UMPQUA HOLDINGS CORP
Form 10-K
February 23, 2015

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

FORM 10-K
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended: December 31, 2014
[ ] 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	

Securities registered pursuant to Section 12(g) of the Act: Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[X] Yes [ ] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
[ ] Yes [X] No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2014, based on the closing price on that date of $17.92 per share, and 171,963,532 shares held was $3,081,586,493.

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the latest practical date:
The number of shares of the Registrant's common stock (no par value) outstanding as of January 31, 2015 was 220,385,190.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2015 Annual Meeting of Shareholders of Umpqua Holdings Corporation ("Proxy Statement") are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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UMPQUA HOLDINGS CORPORATION
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PART I

ITEM 1. BUSINESS.

In this Annual Report on Form 10-K, we refer to Umpqua Holdings Corporation as the "Company," "Umpqua," "we," "us," "our," or similar references; to Sterling Financial Corporation as "Sterling"; and to the merger of Sterling with and into Umpqua effective as of April 18, 2014, as the "Sterling merger" or the "Merger." This Annual Report on Form 10-K contains 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 projected sources of funds, availability of acquisition and growth opportunities, dividends, adequacy of our allowance for loan and lease losses, reserve for unfunded commitments and provision for loan and lease losses, performance of troubled debt restructurings, our commercial real estate portfolio and subsequent chargeoffs, our covered loan portfolio and the Federal Deposit Insurance Corporation ("FDIC") indemnification asset, the benefits of the Financial Pacific leasing, Inc. ("FinPac") acquisition, and the merger ("Merger") with Sterling Financial Corporation, the Sterling merger integration, and the impact of Basel III on our capital. 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 that could cause our financial performance to differ materially from our goals, plans, expectations and projections expressed in forward-looking statements include those set forth in our filings with the Securities and Exchange Commission ("SEC"), Item 1A of this Annual Report on Form 10-K, and the following:

- 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") on the Company's business operations, including the impact of provisions and regulations related to executive compensation;
- FDIC deposit insurance assessments, and interchange fees, which may affect our regulatory compliance costs, interest expense and ability to recruit executives; and
- the impact of the new "Basel III" capital rules issued by federal banking regulators in July 2013 ("Basel III Rules") including on the fair value, of our 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;
- Merger 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;

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- operating costs, customer losses and business disruption following the Merger and during integration activities, including adverse developments in relationships with employees, may be greater than expected; and
- management time and effort will be diverted to the resolution of Merger-related issues.

For a more detailed discussion of some of the risk factors, see the section entitled "Risk Factors" below. We do not intend to update any factors, except as required by SEC rules, or to publicly announce revisions to any of our forward-looking statements. Any forward-looking statement speaks only as of the date that such statement was made. You should consider any forward looking statements in light of this explanation, and we caution you about relying on forward-looking statements.

Introduction

Umpqua Holdings Corporation, an Oregon corporation, was formed as a bank holding company in March 1999. At that time, we acquired 100% of the outstanding shares of South Umpqua Bank, an Oregon state-chartered bank formed in 1953. We became a financial holding company in March 2000 under the provisions of the Gramm-Leach-Bliley Act of 1999 ("GLB Act"). Umpqua has two principal operating subsidiaries, Umpqua Bank (the "Bank") and Umpqua Investments, Inc. ("Umpqua Investments").

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC. You may obtain these reports, and any amendments, from the SEC's website at www.sec.gov. You may obtain copies of these reports, and any amendments, through our website at www.umpquaholdingscorp.com. These reports are available through our website as soon as reasonably practicable after they are filed electronically with the SEC.

General Background

With headquarters located in Roseburg, Oregon, Umpqua 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 itself 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 has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company.

Umpqua Investments is a registered broker-dealer and registered investment advisor with offices in Portland, Lake Oswego, and Medford, Oregon, and Santa Rosa, California, and also offers products and services through Umpqua 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, CDs, and money market instruments), mutual funds, annuities, options, retirement planning, money management services and life insurance.

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

Recent Development

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.

Business Strategy

Umpqua Bank's principal objective is to become the leading community-oriented financial services retailer throughout the Western United States. The merger completed with Sterling in April 2014 expanded into Southern California, Eastern Washington, Eastern Oregon, and Idaho markets. We intend to continue to grow our assets and increase profitability and shareholder value by differentiating ourselves from competitors through the following strategies:

Capitalize on Innovative Product Delivery System. Our philosophy has been to develop an environment for the customer that makes the banking experience relevant and enjoyable. With this approach in mind, we have developed a unique store concept that offers "one-stop" shopping and includes distinct physical areas or boutiques, such as a "serious about service center," an "investment opportunity center" and a "computer café," which make the Bank's products and services more tangible and accessible. In 2006, we introduced our "Neighborhood Stores" and in 2007, we introduced the Umpqua "Innovation Lab." In 2010, we introduced the next generation version of our Neighborhood Store in the Capitol Hill area of Seattle, Washington. In 2013, we introduced the next generation of our flagship store in San Francisco. We are continuing to remodel existing and acquired stores in metropolitan locations to further our retail vision and have a consistent brand experience.

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Deliver Superior Quality Service. We insist on quality service as an integral part of our culture, from the Board of Directors to our newest associates, and believe we are among the first banks to introduce a measurable quality service program. Under our "return on quality" program, the performance of each sales associate and store was evaluated based on specific measurable factors such as the "sales effectiveness ratio" that totals the average number of banking products purchased by each new customer. The evaluations also encompass factors such as the number of new loan and deposit accounts generated in each store, reports by incognito "mystery shoppers" and customer surveys. Based on scores achieved, Umpqua's "return on quality" program rewards both individual sales associates and store teams with financial incentives. Through such programs, we are able to measure the quality of service provided to our customers and maintain employee focus on quality customer service.

Establish Strong Brand Awareness. As a financial services retailer, we devote considerable resources to developing the "Umpqua Bank" brand. This is done through design strategy, marketing, merchandising, community based events, and delivery through our customer facing channels. From Bank branded bags of custom roasted coffee beans and chocolate coins with each transaction, to educational seminars and Umpqua-branded ice cream trucks, Umpqua's goal is to engage our customer with the brand in a whole new way. The unique look and feel of our stores and interactive displays help position us as an innovative, customer-friendly retailer of financial products and services. We build consumer preference for our products and services through strong brand awareness.

Use Technology to Expand Customer Base. Although our strategy continues to emphasize superior personal service, as consumer preferences evolve we continue to expand user-friendly, technology-based systems to attract customers who want to interact with their financial institution electronically. We offer technology-based services including remote deposit capture, online banking, bill pay and treasury services, mobile banking, voice response banking, automatic payroll deposit programs, advanced function ATMs, interactive product kiosks, and a robust internet web site. We believe the availability of both traditional bank services and electronic banking services enhances our ability to attract a broader range of customers and wrap our value proposition across all channels.

Increase Market Share in Existing Markets and Expand Into New Markets. As a result of our innovative retail product orientation, measurable quality service program and strong brand awareness, we believe that there is significant potential to increase business with current customers, to attract new customers in our existing markets and to enter new markets.

Pursue Strategic Acquisitions. A part of our strategy is to pursue the acquisition of banks and financial services companies in markets where we see growth potential.

Marketing and Sales

Our goal of increasing our share of financial services in our market areas is driven by a marketing and sales strategy with the following key components:

Media Advertising. Our comprehensive marketing campaigns aim to strengthen the Umpqua Bank brand and heighten public awareness about our innovative delivery of financial products and services. The Bank has been recognized nationally for its use of new media and unique approach. From programs like the Bank's Discover Local Music Project and ice cream trucks, to campaigns like Save Hard Spend Smart and the Lemonaire, Umpqua is utilizing nontraditional media channels and leveraging mass market media in new ways.

Retail Store Concept. As a financial services provider, we believe that the store environment is critical to successfully market and sell products and services. Retailers traditionally have displayed merchandise within their stores in a manner designed to encourage customers to purchase their products. Purchases are made on the spur of the moment due to the products' availability and attractiveness. Umpqua Bank believes this same concept can be applied to financial institutions and accordingly displays financial services and products through tactile merchandising within our stores. Unlike many financial institutions whose strategy is to discourage customers from visiting their facilities in favor of ATMs or other forms of electronic banking, we encourage customers to visit our stores, where they are greeted by well-trained sales associates and encouraged to browse and to make "impulse purchases." Our "Next Generation" store model includes features like free wireless, free use of laptop computers, open rooms with refrigerated beverages and innovative products packaging like MainStreet for businesses - a package that includes relationship pricing for deposit and loan products, and invitation to "Business Therapy" seminars. The stores host a variety of after-hours events, from poetry readings to seminars on how to build an art collection. To bring financial services to our customers in a cost-effective way, we introduced "Neighborhood Stores." We build these stores in established neighborhoods and design them to be neighborhood hubs. These stand-alone full-service stores are smaller and emphasize advanced technology. To strengthen brand recognition, all Neighborhood Stores are similar in appearance. Umpqua's "Innovation Lab" is a one-of-a-kind location, showcasing emerging and existing technologies that foster community and redefine what consumers can expect from a banking experience. As a testing ground for new initiatives, the "Innovation Lab" will change regularly to feature new technology, products, services and community events. In 2013, Umpqua Bank launched our flagship store in San Francisco which received international recognition as the Retail Design Institutes 2013 Store of the Year award.

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Service Culture. We believe strongly that if we lead with a service culture, we will have more opportunity to sell our products and services and to create deeper customer relationships across all divisions, from retail to mortgage and commercial. Although a successful marketing program will attract customers to visit, a service environment and a well-trained sales team are critical to selling our products and services. We believe that our service culture has become well established throughout the organization due to our unique facility designs and ongoing training of our associates on all aspects of sales and service. We provide training at our in-house training facility, known as "The World's Greatest Bank University," to recognize and celebrate exceptional service, and pay commissions for the sale of the Bank's products and services. This service culture has helped transform us from a traditional community bank to a nationally recognized marketing company focused on selling financial products and services.

Products and Services

We offer a full array of financial products to meet the banking needs of our market area and target customers. To ensure the ongoing viability of our product offerings, we regularly examine the desirability and profitability of existing and potential new products. To make it easy for new prospective customers to bank with us and access our products, we offer a "Switch Kit," which allows a customer to open a primary checking account with Umpqua Bank in less than ten minutes. Other avenues through which customers can access our products include our web site equipped with an e-switchkit which includes internet banking through "umpqua.online," mobile banking, and our 24-hour telephone voice response system.

Deposit Products. We offer a traditional array of deposit products, including non-interest bearing checking accounts, interest bearing checking and savings accounts, money market accounts and certificates of deposit. These accounts earn interest at rates established by management based on competitive market factors and management's desire to increase certain types or maturities of deposit liabilities. Our approach is to tailor fit products and bundle those that meet the customer's needs. This approach is designed to add value for the customer, increase products per household and generate related fee income.

Private Bank. Umpqua Private Bank serves high net worth individuals with liquid investable assets by providing customized financial solutions and offerings. The private bank is designed to augment Umpqua's existing high-touch customer experience, and works collaboratively with the Bank's affiliate retail brokerage Umpqua Investments and with the independent investment management firm Ferguson Wellman Capital Management, Inc. ("Ferguson Wellman") to offer a comprehensive, integrated approach that meets clients' financial goals, including financial planning, trust services, and investments.

Retail Brokerage Services and Investment Advisory Services. Umpqua Investments in its combined role as a broker/dealer and a registered investment advisor may provide comprehensive financial planning advice to its clients as well as standard broker/dealer services for traditional brokerage accounts. This advice can include cash management, risk management (insurance planning/sales), investment planning (including investment advice, supervisory services and/or portfolio checkups), retirement planning (for employees and employers), and/or estate planning. The broker/dealer side of Umpqua Investments offers a full range of brokerage services including equity and fixed income products, mutual funds, annuities, options and life insurance products. At December 31, 2014, Umpqua Investments has 42 Series 7-licensed financial advisors serving clients at four stand-alone retail brokerage offices, one location within a retirement facility, and "Investment Opportunity Centers" located in many Bank stores.

Commercial Loans and Leases and Commercial Real Estate Loans. We offer specialized loans for business and commercial customers, including accounts receivable and inventory financing, multi-family loans, equipment loans, commercial equipment leases, international trade, real estate construction loans and permanent financing and Small Business Administration ("SBA") program financing as well as capital markets and treasury management services. Additionally, we offer specially designed loan products for small businesses through our Small Business Lending Center, and have a business banking division to increase lending to small and mid-sized businesses. Ongoing credit management activities continue to focus on commercial real estate loans given this is a significant portion of our loan portfolio. We are also engaged in initiatives that continue to diversify the loan portfolio including a strong focus on commercial and industrial loans in addition to financing owner-occupied properties.

Residential Real Estate Loans. Real estate loans are available for construction, purchase, and refinancing of residential owner-occupied and rental properties. Borrowers can choose from a variety of fixed and adjustable rate options and terms. We sell most residential real estate loans that we originate into the secondary market. Servicing is retained on the majority of these loans. We also support the Home Affordable Refinance Program and Home Affordable Modification Program.

Consumer Loans. We provide loans to individual borrowers for a variety of purposes, including secured and unsecured personal loans, home equity and personal lines of credit and motor vehicle loans. Loans may be made directly to borrowers or through Umpqua's dealer banking department.

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Market Area and Competition

The geographic markets we serve are highly competitive for deposits, loans, leases and retail brokerage services. We compete with traditional banking institutions, as well as non-bank financial service providers, such as credit unions, brokerage firms and mortgage companies. In our primary market areas of Oregon, Washington, California, Idaho, and Nevada, major banks and large regional banks generally hold dominant market share positions. By virtue of their larger capital bases, these institutions have significantly larger lending limits than we do and generally have more expansive branch networks. Competition also includes other commercial banks that are community-focused.

As the industry becomes increasingly dependent on and oriented toward technology-driven delivery systems, permitting transactions to be conducted by telephone, computer and the internet, non-bank institutions are able to attract funds and provide lending and other financial services even without offices located in our primary service area. Some insurance companies and brokerage firms compete for deposits by offering rates that are higher than may be appropriate for the Bank in relation to its asset and liability management objectives. However, we offer a wide array of deposit products and believe we can compete effectively through rate-driven product promotions. We also compete with full service investment firms for non-bank financial products and services offered by Umpqua Investments.

Credit unions present a significant competitive challenge for our banking services and products. As credit unions currently enjoy an exemption from income tax, they are able to offer higher deposit rates and lower loan rates than we can on a comparable basis. Credit unions are also not currently subject to certain regulatory constraints, such as the Community Reinvestment Act ("CRA"), which, among other things, requires us to implement procedures to make and monitor loans throughout the communities we serve. Adhering to such regulatory requirements raises the costs associated with our lending activities, and reduces potential operating profits. Accordingly, we seek to compete by focusing on building customer relationships, providing superior service and offering a wide variety of commercial banking products, such as commercial real estate loans, inventory and accounts receivable financing, and SBA program loans for qualified businesses.

During the past several years, the States of Oregon, California, Washington, Idaho, and Nevada have experienced economic difficulties. To the extent the fiscal condition of state and local governments does not improve, there could be an adverse effect on business conditions in the affected state that would negatively impact the prospects for the Bank's operations located there.

The following table presents the Bank's market share percentage for total deposits as of June 30, 2014, in each county where we have operations. The table also indicates the ranking by deposit size in each market. All information in the table was obtained from SNL Financial, which compiles deposit data published by the FDIC as of June 30, 2014 and updates the information for any bank mergers and acquisitions completed subsequent to the reporting date.

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Oregon				Washington			
County	Market Share	Market Rank	Number of Stores	County	Market Share	Market Rank	Number of Stores
Baker	31.9	% 1	1	Adams	20.86	% 3	2
Benton	7.4	% 7	2	Asotin	17.23	% 2	2
Clackamas	2.3	% 9	6	Benton	4.78	% 8	2
Columbia	15.8	% 3	1	Clallam	3.64	% 10	2
Coos	37.8	% 1	5	Clark	17.66	% 2	13
Curry	47.2	% 1	4	Columbia	27.65	% 2	1
Deschutes	7.7	% 6	8	Douglas	12.62	% 3	1
Douglas	64.2	% 1	9	Franklin	4.87	% 9	1
Grant	21.4	% 3	1	Garfield	58.08	% 1	1
Harney	23.2	% 3	1	Grant	7.81	% 7	2
Jackson	18.3	% 1	11	Grays Harbor	9.51	% 4	3
Josephine	21.2	% 1	5	King	2.6	% 8	26
Klamath	27.0	% 2	5	Kitsap	0.81	% 14	1
Lake	27.8	% 3	1	Kittitas	12.06	% 4	2
Lane	16.1	% 2	10	Klickitat	34.22	% 1	2
Lincoln	7.1	% 7	2	Lewis	15.83	% 2	4
Linn	12.1	% 5	3	Okanogan	22.92	% 2	2
Malheur	23.3	% 2	3	Pierce	4.19	% 8	12
Marion	8.6	% 5	4	Skamania	61.72	% 1	1
Multnomah	4.6	% 6	20	Snohomish	1.58	% 13	2
Polk	6.2	% 7	1	Spokane	11.8	% 4	9
Tillamook	32.0	% 2	2	Thurston	3.73	% 11	4
Umatilla	5.2	% 7	2	Walla Walla	4.01	% 5	2
Union	24.5	% 1	3	Whatcom	2.43	% 12	4
Wallowa	24.1	% 2	1	Whitman	5.46	% 7	3
Washington	6.8	% 6	8				
Yamhill	2.4	% 9	1				

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California

County	Market Share	Market Rank	Number of Stores
Amador	4.4	% 7	1
Butte	2.7	% 10	2
Calaveras	26.4	% 2	4
Colusa	38.7	% 1	2
Contra Costa	0.6	% 16	3
El Dorado	6.3	% 5	5
Glenn	29.0	% 2	2
Humboldt	23.0	% 1	7
Lake	17.9	% 2	2
Los Angeles	0.0	% 86	2
Marin	2.0	% 12	2
Mendocino	3.0	% 7	1
Napa	9.0	% 4	6
Orange	0.2	% 39	1
Placer	4.7	% 6	9
Sacramento	0.7	% 19	6
San Diego	0.1	% 35	3
San Francisco	0.0	% 41	2
San Joaquin	0.5	% 18	1
San Luis Obispo	0.2	% 12	1
Santa Clara	0.0	% 43	1
Shasta	1.7	% 9	1
Solano	3.2	% 8	4
Sonoma	5.4	% 7	10
Stanislaus	0.7	% 16	2
Sutter	12.7	% 2	2
Tehama	17.2	% 1	2
Trinity	27.2	% 2	1
Tuolumne	14.9	% 3	5
Ventura	0.0	% 25	1
Yolo	2.3	% 12	1
Yuba	27.2	% 2	2

Idaho

County	Market Share	Market Rank	Number of Stores
Ada	0.6	% 17	2
Adams	34.7	% 2	1
Benewah	17.1	% 4	1
Idaho	47.9	% 1	3
Kootenai	2.9	% 10	3
Latah	25.7	% 2	3
Nez Perce	15.8	% 3	2
Valley	23.2	% 3	2

Nevada

County	Market Share	Market Rank	Number of Stores
Washoe	0.2	% 8	4

Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2014, commercial real estate, commercial, residential, and consumer and other represented approximately 58.1%, 19.2%, 20.2%, and 2.5%, respectively, of the total loan and lease portfolio.

