to common shareholders of $23.3 million, or $0.21 per diluted

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common share for the three months ended September 30, 2013. For the nine months ended September 30, 2014, net earnings available to common shareholders were $94.6 million, or $0.54 per diluted common share, as compared to net earnings available to common shareholders of $72.5 million, or $0.65 per diluted common share for the nine months ended September 30, 2013. The increase in net earnings for the three and nine months ended September 30, 2014 compared to the same period of the prior year was principally attributable to income contribution from the operations acquired from Sterling, partially offset by the expenses associated with the Sterling Merger.

Umpqua recognizes gains or losses on our junior subordinated debentures carried at fair value resulting from the estimated market credit risk adjusted spread and changes in interest rates that do not directly correlate with the Company's operating performance. Also, Umpqua incurs significant expenses related to the completion and integration of mergers and acquisitions. Additionally, we may recognize goodwill impairment losses that have no direct effect on the Company's or the Bank's cash balances, liquidity, or regulatory capital ratios. Lastly, Umpqua may recognize one-time bargain purchase gains on certain FDIC-assisted acquisitions that are not reflective of Umpqua's on-going earnings power. Accordingly, management believes that our operating results are best measured on a comparative basis excluding the impact of gains or losses on junior subordinated debentures measured at fair value, net of tax, merger related expenses, net of tax, and other charges related to business combinations such as goodwill impairment charges or bargain purchase gains, net of tax. We define operating earnings as earnings available to common shareholders before gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains on acquisitions, net of tax, merger related expenses, net of tax, and goodwill impairment, and we calculate operating earnings per diluted share by dividing operating earnings by the same diluted share total used in determining diluted earnings per common share.

The following table provides the reconciliation of earnings available to common shareholders (GAAP) to operating earnings (non-GAAP), and earnings per diluted common share (GAAP) to operating earnings per diluted share (non-GAAP) for the three and nine months ended September 30, 2014 and 2013:

Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings

| (in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net earnings available to common shareholders | $58,847 | $23,281 | $94,636 | $72,515 |
| Adjustments: | | | | |
| Net loss on junior subordinated debentures carried at fair value, net of tax | 955 | 332 | 2,101 | 986 |
| Merger related expenses, net of tax | 5,274 | 2,914 | 46,273 | 4,318 |
| Operating earnings | $65,076 | $26,527 | $143,010 | $77,819 |
| Per diluted share: | | | | |
| Net earnings available to common shareholders | $0.27 | $0.21 | $0.54 | $0.65 |
| Adjustments: | | | | |
| Net loss on junior subordinated debentures carried at fair value, net of tax | 0.01 | — | 0.01 | 0.01 |
| Merger related expenses, net of tax | 0.02 | 0.03 | 0.26 | 0.03 |
| Operating earnings | $0.30 | $0.24 | $0.81 | $0.69 |

Management believes adjusted net interest income and adjusted net interest margin are useful financial measures because they enable investors to evaluate the underlying growth or compression in these values excluding interest income adjustments related to credit quality. Management uses these measures to evaluate adjusted net interest income operating results exclusive of credit costs, in order to monitor our effectiveness in growing higher interest yielding assets and managing our cost of interest bearing liabilities over time. Adjusted net interest income is calculated as net interest income, adjusting tax exempt interest income to its taxable equivalent, adding back interest and fee reversals related to new non-accrual loans during the period, and deducting the interest income gains recognized from loan disposition activities within covered loan pools. Adjusted net interest margin is calculated by dividing annualized adjusted net interest income by a period's average interest earning assets. Adjusted net interest income and adjusted net interest margin are considered "non-GAAP" financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the Financial Statements (unaudited) in Item 1.

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The following table presents a reconciliation of net interest income to adjusted net interest income and net interest margin to adjusted net interest margin for the three and nine months ended September 30, 2014 and 2013:

Reconciliation of Net Interest Income to Adjusted Net Interest Income and Net Interest Margin to Adjusted Net Interest Margin

| (in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net interest income - tax equivalent basis (1) | $227,159 | $107,946 | $549,742 | $298,351 |
| Adjustments: | | | | |
| Interest and fee reversals on non-accrual loans | 74 | 203 | 646 | 1,321 |
| Covered loan disposal gains | (2,262) | (1,836) | (13,649) | (9,227) |
| Adjusted net interest income - tax equivalent basis (1) | $224,971 | $106,313 | $536,739 | $290,445 |
| Average interest earning assets | $18,963,760 | $10,136,677 | $15,495,014 | $10,201,559 |
| Net interest margin - consolidated (1) | 4.75% | 4.22% | 4.74% | 3.91% |
| Adjusted net interest margin - consolidated (1) | 4.71% | 4.16% | 4.63% | 3.81% |

(1) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $1.4 million and $1.1 million for the three months ended September 30, 2014 and 2013, respectively, and $3.9 million and $3.5 million for the nine months ended September 30, 2014 and 2013, respectively.

The following table presents the returns on average assets, average common shareholders' equity and average tangible common shareholders' equity for the three and nine months ended September 30, 2014 and 2013. For each of the periods presented, the table includes the calculated ratios based on reported net earnings available to common shareholders and operating income as shown in the table above. Our return on average common shareholders' equity is negatively impacted as the result of capital required to support goodwill and other intangibles, net. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger and acquisition-related intangible assets, we believe it beneficial to also consider the return on average tangible common shareholders' equity. The return on average tangible common shareholders' equity is calculated by dividing net earnings available to common shareholders by average shareholders' common equity less average goodwill and other intangible assets, net (excluding MSRs). The return on average tangible common shareholders' equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders' equity.

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Return on Average Assets, Common Shareholders' Equity and Tangible Common Shareholders' Equity

| (dollars in thousands) | Three Months Ended September 30, 2014 | 2013 | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Returns on average assets: | | | | |
| Net earnings available to common shareholders | 1.05 % | 0.81 % | 0.70 % | 0.85 % |
| Operating earnings | 1.16 % | 0.92 % | 1.06 % | 0.91 % |
| Returns on average common shareholders' equity: | | | | |
| Net earnings available to common shareholders | 6.29 % | 5.36 % | 4.30 % | 5.61 % |
| Operating earnings | 6.95 % | 6.11 % | 6.50 % | 6.02 % |
| Returns on average tangible common shareholders' equity: | | | | |
| Net earnings available to common shareholders | 12.48 % | 9.79 % | 8.36 % | 9.59 % |
| Operating earnings | 13.80 % | 11.15 % | 12.64 % | 10.29 % |
| Calculation of average common tangible shareholders' equity: | | | | |
| Average common shareholders' equity | $3,712,813 | $1,722,881 | $2,941,341 | $1,727,229 |
| Less: average goodwill and other intangible assets, net | (1,841,668) | (779,294) | (1,428,705) | (716,137) |
| Average tangible common shareholders' equity | $1,871,145 | $943,587 | $1,512,636 | $1,011,092 |

Additionally, management believes tangible common equity and the tangible common equity ratio are meaningful measures of capital adequacy. Umpqua believes the exclusion of certain intangible assets in the computation of tangible common equity and the tangible common equity ratio provides a meaningful base for period-to-period and company-to-company comparisons, which management believes will assist investors in analyzing the operating results and capital of the Company.  Tangible common equity is calculated as total shareholders' equity less goodwill and other intangible assets, net (excluding MSR).  In addition, tangible assets are total assets less goodwill and other intangible assets, net (excluding MSR).  The tangible common equity ratio is calculated as tangible common shareholders' equity divided by tangible assets. Tangible common equity and the tangible common equity ratio are considered non-GAAP financial measures and should be viewed in conjunction with total shareholders' equity and the total shareholders' equity ratio. The following table provides a reconciliation of ending shareholders' equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of September 30, 2014 and December 31, 2013:

Reconciliations of Total Shareholders' Equity to Tangible Common Shareholders' Equity and Total Assets to Tangible Assets

| (dollars in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Total shareholders' equity | $3,752,508 | $1,727,426 |
| Subtract: | | |
| Goodwill and other intangible assets, net | 1,845,242 | 776,683 |
| Tangible common shareholders' equity | $1,907,266 | $950,743 |
| Total assets | $22,488,059 | $11,636,112 |
| Subtract: | | |
| Goodwill and other intangible assets, net | 1,845,242 | 776,683 |
| Tangible assets | $20,642,817 | $10,859,429 |
| Tangible common equity ratio | 9.24 % | 8.75 % |

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not reviewed or audited.  Although we believe these non-GAAP financial measure are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation or as a substitute for analyses of results as reported under GAAP.

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Net Interest Income

Net interest income is the largest source of our operating income. Net interest income for the three months ended September 30, 2014 was $225.7 million, an increase of $118.9 million, compared to the same period in 2013. Net interest income for the nine months ended September 30, 2014 was $545.8 million, an increase of $250.9 million compared to the same period in 2013. The increases in net interest income for the three and nine months ended September 30, 2014 as compared to the same periods in 2013 are primarily attributable to increases in average non-covered loans and leases and average investment securities available for sale, as well as an increase in discount accretion, as a result of the Sterling Merger, partially offset by the increase in average interest-bearing liabilities also primarily due to the Sterling Merger.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 4.75% for the three months ended September 30, 2014, an increase of 53 basis points as compared to the same period in 2013.  The net interest margin on a fully tax equivalent basis was 4.74% for the nine months ended September 30, 2014, an increase of 83 basis points as compared to the same period in 2013. The increases in net interest margin for the three and nine months ended September 30, 2014 as compared to the same periods in the prior year primarily resulted from an increase in loan yields and an increase in average non-covered loans outstanding. The increase is primarily driven by a higher loan to deposit ratio resulting from the acquisitions of Sterling and FinPac, the accretion of the loan and lease discounts related to the Sterling and FinPac acquisitions, the higher yields related to the FinPac portfolio, and the increase in loan disposal activities associated with the covered loan portfolio.

Loan disposal related activities within the covered loan portfolio, either through loans being paid off in full or transferred to other real estate owned ("OREO"), result in gains within covered loan interest income to the extent assets received in satisfaction of debt (such as cash or the net realizable value of OREO received) exceeds the allocated carrying value of the loan disposed of from the pool.  Loan disposal activities contributed $2.3 million of interest income for the three months ended September 30, 2014 compared to $1.8 million of interest income during the three months ended September 30, 2013. Loan disposal activities contributed $13.6 million of interest income for the nine months ended September 30, 2014 compared to $9.2 million of interest income during the nine months ended September 30, 2013.

Net interest income for the three and nine months ended September 30, 2014 was negatively impacted by the $74,000 and $646,000 reversal of interest and fee income on non-covered, non-accrual loans, as compared to the $203,000 and $1.3 million reversal of interest and fee income during the three and nine months ended September 30, 2013. Excluding the impact of covered loan disposal gains and interest and fee income reversals on non-covered, non-accrual loans, tax equivalent net interest margin would have been 4.71% and 4.63% for the three and nine months ended September 30, 2014 and 4.16% and 3.81% for the three and nine months ended September 30, 2013.

Adding to the increase in net interest margin in the current quarter as compared to the same period of the prior year was the continued reduction of the cost of interest-bearing liabilities, specifically interest-bearing deposits.  The total cost of interest-bearing deposits for the three and nine months ended September 30, 2014 was 0.22% and 0.23%, representing a 7 and 10 basis point decrease compared to the three and nine months ended September 30, 2013, respectively.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds. The following tables present condensed average balance sheet information, together with interest income and yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for the three and nine months ended September 30, 2014 and 2013:

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Average Rates and Balances

| (dollars in thousands) | Three Months Ended September 30, 2014 | | | Three Months Ended September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Income or Expense | Average Yields or Rates | Average Balance | Interest Income or Expense | Average Yields or Rates |
| INTEREST-EARNING ASSETS: | | | | | | |
| Loans held for sale | $274,834 | $2,672 | 3.86 % | $136,261 | $1,086 | 3.16 % |
| Non-covered loans and leases (1) | 14,916,541 | 212,525 | 5.65 % | 7,128,753 | 92,620 | 5.15 % |
| Covered loans, net | 284,352 | 8,775 | 12.24 % | 402,403 | 11,837 | 11.67 % |
| Taxable securities | 2,307,732 | 12,217 | 2.12 % | 1,788,567 | 7,933 | 1.77 % |
| Non-taxable securities (2) | 330,902 | 4,233 | 5.12 % | 237,545 | 3,337 | 5.62 % |
| Temporary investments and interest-bearing deposits | 849,399 | 544 | 0.25 % | 443,148 | 284 | 0.25 % |
| Total interest earning assets | 18,963,760 | 240,966 | 5.04 % | 10,136,677 | 117,097 | 4.58 % |
| Allowance for non-covered loan and lease losses | (101,307) | | | (86,246) | | |
| Other assets | 3,358,546 | | | 1,410,298 | | |
| Total assets | $22,220,999 | | | $11,460,729 | | |
| INTEREST-BEARING LIABILITIES: | | | | | | |
| Interest-bearing demand deposits | $1,915,562 | $239 | 0.05 % | $1,166,527 | $185 | 0.10 % |
| Money market deposits | 5,955,880 | 2,080 | 0.14 % | 3,260,782 | 853 | 0.10 % |
| Savings deposits | 931,899 | 122 | 0.05 % | 531,645 | 85 | 0.06 % |
| Time deposits | 3,145,390 | 4,332 | 0.55 % | 1,732,625 | 3,722 | 0.85 % |
| Repurchase agreements | 327,380 | 54 | 0.07 % | 188,367 | 35 | 0.07 % |
| Term debt | 1,057,527 | 3,586 | 1.35 % | 252,412 | 2,338 | 3.67 % |
| Junior subordinated debentures | 347,567 | 3,394 | 3.87 % | 188,102 | 1,933 | 4.08 % |
| Total interest-bearing liabilities | 13,681,205 | 13,807 | 0.40 % | 7,320,460 | 9,151 | 0.50 % |
| Non-interest-bearing deposits | 4,558,672 | | | 2,317,932 | | |
| Other liabilities | 268,309 | | | 99,456 | | |
| Total liabilities | 18,508,186 | | | 9,737,848 | | |
| Common equity | 3,712,813 | | | 1,722,881 | | |
| Total liabilities and shareholders' equity | $22,220,999 | | | $11,460,729 | | |
| NET INTEREST INCOME | | $227,159 | | | $107,946 | |
| NET INTEREST SPREAD | | | 4.64 % | | | 4.08 % |
| AVERAGE YIELD ON EARNING ASSETS (1), (2) | | | 5.04 % | | | 4.58 % |
| INTEREST EXPENSE TO EARNING ASSETS | | | 0.29 % | | | 0.36 % |
| NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2) | | | 4.75 % | | | 4.22 % |

(1) Non-covered non-accrual loans and leases are included in the average balance.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $1.4 million and $1.1 million for the three months ended September 30, 2014 and 2013, respectively.

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| (dollars in thousands) | Nine Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2013 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest Income or Expense | Average Yields or Rates | Average Balance | Interest Income or Expense | Average Yields or Rates |
| INTEREST-EARNING ASSETS: | | | | | | |
| Loans held for sale | $188,646 | $5,748 | 4.07 % | $154,839 | $3,916 | 3.38 % |
| Non-covered loans and leases (1) | 11,913,105 | 493,778 | 5.54 % | 6,833,504 | 246,769 | 4.83 % |
| Covered loans, net | 316,690 | 37,424 | 15.80 % | 429,909 | 41,167 | 12.80 % |
| Taxable securities | 2,040,394 | 34,414 | 2.25 % | 2,049,630 | 24,794 | 1.61 % |
| Non-taxable securities (2) | 293,000 | 11,528 | 5.25 % | 250,535 | 10,185 | 5.42 % |
| Temporary investments and interest bearing deposits | 743,179 | 1,407 | 0.25 % | 483,142 | 937 | 0.26 % |
| Total interest earning assets | 15,495,014 | 584,299 | 5.04 % | 10,201,559 | 327,768 | 4.30 % |
| Allowance for non-covered loan and lease losses | (93,053 ) | | | (85,758 ) | | |
| Other assets | 2,602,355 | | | 1,352,547 | | |
| Total assets | $18,004,316 | | | $11,468,348 | | |
| INTEREST-BEARING LIABILITIES: | | | | | | |
| Interest bearing demand deposits | $1,633,434 | $673 | 0.06 % | $1,173,492 | $738 | 0.08 % |
| Money market deposits | 4,958,574 | 4,752 | 0.13 % | 3,259,252 | 2,616 | 0.11 % |
| Savings deposits | 786,215 | 302 | 0.05 % | 508,838 | 227 | 0.06 % |
| Time deposits | 2,505,601 | 10,969 | 0.59 % | 1,868,414 | 13,006 | 0.93 % |
| Repurchase agreements | 296,483 | 298 | 0.13 % | 162,170 | 99 | 0.08 % |
| Term debt | 750,414 | 9,223 | 1.64 % | 252,826 | 6,916 | 3.66 % |
| Junior subordinated debentures | 285,469 | 8,340 | 3.91 % | 189,457 | 5,815 | 4.10 % |
| Total interest-bearing liabilities | 11,216,190 | 34,557 | 0.41 % | 7,414,449 | 29,417 | 0.53 % |
| Non-interest-bearing deposits | 3,653,158 | | | 2,228,530 | | |
| Other liabilities | 193,627 | | | 98,140 | | |
| Total liabilities | 15,062,975 | | | 9,741,119 | | |
| Common equity | 2,941,341 | | | 1,727,229 | | |
| Total liabilities and shareholders' equity | $18,004,316 | | | $11,468,348 | | |
| NET INTEREST INCOME | | $549,742 | | | $298,351 | |
| NET INTEREST SPREAD | | | 4.63 % | | | 3.77 % |
| AVERAGE YIELD ON EARNING ASSETS (1), (2) | | | 5.04 % | | | 4.30 % |
| INTEREST EXPENSE TO EARNING ASSETS | | | 0.30 % | | | 0.39 % |
| NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2) | | | 4.74 % | | | 3.91 % |

(1) Non-covered non-accrual loans and leases are included in the average balance.
(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $3.9 million and $3.5 million for the nine months ended September 30, 2014 and 2013, respectively.