Inter-agency guidelines adopted by federal bank regulators mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital. We have adopted as loan policy loan-to-value limits that range from 5% to 10% less than the federal guidelines for each category; however, policy exceptions are permitted for real estate loan customers with strong financial credentials.

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Loans and Leases

We manage asset quality and control credit risk through diversification of the loan and lease portfolio and the application of policies designed to promote sound underwriting and loan and lease monitoring practices. The Bank's Credit Quality 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. The provision for loan and lease losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb probable incurred losses. The amount of provision charged is dependent upon many factors, including loan and lease growth, net charge-offs, changes in the composition of the loan and lease portfolio, delinquencies, management's assessment of loan and lease portfolio quality, general economic conditions that can impact the value of collateral, and other trends. The evaluation of these factors is performed through an analysis of the adequacy of the allowance for loan and lease losses. Reviews of non-performing, past due loans and leases and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on a quarterly 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.
A loan is considered impaired when, based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Generally, when loans are identified as impaired they are moved to our Special Assets Department. When we identify a loan as impaired, we measure the loan for potential impairment using discount cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we will use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining a current external appraisal. Generally, external appraisals for collateral dependent loans are updated every 12 months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Bank's ALLL Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

Loans and leases are classified as non-accrual when collection of principal or interest is doubtful—generally if they are past due as to maturity or payment of principal or interest by 90 days or more—unless such loans and leases are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for non-accrual status. Loans and leases placed on non-accrual will typically remain on non-accrual status until all principal and interest payments are brought current and the prospects for future payments in accordance with the loan or lease agreement appear relatively certain.

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess whether a lower price reflects the market value of the property and would enable us to sell the property. In addition, we update appraisals on other real estate owned property six to 12 months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on a) updated appraisals received during the period, or b) management's authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan moving to other real estate owned. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan (prior to foreclosure) or the fair market value of the property less expected selling costs.

Loans are reported as restructured when the Bank grants a more than insignificant concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. Examples of such concessions include a reduction in the loan rate, forgiveness of principal or accrued interest, extending the maturity date(s) or providing a lower interest rate than would be normally available for a transaction of similar risk. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are 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. These impairment reserves are recognized as a specific component to be provided for in the allowance for loan and lease losses.

Employees
As of December 31, 2014, we had a total of 4,569 full-time equivalent employees. None of the employees are subject to a collective bargaining agreement and management believes its relations with employees to be good. Information regarding employment agreements with our executive officers is contained in Item 11 below, which item is incorporated by reference to our proxy statement for the 2015 annual meeting of shareholders.
Government Policies
The operations of our subsidiaries are affected by state and federal legislative and regulatory changes and by policies of various regulatory authorities, including, domestic monetary policies of the Board of Governors of the Federal Reserve System ("Federal Reserve"), United States fiscal policy, and capital adequacy and liquidity constraints imposed by federal and state regulatory agencies.
Supervision and Regulation
General. We are extensively regulated under federal and state law. These laws and regulations are generally intended to protect depositors and customers, not shareholders. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. Any change in applicable laws or regulations may have a material effect on our business and prospects. We cannot accurately predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, or new federal or state legislation or regulation may have in the future. Umpqua is subject to the disclosure and other requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and rules promulgated thereunder and administered by the Securities and Exchange Commission. As a listed company on NASDAQ, Umpqua is subject to NASDAQ rules for listed companies.
Holding Company Regulation. We are a registered financial holding company under the GLB Act, and are subject to the supervision of, and regulation by the Federal Reserve. As a financial holding company, we are examined by and file reports with the Federal Reserve. The Federal Reserve expects a bank holding company to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank.
Financial holding companies are bank holding companies that satisfy certain criteria and are permitted to engage in activities that traditional bank holding companies are not. The qualifications and permitted activities of financial holdings companies are described below under "Regulatory Structure of the Financial Services Industry."
Federal and State Bank Regulation. Umpqua Bank, as a state chartered bank with deposits insured by the FDIC, is primarily subject to the supervision and regulation of the Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities ("DCBS"), the Washington Department of Financial Institutions ("DFI"), the California Department of Business Oversight ("DBO"), the Idaho Department of Finance Banking Section, the Nevada Division of Financial Institutions, the FDIC and the Consumer Financial Protection Bureau ("CFPB"). These agencies may prohibit the Bank from engaging in what they believe constitute unsafe or unsound banking practices. Our primary state regulator, DCBS, regularly examines the Bank or participates in joint examinations with the FDIC.
The CRA requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. A less than "Satisfactory" rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination, the Bank's CRA rating was "Satisfactory."
Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interest of such persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as, and follow credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with persons not affiliated with the bank, and must not involve more than the normal risk of repayment or present other unfavorable features. Banks are

also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

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The Federal Reserve Act and related Regulation W limit the amount of certain loan and investment transactions between the Bank and its affiliates, require certain levels of collateral for such loans, and limit the amount of advances to third parties that may be collateralized by the securities of Umpqua or its subsidiaries. Regulation W requires that certain transactions between the Bank and its affiliates be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving nonaffiliated companies or, in the absence of comparable transactions, on terms and under circumstances, including credit standards, that in good faith would be offered to or would apply to nonaffiliated companies. Umpqua and its subsidiaries have adopted an Affiliate Transactions Policy and have entered into various affiliate agreements in compliance with Regulation W.

The Federal Reserve and the FDIC have adopted non-capital safety and soundness standards for institutions. These standards cover internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that it will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. We believe that the Bank is in compliance with these standards.

Federal Deposit Insurance. Substantially all deposits with Umpqua Bank are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain the DIF. In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, increase or decrease assessment rates.

On February 7, 2011, the FDIC adopted a final rule modifying the risk-based assessment system from a domestic deposit base to a scorecard based assessment system, effective April 1, 2011. As of April 1, 2011, the Bank was categorized as a large institution as the Bank has more than $10 billion in assets. The initial base assessment rates range from 5 to 35 basis points. After potential adjustments related to unsecured debt and brokered deposit balances, the final total assessment rates range from 2.5 to 45 basis points. Initial base assessment rates for large institutions ranged from 5 to 35 basis points. The Bank's assessment rate for 2014 fell at the low end of this range. Further increases in the assessment rate could have a material adverse effect on our earnings, depending upon the amount of the increase.

The Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raised the standard maximum federal deposit insurance amount from $100,000 to $250,000 per qualified account.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines that the institution has engaged in or is engaging in unsafe and unsound banking practices, is in an unsafe or unsound condition or has violated any applicable law, regulation or order or any condition imposed in writing by, or pursuant to, any written agreement with the FDIC. The termination of deposit insurance for the Bank would have a material adverse effect on our financial condition and results of operations.

Dividends. Under the Oregon Bank Act and the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the Bank is subject to restrictions on the payment of cash dividends to its parent company. A bank may not pay cash dividends if that payment would reduce the amount of its capital below that necessary to meet minimum applicable regulatory capital requirements. In addition, under the Oregon Bank Act, the amount of the dividend paid by the Bank may not be greater than net unreserved retained earnings, after first deducting to the extent not already charged against earnings or reflected in a reserve, all bad debts, which are debts on which interest is unpaid and past due at least six months unless the debt is fully secured and in the process of collection; all other assets charged-off as required by Oregon bank regulators or a state or federal examiner; and all accrued expenses, interest and taxes of the Bank. In addition, state and federal regulatory authorities are authorized to prohibit banks and holding companies from paying dividends that would constitute an unsafe or unsound banking practice. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality, and overall financial condition.

Capital Adequacy. The federal and state bank regulatory agencies use capital adequacy guidelines in their examination and regulation of holding companies and banks. If capital falls below the minimum levels established by these guidelines, a holding company or a bank may be denied approval to acquire or establish additional banks or non-bank businesses or to open new facilities.

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The FDIC and Federal Reserve have adopted risk-based capital guidelines for holding companies and banks. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profile among holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. The capital adequacy guidelines limit the degree to which a holding company or bank may leverage its equity capital.

Federal regulations establish minimum requirements for the capital adequacy of depository institutions, such as the Bank. Banks with capital ratios below the required minimums are subject to certain administrative actions, including prompt corrective action, the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing.

On July 2, 2013, federal banking regulators approved final 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%.

The final rules also provide for a number of adjustments to and deductions from the new CET1. 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 choose 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, certain deferred tax assets not 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.

FDICIA requires federal banking regulators to take "prompt corrective action" with respect to a capital-deficient institution, including requiring a capital restoration plan and restricting certain growth activities of the institution. Umpqua could be required to guarantee any such capital restoration plan required of the Bank if the Bank became undercapitalized. Pursuant to FDICIA, regulations were adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Under the regulations, the Bank is considered "well capitalized" as of December 31, 2014.

Federal and State Regulation of Broker-Dealers. Umpqua Investments is a fully disclosed introducing broker-dealer clearing through First Clearing LLC. Umpqua Investments is regulated by the Financial Industry Regulatory Authority ("FINRA") and has deposits insured through the Securities Investors Protection Corp ("SIPC") as well as third party insurers. FINRA performs regular examinations of the Umpqua Investments that include reviews of policies, procedures, recordkeeping, trade practices, and customer protection as well as other inquiries.

SIPC protects client securities and cash up to $500,000, including $100,000 for cash with additional coverage provided through First Clearing for the remaining net equity balance in a brokerage account, if any. This coverage does not include losses in investment accounts.

Broker-Dealer and Related Regulatory Supervision. Umpqua Investments is a member of, and is subject to the regulatory supervision of, FINRA. Areas subject to FINRA oversight review include compliance with trading rules, financial reporting, investment suitability, and compliance with stock exchange rules and regulations.

Effects of Government Monetary Policy. Our earnings and growth are affected not only by general economic conditions, but also by the fiscal and monetary policies of the federal government, particularly the Federal Reserve. The Federal Reserve implements national monetary policy for such purposes as curbing inflation and combating recession, through its open market operations in U.S. Government securities, control of the discount rate applicable to borrowings from the Federal Reserve, and establishment of reserve requirements against certain deposits. These activities influence growth of bank loans, investments and deposits, and also affect interest rates charged on loans or paid on deposits. The nature and impact of future changes in monetary policies and their impact on us cannot be predicted with certainty.

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Regulation of the Financial Services Industry. Federal laws and regulations governing banking and financial services underwent significant changes in recent years and we believe will continue to undergo significant changes in the future. From time to time, legislation is introduced in the United States Congress that contains proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. If enacted into law, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, and other financial institutions. Whether or in what form any such legislation may be adopted or the extent to which our business might be affected thereby cannot be predicted.
The GLB Act, enacted in November 1999, repealed sections of the Banking Act of 1933, commonly referred to as the Glass-Steagall Act, that prohibited banks from engaging in securities activities, and prohibited securities firms from engaging in banking. The GLB Act created a new form of holding company, known as a financial holding company, that is permitted to acquire subsidiaries that are variously engaged in banking, securities underwriting and dealing, and insurance underwriting.
A bank holding company, if it meets specified requirements, may elect to become a financial holding company by filing a declaration with the Federal Reserve, and may thereafter provide its customers with a broader spectrum of products and services than a traditional bank holding company is permitted to do. A financial holding company may, through a subsidiary, engage in any activity that is deemed to be financial in nature and activities that are incidental or complementary to activities that are financial in nature. These activities include traditional banking services and activities previously permitted to bank holding companies under Federal Reserve regulations, but also include underwriting and dealing in securities, providing investment advisory services, underwriting and selling insurance, merchant banking (holding a portfolio of commercial businesses, regardless of the nature of the business, for investment), and arranging or facilitating financial transactions for third parties.
To qualify as a financial holding company, the bank holding company must be deemed to be well-capitalized and well-managed, as those terms are used by the Federal Reserve. In addition, each subsidiary bank of a bank holding company must also be well-capitalized and well-managed and be rated at least "satisfactory" under the CRA. A bank holding company that does not qualify, or has not chosen, to become a financial holding company must limit its activities to traditional banking activities and those non-banking activities the Federal Reserve has deemed to be permissible because they are closely related to the business of banking.
The GLB Act also includes provisions to protect consumer privacy by prohibiting financial services providers, whether or not affiliated with a bank, from disclosing non-public personal, financial information to unaffiliated parties without the consent of the customer, and by requiring annual disclosure of the provider's privacy policy.
The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal Act"), which became effective in 1995, permits interstate banking and branching, which allows banks to expand nationwide through acquisition, consolidation or merger. Under this law, an adequately capitalized bank holding company may acquire banks in any state or merge banks across state lines if permitted by state law. Further, banks may establish and operate branches in any state subject to the restrictions of applicable state law. Under Oregon law, an out-of-state bank or bank holding company may merge with or acquire an Oregon state chartered bank or bank holding company upon receipt of approval from the Director of the Oregon Department of Consumer and Business Services. The Bank now has the ability to open additional de novo branches in the states of Oregon, California, Washington, Idaho, and Nevada.

Section 613 of the Dodd-Frank Act eliminated interstate branching restrictions that were implemented as part of the Riegle-Neal Act, and removed many restrictions on de novo interstate branching by national and state-chartered banks. The FDIC and the Office of the Comptroller of the Currency now have authority to approve applications by insured state nonmember banks and national banks, respectively, to establish de novo branches in states other than the bank's home state if "the law of the State in which the branch is located, or is to be located, would permit establishment of the branch, if the bank were a State bank chartered by such State." The enactment of this Section 613 may significantly increase interstate banking by community banks in western states, where barriers to entry were previously high.

Anti-Terrorism Legislation. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act ("USA Patriot Act"), enacted in 2001:

- prohibits banks from providing correspondent accounts directly to foreign shell banks;
- imposes due diligence requirements on banks opening or holding accounts for foreign financial institutions or wealthy foreign individuals;
- requires financial institutions to establish an anti-money-laundering ("AML") compliance program; and
- generally eliminates civil liability for persons who file suspicious activity reports.

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The USA Patriot Act also increases governmental powers to investigate terrorism, including expanded government access to account records. The Department of the Treasury is empowered to administer and make rules to implement the Act, which to some degree, affects our record-keeping and reporting expenses. Should the Bank's AML compliance program be deemed insufficient by federal regulators, we would not be able to grow through acquiring other institutions or opening de novo branches.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 addresses public company corporate governance, auditing, accounting, executive compensation and enhanced and timely disclosure of corporate information.

The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and regulation of the relationship between a Board of Directors and management and between a Board of Directors and its committees.

The Sarbanes-Oxley Act provides for, among other things:

- prohibition on personal loans by Umpqua to its directors and executive officers except loans made by the Bank in accordance with federal banking regulations;
- independence requirements for Board audit committee members and our auditors;
- certification of reports under the Securities Exchange Act of 1934 ("Exchange Act") by the chief executive officer, chief financial officer and principal accounting officer;
- disclosure of off-balance sheet transactions;
- expedited reporting of stock transactions by insiders; and
- increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act also requires:

- management to establish, maintain, and evaluate disclosure controls and procedures;
- management to report on its annual assessment of the effectiveness of internal controls over financial reporting;
- our external auditor to attest to the effectiveness of internal controls over financial reporting.

The SEC has adopted regulations to implement various provisions of the Sarbanes-Oxley Act, including disclosures in periodic filings pursuant to the Exchange Act. Also, in response to the Sarbanes-Oxley Act, NASDAQ adopted new standards for listed companies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act. On July 21, 2010, the Dodd-Frank Act was signed, which was a sweeping overhaul of financial industry regulation. Among other provisions, the Act:

- Created a systemic-risk council of top regulators, the Financial Stability Oversight Council (FSOC), whose purpose is to identify risks and respond to emerging threats to the financial stability of the U.S. arising from large, interconnected bank holding companies or nonbank financial companies;
- Gave the FDIC authority to unwind large failing financial firms. Treasury would supply funds to cover the up-front costs of winding down the failed firm, but the government would have to put a "repayment plan" in place. Regulators will recoup any losses incurred from the wind-down afterwards by assessing fees on financial firms with more than $50 billion in assets;
- Directed the FDIC to base deposit-insurance assessments on assets minus tangible capital instead of on domestic deposits and requires the FDIC to increase premium rates to raise the Deposit Insurance Fund's ("DIF") minimum reserve ratio from 1.15% to 1.35% by September 30, 2020. Banks, like Umpqua, with consolidated assets greater than $10 billion would pay the increased premiums;
- Permanently increased FDIC deposit-insurance coverage to $250,000, retroactive to January 1, 2008. The act also eliminated the 1.5% cap on the DIF reserve ratio and automatic dividends when the ratio exceeds 1.35%. The FDIC also has discretion on whether to provide dividends to DIF members;
- Authorized banks to pay interest on business checking accounts;
- Created the CFPB, housed under the Federal Reserve and led by a director appointed by the President and confirmed by the Senate. All existing consumer laws and regulations will be transferred to this agency and each existing regulatory agency will contribute their respective consumer regulatory and exam staffs to the CFPB;

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- Gave the CFPB the authority to write consumer protection rules for banks and nonbank financial firms offering consumer financial services or products and to ensure that consumers are protected from "unfair, deceptive, or abusive" acts or practices. The CFPB also now has authority to examine and enforce regulations for banks with greater than $10 billion in assets;
- Authorized the CFPB to require banks to compile and provide reports relating to its consumer lending, marketing and other consumer business activities and to make that information available to the public if doing so "in the public interest";
- Directed the Federal Reserve to set interchange fees for debit card transactions charged by banks with more than $10 billion in assets. The Federal Reserve must establish what it determines are reasonable fees by factoring in their transaction costs compared to those for checks;
- Requires loan originators to retain 5% of any loan sold and securitized, unless it is a "qualified residential mortgage", which includes standard 30 and 15 year fixed rate loans. It also specifically exempts from risk retention FHA, VA, Farmer Mac and Rural Housing Service loans;
- Adopted additional various mortgage lending and predatory lending provisions;
- Required federal regulators jointly to prescribe regulations mandating that financial institutions with more than $1 billion in assets to disclose to their regulators their incentive compensation plans to permit the regulators to determine whether the plans provide executive officers, employees, directors or principal shareholders with excessive compensation, fees or benefits, or could lead to material financial loss to the institution;
- Imposed a number of requirements related to executive compensation that apply to all public companies, such as prohibition of broker discretionary voting in connection with a shareholder vote on executive compensation; mandatory shareholder "say on pay" (every one to three years) and "say on golden parachutes"; and clawback of incentive compensation from current or former executive officers following any accounting restatement;
- Established a modified version of the "Volcker Rule" and generally prohibits banks from engaging in proprietary trading or holding or obtaining an interest in a hedge fund or private equity fund, to the extent that it would exceed 3% of the bank's Tier 1 capital. A bank's interest in any single hedge fund or private equity fund may not exceed 3% of the assets of that fund.