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The following tables set forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for the three and nine months ended September 30, 2014 as compared to the same periods in 2013. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

| Rate/Volume Analysis (in thousands) | Three Months Ended September 30, 2014 compared to 2013 Increase (decrease) in interest income and expense due to changes in | | |
|---|---|---|---|
| | Volume | Rate | Total |
| INTEREST-EARNING ASSETS: | | | |
| Loans held for sale | $1,304 | $282 | $1,586 |
| Non-covered loans and leases | 110,163 | 9,742 | 119,905 |
| Covered loans, net | (3,619) | 557 | (3,062) |
| Taxable securities | 2,571 | 1,713 | 4,284 |
| Non-taxable securities (1) | 1,216 | (320) | 896 |
| Temporary investments and interest bearing deposits | 260 | — | 260 |
| Total (1) | 111,895 | 11,974 | 123,869 |
| INTEREST-BEARING LIABILITIES: | | | |
| Interest bearing demand deposits | 101 | (47) | 54 |
| Money market deposits | 874 | 353 | 1,227 |
| Savings deposits | 55 | (18) | 37 |
| Time deposits | 2,280 | (1,670) | 610 |
| Repurchase agreements | 23 | (4) | 19 |
| Term debt | 3,514 | (2,266) | 1,248 |
| Junior subordinated debentures | 1,562 | (101) | 1,461 |
| Total | 8,409 | (3,753) | 4,656 |
| Net increase in net interest income (1) | $103,486 | $15,727 | $119,213 |

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 35% tax rate.

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| (in thousands) | Nine Months Ended September 30, 2014 compared to 2013 Increase (decrease) in interest income and expense due to changes in | | |
|---|---|---|---|
| | Volume | Rate | Total |
| INTEREST-EARNING ASSETS: | | | |
| Loans held for sale | $945 | $887 | $1,832 |
| Non-covered loans and leases | 206,045 | 40,964 | 247,009 |
| Covered loans, net | (12,186) | 8,443 | (3,743) |
| Taxable securities | (113) | 9,733 | 9,620 |
| Non-taxable securities (1) | 1,679 | (336) | 1,343 |
| Temporary investments and interest bearing deposits | 494 | (24) | 470 |
| Total (1) | 196,864 | 59,667 | 256,531 |
| INTEREST-BEARING LIABILITIES: | | | |
| Interest bearing demand deposits | 236 | (301) | (65) |
| Money market | 1,557 | 579 | 2,136 |
| Savings | 110 | (35) | 75 |
| Time deposits | 3,648 | (5,685) | (2,037) |
| Repurchase agreements | 113 | 86 | 199 |
| Term debt | 7,754 | (5,447) | 2,307 |
| Junior subordinated debentures | 2,817 | (292) | 2,525 |
| Total | 16,235 | (11,095) | 5,140 |
| Net increase in net interest income (1) | $180,629 | $70,762 | $251,391 |

(1) Tax exempt income has been adjusted to a tax equivalent basis at a 35% tax rate.

Provision for Loan and Lease Losses

The provision for non-covered loan and lease losses was $14.4 million and $35.2 million for the three and nine months ended September 30, 2014, respectively, as compared to $3.0 million and $13.0 million for the same periods in 2013. As an annualized percentage of average outstanding non-covered loans and leases, the provision for loan and lease losses recorded for the three and nine months ended September 30, 2014 was 0.38% and 0.40%, respectively, as compared to 0.17% and 0.25% in the same periods in 2013.

The increases in the provision for loan and lease losses for the three and nine months ended September 30, 2014 as compared to the same periods in 2013 was principally attributable to new loan production from the acquired Sterling offices, growth in the FinPac portfolio and organic loan growth from the Bank.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral-dependent loans. Therefore, the non-covered, non-accrual loans of $42.4 million as of September 30, 2014 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

The provision for non-covered loan and lease losses is based on management's evaluation of inherent risks in the loan portfolio and a corresponding analysis of the allowance for non-covered loan and lease losses. Additional discussion on loan quality and the allowance for non-covered loan and lease losses is provided under the heading Asset Quality and Non-Performing Assets below.

The recapture of provision for covered loan losses was $98,000 and $230,000 for the three and nine months ended September 30, 2014, as compared to the recapture of provision for covered loan losses of $1.9 million and $4.7 million for the same periods in 2013. These changes are primarily due to the continued improvement in the amount and the timing of expected

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cash flows on the acquired loans compared to those previously estimated, and charge-offs of unpaid principal balance, as measured on a pool basis.

Non-Interest Income

Non-interest income for the three months ended September 30, 2014 was $61.9 million, an increase of $35.8 million, or 136.9%, as compared to the same period in 2013. Non-interest income for the nine months ended September 30, 2014 was $129.5 million, an increase of $34.8 million, or 36.8%, as compared to the same period in 2013. The following table presents the key components of non-interest income for the three and nine months ended September 30, 2014 and 2013:

| Non-Interest Income (in thousands) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change Amount | Change Percent | 2014 | 2013 | Change Amount | Change Percent |
| Service charges on deposit accounts | $16,090 | $8,374 | $7,716 | 92 % | $39,228 | $22,844 | $16,384 | 72 % |
| Brokerage commissions and fees | 4,882 | 3,854 | 1,028 | 27 % | 13,173 | 11,152 | 2,021 | 18 % |
| Residential mortgage banking revenue, net | 25,996 | 15,071 | 10,925 | 72 % | 60,776 | 62,928 | (2,152) | (3)% |
| Gain on investment securities, net | 902 | 3 | 899 | nm | 1,878 | 18 | 1,860 | nm |
| Loss on junior subordinated debentures carried at fair value | (1,590) | (554) | (1,036) | 187 % | (3,501) | (1,643) | (1,858) | 113 % |
| Change in FDIC indemnification asset | (2,728) | (6,474) | 3,746 | (58)% | (13,169) | (19,841) | 6,672 | (34)% |
| BOLI income | 2,161 | 763 | 1,398 | 183 % | 4,864 | 2,432 | 2,432 | 100 % |
| Other income | 16,211 | 5,107 | 11,104 | 217 % | 26,211 | 16,766 | 9,445 | 56 % |
| Total | $61,924 | $26,144 | $35,780 | 137 % | $129,460 | $94,656 | $34,804 | 37 % |

nm = Not Meaningful

The increase in deposit service charges in the three and nine months ended September 30, 2014 compared to the same period in 2013 was primarily the result of Sterling Merger. Non-maturity deposits of $5.4 billion were acquired from Sterling.

Residential mortgage banking revenue increased for the three months ended September 30, 2014 due to the increased production resulting from legacy Sterling operations. Residential mortgage banking revenue decreased for the nine months ended September 30, 2014 due to a decrease in refinancing activity, partially offset by the increased production resulting from the legacy Sterling operations. Closed for sale mortgage volume for the three and nine months ended September 30, 2014 was $695.9 million and $1.5 billion, which represented an increase of 94.7% over the comparable prior year three month period and an increase of 14.7% compared to the same nine month period of the prior year.

For the three and nine months ended September 30, 2014, we recorded an increase in losses on junior subordinated debentures carried at fair value of $1.0 million and $1.9 million, respectively, over the same periods in 2013, which related to the liabilities assumed in the Sterling Merger. Additional information on the junior subordinated debentures carried at fair value is included in Note 9 of the Notes to Condensed Consolidated Financial Statements and under the heading Junior Subordinated Debentures.

The change in FDIC indemnification asset represents a change in cash flows expected to be recoverable under the loss-share agreements entered into with the FDIC in connection with FDIC-assisted acquisitions. Generally the periodic amortization of this asset will reduce over time as the assets covered by these loss sharing agreements payoff or are resolved over time. The non-single family loss sharing agreements will expire in the first half of 2015, at which time the carrying value of the FDIC indemnification asset will be largely amortized off.

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Other income for the three and nine months ended September 30, 2014 compared to the same periods in the prior year increased by $11.1 million and $9.4 million, respectively, primarily due to gains on sales of multi-family and portfolio residential loans of $7.1 million in the third quarter 2014.

Non-Interest Expense

Non-interest expense for the three months ended September 30, 2014 was $182.6 million, an increase of $87.0 million, or 91.0%, as compared to the same period in 2013. Non-interest expense for the nine months ended September 30, 2014 was $493.2 million, an increase of $223.9 million, or 83%, as compared to the same periods in 2013. The following table presents the key elements of non-interest expense for the three and nine months ended September 30, 2014 and 2013:

Non-Interest Expense

| (in thousands) | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | Change Amount | Change Percent | 2014 | 2013 | Change Amount | Change Percent |
| Salaries and employee benefits | $102,564 | $53,699 | $48,865 | 91 % | $251,340 | $157,271 | $94,069 | 60 % |
| Net occupancy and equipment | 33,029 | 16,019 | 17,010 | 106 % | 78,276 | 45,813 | 32,463 | 71 % |
| Communications | 3,932 | 2,772 | 1,160 | 42 % | 11,000 | 8,802 | 2,198 | 25 % |
| Marketing | 2,739 | 1,596 | 1,143 | 72 % | 4,901 | 3,753 | 1,148 | 31 % |
| Services | 14,619 | 6,445 | 8,174 | 127 % | 33,010 | 18,339 | 14,671 | 80 % |
| FDIC assessments | 3,038 | 1,709 | 1,329 | 78 % | 7,476 | 5,032 | 2,444 | 49 % |
| Net loss (gain) on non-covered other real estate owned | 271 | (27) | 298 | nm | 431 | (303) | 734 | nm |
| Net loss (gain) on covered other real estate owned | 42 | (68) | 110 | (162)% | 76 | 154 | (78) | (51)% |
| Intangible amortization | 3,103 | 1,186 | 1,917 | 162 % | 7,105 | 3,595 | 3,510 | 98 % |
| Merger related expenses | 8,632 | 4,856 | 3,776 | 78 % | 72,146 | 7,197 | 64,949 | nm |
| Other expenses | 10,589 | 7,417 | 3,172 | 43 % | 27,446 | 19,644 | 7,802 | 40 % |
| Total | $182,558 | $95,604 | $86,954 | 91 % | $493,207 | $269,297 | $223,910 | 83 % |

nm = Not Meaningful

Salaries and employee benefits costs increased by $48.9 million in the three months ended September 30, 2014, as compared to the same period prior year. Salaries and employee benefits costs increased by $94.1 million in the nine months ended September 30, 2014, as compared to the same period prior year. For both periods, the increases primarily related to the increase in operations and personnel related to the Sterling Merger.