Stress Testing and Capital Planning. Umpqua is subject to the annual Dodd-Frank Act capital stress testing (DFAST) requirements of the Federal Reserve and the FDIC. As part of the DFAST process, Umpqua will release certain results from stress testing exercises, generally in June of each year.
CFPB Regulation and Supervision. As noted above, the Dodd-Frank Act gives the CFPB authority to examine Umpqua and Umpqua Bank for compliance with a broad range of federal consumer financial laws and regulations, including the laws and regulations that relate to credit card, deposit, mortgage and other consumer financial products and services the Bank offers. In addition, the Dodd-Frank Act gives the CFPB broad authority to take corrective action against Umpqua and Umpqua Bank as it deems appropriate. The CFPB is authorized to issue regulations and take enforcement actions to prevent and remedy acts and practices relating to consumer financial products and services that it deems to be unfair, deceptive or abusive. The agency also has authority to impose new disclosure requirements for any consumer financial product or service. These authorities are in addition to the authority the CFPB assumed on July 21, 2011 under existing consumer financial law governing the provision of consumer financial products and services. The CFPB has concentrated much of its initial rulemaking efforts on a variety of mortgage related topics required under the Dodd-Frank Act, including ability-to-repay and qualified mortgage standards, mortgage servicing standards, loan originator compensation standards, high-cost mortgage requirements, appraisal and escrow standards and requirements for higher-priced mortgages.

In January 2014, new rules issued by the CFPB for mortgage origination and mortgage servicing became effective. The rules require lenders to conduct a reasonable and good faith determination at or before consummation of a residential mortgage loan that the borrower will have a reasonable ability to repay the loan. The regulations also define criteria for making Qualified Mortgages which entitle the lender and any assignee to either a conclusive or rebuttable presumption of compliance with the ability to repay rule. The new mortgage servicing rules include new standards for notices to consumers, loss mitigation procedures, and consumer requests for information. Both the origination and servicing rules create new private rights of action for consumers in the event of certain violations. In addition to the exercise of its rulemaking authority, the CFPB is continuing its ongoing examination and supervisory activities with respect to a number of consumer businesses and products.

Joint Agency Guidance on Incentive Compensation. On June 21, 2010, federal banking regulators issued final joint agency guidance on Sound Incentive Compensation Policies. This guidance applies to executive and non-executive incentive compensation plans administered by banks. The guidance says that incentive compensation programs must:

- Provide employees incentives that appropriately balance risk and reward.
- Be compatible with effective controls and risk- management; and

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- Be supported by strong corporate governance, including active and effective oversight by the board;

The Federal Reserve reviews, as part of the regular, risk-focused examination process, the incentive compensation arrangements of the Company and other banking organizations. The findings of the supervisory initiatives are included in reports of examination and any deficiencies will be incorporated into the Company's supervisory ratings, which can affect the Company's ability to make acquisitions and take other actions.

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ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the factors discussed below. These factors could materially 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.

Difficult market conditions have adversely affected and may continue to have an adverse effect on the financial services industry and on our business, financial condition and results of operations.

Our business and financial performance are vulnerable to weak economic conditions, primarily in the United States. The severe conditions from 2007 to 2009 had a significant negative impact on the financial services industry, and on Umpqua, including significant write-downs of asset values, bank failures and volatile financial markets. We have experienced moderate improvement in these conditions in the recent past, but not at a consistent pace. There is a risk that economic conditions will deteriorate or economic recovery is delayed. A worsening of conditions would likely exacerbate the adverse effects of the recent difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- Increased regulation of our industry, including the continued implementation of regulations under the Dodd-Frank Act. Compliance with such regulation will increase our costs, reduce existing sources of revenue and may limit our ability to pursue business opportunities.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future performance.
- The process we use to estimate losses inherent in our loan portfolio requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which process may no longer be capable of accurate estimation and may, in turn, impact its reliability.
- There may be downward pressure on our stock price.
- We may face increased competition due to intensified consolidation of the financial services industry.

If market disruption and volatility worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

The majority of our assets are loans, which if not repaid would result in losses to the Bank.

The Bank, like other lenders, is subject to credit risk, which is the risk of losing principal or interest due to borrowers' failure to repay loans in accordance with their terms. Underwriting and documentation controls cannot mitigate all credit risk. A downturn in the economy or the real estate market in our market areas or a rapid increase in interest rates could have a negative effect on collateral values and borrowers' ability to repay. To the extent loans are not paid timely by borrowers, the loans are placed on non-accrual status, thereby reducing interest income. Further, under these circumstances, an additional provision for loan and lease losses or unfunded commitments may be required. See Management's Discussion and Analysis of Financial Condition and Results of Operations- "Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments", "Provision for Loan and Lease Losses" and "Asset Quality and Non-Performing Assets".

A large percentage of our loan portfolio is secured by real estate, in particular commercial real estate. Deterioration in the real estate market or other segments of our loan portfolio would lead to additional losses, which could have a material adverse effect on our business, financial condition and results of operations.

As of December 31, 2014, approximately 80% of our total loan portfolio is secured by real estate, the majority of which is commercial real estate. Increases in commercial and consumer delinquency levels or declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

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The effects of the economic recession have been particularly severe in our primary market areas in the Pacific Northwest, California, and Nevada.

Substantially all of our loans are to businesses and individuals in California, Oregon, Washington, Idaho, and Nevada. The Pacific Northwest has had one of the nation's highest unemployment rates. A further deterioration in the economic conditions or a prolonged delay in economic recovery in our primary market areas could result in the following consequences, any of which could materially and adversely affect our business: loan delinquencies may increase; problem assets and foreclosures may increase putting further price pressures on valuations generally; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

The integration of Sterling may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the Merger may not be realized.

The success of the Merger, including anticipated benefits and cost savings, will depend, in part, on Umpqua's ability to successfully combine and integrate the businesses of Umpqua and Sterling in a manner that permits growth opportunities and does not materially disrupt the existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. The loss of key employees could adversely affect our ability to successfully conduct its business, which could have an adverse effect on our financial results and the value of its common stock. If we experience difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause us to lose customers. Integration efforts will also divert management attention and resources. In addition, the actual cost savings of the Merger upon completion of integration activities could be less than anticipated.

A rapid change in interest rates, or maintenance of rates at historically high or low levels for an extended period, could make it difficult to maintain our current interest income spread and could result in reduced earnings.

Our earnings are largely derived from net interest income, which is interest income and fees earned on loans and investments, less interest paid on deposits and other borrowings. Interest rates are highly sensitive to many factors that are beyond the control of our management, including general economic conditions and the policies of various governmental and regulatory authorities. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits. We cannot predict the nature or timing of future changes in monetary, tax and other policies or the effects that they may have on our activities and financial results. As interest rates change, net interest income is affected. With fixed rate assets (such as fixed rate loans and most investment securities) and liabilities (such as certificates of deposit), the effect on net interest income depends on the cash flows associated with the maturity of the asset or liability. Asset/liability management policies may not be successfully implemented and from time to time our risk position is not balanced. An unanticipated rapid decrease or increase in interest rates could have an adverse effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore on the level of net interest income. For instance, any rapid increase in interest rates in the future could result in interest expense increasing faster than interest income because of fixed rate loans and longer-term investments. Historically low rates for an extended period of time result in reduced returns from the investment and loan portfolios. The current very low interest rate environment, which is expected to continue at least through mid-year 2015 based on statements by the Chairman of the Federal Reserve, could affect consumer and business behavior in ways that are adverse to us and negatively impact our ability to increase our net interest income. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth than previously experienced. See Management's Discussion and Analysis of Financial Condition and Results of Operations-"Quantitative and Qualitative Disclosures about Market Risk".

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Our merger with Sterling, given its size and scope, will likely make it difficult for us to engage in traditional merger and acquisition transactions in the near term.

The successful integration of our merger with Sterling is presently our top priority and it will take significant resources through the first half of 2015 to accomplish that goal. During this integration phase it is unlikely that we would 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.

The benefits of our FDIC loss-sharing agreements may be reduced or eliminated.

In connection with Umpqua Bank's assumption of the banking operations of Evergreen Bank, Rainier Pacific Bank, and Nevada Security Bank, the Bank and the FDIC entered into Whole Bank Purchase and Assumption Agreements with Loss-Share (collectively, "Loss Share Agreements"). Our decisions regarding the fair value of assets acquired, including the FDIC loss-sharing assets, could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects. Management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In FDIC-assisted acquisitions that include loss-sharing agreements, we record a loss-sharing asset that reflects our estimate of the timing and amount of future losses that are anticipated to occur in and used to value the acquired loan portfolio. In determining the size of the loss-sharing asset, we analyze the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information.

If our assumptions relating to the timing or amount of expected losses are incorrect, our operating results could be negatively impacted. Increases in the amount of future losses in response to different economic conditions or adverse developments in the acquired loan portfolio may result in increased credit loss provisions. Changes in our estimate of the timing of those losses, specifically if those losses are to occur beyond the applicable loss-sharing periods, may result in impairments of the FDIC indemnification asset.

In addition, the non-single family Loss Share Agreements expire, by their terms on or before July 1, 2015. After expiration, we will no longer receive reimbursement from the FDIC for losses sustained in these acquired portfolios.

Our ability to obtain reimbursement under the loss-sharing agreements on covered assets depends on our compliance with the terms of the loss-sharing agreements.

Management must certify to the FDIC on a quarterly basis our compliance with the terms of the Loss share Agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the Loss Share Agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss-sharing coverage. Additionally, management may decide to forgo loss-share coverage on certain assets to allow greater flexibility over the management of certain assets.

Under the terms of the FDIC loss-sharing agreements, the assignment or transfer of a loss-sharing agreement to another entity generally requires the written consent of the FDIC. No assurances can be given that we will manage the covered assets in such a way as to maintain loss-share coverage on all such assets.

Deterioration in the real estate market could result in loans that we have restructured to become delinquent and classified as non-accrual loans.

We restructured loans, primarily during the recent recession, in response to borrower financial difficulty, by providing modification of loan repayment terms. Loans are reported as restructured when we grant significant concessions to a borrower experiencing financial difficulties that we would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending loan maturity dates or providing a lower interest rate than would be normally available for a transaction of similar risk. In exchange for these concessions, at the time of restructure, we require additional collateral to bring the loan to value to at most 100%. A decline in the economic conditions in our general market areas and other factors affecting the specific borrower could adversely impact borrowers with restructured loans and cause borrowers to become delinquent or otherwise default or call into question their ability to repay full interest and principal in accordance with the restructured terms, which would result in the restructured loan being reclassified as a non-accrual loan.

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Interest rate volatility and credit risk adjusted rate spreads may impact our financial assets and liabilities measured at fair value, particularly the fair value of our junior subordinated debentures.

The widening of the credit risk adjusted rate spreads on potential new issuances of junior subordinated debentures above our contractual spreads and reductions in three month LIBOR rates have contributed to the cumulative positive fair value adjustment in our junior subordinated debentures carried at fair value. Tightening of these credit risk adjusted rate spreads and interest rate volatility may result in recognizing negative fair value adjustments charged to earnings in the future.

The Dodd-Frank Act and other legislative and regulatory initiatives contain numerous provisions and requirements that could detrimentally affect the Company's business.

The Dodd-Frank Act and related regulations subject us and other financial institutions to additional restrictions, oversight, reporting obligations and costs, which could have an adverse impact on our business, financial condition, results of operations or the price of our common stock. In addition, this increased regulation of the financial services industry restricts the ability of firms within the industry to conduct business consistent with historical practices, including aspects such as compensation, interest rates, new and inconsistent consumer protection regulations and mortgage regulation, among others. Congress or state legislatures could also adopt laws reducing the amount that borrowers are otherwise contractually required to pay under existing loan contracts, require lenders to extend or restructure certain loans or limit foreclosure and collection remedies. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied.

We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof. Compliance with such current and potential regulation and scrutiny could significantly increase our costs, impede the efficiency of our internal business processes, may require us to increase our regulatory capital and may limit our ability to pursue business opportunities in an efficient manner. In response, we may be required to or choose to raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock.

We are subject to extensive regulation under federal and state laws. These laws and regulations are primarily intended to protect customers, depositors and the deposit insurance fund, rather than shareholders. The Bank is an Oregon state-chartered commercial bank whose primary regulator is the DCBS. The Bank is also subject to the supervision by and the regulations of the DFI, the DBO, the Idaho Department of Finance Banking Section, the Nevada Division of Financial Institutions, the FDIC, which insures bank deposits and the CFPB. Umpqua Investments is subject to extensive regulation by the SEC and the FINRA. Umpqua is subject to regulation and supervision by the Federal Reserve, the SEC and NASDAQ. Federal and state regulations may place banks and brokerage firms at a competitive disadvantage compared to less regulated competitors such as finance companies, credit unions, mortgage banking companies and leasing companies. There is also the possibility that laws could be enacted that would prohibit a company from controlling both an FDIC-insured bank and a broker dealer, or restrict their activities if under common ownership. If we receive less than satisfactory results on regulatory examinations, we could be restricted from making acquisitions, adding new stores, developing new lines of business, or otherwise continuing our growth strategy for a period of time. Future changes in federal and state banking and brokerage regulations could adversely affect our operating results and ability to continue to compete effectively.

We may be required to raise additional capital in the future, but that capital may not be available when it is needed, or it may only be available on unacceptable terms, which could adversely affect our financial condition and results of operations.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may not be able to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations and pursue our growth strategy could be materially impaired. We and the Bank are currently well capitalized under applicable regulatory guidelines. However, our business could be negatively affected if we or the Bank failed to remain well capitalized. For example, because Umpqua Bank is well capitalized and we otherwise qualify as a financial holding company, we are permitted to engage in a broader range of activities than are permitted to a bank holding company. Loss of financial holding company status could require that we cease these broader activities. The banking regulators are authorized (and sometimes required) to impose a wide range of requirements, conditions, and restrictions on banks, thrifts, and bank holding companies that fail to maintain adequate capital levels. Further the new capital requirements of the Basel III Rules will become applicable to us beginning January 1, 2015.

New rules will require increased capital and restrict TRUPS as a component of as Tier 1 Capital.
In June 2013, federal banking regulators jointly issued the Basel III Rules. The rules impose new capital requirements and implement Section 171 of the Dodd Frank Act. The new rules are to be phased in through 2019, beginning January 1, 2015. Among other things, the rules will require that we maintain a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. In addition, we will have to maintain an additional capital conservation buffer of 2.5% of total risk weighted assets or be subject to limitations on dividends and other capital distributions, as well as limiting discretionary bonus payments to executive officers. The new rules also restrict trust preferred securities/junior subordinated debentures ("TRUPS") from comprising more than 25% of our Tier 1 capital. TRUPS now constitute approximately 20% of our Tier 1 capital. If an institution grows above $15 billion as a result of an acquisition, as we did in the 2014 with the Sterling merger, the combined trust preferred issuances will 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. The new rules may require us to raise more common capital or other capital that qualifies as Tier 1 capital. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. But based on the current components and levels of our capital and assets, we believe that we will be in compliance with the new capital requirements.
Conditions in the financial markets may limit our access to additional funding to meet our liquidity needs.
Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. An adverse regulatory action against us could detrimentally impact our access to liquidity sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole as evidenced by turmoil in the domestic and worldwide credit markets.
Our wholesale funding sources may prove insufficient to support our future growth or an unexpected reduction in deposits.
We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. If we grow more rapidly than any increase in our deposit balances, we are likely to become more dependent on these sources, which include Federal Home Loan Bank advances, proceeds from the sale of loans and liquidity resources at the holding company. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs, and our profitability would be adversely affected.
As a bank holding company that conducts substantially all of our operations through the Bank, our ability to pay dividends, repurchase our shares or to repay our indebtedness depends upon liquid assets held by the holding company and the results of operations of our subsidiaries.
The Company is a separate and distinct legal entity from our subsidiaries and it receives substantially all of its revenue from dividends paid from the Bank. There are legal limitations on the extent to which the Bank may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, us. Our inability to receive dividends from the Bank could adversely affect our business, financial condition, results of operations and prospects.
Our net income depends primarily upon the Bank's net interest income, which is the income that remains after deducting from total income generated by earning assets the expense attributable to the acquisition of the funds required to support earning assets (primarily interest paid on deposits). The amount of interest income is dependent on many factors including the volume of earning assets, the general level of interest rates, the dynamics of changes in interest rates and the levels of nonperforming loans. All of those factors affect the Bank's ability to pay dividends to

the Company.

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Various statutory provisions restrict the amount of dividends the Bank can pay to us without regulatory approval. The Bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet the "adequately capitalized" level in accordance with regulatory capital requirements. It is also possible that, depending upon the financial condition of the Bank and other factors, regulatory authorities could conclude that payment of dividends or other payments, including payments to us, is an unsafe or unsound practice and impose restrictions or prohibit such payments. Under Oregon law, the Bank may not pay dividends in excess of unreserved retained earnings, deducting there from, to the extent not already charged against earnings or reflected in a reserve, the following: (1) all bad debts, which are debts on which interest is past due and unpaid for at least six months, unless the debt is fully secured and in the process of collection; (2) all other assets charged-off as required by Oregon bank regulators or a state or federal examiner; and (3) all accrued expenses, interest and taxes of the institution. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that its net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition.
A decline in the Company's stock price or expected future cash flows, or a material adverse change in our results of operations or prospects, could result in impairment of our goodwill.

From time to time, the Company's common stock has traded at a price below its book value, including goodwill and other intangible assets. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate or slower growth rates could result in impairment of our goodwill. If impairment was deemed to exist, a write down of goodwill would occur with a charge to earnings.

We have a gross deferred tax asset position of $423.3 million at December 31, 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 this amount. A valuation allowance on our deferred tax asset could have a material adverse impact on our capital and results of operations.
We are pursuing an aggressive growth strategy that is expected to include mergers and acquisitions, which could create integration risks.
Umpqua is among the fastest-growing community financial services organizations in the United States. Since 2000, we have completed the acquisition and integration of 12 other financial institutions. There is no assurance that future acquisitions will be successfully integrated. We continue to pursue traditional merger and acquisition transactions and to open new stores to continue our growth strategy. If we pursue our growth strategy too aggressively, or if factors beyond management's control divert attention away from our integration plans, we might not be able to realize some or all of the anticipated benefits. Moreover, we are dependent on the efforts of key personnel to achieve the synergies associated with our acquisitions. The loss of one or more of our key persons could have a material adverse effect upon our ability to achieve the anticipated benefits.
The financial services industry is highly competitive with respect to deposits, loans and products.
We face pricing competition for loans and deposits. We also face competition with respect to customer convenience, product lines, accessibility of service and service capabilities. Our most direct competition comes from other banks, brokerages, mortgage companies and savings institutions. We also face competition from credit unions, government-sponsored enterprises, mutual fund companies, insurance companies and other non-bank businesses. This significant competition in attracting and retaining deposits and making loans as well as in providing other financial services throughout our market area may impact future earnings and growth. Our success depends, in part, on the ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products

and services at lower prices. This can reduce net interest income and non-interest income from fee-based products and services. In addition, new technology-driven products and services are often introduced and adopted, which could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services or those new products may not achieve market acceptance. We could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases. As a result, our business, financial condition or results of operations may be adversely affected.

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Involvement in non-bank business creates risks associated with the securities industry.