Net occupancy and equipment expense increased by $17.0 million for the three months ended September 30, 2014, and increased by $32.5 million for the nine months ended September 30, 2014, as compared to the same periods in the prior year both primarily as a result of operations and facilities acquired in the Sterling Merger.

FDIC assessments increased for the three and nine months ended September 30, 2014 as compared to the same periods in the prior year, primarily as a result of the Sterling acquisition due to an increase in the assessment base.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. The merger related expenses incurred in 2014 relate to the Sterling Merger. The merger related expense in 2013 related to the acquisition of Circle Bancorp in the fourth quarter of 2012, the acquisition of FinPac on July 1, 2013, and pre-merger activities related to the Sterling Merger. A detail of merger related expenses by type is included in Note 2 of the Notes to Condensed Consolidated Financial Statements.

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The Sterling Merger was also the primary driver for the increases over the prior year periods for services, communications, marketing, intangible amortization and other expenses.

Income Taxes

The Company's consolidated effective tax rate as a percentage of pre-tax income for the three and nine months ended September 30, 2014 was 35.0% and 35.4%, as compared to 35.2% and 34.7% for the three and nine months ended September 30, 2013. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 4.6% (net of the federal tax benefit) principally because of the relative amount of income earned in each state jurisdiction, non-taxable income arising from bank-owned life insurance, income on tax-exempt investment securities, nondeductible merger expenses and tax credits arising from low income housing investments.

FINANCIAL CONDITION

Investment Securities

Trading securities consist of securities held in inventory by Umpqua Investments for sale to its clients and securities invested in trust for the benefit of certain executives or former employees of acquired institutions as required by agreements. Trading securities were $9.7 million at September 30, 2014, as compared to $6.0 million at December 31, 2013. This increase is primarily attributable to trading securities acquired in the Sterling Merger, partially offset by a decrease in Umpqua Investments' inventory of trading securities.

Investment securities available for sale were $2.4 billion as of September 30, 2014, as compared to $1.8 billion at December 31, 2013. The increase was primarily due to the Sterling Merger and $346.8 million of purchases, partially offset by sales and paydowns of $1.1 billion.

Investment securities held to maturity were $5.4 million as of September 30, 2014, as compared to holdings of $5.6 million at December 31, 2013. The change primarily related to paydowns and maturities of investment securities held to maturity of $566,000.

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of September 30, 2014 and December 31, 2013:

Investment Securities Composition

| (dollars in thousands) | Investment Securities Available for Sale | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2014 | | | December 31, 2013 | | |
| | Fair Value | % | | Fair Value | % | |
| U.S. Treasury and agencies | $230 | — | % | $268 | — | % |
| Obligations of states and political subdivisions | 341,246 | 14 | % | 235,205 | 13 | % |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,056,532 | 86 | % | 1,553,541 | 87 | % |
| Investments in mutual funds and other equity securities | 2,053 | — | % | 1,964 | — | % |
| Total | $2,400,061 | 100 | % | $1,790,978 | 100 | % |

| (dollars in thousands) | Investment Securities Held to Maturity | |
|---|---|---|
| | September 30, 2014 | December 31, 2013 |

| | Amortized Cost | % | | Amortized Cost | % | |
|---|---|---|---|---|---|---|
| Residential mortgage-backed securities and collateralized mortgage obligations | $5,223 | 98 | % | $5,563 | 100 | % |
| Other investment securities | 133 | 2 | % | — | — | % |
| Total | $5,356 | 100 | % | $5,563 | 100 | % |

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We review investment securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI"), taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors.

Gross unrealized losses in the available for sale investment portfolio was $18.8 million at September 30, 2014. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $18.4 million. The unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. 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. Additional information about the investment portfolio is provided in Note 3 of the Notes to Condensed Consolidated Financial Statements.

Restricted Equity Securities

Restricted equity securities were $120.8 million at September 30, 2014 and $30.7 million at December 31, 2013. The increase of $90.1 million is primarily attributable to Federal Home Loan Banks ("FHLB") stock acquired in the Sterling Merger, net of redemptions by the FHLB of San Francisco and Seattle during the period. Of the $120.8 million at September 30, 2014, $119.3 million represented the Bank's investment in the FHLBs of Seattle and San Francisco. The remaining restricted equity securities represented investments in Pacific Coast Bankers' Bancshares stock. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

Loans and Leases

Non-Covered Loans and Leases, net

Total non-covered loans and leases outstanding at September 30, 2014 were $15.0 billion, an increase of $7.6 billion as compared to year-end 2013. The increase was primarily due to the $7.1 billion of loans acquired in the Sterling Merger, net of $88.3 million of loans included in the branch divestiture. The increase also included net new loan and lease originations of $867.1 million and covered loans transferred to non-covered loans and leases of $9.5 million, partially offset by non-covered loans sold of $276.0 million, charge-offs of $18.1 million, and transfers to other real estate owned of $12.3 million during the period. The following table presents the concentration distribution of our non-covered loan and lease portfolio at September 30, 2014 and December 31, 2013.

Non-Covered Loan and Lease Concentrations

| (dollars in thousands) | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage | | Amount | Percentage | |
| Commercial real estate | | | | | | |
| Non-owner occupied term, net | $3,273,932 | 22.0 | % | $2,328,260 | 31.7 | % |
| Owner occupied term, net | 2,636,951 | 17.6 | % | 1,259,583 | 17.1 | % |
| Multifamily, net | 2,536,710 | 16.9 | % | 403,537 | 5.5 | % |
| Construction & development, net | 245,457 | 1.6 | % | 245,231 | 3.3 | % |
| Residential development, net | 73,781 | 0.5 | % | 88,413 | 1.2 | % |
| Commercial | | | | | | |
| Term, net | 1,110,028 | 7.4 | % | 770,845 | 10.5 | % |
| LOC & other, net | 1,338,821 | 8.9 | % | 987,360 | 13.4 | % |

| | | | | | | |
|---|---|---|---|---|---|---|
| Leases and equipment finance, net | 492,221 | 3.3 | % | 361,591 | 4.9 | % |
| Residential | | | | | | |
| Mortgage, net | 2,085,266 | 13.9 | % | 597,201 | 8.1 | % |
| Home equity loans & lines, net | 818,765 | 5.5 | % | 264,269 | 3.6 | % |
| Consumer & other, net | 363,879 | 2.4 | % | 48,113 | 0.7 | % |
| Total, net of deferred fees and costs | $14,975,811 | 100.0 | % | $7,354,403 | 100.0 | % |

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Covered Loans, net

Total covered loans outstanding at September 30, 2014 were $275.6 million, a decrease of $88.4 million as compared to year-end 2013. This decrease was principally attributable to net loan paydowns and maturities of $77.4 million and transfers of covered loans to non-covered loans and leases of $9.5 million. The following table presents the concentration distribution of our covered loan portfolio at September 30, 2014 and December 31, 2013.

| Covered Loan Concentrations (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $149,521 | 52.8 % | $206,902 | 55.4 % |
| Owner occupied term, net | 45,919 | 16.2 % | 49,817 | 13.3 % |
| Multifamily, net | 29,001 | 10.2 % | 37,671 | 10.1 % |
| Construction & development, net | 2,359 | 0.8 % | 3,455 | 0.9 % |
| Residential development, net | 3,068 | 1.1 % | 7,286 | 1.9 % |
| Commercial | | | | |
| Term, net | 9,630 | 3.4 % | 15,719 | 4.2 % |
| LOC & other, net | 5,920 | 2.1 % | 6,698 | 1.8 % |
| Residential | | | | |
| Mortgage, net | 17,067 | 6.0 % | 22,316 | 6.0 % |
| Home equity loans & lines, net | 17,289 | 6.1 % | 19,637 | 5.3 % |
| Consumer & other, net | 3,616 | 1.3 % | 4,262 | 1.1 % |
| Total, net of deferred fees and costs | 283,390 | 100.0 % | 373,763 | 100.0 % |
| Allowance for covered loans | (7,828) | | (9,771) | |
| Total | $275,562 | | $363,992 | |

The covered loans are subject to loss-sharing agreements with the FDIC. Under the terms of the three acquisition loss-sharing agreements, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. In general, the FDIC will absorb 80% of losses and share in 80% of loss recoveries on the covered assets. Under the terms of two of the loss share agreements, the FDIC will absorb 95% of losses and share in 95% of loss recoveries exceeding $90.0 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Discussion of and tables related to the covered loan segment is provided under the heading Asset Quality and Non-Performing Assets.