Umpqua Investments' retail brokerage operations present special risks not borne by community banks that focus exclusively on community banking. For example, the brokerage industry is subject to fluctuations in the stock market that may have a significant adverse impact on transaction fees, customer activity and investment portfolio gains and losses. Likewise, additional or modified regulations may adversely affect Umpqua Investments' operations. Umpqua Investments is also dependent on a small number of established brokers, whose departure could result in the loss of a significant number of customer accounts. A significant decline in fees and commissions or trading losses suffered in the investment portfolio could adversely affect Umpqua Investments' income and potentially require the contribution of additional capital to support its operations. Umpqua Investments is subject to claim arbitration risk arising from customers who claim their investments were not suitable or that their portfolios were too actively traded. These risks increase when the market, as a whole, declines. The risks associated with retail brokerage may not be supported by the income generated by those operations. See Management's Discussion and Analysis of Financial Condition and Results of Operations-"Non-interest Income".

The value of the securities in our investment securities portfolio may be negatively affected by continued disruptions in securities markets.

The market for some of the investment securities held in our portfolio has become extremely volatile over the past three years. Volatile market conditions or deteriorating financial performance of the issuer or obligor may detrimentally affect the value of these securities. There can be no assurance that the declines in market value associated with these disruptions will not result in other-than-temporary or permanent impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

The volatility of our mortgage banking business can adversely affect earnings if our mitigating strategies are not successful.

Changes in interest rates greatly affect the mortgage banking business. One of the principal risks in this area is prepayment of mortgages and the consequent detrimental effect on the value of mortgage servicing rights. We may employ hedging strategies to mitigate this risk but if the hedging decisions and strategies are not successful, our net income could be adversely affected. See Management's Discussion and Analysis of Financial Condition and Results of Operations-"Mortgage Servicing Rights".

Our business is highly reliant on technology and our ability to manage the operational risks associated with technology.

Our business involves storing and processing sensitive consumer and business customer data. A cyber security breach may result in theft of such data or disruption of our transaction processing systems. We depend on internal systems and outsourced technology to support these data storage and processing operations. Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations. A material breach of customer data security may negatively impact our business reputation and cause a loss of customers, result in increased expense to contain the event and/or require that we provide credit monitoring services for affected customers, result in regulatory fines and sanctions and/or result in litigation. Cyber security risk management programs are expensive to maintain and will not protect the Company from all risks associated with maintaining the security of customer data and the Company's proprietary data from external and internal intrusions, disaster recovery and failures in the controls used by our vendors. In addition, Congress and the legislatures of states in which we operate regularly consider legislation that would impose more stringent data privacy requirements.

Our business is highly reliant on third party vendors and our ability to manage the operational risks associated with outsourcing those services.

We rely on third parties to provide services that are integral to our operations. These vendors provide services that support our operations, including the storage and processing of sensitive consumer and business customer data, as well as our sales efforts. A cyber security breach of a vendor's system may result in theft of our data or disruption of business processes. A material breach of customer data security at a service provider's site may negatively impact our business reputation and cause a loss of customers; result in increased expense to contain the event and/or require that we provide credit monitoring services for affected customers, result in regulatory fines and sanctions and/or result in litigation. In most cases, we will remain primarily liable to our customers for losses arising from a breach of a vendor's data security system. We rely on our outsourced service providers to implement and maintain prudent cyber security controls. We have procedures in place to assess a vendor's cyber security controls prior to establishing a contractual relationship and to periodically review assessments of those control systems; however, these procedures are not infallible and a vendor's system can be breached despite the procedures we employ. We have alliances with other companies that assist in our sales efforts. In our wealth management business, we have an alliance with Ferguson Wellman, a registered investment advisor to whom we refer customers for investment advice and asset management services. We cannot be sure that we will be able to maintain these relationships on favorable terms. In addition, some of our data processing services are provided by companies associated with our competitors. The loss of these vendor relationships could disrupt the services we provide to our customers and cause us to incur significant expense in connection with replacing these services.

Store construction can disrupt banking activities and may not be completed on time or within budget, which could result in reduced earnings.

The Bank has, over the past several years, been transformed from a traditional community bank into a community-oriented financial services retailer. We build new stores as part of our de novo branching strategy, including our "Neighborhood Stores." We also continue to remodel acquired bank branches to resemble retail stores that include distinct physical areas or boutiques such as a "serious about service center," an "investment opportunity center" and a "computer cafe." Store construction involves significant expense and risks associated with locating store sites and delays in obtaining permits and completing construction. Remodeling involves significant expense, disrupts banking activities during the remodeling period, and presents a new look and feel to the banking services and products being offered. Financial constraints may delay remodeling projects. Customers may not react favorably to the construction-related activities or the remodeled look and feel. There are risks that construction or remodeling costs will exceed forecasted budgets and that there may be delays in completing the projects, which could cause disruption in those markets.

Damage to our brand and reputation could significantly harm our business and prospects.

Our brand and reputation are important assets. Our relationship with many of our customers is predicated upon our reputation as a high quality provider of financial services that adheres to the highest standards of ethics, service quality and regulatory compliance. We believe that our brand has been, and continues to be, well received in our industry, with current and potential customers, investors and employees. Our ability to attract and retain customers, investors and employees depends upon external perceptions of us. Damage to our reputation among existing and potential customers, investors and employees could cause significant harm to our business and prospects and may arise from numerous sources, including litigation or regulatory actions, failing to deliver minimum standards of service and quality, lending practices, inadequate protection of customer information, sales and marketing efforts, compliance failures, unethical behavior and the misconduct of employees. Adverse developments with respect to our industry may also, by association, negatively impact our reputation or result in greater regulatory or legislative scrutiny or litigation against us.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The executive offices of Umpqua and Umpqua Investments are located at One SW Columbia Street in Portland, Oregon in office space that is leased. The Bank's headquarters, located in Roseburg, Oregon, is owned. At December 31, 2014, the Bank conducted community banking activities or operated Commercial Banking Centers at 385 locations, in California, Oregon and Washington along the I-5 corridor; in the San Francisco Bay area, Inland Foothills, Napa, and Coastal regions in California; in Bend and along the Pacific Coast of Oregon; in greater Seattle and Bellevue, Washington, and in Idaho and Reno, Nevada, of which 147 are owned and 238 are leased under various agreements. As of December 31, 2014, the Bank also operated 25 facilities for the purpose of administrative and other functions, such as back-office support, of which 3 are owned and 22 are leased. All facilities are in a good state of repair and appropriately designed for use as banking or administrative office facilities. As of December 31, 2014, Umpqua Investments leased four stand-alone offices from unrelated third parties, one stand-alone office from the Bank, and also leased space in nine Bank stores under lease agreements based on market rates.

ITEM 3. 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, cash flows, or our ability to close the proposed Sterling merger.

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 held a final approval hearing on 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,

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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. On September 26, 2014, the parties to the litigation filed a notice of settlement with the Court. The Court preliminarily approved the proposed settlement on December 5, 2014. The Court will consider final approval of the proposed settlement at a hearing scheduled for March 27, 2015.

The Company assumed, as successor-in-interest to Sterling, the defense of litigation matters pending against Sterling. Sterling previously reported that 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 and appellant’s opening brief is due April 3, 2015.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Our common stock is traded on The NASDAQ Global Select Market under the symbol "UMPQ." As of December 31, 2014, there were 400,000,000 common shares authorized for issuance. The following table presents the high and low sales prices of our common stock for each period, based on inter-dealer prices that do not include retail mark-ups, mark-downs or commissions, and cash dividends declared for each period:

Quarter Ended	High	Low	Cash Dividend Per Share
December 31, 2014	$17.98	$14.94	$0.15
September 30, 2014	$18.39	$16.22	$0.15
June 30, 2014	$19.36	$19.00	$0.15
March 31, 2014	$19.60	$16.50	$0.15
December 31, 2013	$19.65	$16.09	$0.15
September 30, 2013	$17.48	$15.08	$0.15
June 30, 2013	$15.29	$11.45	$0.20
March 31, 2013	$13.54	$12.00	$0.10

As of December 31, 2014, our common stock was held by approximately 5,255 shareholders of record, a number that does not include beneficial owners who hold shares in "street name", or shareholders from previously acquired companies that have not exchanged their stock. At December 31, 2014, a total of 807,000 stock options, 1,386,000 shares of restricted stock and 675,000 restricted stock units were outstanding.

The payment of future cash dividends is at the discretion of our Board of Directors and subject to a number of factors, including results of operations, general business conditions, growth, financial condition and other factors deemed relevant by the Board of Directors. Further, our ability to pay future cash dividends is subject to certain regulatory requirements and restrictions discussed in the Supervision and Regulation section in Item 1 above.

During 2014, Umpqua's Board of Directors approved a quarterly cash dividend of $0.15 per common share for each quarter. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy.

We have a dividend reinvestment plan that permits shareholder participants to purchase shares at the then-current market price in lieu of the receipt of cash dividends. Shares issued in connection with the dividend reinvestment plan are purchased in open market transactions.

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Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that provide for the award of securities or the grant of options to purchase securities to employees and directors of Umpqua and its subsidiaries and predecessors by merger that were in effect at December 31, 2014.

(shares in thousands)

	Equity Compensation Plan Information		
	(A)	(B)	(C)
Plan category	Number of securities to be issued upon exercise of outstanding options warrants and rights	Weighted average exercise price of outstanding options, warrants and rights (4)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A)
Equity compensation plans approved by security holders			
2013 Stock Incentive Plan (1)	—	$—	3,000
2003 Stock Incentive Plan (1)	708	$17.64	—
2007 Long Term Incentive Plan (1),(2)	25	$—	—
Other (3)	787	$12.71	—
Total	1,520	$16.80	3,000
Equity compensation plans not approved by security holders	—	$—	—
Total	1,520	$16.80	3,000

(1) 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. Under the terms of the 2013 Plan, options and awards generally vest ratably over a period of three to five years, the exercise price of each option equals the market price of the Company's common stock on the date of the grant, and the maximum term is ten years.

(2) As of December 31, 2014, 25,000 restricted stock units are expected to vest as the performance-based targets were satisfied and there are no securities available for future issuance.

(3) Includes other Umpqua stock plans and stock plans assumed through previous mergers.

(4) Weighted average exercise price is based solely on securities with an exercise price.

(b) Not applicable.

(c) The Company's share repurchase plan, which was first approved by the Board 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 December 31, 2014, a total of 12.0 million shares remained available for repurchase. The Company did not repurchase any shares under the repurchase plan during 2014, repurchased 98,027 shares in 2013, and 512,280 shares under the repurchase plan in 2012. 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.

There were 161,568 and 438,136 shares tendered in connection with option exercises during the years ended December 31, 2014 and 2013, respectively. Restricted shares cancelled to pay withholding taxes totaled 107,131 and 48,514 shares during the years ended December 31, 2014 and 2013, respectively. There were 129,766 restricted stock units cancelled to pay withholding taxes during the years ended December 31, 2014 and none in 2013, respectively.

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Stock Performance Graph

The following chart, which is furnished not filed, compares the yearly percentage changes in the cumulative shareholder return on our common stock during the five fiscal years ended December 31, 2014, with (i) the Total Return Index for NASDAQ Bank Stocks (ii) the Total Return Index for The Nasdaq Stock Market (U.S. Companies) and (iii) the Standard and Poor's 500. This comparison assumes $100.00 was invested on December 31, 2009, in our common stock and the comparison indices, and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. Price information from December 31, 2009 to December 31, 2014, was obtained by using the NASDAQ closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Umpqua Holdings Corporation	$100.00	$92.32	$96.12	$93.93	$158.45	$145.76
Nasdaq Bank Stocks	$100.00	$114.16	$102.17	$121.26	$171.86	$180.31
Nasdaq U.S.	$100.00	$118.15	$117.22	$138.02	$193.47	$222.16
S&P 500	$100.00	$115.06	$117.49	$136.30	$180.44	$205.14

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ITEM 6. SELECTED FINANCIAL DATA.
Umpqua Holdings Corporation
Annual Financial Trends

(in thousands, except per share data)	2014	2013	2012	2011	2010
Interest income	$822,521	$442,846	$456,085	$501,753	$488,596
Interest expense	48,693	37,881	48,849	73,301	93,812
Net interest income	773,828	404,965	407,236	428,452	394,784
Provision for loan and lease losses	40,241	10,716	29,201	62,361	118,819
Non-interest income	179,292	121,441	136,829	84,118	75,904
Non-interest expense	601,746	355,825	357,314	338,611	311,063
Merger related expenses	82,317	8,836	2,338	360	6,675
Income before provision for income taxes	228,816	151,029	155,212	111,238	34,131
Provision for income taxes	81,296	52,668	53,321	36,742	5,805
Net income	147,520	98,361	101,891	74,496	28,326
Preferred stock dividends	—	—	—	—	12,192
Dividends and undistributed earnings allocated to participating securities	484	788	682	356	67
Net earnings available to common shareholders	$147,036	$97,573	$101,209	$74,140	$16,067
YEAR END					
Assets	$22,613,274	$11,636,112	$11,795,443	$11,562,858	$11,668,710
Earning assets	19,370,349	10,267,981	10,465,505	10,263,923	10,374,131
Loans and leases (1)	15,327,732	7,728,166	7,176,433	6,524,869	6,447,606
Deposits	16,892,099	9,117,660	9,379,275	9,236,690	9,433,805
Term debt	1,006,395	251,494	253,605	255,676	262,760
Junior subordinated debentures, at fair value	249,294	87,274	85,081	82,905	80,688
Junior subordinated debentures, at amortized cost	101,576	101,899	110,985	102,544	102,866
Common shareholders' equity	3,780,997	1,727,426	1,724,039	1,672,413	1,642,574
Total shareholders' equity	3,780,997	1,727,426	1,724,039	1,672,413	1,642,574
Common shares outstanding	220,161	111,973	111,890	112,165	114,537
AVERAGE					
Assets	$19,169,098	$11,507,688	$11,499,499	$11,600,435	$10,830,486
Earning assets	16,484,664	10,224,606	10,252,167	10,332,242	9,567,341
Loans and leases (1)	13,003,762	7,367,602	6,707,194	6,430,797	6,465,021
Deposits	14,407,331	9,057,673	9,124,619	9,301,978	8,607,980
Term debt	815,017	252,546	254,601	257,496	261,170
Junior subordinated debentures	301,525	189,237	187,139	184,115	184,134
Common shareholders' equity	3,137,858	1,729,083	1,701,403	1,671,893	1,589,393
Total shareholders' equity	3,137,858	1,729,083	1,701,403	1,671,893	1,657,544
Basic common shares outstanding	186,550	111,938	111,935	114,220	107,922
Diluted common shares outstanding	187,544	112,176	112,151	114,409	108,153
PER COMMON SHARE DATA					
Basic earnings	$0.79	$0.87	$0.90	$0.65	$0.15
Diluted earnings	0.78	0.87	0.90	0.65	0.15
Book value	17.17	15.43	15.41	14.91	14.34

Tangible book value (2)	8.80	8.49	9.28	8.87	8.39
Cash dividends declared	0.60	0.60	0.34	0.24	0.20

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(dollars in thousands)	2014	2013	2012	2011	2010
PERFORMANCE RATIOS					
Return on average assets [3]	0.77 %	0.85 %	0.88 %	0.64 %	0.15 %
Return on average common shareholders' equity [4]	4.69 %	5.64 %	5.95 %	4.43 %	1.01 %
Return on average tangible common shareholders' equity [5]	9.16 %	9.78 %	9.87 %	7.47 %	1.76 %
Efficiency ratio [6]	71.37 %	68.68 %	65.54 %	65.58 %	66.90 %
Average common shareholders' equity to average assets	16.37 %	15.03 %	14.80 %	14.41 %	14.68 %
Leverage ratio [7]	10.99 %	10.90 %	11.44 %	10.91 %	10.56 %
Net interest margin (fully tax equivalent) [8]	4.73 %	4.01 %	4.02 %	4.19 %	4.17 %
Non-interest income to total net revenue [9]	18.81 %	23.07 %	25.15 %	16.41 %	16.13 %
Dividend payout ratio [10]	75.95 %	68.97 %	37.78 %	36.92 %	133.33 %
ASSET QUALITY					
Non-performing loans and leases	$59,553	$35,321	$70,968	$91,383	$145,248
Non-performing assets	97,495	59,256	98,480	145,049	207,902
Allowance for loan and lease losses	116,167	95,085	103,666	107,288	104,642
Net charge-offs	19,159	19,297	32,823	59,715	121,834
Non-performing loans and leases to loans and leases	0.39 %	0.46 %	0.99 %	1.40 %	2.25 %
Non-performing assets to total assets	0.43 %	0.51 %	0.83 %	1.25 %	1.78 %
Allowance for loan and lease losses to total loans and leases	0.76 %	1.23 %	1.44 %	1.64 %	1.62 %
Allowance for credit losses to loans and leases	0.78 %	1.25 %	1.46 %	1.66 %	1.64 %
Net charge-offs to average loans and leases	0.15 %	0.26 %	0.49 %	0.93 %	1.88 %

(1) Excludes loans held for sale

(2) Average common shareholders' equity less average intangible assets (excluding MSR) divided by shares outstanding at the end of the year. See Management's Discussion and Analysis of Financial Condition and Results of Operation"-"Results of Operations - Overview" for the reconciliation of non-GAAP financial measures, in Item 7 of this report.

(3) Net earnings available to common shareholders divided by average assets.

(4) Net earnings available to common shareholders divided by average common shareholders' equity.

(5) Net earnings available to common shareholders divided by average common shareholders' equity less average intangible assets. See Management's Discussion and Analysis of Financial Condition and Results of Operations-"Results of Operations - Overview" for the reconciliation of non-GAAP financial measures, in Item 7 of this report.

(6) Non-interest expense divided by the sum of net interest income (fully tax equivalent) and non-interest income.

(7) Tier 1 capital divided by leverage assets. Leverage assets are defined as quarterly average total assets, net of goodwill, intangibles and certain other items as required by the Federal Reserve.

(8) Net interest margin (fully tax equivalent) is calculated by dividing net interest income (fully tax equivalent) by average interest earnings assets.

(9) Non-interest income divided by the sum of non-interest revenue and net interest income.

(10) Dividends declared per common share divided by basic earnings per common share.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS AND RISK FACTORS

See the discussion of forward-looking statements and risk factors in Part I Item 1 and Item 1A of this report.

EXECUTIVE OVERVIEW

Significant items for the year ended December 31, 2014 were as follows:

Financial Performance

- Net earnings available to common shareholders per diluted common share were $0.78 for the year ended December 31, 2014, as compared to $0.87 for the year ended December 31, 2013. Operating earnings 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 $1.08 for the year ended December 31, 2014, as compared to operating income per diluted common share of $0.94 for the year ended December 31, 2013. 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 4.73% for the year ended December 31, 2014, compared to 4.01% for the year ended December 31, 2013. The increase in net interest margin is primarily attributable to a higher yield on interest-earning assets due to the acquisitions of Sterling and of FinPac, as well as a lower cost of funds.

- Residential mortgage banking revenue was $77.3 million for 2014, compared to $78.9 million for 2013. The decrease was the result of lower gain on sale margins, and a larger loss from the change in the fair value of the MSR asset, consistent with the decline in mortgage interest rates, partially offset by higher mortgage originations and servicing fees.

- Total gross loans and leases were $15.3 billion as of December 31, 2014, an increase of $7.6 billion, or 98.3%, as compared to December 31, 2013. This increase is primarily the result of the merger with Sterling which added $7.1 billion of loans at acquisition.