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Asset Quality and Non-Performing Assets

Non-Covered Non-Performing Assets

The following table summarizes our non-covered non-performing assets and restructured loans as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Non-covered loans and leases on non-accrual status | $42,397 | | $31,891 | |
| Non-covered loans and leases past due 90 days or more and accruing | 7,416 | | 3,430 | |
| Total non-covered non-performing loans and leases | 49,813 | | 35,321 | |
| Non-covered other real estate owned | 31,753 | | 21,833 | |
| Total non-covered non-performing assets | $81,566 | | $57,154 | |
| Restructured loans (1) | $63,507 | | $68,791 | |
| Allowance for non-covered loan and lease losses | $107,807 | | $85,314 | |
| Reserve for unfunded commitments | 4,388 | | 1,436 | |
| Allowance for non-covered credit losses | $112,195 | | $86,750 | |
| Asset quality ratios: | | | | |
| Non-covered non-performing assets to total assets | 0.36 | % | 0.49 | % |
| Non-covered non-performing loans and leases to total non-covered loans and leases | 0.33 | % | 0.48 | % |
| Allowance for non-covered loan and leases losses to total non-covered loans and leases | 0.72 | % | 1.16 | % |
| Allowance for non-covered credit losses to total non-covered loans and leases | 0.75 | % | 1.18 | % |
| Allowance for non-covered credit losses to total non-covered non-performing loans and leases | 225 | % | 246 | % |

(1) Represents accruing restructured non-covered loans performing according to their restructured terms.

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The Bank has written down impaired, non-covered non-accrual loans as of September 30, 2014 to their estimated net realizable value and expects resolution with no additional material loss, absent further decline in market prices. The decline in the asset quality ratios noted above relates to the Sterling Merger, as the loans acquired were recorded at fair value, so no allowance for loan and lease losses has been recorded for these acquired loans. The following tables summarize our non-covered non-performing assets by loan type as of September 30, 2014 and December 31, 2013:

Non-Covered Non-Performing Loans by Type

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Commercial real estate | | |
| Non-owner occupied term, net | $15,900 | $9,193 |
| Owner occupied term, net | 3,555 | 6,814 |
| Multifamily, net | 1,311 | 935 |
| Construction & development, net | — | — |
| Residential development, net | — | 2,801 |
| Commercial | | |
| Term, net | 17,068 | 1,222 |
| LOC & other, net | 2,104 | 8,723 |
| Leases and equipment finance, net | 3,242 | 3,330 |
| Residential | | |
| Mortgage, net | 5,424 | 160 |
| Home equity loans & lines, net | 959 | 2,070 |
| Consumer & other, net | 250 | 73 |
| Total | $49,813 | $35,321 |

The Company has performed, and will continue to perform, extensive reviews of our permanent commercial real estate portfolio, including stress testing. We performed reviews on both our non-owner and owner occupied credits to verify leasing status, to ensure the accuracy of risk ratings, and to develop proactive action plans with borrowers on projects where debt service coverage has dropped below the Bank's benchmark. The stress testing has been performed to determine the effect of rising cap rates, interest rates and vacancy rates, on this portfolio. Based on our analysis, the Bank believes lending teams are effectively managing the risks in this portfolio. There can be no assurance that any further declines in economic conditions, such as potential increases in retail or office vacancy rates, will exceed the projected assumptions utilized in the stress testing and may result in additional non-covered, non-performing loans in the future.

Non-Covered Restructured Loans

At September 30, 2014 and December 31, 2013, non-covered impaired loans of $63.5 million and $68.8 million, respectively, were classified as non-covered performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The non-covered performing restructured loans on accrual status represent principally the only impaired loans accruing interest at September 30, 2014. In order for a restructured loan to be considered performing and on accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan must be 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.

A further decline in the economic conditions in our general market areas or other factors could adversely impact individual borrowers or the loan portfolio in general. Accordingly, there can be no assurance that loans will not become 90 days or more past due, become impaired or placed on non-accrual status, restructured or transferred to other real estate owned in the future. Additional information about the loan portfolio is provided in Note 5 of the Notes to Condensed Consolidated Financial Statements.

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Covered Non-Performing Assets

Covered non-performing assets totaled $2.7 million, or 0.01% of total assets at September 30, 2014, as compared to $2.1 million, or 0.02% of total assets at December 31, 2013. These covered nonperforming assets are subject to shared-loss agreements with the FDIC.

Total Non-Performing Assets

The following tables summarize our total (including covered and non-covered) nonperforming assets at September 30, 2014 and December 31, 2013:

| (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Loans and leases on non-accrual status | $42,397 | | $31,891 | |
| Loans and leases past due 90 days or more and accruing | 7,416 | | 3,430 | |
| Total non-performing loans and leases | 49,813 | | 35,321 | |
| Other real estate owned | 34,456 | | 23,935 | |
| Total non-performing assets | $84,269 | | $59,256 | |
| Asset quality ratios: | | | | |
| Total non-performing assets to total assets | 0.37 | % | 0.51 | % |
| Total non-performing loans and leases to total loans and leases | 0.33 | % | 0.46 | % |

Allowance for Non-Covered Loan and Lease Losses and Reserve for Unfunded Commitments

The ALLL totaled $107.8 million at September 30, 2014, an increase of $22.5 million from $85.3 million at December 31, 2013. The following table shows the activity in the ALLL for the three and nine months ended September 30, 2014 and 2013:

Allowance for Non-Covered Loan and Lease Losses

| (in thousands) | Three months ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| Balance, beginning of period | $97,995 | | $85,836 | | $85,314 | | $85,391 | |
| Total loans charged-off | (6,743 | ) | (6,317 | ) | (18,122 | ) | (19,646 | ) |
| Total recoveries | 2,124 | | 2,167 | | 5,385 | | 5,960 | |
| Net charge-offs | (4,619 | ) | (4,150 | ) | (12,737 | ) | (13,686 | ) |
| Provision charged to operations | 14,431 | | 3,008 | | 35,230 | | 12,989 | |
| Balance, end of period | $107,807 | | $84,694 | | $107,807 | | $84,694 | |
| As a percentage of average non-covered loans and leases (annualized): | | | | | | | | |
| Net charge-offs | 0.12 | % | 0.23 | % | 0.14 | % | 0.26 | % |
| Provision for non-covered loan and lease losses | 0.38 | % | 0.17 | % | 0.40 | % | 0.25 | % |
| Recoveries as a percentage of charge-offs | 31.50 | % | 34.30 | % | 29.72 | % | 30.34 | % |

The increase in non-covered allowance for loan and lease losses as of September 30, 2014 compared to the same period of the prior year was primarily the result of growth in our non-covered loan and lease portfolios, partially offset by continued stabilizing credit quality characteristics of the portfolio. Additional discussion on the change in provision for loan and lease losses is provided under the heading Provision for Loan and Lease Losses above.

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The following table sets forth the allocation of the allowance for non-covered loan and lease losses and percent of loans in each category to total loans and leases (excluding deferred loan fees) as of September 30, 2014 and December 31, 2013:

| (dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Commercial real estate | $52,357 | 58.6 % | $53,433 | 58.8 % |
| Commercial | 38,590 | 19.6 % | 24,191 | 28.8 % |
| Residential | 12,185 | 19.4 % | 6,827 | 11.7 % |
| Consumer & other | 4,675 | 2.4 % | 863 | 0.7 % |
| Unallocated | — | | — | |
| Allowance for non-covered loan and lease losses | $107,807 | | $85,314 | |

At September 30, 2014, the recorded investment in non-covered loans classified as impaired totaled $106.4 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $1.2 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former non-covered restructured loans and nonaccrual loans. At December 31, 2013, the total recorded investment in non-covered impaired loans was $100.8 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $1.8 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former non-covered restructured loans and nonaccrual loans at December 31, 2013.

The following table presents a summary of activity in the reserve for unfunded commitments ("RUC"):

Summary of Reserve for Unfunded Commitments Activity

| (in thousands) | Three months ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $4,845 | $1,327 | $1,436 | $1,223 |
| Net change to other expense | (457) | 48 | (1,014) | 152 |
| Acquired reserve | — | — | 3,966 | — |
| Balance, end of period | $4,388 | $1,375 | $4,388 | $1,375 |

We believe that the ALLL and RUC at September 30, 2014 are sufficient to absorb losses inherent in the loan and lease portfolio and credit commitments outstanding as of that date based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan and lease growth, and a detailed review of the quality of the loan and lease portfolio, involves uncertainty and judgment. Therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

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Allowance for Covered Loan Losses

The covered ALLL totaled $7.8 million at September 30, 2014, a decrease of $1.9 million from the $9.8 million at December 31, 2013. The change in the covered ALLL, as compared to December 31, 2013, results from the improvement in the amount and the timing of expected cash flows on the acquired loans compared to those previously estimated and charge-offs of unpaid principal balance against previously established allowance, as measured on a pool basis. The following table summarizes activity related to the allowance for covered loan losses for the three and nine months ended September 30, 2014 and 2013:

| Allowance for Covered Loan Losses (in thousands) | Three months ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $8,500 | $14,367 | $9,771 | $18,275 |
| Total loans charged-off | (781) | (1,095) | (2,968) | (3,116) |
| Total recoveries | 207 | 550 | 1,255 | 1,503 |
| Net charge-offs | (574) | (545) | (1,713) | (1,613) |
| Recapture of covered provision charged to operations | (98) | (1,904) | (230) | (4,744) |
| Balance, end of period | $7,828 | $11,918 | $7,828 | $11,918 |
| As a percentage of average covered loans (annualized): | | | | |
| Net charge-offs | 0.80% | 0.54% | 0.72% | 0.50% |
| Recapture of provision for covered loan losses | (0.14)% | (1.88)% | (0.10)% | (1.48)% |

The following table sets forth the allocation of the allowance for covered loan losses and percent of covered loans in each category to total loans as of September 30, 2014 and December 31, 2013:

| (in thousands) | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Commercial real estate, net | $4,282 | 81.1% | $6,105 | 81.6% |
| Commercial, net | 2,641 | 5.5% | 2,837 | 6.0% |
| Residential, net | 787 | 12.1% | 660 | 11.3% |
| Consumer & other, net | 118 | 1.3% | 169 | 1.1% |
| Allowance for covered loan losses | $7,828 | | $9,771 | |

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Residential Mortgage Servicing Rights

The following table presents the key elements of our residential mortgage servicing rights portfolio for the three and nine months ended September 30, 2014 and 2013:

Summary of Residential Mortgage Servicing Rights

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of period | $114,192 | $38,192 | $47,765 | $27,428 |
| Acquired/purchased MSR | — | — | 62,770 | — |
| Additions for new MSR capitalized | 8,813 | 4,072 | 16,583 | 15,182 |
| Changes in fair value: | | | | |
| Due to changes in model inputs or assumptions(1) | (672) | 3,406 | (2,543) | 3,739 |
| Other(2) | (3,608) | (3,817) | (5,850) | (4,496) |
| Balance, end of period | $118,725 | $41,853 | $118,725 | $41,853 |

(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 residential serviced loan portfolio as of September 30, 2014 and December 31, 2013 was as follows:

| (dollars in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Balance of residential loans serviced for others | $11,300,947 | $4,362,499 |
| MSR as a percentage of serviced loans | 1.05 % | 1.09 % |

Mortgage servicing rights are adjusted to fair value quarterly with the change recorded in mortgage banking revenue.