- Total deposits were $16.9 billion as of December 31, 2014, an increase of $7.8 billion, or 85.3%, as compared to December 31, 2013. The increase resulted primarily from the merger with Sterling which added $7.1 billion of deposits at acquisition.

- Total consolidated assets were $22.6 billion as of December 31, 2014, as compared to $11.6 billion at December 31, 2013.

Credit Quality

- Non-performing assets increased to $97.5 million, or 0.43% of total assets, as of December 31, 2014, as compared to $59.3 million, or 0.51% of total assets, as of December 31, 2013. Non-performing loans and leases increased to $59.6 million, or 0.39% of total loans and leases, as of December 31, 2014, as compared to $35.3 million, or 0.46% of total loans and leases as of December 31, 2013.

- Net charge-offs on loans were $19.2 million for the year ended December 31, 2014, or 0.15% of average loans and leases, as compared to net charge-offs of $19.3 million, or 0.26% of average loans and leases, for the year ended

December 31, 2013.

- The provision for loan and lease losses was $40.2 million for 2014, as compared to $10.7 million recognized for 2013. The increase is due to new production of loans and leases during 2014, requiring a higher allowance for loan and lease losses.

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Capital and Growth Initiatives

- Total risk based capital increased to 15.2% as of December 31, 2014, compared to 14.7% as of December 31, 2013, primarily due to the effects of the Sterling merger.

- Declared cash dividends of $0.60 per common share for 2014 and 2013.

- Completed the Sterling merger in April 2014.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Our significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements in Item 8 of this report. Not all of these significant 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. As of December 31, 2014, there was no unallocated allowance amount.

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.

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Management believes that the ALLL was adequate as of December 31, 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 80% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses.

Acquired Loans including Covered Loans and FDIC Indemnification Asset

Acquired loans and leases are recorded at their fair value at the acquisition date. For purchased non-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the estimated life of the loans.

The acquired loans and purchase impaired loans are 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. Changes in the accretable yield are disclosed quarterly.

Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as "covered loans." The Company has elected to account for amounts receivable under the loss-share agreement 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 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 in 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 mortgage servicing rights 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 net 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.

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 the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives 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 additional impairment of all, or some portion of, goodwill.

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The Company performed its annual goodwill impairment analysis of the Community Banking reporting segment as of December 31, 2014. In the first step of the goodwill impairment test, the Company assessed qualitative factors to determine whether the existence of events and circumstances indicated that it is more likely than not that the indefinite-lived intangible asset is impaired, and determined no factors indicated an impairment. Based on this analysis, no further testing was determined to be necessary.

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, as required by the features of the grants. 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 expected service period related to each option.

Fair Value

A hierarchical disclosure framework associated with the level of pricing observability is 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.

RECENT ACCOUNTING PRONOUNCEMENTS

Information regarding Recent Accounting Pronouncements is included in Note 1 of the Notes to Consolidated Financial Statements in Item 8 below.

RESULTS OF OPERATIONS-OVERVIEW

For the year ended December 31, 2014, net earnings available to common shareholders were $147.0 million, or $0.78 per diluted common share, as compared to net earnings available to common shareholders of $97.6 million, or $0.87 per diluted common share for the year ended December 31, 2013. The increase in net earnings available to common shareholders in 2014 is principally attributable to the merger with Sterling which increased net interest income. The increase in net interest income was offset by the increase in non-interest expense, including merger-related expenses, which are also attributable to the merger with Sterling.

For the year ended December 31, 2013, net earnings available to common shareholders were $97.6 million, or $0.87 per diluted common share, as compared to net earnings available to common shareholders of $101.2 million, or $0.90 per diluted common share for the year ended December 31, 2012. The decrease in net earnings available to common shareholders in 2013 is principally attributable to decreased net interest income, decreased non-interest income, increased non-interest expense, partially offset by decreased provision for loan and lease losses.

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 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. Operating earnings and operating earnings per diluted share 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 and Supplementary Data in Item 8 below.

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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 years ended December 31, 2014, 2013, and 2012:

Reconciliation of Net Earnings Available to Common Shareholders to Operating Earnings
Years Ended December 31,

(in thousands, except per share data)	2014	2013	2012
Net earnings available to common shareholders	$147,036	$97,573	$101,209
Adjustments:			
Net loss on junior subordinated debentures carried at fair value, net of tax (1)	3,054	1,318	1,322
Merger-related expenses, net of tax (1)	52,311	6,820	1,403
Operating earnings	$202,401	$105,711	$103,934
Per diluted share:			
Net earnings available to common shareholders	$0.78	$0.87	$0.90
Adjustments:			
Net loss on junior subordinated debentures carried at fair value, net of tax (1)	0.02	0.01	0.01
Merger-related expenses, net of tax (1)	0.28	0.06	0.02
Operating earnings	$1.08	$0.94	$0.93

(1) Adjusted for income tax effect of pro forma operating earnings of 40% for tax-deductible items.

The following table presents the returns on average assets, average common shareholders' equity and average tangible common shareholders' equity for the years ended December 31, 2014, 2013, and 2012. 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. 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 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.

Return on Average Assets, Common Shareholders' Equity and Tangible Common Shareholders' Equity
For the Years Ended December 31,

(dollars in thousands)	2014		2013		2012	
Returns on average assets:						
Net earnings available to common shareholders	0.77	%	0.85	%	0.88	%
Operating earnings	1.06	%	0.92	%	0.90	%
Returns on average common shareholders' equity:						
Net earnings available to common shareholders	4.69	%	5.64	%	5.95	%
Operating earnings	6.45	%	6.11	%	6.11	%
Returns on average tangible common shareholders' equity:						
Net earnings available to common shareholders	9.16	%	9.78	%	9.87	%
Operating earnings	12.62	%	10.60	%	10.14	%
Calculation of average common tangible shareholders' equity:						

Average common shareholders' equity	$3,137,858	$1,729,083	$1,701,403
Less: average goodwill and other intangible assets, net	(1,533,403)	(731,525)	(676,354)
Average tangible common shareholders' equity	$1,604,455	$997,558	$1,025,049

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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 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 preferred stock and less goodwill and other intangible assets, net (excluding MSRs). In addition, tangible assets are total assets less goodwill and other intangible assets, net (excluding MSRs). The tangible common equity ratio is calculated as tangible common shareholders' equity divided by tangible assets. The tangible common equity and tangible common equity ratio is considered a non-GAAP financial measure and should be viewed in conjunction with the 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 December 31, 2014 and December 31, 2013:

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

(dollars in thousands)	December 31, 2014	December 31, 2013
Total shareholders' equity	$3,780,997	$1,727,426
Subtract:		
Goodwill and other intangible assets, net	1,842,958	776,683
Tangible common shareholders' equity	$1,938,039	$950,743
Total assets	$22,613,274	$11,636,112
Subtract:		
Goodwill and other intangible assets, net	1,842,958	776,683
Tangible assets	$20,770,316	$10,859,429
Tangible common equity ratio	9.33 %	8.75 %

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not 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.

NET INTEREST INCOME

Net interest income is the largest source of our operating income. Net interest income for 2014 was $773.8 million, an increase of $368.9 million or 91.1% compared to the same period in 2013. The increase in net interest income in 2014 as compared to 2013 is attributable to an increase in average interest-earning assets, primarily loans and investment securities, and an increase in net interest margin, partially offset by an increase in average deposits and other average interest-bearing liabilities.

Net interest income for 2013 was $405.0 million, a decrease of $2.3 million or 0.6% compared to the same period in 2012. The decrease in net interest income in 2013 as compared to 2012 is attributable to a decrease in outstanding average interest-earning assets, primarily investment securities, and a decrease in net interest margin, partially offset by an increase in average loans and leases and a decrease in interest-bearing liabilities.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 4.73% for the 2014, an increase of 72 basis points as compared to the same period in 2013. The increase in net interest margin primarily resulted from the increase in loan yields, the increase in average loans and leases, offset by an increase in average deposits and interest-bearing liabilities. Partially contributing to the increase in net interest margin in 2014, as compared to 2013, is the continued reduction of the cost of interest-bearing liabilities, specifically time deposits. The total cost of interest-bearing liabilities for 2014 was 0.41%, representing a decrease of 10 basis points compared 2013. The cost of time deposits was 0.58% in 2014 compared to 0.89% in 2013.

The net interest margin on a fully tax-equivalent basis was 4.01% for 2013, a decrease of 1 basis points as compared to the same period in 2012. The decrease in net interest margin primarily resulted from the decline in loan yields, a decline in investment yields, and an increase in average interest bearing cash, offset by an increase in average loans and leases outstanding, a decline in the cost of interest-bearing deposits, and a decrease in average interest-bearing liabilities.

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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 table presents 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 years ended December 31, 2014, 2013 and 2012:

Average Rates and Balances (dollars in thousands)	2014			2013			2012		
	Average Balance	Interest Income or Expense	Average Yields or Rates	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	$205,580	$8,337	4.06%	$138,383	$4,835	3.49%	$178,403	$6,634	3.72%
Loans and leases (1)	13,003,762	755,466	5.81%	7,367,602	393,379	5.34%	6,707,194	380,178	5.67%
Taxable securities	2,072,936	46,109	2.22%	1,952,611	34,398	1.76%	2,743,672	59,161	2.16%
Non-taxable securities (2)	301,535	15,692	5.20%	247,010	13,477	5.46%	258,816	13,834	5.34%
Temporary investments and interest-bearing deposits	900,851	2,264	0.25%	519,000	1,336	0.26%	364,082	928	0.25%
Total interest earning assets	16,484,664	827,868	5.02%	10,224,606	447,425	4.38%	10,252,167	460,735	4.49%
Allowance for loan and lease losses	(96,513)			(86,227)			(86,656)		
Other assets	2,780,947			1,369,309			1,333,988		
Total assets	$19,169,098			$11,507,688			$11,499,499		
INTEREST-BEARING LIABILITIES:									
Interest-bearing checking	$1,721,452	$950	0.06%	$1,176,841	$978	0.08%	$1,112,394	$1,980	0.18%
Money market deposits	5,255,622	6,991	0.13%	3,277,780	3,485	0.11%	3,447,806	7,193	0.21%
Savings deposits	829,737	426	0.05%	521,387	321	0.06%	427,673	291	0.07%
Time deposits	2,649,091	15,448	0.58%	1,796,669	15,971	0.89%	2,102,711	21,669	1.03%
Federal funds purchased and repurchase agreements	303,358	346	0.11%	177,888	141	0.08%	142,363	288	0.20%
Term debt	815,017	12,793	1.57%	252,546	9,248	3.66%	254,601	9,279	3.64%
Junior subordinated debentures	301,525	11,739	3.89%	189,237	7,737	4.09%	187,139	8,149	4.35%
Total interest-bearing liabilities	11,875,802	48,693	0.41%	7,392,348	37,881	0.51%	7,674,687	48,849	0.64%
Non-interest-bearing deposits	3,951,429			2,284,996			2,034,035		
Other liabilities	204,009			101,261			89,374		
Total liabilities	16,031,240			9,778,605			9,798,096		
Common equity	3,137,858			1,729,083			1,701,403		
	$19,169,098			$11,507,688			$11,499,499		

Total liabilities and shareholders' equity			
NET INTEREST INCOME	$779,175	$409,544	$411,886
NET INTEREST SPREAD	4.61%	3.87%	3.85%
AVERAGE YIELD ON EARNING ASSETS (1), (2)	5.02%	4.38%	4.49%
INTEREST EXPENSE TO EARNING ASSETS	0.30%	0.37%	0.47%
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)	4.73%	4.01%	4.02%

(1) 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 $5.3 million, $4.6 million, and $4.7 million for the years ended 2014, 2013, and 2012, respectively.

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The following table sets 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 2014 as compared to 2013 and 2013 compared to 2012. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

(in thousands)	2014 compared to 2013 Increase (decrease) in interest income and expense due to changes in			2013 compared to 2012 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST-EARNING ASSETS:						
Loans held for sale	$2,631	$871	$3,502	$(1,417)	$(382)	$(1,799)
Loans and leases	324,701	37,386	362,087	36,066	(22,865)	13,201
Taxable securities	2,225	9,486	11,711	(15,148)	(9,615)	(24,763)
Non-taxable securities (1)	2,862	(647)	2,215	(640)	283	(357)
Temporary investments and interest bearing deposits	961	(33)	928	399	9	408
Total (1)	333,380	47,063	380,443	19,260	(32,570)	(13,310)
INTEREST-BEARING LIABILITIES:						
Interest bearing demand	365	(393)	(28)	109	(1,112)	(1,003)
Money market	2,476	1,030	3,506	(339)	(3,368)	(3,707)
Savings	165	(60)	105	60	(29)	31
Time deposits	6,067	(6,590)	(523)	(2,931)	(2,768)	(5,699)
Repurchase agreements and federal funds	126	79	205	59	(206)	(147)
Term debt	11,232	(7,687)	3,545	(75)	44	(31)
Junior subordinated debentures	4,388	(386)	4,002	91	(503)	(412)
Total	24,819	(14,007)	10,812	(3,026)	(7,942)	(10,968)
Net increase (decrease) in net interest income (1)	$308,561	$61,070	$369,631	$22,286	$(24,628)	$(2,342)

(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 loan and lease losses was $40.2 million for 2014, as compared to $10.7 million for 2013, and $29.2 million for 2012. As a percentage of average outstanding loans and leases, the provision for loan and lease losses recorded for 2014 was 0.31%, an increase of 16 basis points from 2013 and a decrease of 29 basis points from 2012.

The increase in the provision for loan and lease losses in 2014 as compared to 2013 and 2012 is principally attributable to originations of new loans and leases by Sterling and FinPac lending teams. Net-charge offs for 2014 were $19.2 million compared to $19.3 million for 2013.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Therefore, the non-accrual loans of $52.0 million as of December 31, 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.

NON-INTEREST INCOME

Non-interest income for the 2014 was $179.3 million, an increase of $57.9 million, or 47.6%, as compared to the same period in 2013. Non-interest income for 2013 was $121.4 million, a decrease of $15.4 million, or 11.2%, as compared to 2012. The following table presents the key components of non-interest income for years ended December 31, 2014, 2013 and 2012:

Non-Interest Income
Years Ended December 31,

(in thousands)	2014 compared to 2013				2013 compared to 2012			
	2014	2013	Change Amount	Change Percent	2013	2012	Change Amount	Change Percent
Service charges on deposit accounts	$54,700	$30,952	$23,748	77 %	$30,952	$28,299	$2,653	9 %
Brokerage commissions and fees	18,133	14,736	3,397	23 %	14,736	12,967	1,769	14 %
Residential mortgage banking revenue, net	77,265	78,885	(1,620)	(2)%	78,885	84,216	(5,331)	(6)%
Gain on investment securities, net	2,904	209	2,695	nm	209	3,868	(3,659)	(95)%
Gain on sale of loans	15,113	2,744	12,369	18 %	2,744	—	2,744	nm
Loss on junior subordinated debentures carried at fair value	(5,090)	(2,197)	(2,893)	132 %	(2,197)	(2,203)	6	0 %
Change in FDIC indemnification asset	(15,151)	(25,549)	10,398	(41)%	(25,549)	(15,234)	(10,315)	68 %
BOLI income	6,835	3,035	3,800	125 %	3,035	2,708	327	12 %
Other income	24,583	18,626	5,957	86 %	18,626	22,208	(3,582)	(4)%
Total	$179,292	$121,441	$57,851	48 %	$121,441	$136,829	$(15,388)	(11)%

nm = not meaningful

The overall increase in non-interest income is primarily the result of the merger with Sterling in April 2014. The increase in deposit service charges in 2014 compared to 2013 is primarily the result of the additional deposits brought on from Sterling. The increase in deposit service charges in 2013 compared to 2012 is the result of the acquisition of Circle Bank in the fourth quarter of 2012.

Brokerage commissions and fees in 2014 increased due to the increase in managed account fees and new balances at Umpqua Investments. In 2014, assets under management at Umpqua Investments increased to $2.77 billion as compared to $2.60 billion at December 31, 2013. Brokerage commissions and fees in 2013 increased due to the increase in managed account fees at Umpqua Investments. In 2013, assets under management at Umpqua Investments increased to $2.60 billion as compared to $2.28 billion at December 31, 2012.
Residential mortgage banking revenue for the year ended December 31, 2014 decreased due to lower gain on sale margins, and losses related to the change in fair value of MSR were higher in 2014 as compared to 2013. Closed mortgage volume for sale for 2014 was $2.1 billion, representing a 34% increase compared to 2013 production of $1.6 billion. The gain on sale margin was 3.40% compared to 4.13% for 2013. Higher prepayment speeds associated with the decline in mortgage interest rates compared to the same period of the prior year has contributed to a $16.6 million decline in fair value on the MSR asset in 2014, compared to a $2.4 million increase in fair value recognized in 2013. As of December 31, 2014, the Company serviced $11.6 billion of mortgage loans for others, and the related mortgage

servicing right asset is valued at $117.3 million, or 1.01% of the total serviced portfolio principal balance.

In connection with the sale of investment securities, we recognized a gain on sale of $2.9 million in 2014, compared to $209,000 for 2013 and $3.9 million for 2012. During 2014, the Company sold investment securities to fund loan growth as well as to reduce the price risk of the portfolio if interest rates were to increase significantly.
A loss of $5.1 million was recognized in 2014, compared to a loss of $2.2 million recognized in 2013, and 2012 respectively, which represents the change of fair value on the junior subordinated debentures recorded at fair value. The increase in the loss during 2014 was the result of the fair value election on the junior subordinated debentures assumed in the Sterling merger, which the Company elected to account for at fair value on a recurring basis.

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.

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BOLI income increased to $6.8 million in 2014. The increase in 2014 as compared to 2013 and 2012 relates to the additional BOLI acquired in the Sterling merger.
Other income in 2014 compared to 2013 increased due to $15.1 million gain on loan sales, including portfolio and SBA loan sales. Other income in 2013 as compared to 2012 decreased primarily due to a $2.8 million reduction in debt capital market revenue from $9.9 million in 2012 to $7.1 million in 2013, partially offset by income from FinPac operations of $1.1 million.

NON-INTEREST EXPENSE

Non-interest expense for 2014 was $684.1 million, an increase of $319.4 million, or 87.6%, as compared to 2013. Non-interest expense for 2013 was $364.7 million, an increase of $5.0 million, or 1%, as compared to 2012. The following table presents the key elements of non-interest expense for the years ended December 31, 2014, 2013 and 2012.

Non-Interest Expense
Years Ended December 31,

(in thousands)	2014 compared to 2013				2013 compared to 2012			
	2014	2013	Change Amount	Change Percent	2013	2012	Change Amount	Change Percent
Salaries and employee benefits	$355,379	$209,991	$145,388	69 %	$209,991	$200,946	$9,045	5 %
Net occupancy and equipment	111,263	62,067	49,196	79 %	62,067	55,081	6,986	13 %
Communications	14,728	11,974	2,754	23 %	11,974	11,573	401	3 %
Marketing	9,504	6,062	3,442	57 %	6,062	5,064	998	20 %
Services	49,086	25,483	23,603	93 %	25,483	25,823	(340)	(1)%
FDIC assessments	10,998	6,954	4,044	58 %	6,954	7,308	(354)	(5)%
Net loss on other real estate owned	4,116	1,248	2,868	230 %	1,248	12,655	(11,407)	(90)%
Intangible amortization	10,207	4,781	5,426	113 %	4,781	4,816	(35)	(1)%
Merger related expenses	82,317	8,836	73,481	832 %	8,836	2,338	6,498	278 %
Other expenses	36,465	27,265	9,200	34 %	27,265	34,048	(6,783)	(20)%
Total	$684,063	$364,661	$319,402	88 %	$364,661	$359,652	$5,009	1 %

Salaries and employee benefits costs increased $145.4 million as compared to the same period prior year primarily as a result of an increase of full-time equivalent employees primarily from the merger with Sterling. The increase from 2012 to 2013 related to the increase in full-time equivalent employees primarily from the Circle and FinPac acquisitions.
Net occupancy and equipment expense increased in 2014 as compared to the prior year due to the Sterling merger adding additional stores, partially offset by store consolidations that occurred in the second half of 2014. The increase for 2013 as compared to 2012 was a result of the addition of 4 stores, full phase in of the six locations from the Circle acquisition, and $857,000 in occupancy and equipment expense related to FinPac subsequent to acquisition.
Communications costs increased in 2014 compared to 2013, and in 2013 compared to 2012, primarily due to increased data processing cost as a result of the Company's continued growth and expansion. Marketing expense increased in 2014 compared to 2013 and 2012 due to costs associated with branding initiatives. Services expense increased in 2014 compared to 2013 due to increased costs of services due to the growth of the Bank as a result of the Sterling merger.
FDIC assessments increased in 2014 compared to 2013 due to the increase in the assets as a result of the Sterling merger. In 2013 compared to 2012, the decrease was a result of the adoption by the FDIC of a final rule that changed the assessment rate and the assessment base (from a domestic deposit base to a scorecard based assessment system for

banks with more than $10 billion in assets) effective in the second quarter of 2011, resulting in a lower assessment rate and base and decreased assessment to the Company.

In the year ended December 31, 2014, the Company recognized a net loss (which includes loss on sale and valuation adjustments) on OREO properties of $4.1 million, as compared to a net loss on OREO properties of $1.2 million and $12.7 million in the years ended December 31, 2013 and 2012, respectively. The increase in 2014 is primarily due a depressed valuation of a single OREO property in the fourth quarter of 2014. The decrease in 2013 is primarily the result of improving real estate values, allowing for better realization of market values of existing OREO properties.

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We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. The merger-related expenses incurred in 2012 relate to the acquisition of Circle; in 2013, primarily relate to the acquisition of FinPac and the merger with Sterling; and in 2014, primarily relate to the merger with Sterling.

Merger-Related Expense
Years Ended December 31,
(in thousands)

	2014	2013	2012
Personnel	$18,837	$225	$889
Legal and professional	22,276	5,648	551
Charitable contributions	10,000	28	—
Investment banking fees	9,573	2,042	—
Contract termination	10,378	66	593
Communication	2,522	49	64
Other	8,731	778	241
Total merger-related expense	$82,317	$8,836	$2,338

Other non-interest expense increased in 2014 as compared to 2013 due to increased costs of the additional stores and associates added from the Sterling merger. Other non-interest expense decreased in 2013 as compared to 2012 as a result of as a result of a decrease in loan and OREO workout related costs, partially offset by an increase due to FinPac operations and an FDIC loss sharing claw back liability expense recorded due to better than expected performance of the Evergreen Bank FDIC assisted acquisition.

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2014 was 35.5%, compared to 34.9% for 2013 and 34.4% for 2012. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 4.9% (net of the federal tax benefit) principally because of the relative amount of income we earn 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.

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FINANCIAL CONDITION

INVESTMENT SECURITIES

The composition of our investment securities portfolio reflects management's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of interest income. The investment securities portfolio also mitigates interest rate and credit risk inherent in the loan portfolio, while providing a vehicle for the investment of available funds, a source of liquidity (by pledging as collateral or through repurchase agreements) and collateral for certain public funds deposits.
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 $10.0 million at December 31, 2014, as compared to $6.0 million at December 31, 2013. This increase is principally attributable to trading securities acquired in the Sterling merger.

Investment securities available for sale were $2.3 billion as of December 31, 2014 compared to $1.8 billion at December 31, 2013. The increase is due to investment securities acquired in the Sterling merger of $1.4 billion, purchases of $363.1 million of investment securities available for sale, and an increase in fair value of investments securities available for sale of $31.2 million, offset by paydowns of $1.2 billion and amortization of net purchase price premiums of $20.8 million.

Investment securities held to maturity were $5.2 million as of December 31, 2014 as compared to holdings of $5.6 million at December 31, 2013. The change primarily relates paydowns and maturities of investment securities held to maturity of $741,000.

The following table presents the available for sale and held to maturity investment securities portfolio by major type as of December 31 for each of the last three years:

Summary of Investment Securities

(dollars in thousands)	December 31, 2014	2013	2012
AVAILABLE FOR SALE			
U.S. Treasury and agencies	$229	$268	$45,820
Obligations of states and political subdivisions	338,404	235,205	263,725
Residential mortgage-backed securities and collateralized mortgage obligations	1,957,852	1,553,541	2,313,376
Other debt securities	—	—	222
Investments in mutual funds and other equity securities	2,070	1,964	2,086
	$2,298,555	$1,790,978	$2,625,229
HELD TO MATURITY			
Obligations of states and political subdivisions	$—	$—	$595
Residential mortgage-backed securities and collateralized mortgage obligations	5,088	5,563	3,946
Other investment securities	123	$—	$—
	$5,211	$5,563	$4,541

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The following table presents information regarding the amortized cost, fair value, average yield and maturity structure of the investment portfolio at December 31, 2014.
Investment Securities Composition*
December 31, 2014

(dollars in thousands)	Amortized Cost	Fair Value	Average Yield	
U.S. TREASURY AND AGENCIES				
One year or less	$—	$—	—	%
One to five years	213	229	3.68	%
	213	229	3.68	%
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
One year or less	27,855	28,203	5.80	%
One to five years	215,987	225,923	5.65	%
Five to ten years	65,818	68,051	4.60	%
Over ten years	15,529	16,227	5.45	%
	325,189	338,404	5.44	%
OTHER DEBT SECURITIES				
Serial maturities	1,956,602	1,963,283	2.23	%
Other investment securities	2,139	2,193	2.21	%
Total securities	$2,284,143	$2,304,109	2.70	%

*Weighted average yields are stated on a federal tax-equivalent basis of 35%. Weighted average yields for available for sale investments have been calculated on an amortized cost basis.

The mortgage-related securities in "Serial maturities" in the table above include both pooled mortgage-backed issues and high-quality collaterized mortgage obligation structures, with an average duration of 4.0 years. These mortgage-related securities provide yield spread to U.S. Treasury or agency securities; however, the cash flows arising from them can be volatile due to refinancing of the underlying mortgage loans.

The equity security in "Other investment securities" in the table above at December 31, 2014 principally represents an investment in a Community Reinvestment Act investment fund comprised largely of mortgage-backed securities, although funds may also invest in municipal bonds, certificates of deposit, repurchase agreements, or securities issued by other investment companies.

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") or permanent impairment, 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 $11.9 million at December 31, 2014. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $11.1 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.

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RESTRICTED EQUITY SECURITIES

Restricted equity securities were $119.3 million at December 31, 2014 and $30.7 million at December 31, 2013. The increase is attributable to Federal Home Loan Banks ("FHLB") of Seattle and San Francisco stock acquired from Sterling. Of the $119.3 million at December 31, 2014, $117.9 million represent the Bank's investment in the FHLBs of Seattle and San Francisco. 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

Loans and Leases, net
Total loans and leases outstanding at December 31, 2014 were $15.3 billion, an increase of $7.6 billion as compared to year-end 2013. This increase is principally attributable to loans and leases of $7.1 billion acquired in the Sterling merger, net loan and lease originations of $937.7 million, partially offset by charge-offs of $30.2 million, transfers to other real estate owned of $24.9 million, and loans sold of $341.4 million during the period.

The following table presents the composition of the loan and lease portfolio, net of deferred fees and costs, as of December 31 for each of the last five years.

Loan and Lease Portfolio Composition

As of December 31, (dollars in thousands)	2014			2013			2012			2011			2010		
	Amount	Percentage		Amount	Percentage		Amount	Percentage		Amount	Percentage		Amount	Percentage	
Commercial real estate, net	$8,903,660	58.1	%	$4,630,155	59.9	%	$4,582,768	63.9	%	$4,308,889	66.0	%	$4,487,644	69.6	%
Commercial, net	2,948,823	19.2	%	2,142,213	27.7	%	1,757,660	24.5	%	1,513,905	23.2	%	1,333,145	20.7	%
Residential, net	3,086,213	20.2	%	903,423	11.7	%	792,367	11.0	%	655,055	10.1	%	582,674	9.0	%
Consumer & other, net	389,036	2.5	%	52,375	0.7	%	43,638	0.6	%	47,020	0.7	%	44,143	0.7	%
Total loans and leases, net	$15,327,732	100.0	%	$7,728,166	100.0	%	$7,176,433	100.0	%	$6,524,869	100.0	%	$6,447,606	100.0	%

Loan and Lease Concentrations
The following table presents the concentration distribution of our loan and lease portfolio by major type:

(dollars in thousands)	December 31, 2014			December 31, 2013		
	Amount	Percentage		Amount	Percentage	
Commercial real estate						
Non-owner occupied term, net	$3,290,610	21.5	%	$2,535,162	32.8	%
Owner occupied term, net	2,633,864	17.2	%	1,309,400	16.9	%
Multifamily, net	2,638,618	17.2	%	441,208	5.7	%
Construction & development, net	258,722	1.7	%	248,686	3.2	%

Residential development, net	81,846	0.5	%	95,699	1.2	%
Commercial						
Term, net	1,102,987	7.2	%	786,564	10.2	%
LOC & other, net	1,322,722	8.6	%	994,058	12.9	%
Leases and equipment finance, net	523,114	3.4	%	361,591	4.7	%
Residential						
Mortgage, net	2,233,735	14.6	%	619,517	8.0	%
Home equity loans & lines, net	852,478	5.6	%	283,906	3.7	%
Consumer & other, net	389,036	2.5	%	52,375	0.7	%
Total, net of deferred fees and costs	$15,327,732	100.0	%	$7,728,166	100.0	%

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Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table presents the maturity distribution of our loan portfolios and the sensitivity of these loans to changes in interest rates as of December 31, 2014:

(in thousands)	By Maturity				Loans Over One Year by Rate Sensitivity	
	One Year or Less	One Through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial real estate	$683,514	$2,428,605	$5,791,541	$8,903,660	$1,766,813	$6,453,333
Commercial (1)	$1,135,218	$744,491	$546,000	$2,425,709	$589,902	$700,589

(1) Excludes the lease and equipment finance portfolio.

ASSET QUALITY AND NON-PERFORMING ASSETS

The following table summarizes our non-performing assets and restructured loans:

Non-Performing Assets
As of December 31,

(in thousands)	2014	2013	2012	2011	2010
Loans and leases on non-accrual status	$52,041	$31,891	$66,736	$80,562	$138,177
Loans and leases past due 90 days or more and accruing	7,512	3,430	4,232	10,821	7,071
Total non-performing loans and leases	59,553	35,321	70,968	91,383	145,248
Other real estate owned	37,942	23,935	27,512	53,666	62,654
Total non-performing assets	$97,495	$59,256	$98,480	$145,049	$207,902
Restructured loans (1)	$54,836	$68,791	$70,602	$80,563	$84,441
Allowance for loan and lease losses	$116,167	$95,085	$103,666	$107,288	$104,642
Reserve for unfunded commitments	3,539	1,436	1,223	940	818
Allowance for credit losses	$119,706	$96,521	$104,889	$108,228	$105,460
Asset quality ratios:					
Non-performing assets to total assets	0.43 %	0.51 %	0.83 %	1.25 %	1.78 %
Non-performing loans and leases to total loans and leases	0.39 %	0.46 %	0.99 %	1.40 %	2.25 %
Allowance for loan and lease losses to total loans and leases	0.76 %	1.23 %	1.44 %	1.64 %	1.62 %
Allowance for credit losses to total loans and leases	0.78 %	1.25 %	1.46 %	1.66 %	1.64 %
Allowance for credit losses to total non-performing loans and leases	201 %	273 %	148 %	118 %	73 %

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

Non-performing loans and leases, which include non-accrual loans and leases and accruing loans and leases past due 90 days and over, totaled $59.6 million or 0.39% of total loans and leases as of December 31, 2014, as compared to $35.3 million, or 0.46% of total loans and leases, at December 31, 2013. Non-performing assets, which include non-performing loans and leases and OREO, totaled $97.5 million, or 0.43% of total assets as of December 31, 2014 compared with $59.3 million, or 0.51% of total assets as of December 31, 2013. The increase in non-performing assets in 2014 is attributable to the increased size of the loan and lease portfolio, as the percentage of non-performing loans and leases as a percentage of total loans and leases has decreased from the prior periods.

Restructured Loans

At December 31, 2014 and December 31, 2013, impaired loans of $54.8 million and $68.8 million were classified as performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, by providing modification of loan repayment terms. The performing restructured loans on accrual status represent principally the only impaired

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loans accruing interest at December 31, 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. There were $1.0 million available commitments for troubled debt restructurings outstanding as of December 31, 2014 and none as of December 31, 2013.

The following table presents a distribution of our performing restructured loans by year of maturity, according to the restructured terms, as of December 31, 2014:

(in thousands)	
Year	Amount
2015	$38,601
2016	11,683
2017	—
2018	3,937
2019	—
Thereafter	615
Total	$54,836

ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED COMMITMENTS

The allowance for loan and lease losses ("ALLL") totaled $116.2 million at December 31, 2014, an increase of $21.1 million from the $95.1 million at December 31, 2013. The increase in the ALLL from the prior year-end is a result of loan and lease growth, partially offset by improving credit quality characteristics of the lease and loan portfolio.
The following table provides a summary of activity in the ALLL by major loan type for each of the five years ended December 31:

Allowance for Loan and Lease Losses					
(in thousands)	2014	2013	2012	2011	2010
Balance, beginning of period	$95,085	$103,666	$107,288	$104,642	$107,657
Loans charged-off:					
Commercial real estate, net	(8,030)	(9,748)	(25,270)	(39,188)	(73,469)
Commercial, net	(16,824)	(20,810)	(13,822)	(21,731)	(50,508)
Residential, net	(1,855)	(3,655)	(5,878)	(7,990)	(5,168)
Consumer & other, net	(3,469)	(1,285)	(2,158)	(2,828)	(2,061)
Total loans charged-off	(30,178)	(35,498)	(47,128)	(71,737)	(131,206)
Recoveries:					
Commercial real estate, net	2,539	4,436	6,673	7,254	6,991
Commercial, net	6,744	10,445	6,089	3,860	1,581
Residential, net	462	569	999	381	334
Consumer & other, net	1,274	751	544	527	466
Total recoveries	11,019	16,201	14,305	12,022	9,372
Net charge-offs	(19,159)	(19,297)	(32,823)	(59,715)	(121,834)
Provision charged to operations	40,241	10,716	29,201	62,361	118,819
Balance, end of period	$116,167	$95,085	$103,666	$107,288	$104,642
As a percentage of average loans and leases:					
Net charge-offs	0.15%	0.26%	0.49%	0.93%	1.88%
Provision for loan and lease losses	0.31%	0.15%	0.44%	0.97%	1.84%
Recoveries as a percentage of charge-offs	36.51%	45.64%	30.35%	16.76%	7.14%

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The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the allowance for loan and lease losses, and acknowledges the inherent imprecision of all loss prediction models. At both December 31, 2014 and December 31, 2013, there was no unallocated allowance for loan and lease losses.
The following table sets forth the allocation of the allowance for loan and lease losses and percent of loans and leases in each category to total loans and leases, net of deferred fees, as of December 31:

Allowance for Loan and Lease Losses Composition
As of December 31,

(dollars in thousands)	2014		2013		2012		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate, net	$55,184	58.1 %	$59,538	59.9 %	$67,038	63.9 %	$68,513	66.1 %	$66,870	69.6 %
Commercial, net	41,216	19.2 %	27,028	27.7 %	27,905	24.5 %	24,449	23.2 %	22,322	20.7 %
Residential, net	15,922	20.2 %	7,487	11.7 %	7,729	11.0 %	8,616	10.0 %	5,982	9.0 %
Consumer & other, net	3,845	2.5 %	1,032	0.7 %	994	0.6 %	1,293	0.7 %	827	0.7 %
Unallocated	—		—		—		4,417		8,641	
Allowance for loan and lease losses	$116,167		$95,085		$103,666		$107,288		$104,642	

At December 31, 2014, the recorded investment in loans classified as impaired totaled $102.6 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $1.4 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former restructured loans and nonaccrual loans. At December 31, 2013, the total recorded investment in 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 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
Years Ended December 31,

(in thousands)	2014	2013	2012
Balance, beginning of period	$1,436	$1,223	$940
Net change to other expense	(1,863)	213	283
Acquired reserve	3,966	—	—
Balance, end of period	$3,539	$1,436	$1,223

We believe that the ALLL and RUC at December 31, 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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RESIDENTIAL MORTGAGE SERVICING RIGHTS

The following table presents the key elements of our residential mortgage servicing rights asset as of December 31, 2014, 2013, and 2012:

Summary of Residential Mortgage Servicing Rights

Years Ended December 31, (in thousands)	2014	2013	2012
Balance, beginning of period	$47,765	$27,428	$18,184
Acquired/purchased MSR	62,770	—	—
Additions for new MSR capitalized	23,311	17,963	17,710
Changes in fair value:			
Due to changes in model inputs or assumptions(1)	(5,757)	5,688	(4,651)
Other(2)	(10,830)	(3,314)	(3,815)
Balance, end of period	$117,259	$47,765	$27,428

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

Information related to our serviced loan portfolio as of December 31, 2014, 2013, and 2012 was as follows:

(dollars in thousands)	December 31, 2014	December 31, 2013	December 31, 2012
Balance of loans serviced for others	$11,590,310	$4,362,499	$3,162,080
MSR as a percentage of serviced loans	1.01%	1.09%	0.87%

Residential mortgage servicing rights are adjusted to fair value quarterly with the change recorded in residential mortgage banking revenue. The value of residential mortgage servicing rights is impacted by market rates for mortgage loans. Historically low market rates can cause prepayments to increase as a result of refinancing activity. To the extent loans are prepaid sooner than estimated at the time servicing assets are originally recorded, it is possible that certain residential mortgage servicing rights assets may decrease in value. Generally, the fair value of our residential mortgage servicing rights will increase as market rates for mortgage loans rise and decrease if market rates fall.

GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2014, we had goodwill of $1.8 billion, as compared to $764.3 million at December 31, 2013. Goodwill is recorded in connection with business combinations and represents the excess of the purchase price over the estimated fair value of the net assets acquired. Goodwill increased in 2014 over 2013 as a result of the Sterling merger.