Goodwill and Other Intangibles Assets

At September 30, 2014, we had goodwill of $1.8 billion, as compared to $764.3 million at December 31, 2013. Goodwill of $1.0 billion was recorded during 2014 in connection with the Sterling Merger. No goodwill impairment losses have been recognized in the periods presented.

At September 30, 2014, we had other intangible assets of $59.8 million, as compared to $12.4 million at December 31, 2013.   Other intangibles of $54.6 million were recorded in connection with the Sterling Merger.

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Deposits

Total deposits were $16.7 billion at September 30, 2014, an increase of $7.6 billion, as compared to December 31, 2013. The increase resulted primarily from the $7.1 billion of deposits acquired from Sterling, net of $211.5 million of deposits included in the store divestitures. The increase also includes $749.1 million of organic deposit growth.

The following table presents the deposit balances by major category as of September 30, 2014 and December 31, 2013:

| (dollars in thousands) | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage | | Amount | Percentage | |
| Non-interest bearing | $4,741,897 | 28 | % | $2,436,477 | 26 | % |
| Interest bearing demand | 1,942,792 | 12 | % | 1,233,070 | 14 | % |
| Money market | 5,998,339 | 36 | % | 3,349,946 | 37 | % |
| Savings | 952,122 | 6 | % | 560,699 | 6 | % |
| Time, $100,000 or greater | 2,074,427 | 12 | % | 1,065,380 | 12 | % |
| Time, less than $100,000 | 1,018,033 | 6 | % | 472,088 | 5 | % |
| Total | $16,727,610 | 100 | % | $9,117,660 | 100 | % |

At September 30, 2014 and December 31, 2013, the Company's CDARS balances totaled $84.0 million and $66.9 million, respectively.  Of these totals, at September 30, 2014 and December 31, 2013, $78.8 million and $62.2 million, respectively, represented time deposits equal to or greater than $100,000 but were fully insured under current deposit insurance limits.

Borrowings

At September 30, 2014, the Bank had outstanding $339.4 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Bank assumed in the Sterling Merger $584.7 million of securities sold under agreements to repurchase with the majority repaid after acquisition. The Bank had outstanding term debt of $1.1 billion at September 30, 2014. Term debt outstanding as of September 30, 2014 increased $805.6 million since December 31, 2013 primarily as a result of $854.7 million assumed in the Sterling Merger. Advances from the FHLB amounted to $1.1 billion of the total term debt and are secured by investment securities and loans secured by real estate.  The FHLB advances have fixed interest rates ranging from 0.41% to 7.10% and mature in 2014 through 2030.

Junior Subordinated Debentures

We had junior subordinated debentures with carrying values of $349.2 million and $189.2 million at September 30, 2014 and December 31, 2013, respectively.  We assumed junior subordinated debentures with a fair value of $156.2 million in the Sterling Merger. As of September 30, 2014, the majority of the junior subordinated debentures had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR.  Interest expense for junior subordinated debentures increased for the three and nine months ended September 30, 2014, compared to the same period in 2013, primarily resulting from junior subordinated debentures assumed in the Sterling Merger.  Although increases in three month LIBOR will increase the interest expense for junior subordinated debentures, we believe that other attributes of our balance sheet, such as floating and variable rate loans, will serve to mitigate the impact to net interest income on a consolidated basis.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of September 30, 2014, under guidance issued by the Board of Governors of the Federal Reserve System. Refer to the Capital Resources section for further discussion of Tier 1 capital, as well as changes as a result of the adoption of

BASEL III. Additional information regarding the terms of the junior subordinated debentures, including maturity/redemption dates, interest rates and the fair value election, is included in Note 9 of the Notes to Condensed Consolidated Financial Statements.

Additional information regarding the junior subordinated debentures measured at fair value is included in Note 16 of the Notes to Condensed Consolidated Financial Statements.

Liquidity and Cash Flow

The principal objective of our liquidity management program is to maintain the Bank's ability to meet the day-to-day cash flow requirements of our customers who either wish to withdraw funds or to draw upon credit facilities to meet their cash needs.

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One of those sources is public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit balance in excess of FDIC insurance. Public deposits represented 10.8% of total deposits at September 30, 2014 and 11.0% of total deposits at December 31, 2013. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state's risk assessment of depository institutions. Changes in the pledging requirements for uninsured public deposits may require pledging additional collateral to secure these deposits, drawing on other sources of funds to finance the purchase of assets that would be available to be pledged to satisfy a pledging requirement, or could lead to the withdrawal of certain public deposits from the Bank. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities under agreements to repurchase, borrow on a secured basis from the FHLB or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling $4.7 billion at September 30, 2014, subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had available lines of credit with the Federal Reserve totaling $631.7 million, subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $455.0 million at September 30, 2014. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

The Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Company's revenues are obtained from dividends declared and paid by the Bank. There were $214.0 million of dividends paid by the Bank to the Company in the nine months ended September 30, 2014. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the outstanding junior subordinated debentures. As of September 30, 2014, the Company did not have any borrowing arrangements of its own.

As disclosed in the Consolidated Statements of Cash Flows, net cash provided by operating activities was $272.0 million during the nine months ended September 30, 2014, with the difference between cash provided by operating activities and net income largely consisting of proceeds from the sale of loans held for sale of $1.7 billion, offset by originations of loans held for sale of $1.6 billion. This compares to net cash provided by operating activities of $359.3 million during the nine months ended September 30, 2013, with the difference between cash provided by operating activities and net income largely consisting of proceeds from the sale of loans held for sale of $1.6 billion, partially offset by originations of loans held for sale of $1.4 billion.

Net cash of $225.8 million provided by investing activities during the nine months ended September 30, 2014 consisted principally of proceeds from investment securities available for sale of $1.1 billion, proceeds from sale of non-covered loans and leases of $284.3 million, net cash received from acquisition of $116.9 million, and net covered loan paydowns of $77.4 million, partially offset by $867.1 million of net non-covered loan and lease originations, purchases of investment securities available for sale of $346.8 million, net cash paid in divestiture of $127.6 million, and purchases of premises and equipment of $43.8 million. This compares to net cash of $283.4 million provided by investing activities during the nine months ended September 30, 2013, which consisted principally of proceeds from investment securities available for sale of $702.9 million, net covered loan paydowns of $68.8 million, proceeds from the sale of non-covered loans and leases of $60.3 million, and proceeds from the sale of non-covered other real estate owned of $13.9 million, partially offset by net non-covered loan originations of $352.4 million, net cash paid in acquisition of $149.7 million, purchases of investment securities available for sale of $51.2 million,and purchases of premises and equipment of $25.6 million.

Net cash of $155.5 million provided by financing activities during the nine months ended September 30, 2014 primarily consisted of $739.2 million increase in net deposits, offset by net repayments of $470.3 million of securities sold under agreements to repurchase, the dividends paid on common stock of $66.6 million, and the $47.0 million repayment of term debt. This compares to net cash of $489.4 million used by financing activities during the nine months ended September 30, 2013, which consisted primarily of $311.7 million decrease in net deposits, $211.2 million repayment of term debt, $33.8 million in dividends paid on common stock, and repayment of junior subordinated debentures of $8.8 million, partially offset by $78.2 million increase in net securities sold under agreements to repurchase.

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Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2014, it is possible that our deposit growth for 2014 may not be maintained at previous levels due to pricing pressure or, in order to generate deposit growth, our pricing may need to be adjusted in a manner that results in increased interest expense on deposits.

Off-balance-Sheet Arrangements

Information regarding Off-Balance-Sheet Arrangements is included in Note 10 of the Notes to Condensed Consolidated Financial Statements.

Concentrations of Credit Risk

Information regarding Concentrations of Credit Risk is included in Note 10 of the Notes to Condensed Consolidated Financial Statements.

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Capital Resources

Shareholders' equity at September 30, 2014 was $3.8 billion, an increase of $2.0 billion from December 31, 2013. The increase in shareholders' equity during the nine months ended September 30, 2014 was principally due to the stock issued and cash paid related to the Sterling Merger.

The following table shows the Company's consolidated and the Bank's capital adequacy ratios, as calculated under regulatory guidelines, compared to the regulatory minimum capital ratio and the regulatory minimum capital ratio needed to qualify as a "well-capitalized" institution at September 30, 2014 and December 31, 2013:

| (dollars in thousands) | Actual | | | For Capital Adequacy purposes | | | To be Well Capitalized | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | | Amount | Ratio | | Amount | Ratio | |
| As of September 30, 2014 | | | | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | $2,347,366 | 14.86 | % | $1,263,324 | 8.00 | % | $1,579,155 | 10.00 | % |
| Umpqua Bank | $2,138,263 | 13.56 | % | $1,261,178 | 8.00 | % | $1,576,472 | 10.00 | % |
| Tier I Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | $2,227,342 | 14.10 | % | $631,662 | 4.00 | % | $947,493 | 6.00 | % |
| Umpqua Bank | $2,018,333 | 12.80 | % | $630,589 | 4.00 | % | $945,883 | 6.00 | % |
| Tier I Capital (to Average Assets) | | | | | | | | | |
| Consolidated | $2,227,342 | 11.00 | % | $809,881 | 4.00 | % | $1,012,352 | 5.00 | % |
| Umpqua Bank | $2,018,333 | 9.98 | % | $809,102 | 4.00 | % | $1,011,377 | 5.00 | % |
| As of December 31, 2013 | | | | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | $1,278,354 | 14.65 | % | $698,077 | 8.00 | % | $872,597 | 10.00 | % |
| Umpqua Bank | $1,177,782 | 13.51 | % | $697,428 | 8.00 | % | $871,785 | 10.00 | % |
| Tier I Capital (to Risk Weighted Assets) | | | | | | | | | |
| Consolidated | $1,181,829 | 13.54 | % | $349,137 | 4.00 | % | $523,706 | 6.00 | % |
| Umpqua Bank | $1,081,282 | 12.40 | % | $348,801 | 4.00 | % | $523,201 | 6.00 | % |
| Tier I Capital (to Average Assets) | | | | | | | | | |
| Consolidated | $1,181,829 | 10.89 | % | $434,097 | 4.00 | % | $542,621 | 5.00 | % |
| Umpqua Bank | $1,081,282 | 9.97 | % | $433,814 | 4.00 | % | $542,268 | 5.00 | % |

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework ("Basel III"). The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with the final rules entire requirement phased in on January 1, 2019.

The final rules, among other things, include a new common equity Tier 1 capital ("CET1") to risk-weighted assets ratio, including a capital conservation buffer, which will gradually increase from 4.5% on January 1, 2015 to 7.0% on

January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% on January 1, 2015 to 8.5% on January 1, 2019, as well as require a minimum leverage ratio of 4.0%.

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Under the final rule, consistent with Section 171 of the Dodd-Frank Act, bank holding companies with less than $15 billion assets as of December 31, 2009 will be grandfathered and may continue to include these instruments in Tier 1 capital, subject to certain restrictions. However, if an institution grows above $15 billion as a result of an acquisition (including our closed merger with Sterling), the combined trust preferred issuances must be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). It is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. The Company currently does not intend to redeem the junior subordinated debentures in order to support regulatory total capital levels. At September 30, 2014, the Company's restricted core capital elements were 19.0% of total core capital, net of goodwill and any associated deferred tax liability.

The final rules also provide for a number of adjustments to and deductions from the new CET1, as well as changes to the calculation of risk-weighted assets which is expected to increase the absolute level. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio. In addition, deductions include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Further, deferred tax assets which are related to operating losses and tax credit carry forward (including those acquired in our closed merger with Sterling) are excluded from CET1.

Based on its review and analysis of Basel III, management believes that the Company and the Bank will remain in excess of the "well-capitalized" standards under these new rules.

The Company's share repurchase plan, which was first approved by the Company's Board of Directors and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. In April 2013, the repurchase program was extended to run through June 2015. As of September 30, 2014, a total of 12.0 million shares remained available for repurchase. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan. In addition, our stock plans provide that option and award holders may pay for the exercise price and tax withholdings in part or whole by tendering previously held shares.

The Company's dividend policy considers, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth to determine the amount of dividends declared, if any, on a quarterly basis. There is no assurance that future cash dividends on common shares will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the three and nine months ended September 30, 2014 and 2013:

Cash Dividends and Payout Ratios per Common Share

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Dividend declared per common share | $0.15 | $0.15 | $0.45 | $0.45 |
| Dividend payout ratio | 56 % | 71 % | 83 % | 69 % |

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## Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our assessment of market risk as of September 30, 2014 indicates there are no material changes in the quantitative and qualitative disclosures from those in our Annual Report on Form 10-K for the year ended December 31, 2013.

## Item 4. Controls and Procedures

Our management, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, has concluded that our disclosure controls and procedures are effective in timely alerting them to information relating to us that is required to be included in our periodic filings with the SEC. The disclosure controls and procedures were last evaluated by management as of September 30, 2014.

No change in our internal controls occurred during the third quarter 2014 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Due to the nature of our business, we are involved in legal proceedings that arise in the ordinary course of our business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

In our Form 10-K for the period ending December 31, 2011, we initially reported on a class action lawsuit filed in the U.S. District Court for the Northern District of California against the Bank by Amber Hawthorne relating to overdraft fees and the posting order of point of sale and ACH items. In March 2014, the parties reached an agreement to settle the case and have executed a comprehensive written settlement agreement. On September 15, 2014, the court entered an order granting a motion for preliminary approval of the class settlement and preliminarily set a final approval hearing for February 19, 2015. Settlement of this matter on the agreed terms will have no material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

In our Form 10-K for the period ending December 31, 2013, we initially reported on two separate class action lawsuits filed in Spokane County, Washington, Superior Court against the Company and other defendants arising from the then-proposed Merger, which the court consolidated. The consolidated litigation generally alleges that directors of Sterling breached their duties to the Sterling shareholders by approving the Merger, failing to take steps to maximize shareholder value, engaging in a flawed sales process, and agreeing to deal protection provisions in the Merger agreement that are alleged to unduly favor the Company. The Company is alleged to have aided and abetted the alleged breaches of duty. The consolidated litigation also alleges that the disclosures approved by the Sterling board in connection with the Merger and the vote thereon are false and misleading in various respects. As relief, the complaints sought to enjoin the Merger and seek, among other things, damages in an unspecified amount and payment of plaintiffs' attorneys' fees and costs. The defendants believe that the lawsuits are without merit. On January 16, 2014, the parties executed a Memorandum of Understanding (the "MOU") that contains the essential terms of a settlement and dismissal of the consolidated cases. The MOU does not call for the payment of any money damages, but required the defendants to make certain additional disclosures relating to the Merger and to pay the attorney fees, costs, and expenses of plaintiffs' counsel incurred in connection with the action. The agreed additional disclosures were made and included in the joint proxy statement/prospectus filed January 22, 2014. The MOU further provides that if the parties cannot agree on the amount of fees, costs, and expenses to be paid by the defendants to plaintiffs' counsel, such amount shall be decided by the court. There has been no significant activity in the cases since the MOU was executed.

As set forth below, there are litigation matters pending against Sterling, the defense of which the Company assumed, as successor-in-interest to Sterling as a result of the Merger.

On December 11, 2009, a putative securities class action complaint, captioned City of Roseville Employees' Retirement System v. Sterling Financial Corp., et al., No. CV 09-00368-EFS, was filed in the United States District Court for the Eastern District of Washington against Sterling and certain of its current and former officers. On June 18, 2010, lead plaintiff filed a consolidated complaint alleging that the defendants violated sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 by making false and misleading statements concerning Sterling's business and financial results. Plaintiffs sought unspecified damages and attorneys' fees and costs. On August 30, 2010, Sterling moved to dismiss the Complaint, and the court granted the motion to dismiss without prejudice on August 5, 2013. On October 11, 2013, the lead plaintiff filed an amended consolidated complaint with the same defendants, class period, alleged violations, and relief sought. On January 24, 2014, Sterling moved to dismiss the amended consolidated complaint, and on September 17, 2014, the court entered an order dismissing the amended consolidated complaint in its entirety with no further leave to amend. On October 24, 2014, plaintiffs filed a Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit from the district court's order granting the motion to dismiss the amended consolidated complaint.

See Note 10 of the Notes to the Condensed Consolidated Financial Statements for a discussion of the Company's involvement in litigation pertaining to Visa Inc.

Item 1A. Risk Factors

In addition to the other information set forth in this report, including the updated risk factors stated below, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended December 31, 2013. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Except for the updated risk factors described below, there have been no

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material changes from the risk factors described in our Form 10-K. The information below updates, and should be read in conjunction with, the risk factors and information disclosed in our Form 10-K.

Our Merger with Sterling, given its size and scope, will likely make it difficult for us to engage in traditional M&A transactions in the near term.
The successful integration of Sterling is presently our top priority and it will take significant resources over the next six to nine months to accomplish that goal. During this integration phase we may not be in a position to receive regulatory approval to acquire another bank and our ability to engage in traditional merger and acquisition transactions will be constrained over the near term.