At December 31, 2013, we had recorded goodwill of $764.3 million, as compared to $668.2 million at December 31, 2012, with the increase due to the FinPac acquisition.
At December 31, 2014, we had other intangible assets of $56.7 million, as compared to $12.4 million at December 31, 2013. As part of a business acquisition, a portion of the purchase price is allocated to the other value of intangible assets such as core deposits, which includes all deposits except certificates of deposit. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also

reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. Other intangible assets increased in 2014 over 2013 as a result of core deposit intangible recorded in connection with the Sterling merger. No impairment losses have been recognized in the periods presented.

DEPOSITS

Total deposits were $16.9 billion at December 31, 2014, an increase of $7.8 billion, or 85.3%, as compared to year-end 2013 due to deposits from the Sterling merger.

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

Deposits

(dollars in thousands)	December 31, 2014			December 31, 2013		
	Amount	Percentage		Amount	Percentage	
Non-interest bearing	$4,744,804	28	%	$2,436,477	26	%
Interest bearing demand	2,054,994	12	%	1,233,070	14	%
Money market	6,113,138	36	%	3,349,946	37	%
Savings	971,185	6	%	560,699	6	%
Time, $100,000 or greater	1,765,721	10	%	1,065,380	12	%
Time, less than $100,000	1,242,257	8	%	472,088	5	%
Total	$16,892,099	100	%	$9,117,660	100	%

The following table presents the scheduled maturities of time deposits of $100,000 and greater as of December 31, 2014:

Maturities of Time Deposits of $100,000 and Greater

(in thousands)	Amount
Three months or less	$384,868
Over three months through six months	331,049
Over six months through twelve months	376,671
Over twelve months	673,133
Time, $100,000 and over	$1,765,721

The Company has brokered deposits, including Certificate of Deposit Account Registry Service ("CDARS") included in time and money market deposits. These products are designed to enhance our ability to attract and retain customers and increase deposits, by providing additional FDIC coverage to customers. At December 31, 2014, the Company's brokered deposits, including CDARS, of $866.2 million compared to $580.4 million as of December 31, 2013. The increase is primarily due to brokered deposits from the Sterling merger.

BORROWINGS

At December 31, 2014, the Bank had outstanding $313.3 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Sterling securities sold under agreements to repurchase of $584.7 million were paid off at the merger date.

The Bank had outstanding term debt of $1.0 billion at December 31, 2014, primarily with the Federal Home Loan Bank ("FHLB"). Term debt outstanding as of December 31, 2014 increased $754.9 million since December 31, 2013 as a result of the Sterling merger adding $854.7 million, offset by maturity payoffs. Advances from the FHLB are secured by investment securities and loans secured by real estate. The FHLB advances have coupon interest rates ranging from 0.41% to 7.10% and mature in 2015 through 2030.

JUNIOR SUBORDINATED DEBENTURES

We had junior subordinated debentures with carrying values of $350.9 million and $189.2 million at December 31, 2014 and December 31, 2013, respectively. The increase is primarily due to the assumption of junior subordinated securities of $156.2 million from the Sterling merger.

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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 source of funds includes 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 represent 11.7% and 11.0% of total deposits at December 31, 2014 and at December 31, 2013, respectively. 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 December 31, 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 $698.8 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 December 31, 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 $250.5 million of dividends paid by the Bank to the Company in 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 December 31, 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 $352.4 million during 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 $2.3 billion, offset by originations of loans held for sale of $2.1 billion. This compares to net cash provided by operating activities of $411.9 million during 2013, with the difference between cash provided by operating activities and net income largely consisting of originations of loans held for sale of $1.6 billion, offset by proceeds from the sale of loans held for sale of $1.9 billion.

Net cash of $249.0 million provided by investing activities during the 2014 consisted principally of proceeds from investment securities available for sale of $1.2 billion, proceeds from sale of loans and leases of $356.5 million, and net cash acquired of $116.9 million, partially offset by $937.7 million of net loan originations, $363.1 million of purchases of investment securities available for sale, net cash paid in divestiture of $127.6 million, and purchases of premises and equipment of $62.2 million. This compares to net cash of $282.2 million provided by investing activities during 2013, which consisted principally of proceeds from investment securities available for sale of $803.9 million, proceeds from the sale of loans and leases of $60.3 million, and proceeds from the sale of other real estate owned of $26.5 million, partially offset by net loan and lease originations of $383.1 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 $34.0 million.

Net cash of $213.4 million provided by financing activities during 2014 primarily consisted of $905.4 million increase in net deposits, partially offset by $496.3 million decrease in securities sold under agreements to repurchase, dividends paid on common stock of $99.2 million, and repayment of debt of $97.0 million. This compares to net cash of $447.5 million used by financing activities during 2013, which consisted primarily of $261.2 million decrease in net deposits, repayment of term debt of $211.7 million, $50.8 million of dividends paid on common stock, and $9.4 million of common stock repurchased, partially offset by $87.8 million increase in net securities sold under agreements to repurchase.

Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2015, it is possible that our deposit balances for 2015 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.

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OFF-BALANCE-SHEET-ARRANGEMENTS

Information regarding Off-Balance-Sheet Arrangements is included in Note 19 and 20 of the Notes to Consolidated Financial Statements in Item 8 below.
The following table presents a summary of significant contractual obligations extending beyond one year as of December 31, 2014 and maturing as indicated:
Future Contractual Obligations
As of December 31, 2014:

(in thousands)	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Deposits (1)	$15,700,465	$938,537	$211,675	$41,422	$16,892,099
Term debt	265,000	680,016	50,000	5,646	1,000,662
Junior subordinated debentures (2)	—	—	—	475,427	475,427
Operating leases	33,344	53,585	39,454	57,720	184,103
Other long-term liabilities (3)	3,631	7,398	8,124	57,910	77,063
Total contractual obligations	$16,002,440	$1,679,536	$309,253	$638,125	$18,629,354

(1) Deposits with indeterminate maturities, such as demand, savings and money market accounts, are reflected as obligations due in less than one year.
(2) Represents the issued amount of all junior subordinated debentures.
(3) Includes maximum payments related to employee benefit plans, assuming all future vesting conditions are met. Additional information about employee benefit plans is provided in Note 18 of the Notes to Consolidated Financial Statements in Item 8 below.

The table above does not include interest payments or purchase accounting adjustments related to deposits, term debt or junior subordinated debentures.
As of December 31, 2014, the Company has a liability for unrecognized tax benefits in the amount of $3.1 million, which includes accrued interest of $399,000. As the Company is not able to estimate the period in which this liability will be paid in the future, this amount is not included in the future contractual obligations table above.
CONCENTRATIONS OF CREDIT RISK
Information regarding Concentrations of Credit Risk is included in Note 3, 5, and 19 of the Notes to Consolidated Financial Statements in Item 8 below.
CAPITAL RESOURCES

Shareholders' equity at December 31, 2014 was $3.8 billion, an increase of $2.1 billion from December 31, 2013. The increase in shareholders' equity during the year ended was principally due to shares issued in connection with the Sterling merger, net income of $147.5 million, comprehensive gain, net of tax, of $17.0 million offset by common stock dividends declared of $115.8 million.

The Federal Reserve Board has in place guidelines for risk-based capital requirements applicable to U.S. banks and bank/financial holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulation, associated with various categories of assets, both on and off-balance sheet. Under the guidelines, capital strength is measured in two tiers, which are used in conjunction with risk-adjusted assets to determine the risk-based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier 1 capital. Our consolidated Tier 1 capital, which consists of shareholders' equity and qualifying trust-preferred securities, less other comprehensive income, goodwill, other intangible assets, disallowed servicing assets and disallowed deferred tax assets, totaled $2.3 billion at December 31, 2014. Tier 2 capital components include all, or a portion of, the allowance for loan and lease losses and the portion of trust preferred securities in excess of Tier 1 statutory limits. The total of Tier 1 capital plus Tier 2 capital components is referred to as Total Risk-Based Capital, and was $2.4 billion at December 31, 2014. The percentage ratios, as calculated under the guidelines, were 14.44% and 15.20% for Tier 1 and

Total Risk-Based Capital, respectively, at December 31, 2014. The Tier 1 and Total Risk-Based Capital ratios at December 31, 2013 were 13.56% and 14.66%, respectively.

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A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as period-end shareholders' equity and qualifying trust preferred securities, less other comprehensive income, goodwill and deposit-based intangibles, divided by average assets as adjusted for goodwill and other intangible assets. Although a minimum leverage ratio of 4% is required for the highest-rated financial holding companies that are not undertaking significant expansion programs, the Federal Reserve Board may require a financial holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and financial holding companies. Our consolidated leverage ratios at December 31, 2014 and 2013 were 10.99% and 10.90%, respectively. As of December 31, 2014, the most recent notification from the FDIC categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's regulatory capital category.

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%.

Also, under the final rules, if an institution grows above $15 billion as a result of an acquisition, or organically grows above $15 billion and then makes an acquisition, the combined trust preferred security debt issuances would 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.

The final rules also provide for a number of adjustments to and deductions from the new CET1. 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, certain deferred tax assets not 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. The Company and the Bank are currently evaluating the provisions of the final rules and expected impact.

During the year ended December 31, 2014, the Company made no contributions to the Bank. At December 31, 2014, all three of the capital ratios of the Bank exceeded the minimum ratios required by federal regulation. Management monitors these ratios on a regular basis to ensure that the Bank remains within regulatory guidelines.

During 2014, Umpqua's Board of Directors approved a cash dividend of $0.15 in each of the four quarters. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy.

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 years ended December 31, 2014, 2013 and 2012:

Cash Dividends and Payout Ratios per Common Share

	2014	2013	2012
Dividend declared per common share	$0.60	$0.60	$0.34
Dividend payout ratio	76 %	69 %	38 %

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The Company's share repurchase plan, which was first approved by the Board 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 December 31, 2014, a total of 12.0 million shares remained available for repurchase. The Company repurchased no shares under the repurchase plan in 2014. 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.

ITEM 7A. QUANTITATIVE AND QUALITIATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk arises primarily from credit risk and interest rate risk inherent in our investment, lending and financing activities. To manage our credit risk, we rely on various controls, including our underwriting standards and loan policies, internal loan monitoring and periodic credit reviews as well as our allowance of loan and lease losses ("ALLL") methodology, all of which are administered by the Bank's Credit Quality Group or ALLL Committee. Additionally, the Company's Enterprise Risk and Credit Committee provides board oversight over the Company's loan portfolio risk management functions, the Company's Finance and Capital Committee provides board oversight over the Company's investment portfolio and hedging risk management functions, and the Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology.

Interest rate risk is the potential for loss resulting from adverse changes in the level of interest rates on the Company's net interest income. The absolute level and volatility of interest rates can have a significant impact on our profitability. The objective of interest rate risk management is to identify and manage the sensitivity of net interest income to changing interest rates to achieve our overall financial objectives. Based on economic conditions, asset quality and various other considerations, management establishes tolerance ranges for interest rate sensitivity and manages within these ranges. Net interest income and the fair value of financial instruments are greatly influenced by changes in the level of interest rates. We manage exposure to fluctuations in interest rates through policies that are established by the Asset/Liability Management Committee ("ALCO"). The ALCO meets monthly and has responsibility for developing asset/liability management policy, formulating and implementing strategies to improve balance sheet positioning and earnings and reviewing interest rate sensitivity. The Board of Directors' Finance and Capital Committee provides oversight of the asset/liability management process, reviews the results of the interest rate risk analyses prepared for the ALCO and approves the asset/liability policy on an annual basis.

We measure our interest rate risk position on at least a quarterly basis using three methods: (i) gap analysis, (ii) net interest income simulation; and (iii) economic value of equity (fair value of financial instruments) modeling. The results of these analyses are reviewed by ALCO and the Finance and Capital Committee quarterly. If hypothetical changes to interest rates cause changes to our simulated net interest income simulation or economic value of equity modeling outside of our pre-established internal limits, we may adjust the asset and liability size or mix in an effort to bring our interest rate risk exposure within our established limits.

Gap Analysis

A gap analysis provides information about the volume and repricing characteristics and relationship between the amounts of interest-sensitive assets and interest-bearing liabilities at a particular point in time. An effective interest rate strategy attempts to match how the volume of interest sensitive assets and interest bearing liabilities respond to changes in interest rates within an acceptable timeframe, thereby minimizing the impact of interest rate changes on net interest income. Gap analysis measures interest rate sensitivity at a point in time as the difference between the estimated volumes of asset and liability cash flows or repricing characteristics across various time horizons: immediate to three months, four to twelve months, one to five years, over five years, and on a cumulative basis. The differences are known as interest sensitivity gaps. The main focus of this interest rate management tool is the gap sensitivity identified as the cumulative one year gap. The table below sets forth interest sensitivity gaps for these different intervals as of December 31, 2014.

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Interest Sensitivity Gap

(in thousands)	By Estimated Cash Flow or Repricing Interval					
	0-3 Months	4-12 Months	1-5 Years	Over 5 Years	Non-Rate-Sensitive	Total
ASSETS						
Interest bearing deposits	$1,322,214	$—	$—	$—	$—	$1,322,214
Temporary investments	502	—	—	—	—	502
Trading account assets	9,999	—	—	—	—	9,999
Securities held to maturity	2,155	174	214	5,655	(2,987)	5,211
Securities available for sale	162,564	404,324	1,156,329	478,838	96,500	2,298,555
Loans held for sale	274,176	69	—	—	12,557	286,802
Loans and leases	4,538,582	2,077,013	7,219,512	1,569,155	(76,530)	15,327,732
Non-interest earning assets	—	—	—	—	3,362,259	3,362,259
Total assets	6,310,192	2,481,580	8,376,055	2,053,648	3,391,799	$22,613,274
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest bearing demand deposits	$2,054,994	$—	$—	$—	$—	$2,054,994
Money market deposits	6,113,138	—	—	—	—	6,113,138
Savings deposits	971,185	—	—	—	—	971,185
Time deposits	631,332	1,215,403	1,127,410	33,833	—	3,007,978
Securities sold under agreements to repurchase	313,321	—	—	—	—	313,321
Term debt	40,009	225,029	730,171	5,453	5,733	1,006,395
Junior subordinated debentures, at fair value	379,390				(130,096)	249,294
Junior subordinated debentures, at amortized cost	85,572	—	—	10,465	5,539	101,576
Non-interest bearing liabilities and shareholders' equity	—	—	—	—	8,795,393	8,795,393
Total liabilities and shareholders' equity	10,588,941	1,440,432	1,857,581	49,751	8,676,562	22,613,274
Interest rate sensitivity gap	(4,278,749)	1,041,148	6,518,474	2,003,897	(5,284,770)	
Cumulative interest rate sensitivity gap	$(4,278,749)	$(3,237,601)	$3,280,873	$5,284,770	$—	
Cumulative gap as a % of earning assets	(22)%	(17)%	17%	27%		

The gap table has inherent limitations and actual results may vary significantly from the results suggested by the gap table. The gap table is unable to incorporate certain balance sheet characteristics or factors. The gap table assumes a static balance sheet and looks at the repricing of existing assets and liabilities without consideration of new loans and deposits that reflect a more current interest rate environment. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and its supporting liability can vary significantly, while the timing of repricing for both the asset and the liability remains the same, thus impacting net interest income. This characteristic is referred to as basis risk and generally relates to the possibility that the repricing characteristics of short-term assets tied to the prime rate are different from those of short-term funding sources such as certificates of deposit. Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in the interest rate sensitivity analysis. These prepayments may have a significant impact on our net interest margin.

For example, unlike the net interest income simulation, the interest rate risk profile of certain deposit products and floating rate loans that have reached their floors cannot be captured effectively in a gap table. Although the table shows the amount of certain assets and liabilities scheduled to reprice in a given time frame, it does not reflect when or to what extent such repricings may actually occur. For example, interest-bearing checking, money market and savings deposits are shown to reprice in the first three months, but we may choose to reprice these deposits more slowly and incorporate only a portion of the movement in market rates based on market conditions at that time. Alternatively, a loan which has reached its floor may not reprice upwards even though market interest rates increase causing such loan to act like a fixed rate loan regardless of its scheduled repricing date. The gap table as presented cannot factor in the flexibility we believe we have in repricing deposits or the floors on our loans.

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Because of these factors, an interest sensitivity gap analysis may not provide an accurate or complete assessment of our exposure to changes in interest rates. We believe the estimated effect of a change in interest rates is better reflected in our net interest income and economic value of equity simulations.

Net Interest Income Simulation

Interest rate sensitivity is a function of the repricing characteristics of our interest earnings assets and interest bearing liabilities. These repricing characteristics are the time frames within which the interest bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity during the life of the instruments. Interest rate sensitivity management focuses on the maturity structure of assets and liabilities and their repricing characteristics during periods of changes in market interest rates.

Management utilizes an interest rate simulation model to estimate the sensitivity of net interest income to changes in market interest rates. This model is an interest rate risk management tool and the results are not necessarily an indication of our future net interest income. This model has inherent limitations and these results are based on a given set of rate changes and assumptions at one point in time. These estimates are based upon a number of assumptions for each scenario, including changes in the size or mix of the balance sheet, new volume rates for new balances, the rate of prepayments, and the correlation of pricing to changes in the interest rate environment. For example, for interest bearing deposit balances we may choose to reprice these balances more slowly and incorporate only a portion of the movement in market rates based on market conditions at that time. Our primary analysis assumes a static balance sheet, both in terms of the total size and mix of our balance sheet, meaning cash flows from the maturity or repricing of assets and liabilities are redeployed in the same instrument at modeled rates. Additionally, our analysis assumes no lag in the change in the cost of funding sources relative to the change in market interest rates.

Changes that could vary significantly from our assumptions include loan and deposit growth or contraction, changes in the mix of our earning assets or funding sources, the performance of loans accounted for under the expected cash flow method, and future asset/liability management decisions, all of which may have significant effects on our net interest income. Also, some of the assumptions made in the simulation model may not materialize and unanticipated events and circumstances may occur. In addition, the simulation model does not take into account any future actions management could undertake to mitigate the impact of interest rate changes or the impact a change in interest rates may have on our credit risk profile, loan prepayment estimates and spread relationships, which can change regularly. Actions we could undertake include, but are not limited to, growing or contracting the balance sheet, changing the composition of the balance sheet, or changing our pricing strategies for loans or deposits.

The estimated impact on our net interest income over a time horizon of one year as of December 31, 2014, 2013, and 2012 are indicated in the table below. For the scenarios shown, the interest rate simulation assumes a parallel and sustained shift in market interest rates ratably over a twelve-month period and no change in the composition or size of the balance sheet. For example, the "up 200 basis points" scenario is based on a theoretical increase in market rates of 16.7 basis points per month for twelve months applied to the balance sheet of December 31 for each respective year.

Interest Rate Simulation Impact on Net Interest Income

As of December 31,

	2014		2013		2012	
Up 300 basis points	0.3	%	0.8	%	3.0	%
Up 200 basis points	0.5	%	0.8	%	3.1	%
Up 100 basis points	0.5	%	0.6	%	2.1	%
Down 100 basis points	(2.4	)%	(2.9	)%	(3.2	)%
Down 200 basis points	(5.2	)%	(6.8	)%	(5.6	)%
Down 300 basis points	(7.3	)%	(10.1	)%	(7.9	)%

Asset sensitivity indicates that in a rising interest rate environment the Company's net interest margin would increase and in decreasing interest rate environment a Company's net interest margin would decrease. Liability sensitivity indicates that in a rising interest rate environment a Company's net interest margin would decrease and in a decreasing interest rate environment a Company's net interest margin would increase. For all years presented, we were "asset-sensitive" meaning we expect our net interest income to increase as market rates increase. The relative level of asset sensitivity as of December 31, 2014 has decreased from the prior periods presented as a result of the changes in composition of the balance sheet. In the decreasing interest rate environments we show a decline in net interest income as interest bearing assets re-price lower and deposits remain at or near their floors. It should be noted that although net interest income simulation results are presented through the down 300 basis points interest rate environments, we do not believe the down 200 and 300 basis point scenarios are plausible given the current level of interest rates.