We have a deferred tax asset position of $250.9 million at September 30, 2014 and we are required to assess the recoverability of this asset on an ongoing basis.
Deferred tax assets are evaluated on a quarterly basis to determine if they are expected to be recoverable in the future. Our evaluation considers positive and negative evidence to assess whether it is more likely than not that a portion of the asset will not be realized. The risk of a valuation allowance increases if continuing operating losses are incurred. Future negative operating performance or other negative evidence may result in a valuation allowance being recorded against some or all of the deferred tax asset. A valuation allowance on our deferred tax asset could have a material adverse impact on our capital and results of operations.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a)Not applicable

(b)Not applicable

(c)The following table provides information about repurchases of common stock by the Company during the quarter ended September 30, 2014:

| Period | Total number of Common Shares Purchased (1) | Average Price Paid per Common Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (2) | Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan |
|---|---|---|---|---|
| 7/1/14-7/31/14 | 18,422 | $17.55 | — | 12,013,429 |
| 8/1/14-8/31/14 | 2,511 | $16.78 | — | 12,013,429 |
| 9/1/14-9/30/14 | 4,884 | $17.34 | — | 12,013,429 |
| Total for quarter | 25,817 | $17.44 | — | |

(1) Common shares repurchased by the Company during the quarter consist of cancellation of 2,430 restricted stock awards and 6,256 restricted stock units to pay withholding taxes. During the three months ended September 30, 2014, 17,131 common shares were repurchased in connection with option exercises and no shares were repurchased pursuant to the Company's publicly announced corporate stock repurchase plan described in (2) below.

(2) The Company's share repurchase plan, which was first approved by its Board of Directors and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. The repurchase program was extended in April 2013 to run through June 2015. As of September 30, 2014, a total of 12.0 million shares remained available for repurchase. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan.

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934

Pursuant to Section 13(r) of the Securities Exchange Act of 1934, the Company may be required to disclose in our annual or quarterly reports to the SEC, whether the Company or any of our "affiliates" knowingly engaged in activities, transactions or dealings relating to Iran or with certain individuals or entities targeted by U.S. economic sanctions. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law. Because the SEC defines the term "affiliate" broadly, it includes any entity under common "control" with us (and the term "control" is also construed broadly by the Securities and Exchange Commission).

During the third quarter of 2014, neither the Company nor its subsidiaries engaged in any reportable transactions with Iran or with persons or entities related to Iran.

During the quarter ended September 30, 2014, affiliates of Warburg Pincus LLC ("WP") beneficially owned more than 10% of our outstanding common stock. Accordingly, WP and its affiliates may have been deemed to be an "affiliate" of the Company, as the term is defined in SEC Rule 12b-2 , until the sale of shares of our common stock on or about August 12, 2014. As of September 30, 2014, WP and its affiliates were no longer deemed to be "affiliates" of the Company.

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The description of the activities below has been provided to the Company by WP. Affiliates of WP: (i) beneficially owned more than 10% of our outstanding common stock during the quarter ended September 30, 2014, and (ii) beneficially own more than 10% of the equity interests of, and have the right to designate members of the board of directors of Endurance International Group ("EIG") and Santander Asset Management Investment Holdings Limited ("SAMIH"). EIG and SAMIH may therefore be deemed to be under common "control" with the Company under SEC rules; however, this statement is not meant to be an admission that common control exists.

The disclosure below relates solely to activities conducted by EIG and SAMIH and its non-U.S. affiliates that may be deemed to be under common "control" with the Company. The disclosure does not relate to any activities conducted by the Company or by WP and does not involve the Company's or WP's management. The Company has not had any involvement in or control over WP or the disclosed activities of EIG. Neither the Company nor WP has had any involvement in or control over the disclosed activities of SAMIH, and neither the Company nor WP has independently verified or participated in the preparation of the disclosure. Neither the Company nor WP is representing to the accuracy or completeness of the disclosure nor does the Company or WP undertake any obligation to correct or update it.

As to EIG, the Company understands that EIG's affiliates intend to disclose in their next annual or quarterly SEC report that: "On or around September 26, 2014, during a routine compliance scan of new and existing subscriber accounts, EIG or its affiliates discovered that Seyed Mahmoud Mohaddes ("Mohaddes") was named as the account contact for a subscriber account (the "Subscriber Account"). Previously, on July 2, 2013, before Mohaddes had been designated as an SDN, the billing information for the Subscriber Account was updated to include Mohaddes. On September 16, 2013, the Office of Foreign Assets Control ("OFAC") designated Mohaddes as a Specially Designated National ("SDN"), pursuant to 31 C.F.R. Part 560.304. EIG discovered Mohaddes when its routine compliance scan identified an attempt on or around September 26, 2014 to add Mohaddes, an SDN, as the account contact to the Subscriber Account. EIG blocked the Subscriber Account that day and reported the domain name registered to the Subscriber Account to OFAC as potentially the property of a SDN, subject to blocking pursuant to Executive Order 13599. Since September 16, 2013, when Mohaddes was added to the SDN list, charges in the total amount of $120.35 were made to the Subscriber Account for web hosting and domain privacy services. EIG ceased billing for the Subscriber Account. To date, EIG has not received any correspondence from OFAC regarding this matter."

"On July 10, 2014, OFAC designated each of Stars Group Holding ("Stars"), and Teleserve Plus SAL ("Teleserve"), as SDNs under Executive Order 13224, and their property became subject to blocking pursuant to the Global Terrorism Sanctions Regulations, 31 C.F.R. Part 594. On July 15, 2014, as part of EIG's compliance review processes, they discovered that the domain names associated with each of Stars and Teleserve (the "Stars/Teleserve Domain Names") were registered through our platform. EIG immediately took steps to suspend and lock the Stars/Teleserve Domain Names to prevent them from being transferred or resolving to a website, and they promptly reported the Domain Names as potentially blocked property to OFAC. EIG did not generate any revenue from the Stars/Teleserve Domain Names since they were added to the SDN list on July 10, 2014. To date, EIG has not received any correspondence from OFAC regarding the matter."

"On July 15, 2014 during a compliance scan of all domain names on one of its platforms, EIG identified the domain name Kahanetzadak.com (the "Domain Name"), which was listed as an AKA of the entity Kahane Chai which operates as the American Friends of the United Yeshiva and was designated as a SDN on November 2, 2001 pursuant to Executive Order 13224. Since the Domain Name was transferred into one of EIG's reseller's customer's account, there was no direct financial transaction between EIG and the registered owner of the Domain Name. The Domain name was suspended upon discovering it on their platform, and EIG will be reporting the Domain Name to OFAC as potentially the property of a SDN."

As to SAMIH, the Company understands that SAMIH's affiliates intend to disclose in their next annual or quarterly SEC report that: "an Iranian national, resident in the U.K., who is currently designated by the U.S. under the Iranian Financial Sanctions Regulations and the Weapons of Mass Destruction Proliferators Sanctions Regulations ("NPWMD sanctions program"), holds a mortgage and two investment accounts with Santander Asset Management UK Limited. No further drawdown has been made (or would be permitted) under this mortgage although Santander UK continues to receive repayment installments. In the nine months ended September 30, 2014, total revenue in connection with the mortgage was approximately £1,800 and net profits were negligible relative to the overall profits of Santander UK. The same Iranian national also holds two investment accounts with Santander Asset Management UK Limited. The accounts have remained frozen for the nine months ended September 30, 2014. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. In the nine months ended September 30, 2014, the total revenue for the Santander Group in connection with the investment accounts was £190 and net profits were negligible relative to the overall profits of Banco Santander, S.A."

"In addition, during the third quarter 2014, Santander UK identified two additional customers: a UK national designated by the U.S. under the NPWMD sanctions program who holds a business account, where no transaction have taken place. Such account is in the process of being closed. No revenue or profit has been generated. A second UK national designated by the

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U.S. for reasons of terrorism held a personal current account and a personal credit card account in the third quarter 2014, both of which have now been closed. Although transactions have taken place on the current account during the reportable period, revenue and profits generated were negligible. No transactions have taken place on the credit card."

Item 6. Exhibits

The exhibits filed as part of this Report and exhibits incorporated herein by reference to other documents are listed in the Exhibit Index to this Report, which follows the signature page.

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | UMPQUA HOLDINGS CORPORATION<br>(Registrant) |
| Dated November 7, 2014 | /s/ Raymond P. Davis<br>President and Chief Executive Officer<br>Raymond P. Davis |
| Dated November 7, 2014 | /s/ Ronald L. Farnsworth<br>Ronald L. Farnsworth<br>Executive Vice President/ Chief Financial Officer and<br>Principal Financial Officer |
| Dated November 7, 2014 | /s/ Neal T. McLaughlin<br>Neal T. McLaughlin<br>Executive Vice President/Treasurer and<br>Principal Accounting Officer |

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EXHIBIT INDEX

| Exhibit # | Description |
|---|---|
| 3.1 | (a) Restated Articles of Incorporation, as amended |
| 3.2 | (b) Bylaws, as amended |
| 4.1 | (c) Specimen Common Stock Certificate |
| 4.2 | (d) Form of Warrant to Purchase Shares of Sterling Common Stock, dated August 26, 2010 and issued to Thomas H. Lee Equity Fund VI, L.P., Thomas H. Lee Parallel Fund VI, L.P., Thomas H. Lee Parallel (DT) Fund VI, L.P. and THL Sterling Equity Investors, L.P. |
| 4.3 | (e) Form of Warrant to Purchase Shares of Sterling Common Stock, dated August 26, 2010 and issued to Warburg Pincus Private Equity X, L.P. |
| 31.1 | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.3 | Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

101.INS XBRL Instance Document *
101.SCH XBRL Taxonomy Extension Schema Document *
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB XBRL Taxonomy Extension Label Linkbase Document *
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities and
Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.
** Indicates compensatory plan or arrangement

(a) Incorporated by reference to Exhibit 3.1 to Form 8-K filed May 7, 2014
(b) Incorporated by reference to Exhibit 3.2 to Form 8-K filed April 22, 2008
(c) Incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8 (No. 333-77259) filed April 28, 1999
(d) Incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-1 of Sterling Financial Corporation filed September 24, 2010
(e) Incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-1 of Sterling Financial Corporation filed September 24, 2010

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