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Interest rate sensitivity in the first year of the net interest income simulation for increasing interest rate scenarios is negatively impacted by the cost of non-maturity deposit repricing immediately while interest earnings assets (primarily the loan and leases held for investment portfolio) reprice at a slower rate based upon the instrument level repricing characteristics (refer to the Interest Sensitivity Gap table above). As a result, interest sensitivity in increasing interest rates scenarios improves in subsequent years as these assets reprice. Management also prepares and reviews the longer term trends of the net interest income simulation to measure and monitor risk. This analysis assume the same rate shift over the first year of the scenario as described above, and holding steady thereafter. The estimated impact on our net interest income over the first and second year time horizons as it relates to our balance sheet as of December 31, 2014 is indicated in the table below.

Interest Rate Simulation Impact on Net Interest Income

As of December 31, 2014

	Year 1		Year 2	
Up 300 basis points	0.3	%	1.4	%
Up 200 basis points	0.5	%	1.5	%
Up 100 basis points	0.5	%	1.1	%
Down 100 basis points	(2.4	)%	(7.0	)%
Down 200 basis points	(5.2	)%	(15.5	)%
Down 300 basis points	(7.3	)%	(20.6	)%

In general, we view the net interest income model results as more relevant to the Company's current operating profile (a going concern), and we primarily manage our balance sheet based on this information.

Economic Value of Equity

Another interest rate sensitivity measure we utilize is the quantification of economic value changes for all financial assets and liabilities, given an increase or decrease in market interest rates. This approach provides a longer-term view of interest rate risk, capturing all future expected cash flows. Assets and liabilities with option characteristics are measured based on different interest rate path valuations using statistical rate simulation techniques. The projections are by their nature forward-looking and therefore inherently uncertain, and include various assumptions regarding cash flows and discount rates.

The table below illustrates the effects of various instantaneous market interest rate changes on the fair values of financial assets and liabilities (excluding mortgage servicing rights) as compared to the corresponding carrying values and fair values:

Interest Rate Simulation Impact on Fair Value of Financial Assets and Liabilities

As of December 31,

	2014		2013	
Up 300 basis points	(4.8	)%	1.3	%
Up 200 basis points	(2.2	)%	1.1	%
Up 100 basis points	(0.4	)%	0.6	%
Down 100 basis points	7.8	%	0.4	%
Down 200 basis points	7.1	%	1.8	%
Down 300 basis points	6.6	%	3.5	%

As of December 31, 2014, our economic value of equity model indicates a liability sensitive profile. This suggests a sudden or sustained increase in market interest rates would result in a decrease in our estimated economic value of equity. Our overall sensitivity to market interest rate changes as of December 31, 2014 has increased as compared to December 31, 2013. As of December 31, 2014, our estimated economic value of equity (fair value of financial assets and liabilities) exceeded our book value of equity. This result is primarily based on the value placed on the Company's significant amount of noninterest bearing and low cost interest bearing deposits and fixed rates or floors characteristics included in the Company's loan portfolio. While noninterest bearing deposits do not impact the net interest income simulation, the value of these deposits has a significant impact on the economic value of equity model, particularly when market rates are assumed to rise.

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IMPACT OF INFLATION AND CHANGING PRICES

A financial institution's asset and liability structure is substantially different from that of an industrial firm in that primarily all assets and liabilities of a bank are monetary in nature, with relatively little investment in fixed assets or inventories. Inflation has an important impact on the growth of total assets and the resulting need to increase equity capital at higher than normal rates in order to maintain appropriate capital ratios. We believe that the impact of inflation on financial results depends on management's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. We have an asset/liability management program which attempts to manage interest rate sensitivity. In addition, periodic reviews of banking services and products are conducted to adjust pricing in view of current and expected costs.

Our financial statements included in Item 8 below have been prepared in accordance with accounting principles generally accepted in the United States, which requires us to measure financial position and operating results principally in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on our results of operations is through increased operating costs, such as compensation, occupancy and business development expenses. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the rate of inflation. Although interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond our control, including U.S. fiscal and monetary policy and general national and global economic conditions.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders
Umpqua Holdings Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Umpqua Holdings Corporation and Subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Umpqua Holdings Corporation and subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with generally accepted accounting principles in the United States of America.

Also in our opinion, Umpqua Holdings Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Moss Adams LLP
Portland, Oregon
February 23, 2015

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

(in thousands, except shares)

	December 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$282,455	$178,685
Interest bearing deposits	1,322,214	611,224
Temporary investments	502	514
Total cash and cash equivalents	1,605,171	790,423
Investment securities		
Trading, at fair value	9,999	5,958
Available for sale, at fair value	2,298,555	1,790,978
Held to maturity, at amortized cost	5,211	5,563
Loans held for sale, at fair value	286,802	104,664
Loans and leases	15,327,732	7,728,166
Allowance for loan and lease losses	(116,167)	(95,085)
Net loans and leases	15,211,565	7,633,081
Restricted equity securities	119,334	30,685
Premises and equipment, net	317,834	177,680
Goodwill	1,786,225	764,305
Other intangible assets, net	56,733	12,378
Residential mortgage servicing rights, at fair value	117,259	47,765
Other real estate owned	37,942	23,935
FDIC indemnification asset	4,417	23,174
Bank owned life insurance	294,296	96,938
Deferred tax asset, net	229,520	16,627
Other assets	232,411	111,958
Total assets	$22,613,274	$11,636,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$4,744,804	$2,436,477
Interest bearing	12,147,295	6,681,183
Total deposits	16,892,099	9,117,660
Securities sold under agreements to repurchase	313,321	224,882
Term debt	1,006,395	251,494
Junior subordinated debentures, at fair value	249,294	87,274
Junior subordinated debentures, at amortized cost	101,576	101,899
Other liabilities	269,592	125,477
Total liabilities	18,832,277	9,908,686
COMMITMENTS AND CONTINGENCIES (NOTE 19)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, shares authorized: 400,000,000 as of December 31, 2014 and 200,000,000 as of December 31, 2013; issued and outstanding: 220,161,120 in 2014 and 111,973,203 in 2013	3,519,316	1,514,485

Retained earnings	249,613	217,917
Accumulated other comprehensive income (loss)	12,068	(4,976)
Total shareholders' equity	3,780,997	1,727,426
Total liabilities and shareholders' equity	$22,613,274	$11,636,112

See notes to consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands, except per share amounts)

	2014	2013	2012
INTEREST INCOME			
Interest and fees on loans and leases	$763,803	$398,214	$386,812
Interest and dividends on investment securities:			
Taxable	45,784	34,146	59,078
Exempt from federal income tax	10,345	8,898	9,184
Dividends	325	252	83
Interest on temporary investments and interest bearing deposits	2,264	1,336	928
Total interest income	822,521	442,846	456,085
INTEREST EXPENSE			
Interest on deposits	23,815	20,755	31,133
Interest on securities sold under agreement to repurchase and federal funds purchased	346	141	288
Interest on term debt	12,793	9,248	9,279
Interest on junior subordinated debentures	11,739	7,737	8,149
Total interest expense	48,693	37,881	48,849
Net interest income	773,828	404,965	407,236
PROVISION FOR LOAN AND LEASE LOSSES	40,241	10,716	29,201
Net interest income after provision for loan and lease losses	733,587	394,249	378,035
NON-INTEREST INCOME			
Service charges on deposit accounts	54,700	30,952	28,299
Brokerage commissions and fees	18,133	14,736	12,967
Residential mortgage banking revenue, net	77,265	78,885	84,216
Gain on investment securities, net	2,904	209	3,868
Gain on loan sales	15,113	2,744	—
Loss on junior subordinated debentures carried at fair value	(5,090)	(2,197)	(2,203)
Change in FDIC indemnification asset	(15,151)	(25,549)	(15,234)
BOLI income	6,835	3,035	2,708
Other income	24,583	18,626	22,208
Total non-interest income	179,292	121,441	136,829
NON-INTEREST EXPENSE			
Salaries and employee benefits	355,379	209,991	200,946
Net occupancy and equipment	111,263	62,067	55,081
Communications	14,728	11,974	11,573
Marketing	9,504	6,062	5,064
Services	49,086	25,483	25,823
FDIC assessments	10,998	6,954	7,308
Net loss on other real estate owned	4,116	1,248	12,655
Intangible amortization	10,207	4,781	4,816
Merger related expenses	82,317	8,836	2,338
Other expenses	36,465	27,265	34,048
Total non-interest expense	684,063	364,661	359,652
Income before provision for income taxes	228,816	151,029	155,212
Provision for income taxes	81,296	52,668	53,321

Net income	$147,520	$98,361	$101,891

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)
For the Years Ended December 31, 2014, 2013 and 2012

(in thousands, except per share amounts)

	2014	2013	2012
Net income	$147,520	$98,361	$101,891
Dividends and undistributed earnings allocated to participating securities	484	788	682
Net earnings available to common shareholders	$147,036	$97,573	$101,209
Earnings per common share:			
Basic	$0.79	$0.87	$0.90
Diluted	$0.78	$0.87	$0.90
Weighted average number of common shares outstanding:			
Basic	186,550	111,938	111,935
Diluted	187,544	112,176	112,151

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands)

	2014	2013	2012
Net income	$147,520	$98,361	$101,891
Available for sale securities:			
Unrealized gains (losses) arising during the period	31,215	(48,755)	(12,004)
Reclassification adjustment for net gains realized in earnings (net of tax expense $1,162, $84, and $1,609 in 2014, 2013, and 2012, respectively)	(1,742)	(125)	(2,414)
Income tax (expense) benefit related to unrealized gains (losses)	(12,486)	19,502	4,802
Net change in unrealized gains (losses)	16,987	(29,378)	(9,616)
Held to maturity securities:			
Reclassification adjustment for impairments realized in net income (net of tax benefit of $42 in 2012)	—	—	62
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $37, $37, and $84 in 2014, 2013, and 2012, respectively)	57	56	126
Net change in unrealized losses related to factors other than credit	57	56	188
Other comprehensive income (loss), net of tax	17,044	(29,322)	(9,428)
Comprehensive income	$164,564	$69,039	$92,463

See notes to consolidated financial statements

UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2014, 2013 and 2012

(in thousands, except shares)	Common Stock			Accumulated Other Comprehensive	
	Shares	Amount	Retained Earnings	Income (Loss)	Total
BALANCE AT JANUARY 1, 2012	112,164,891	$1,514,913	$123,726	$33,774	$1,672,413
Net income			101,891		101,891
Other comprehensive loss, net of tax				(9,428)	(9,428)
Stock-based compensation		4,041			4,041
Stock repurchased and retired	(596,000)	(7,436)			(7,436)
Issuances of common stock under stock plans and related net tax deficiencies	321,068	882			882
Cash dividends on common stock ($0.34 per share)			(38,324)		(38,324)
Balance at December 31, 2012	111,889,959	$1,512,400	$187,293	$24,346	$1,724,039
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)
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			147,520		147,520
Other comprehensive income, net of tax				17,044	17,044
Stock issued in connection with merger (1)	104,385,087	1,989,030			1,989,030
Stock-based compensation		15,292			15,292
Stock repurchased and retired	(403,828)	(7,183)			(7,183)
Issuances of common stock under stock plans and related net tax benefit (2)	4,206,658	7,692			7,692
Cash dividends on common stock ($0.60 per share)			(115,824)		(115,824)
Balance at December 31, 2014	220,161,120	$3,519,316	$249,613	$12,068	$3,780,997

(1) The amount of common stock issued in connection with the merger is net of $784,000 of issuance costs.
(2) The shares issued include 2,889,996 warrants exercised.

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
For the Years Ended December 31, 2014, 2013 and 2012

(in thousands)	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$147,520	$98,361	$101,891
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense	80,126	7,748	6,421
Amortization of investment premiums, net	20,822	32,663	45,082
Gain on sale of investment securities, net	(2,904)	(209)	(4,023)
Other-than-temporary impairment on investment securities held to maturity	—	—	155
(Gain) loss on sale of other real estate owned	(127)	(912)	1,113
Valuation adjustment on other real estate owned	3,728	2,160	11,542
Provision for loan and lease losses	40,241	10,716	29,201
Change in cash surrender value of bank owned life insurance	(9,713)	(4,280)	(3,145)
Change in FDIC indemnification asset	15,151	25,549	15,234
Depreciation, amortization and accretion	33,873	18,267	16,040
Increase in residential mortgage servicing rights	(23,311)	(17,963)	(17,710)
Change in residential mortgage servicing rights carried at fair value	16,587	(2,374)	8,466
Change in junior subordinated debentures carried at fair value	5,849	2,193	2,175
Stock-based compensation	15,292	5,017	4,041
Net decrease (increase) in trading account assets	452	(2,211)	(1,438)
Gain on sale of loans	(93,294)	(65,644)	(91,945)
Change in loans held for sale carried at fair value	(9,688)	14,503	(13,965)
Origination of loans held for sale	(2,146,829)	(1,599,683)	(1,987,262)
Proceeds from sales of loans held for sale	2,267,471	1,863,548	1,875,138
Excess tax benefits from the exercise of stock options	(1,626)	(65)	(52)
Change in other assets and liabilities:			
Net (increase) decrease in other assets	(45,874)	32,129	5,401
Net increase (decrease) in other liabilities	38,632	(7,589)	22,255
Net cash provided by operating activities	352,378	411,924	24,615
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities available for sale	(363,064)	(51,191)	(994,574)
Purchases of investment securities held to maturity	—	(2,126)	(931)
Proceeds from investment securities available for sale	1,238,676	803,866	1,481,600
Proceeds from investment securities held to maturity	741	1,353	1,304
Redemption of restricted equity securities	5,615	2,758	1,629
Net loan and lease originations	(937,739)	(383,072)	(472,581)
Proceeds from sales of loans	356,464	60,298	14,242
Proceeds from insurance settlement on loss of property	—	575	1,425
Proceeds from fee on termination of merger transaction	—	—	1,600
Proceeds from disposals of furniture and equipment	4,135	410	2,029
Proceeds from bank owned life insurance	3,723	1,173	1,870
Purchases of premises and equipment	(62,167)	(33,995)	(22,817)
Net change in proceeds from FDIC indemnification asset	(2,667)	5,332	29,478
Proceeds from sales of other real estate owned	15,931	26,522	39,787

Net cash paid in divestiture	(127,557)	—	—
Net cash acquired (paid) in acquisition, net of consideration paid	116,867	(149,658)	39,328
Net cash provided by investing activities	248,958	282,245	123,389

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW (Continued)
For the Years Ended December 31, 2014, 2013 and 2012
(in thousands)

	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposit liabilities	905,396	(261,184)	(107,445)
Net (decrease) increase in securities sold under agreements to repurchase	(496,307)	87,807	12,470
Repayment of term debt	(97,003)	(211,727)	(55,404)
Repayment of junior subordinated debentures	—	(8,764)	—
Dividends paid on common stock	(99,233)	(50,768)	(46,201)
Excess tax benefits from stock based compensation	1,626	65	52
Proceeds from stock options exercised	6,116	6,398	981
Repurchases and retirement of common stock	(7,183)	(9,360)	(7,436)
Net cash provided (used) by financing activities	213,412	(447,533)	(202,983)
Net increase (decrease) in cash and cash equivalents	814,748	246,636	(54,979)
Cash and cash equivalents, beginning of period	790,423	543,787	598,766
Cash and cash equivalents, end of period	$1,605,171	$790,423	$543,787
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$55,235	$40,826	$52,198
Income taxes	$7,098	$41,993	$44,350
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Change in unrealized losses on investment securities available for sale, net of taxes	$16,987	$(29,378)	$(9,616)
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$57	$56	$188
Cash dividend declared on common stock and payable after period-end	$33,109	$16,936	$—
Transfer of loans to other real estate owned	$24,873	$24,193	$24,686
Transfer from FDIC indemnification asset to due from FDIC and other	$3,606	$4,075	$23,057
Acquisitions:			
Assets acquired	$9,877,572	$376,071	$317,751
Liabilities assumed	$8,767,025	$219,961	$317,751

See notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Significant Accounting Policies

Nature of Operations-Umpqua Holdings Corporation (the "Company") is a financial holding company with headquarters in Portland, Oregon, that is engaged primarily in the business of commercial and retail banking and the delivery of retail brokerage services. The Company provides a wide range of banking, wealth management, mortgage and other financial services to corporate, institutional and individual customers through its wholly-owned banking subsidiary Umpqua Bank (the "Bank"). The Company engages in the retail brokerage business through its wholly-owned subsidiary Umpqua Investments, Inc. ("Umpqua Investments"). The Bank also has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company. The Company and its subsidiaries are subject to regulation by certain federal and state agencies and undergo periodic examination by these regulatory agencies.

Basis of Financial Statement Presentation-The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with prevailing practices within the banking and securities industries. In preparing such financial statements, management is required to make certain estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, the valuation of mortgage servicing rights, the fair value of junior subordinated debentures, and the valuation of goodwill and other intangible assets.

Consolidation-The accompanying consolidated financial statements include the accounts of the Company, the Bank and Umpqua Investments. All significant intercompany balances and transactions have been eliminated in consolidation. As of December 31, 2014, the Company had 25 wholly-owned trusts ("Trusts") that were formed to issue trust preferred securities and related common securities of the Trusts. The Company has not consolidated the accounts of the Trusts in its consolidated financial statements. As a result, the junior subordinated debentures issued by the Company to the Trusts are reflected on the Company's consolidated balance sheet as junior subordinated debentures.

Subsequent events-The Company has evaluated events and transactions subsequent to December 31, 2014 for potential recognition or disclosure.

Cash and Cash Equivalents-Cash and cash equivalents include cash and due from banks, and temporary investments which are federal funds sold and interest bearing balances due from other banks. Cash and cash equivalents generally have a maturity of 90 days or less at the time of purchase.

Trading Account Securities-Debt and equity securities held for resale are classified as trading account securities and reported at fair value. Realized and unrealized gains or losses are recorded in non-interest income.

Investment Securities-Debt securities are classified as held to maturity if the Company has both the intent and ability to hold those securities to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the effective interest method over their contractual lives.

Securities are classified as available for sale if the Company intends and has the ability to hold those securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available for sale are carried at fair value. Unrealized holding gains or losses are included in other comprehensive income as a separate component of shareholders' equity, net of tax. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

Transfers of securities from available for sale to held to maturity are accounted for at fair value as of the date of the transfer. The difference between the fair value and the par value at the date of transfer is considered a premium or discount and is accounted for accordingly. Any unrealized gain or loss at the date of the transfer is reported in OCI, and is amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount, and will offset or mitigate the effect on interest income of the amortization of the premium or discount for that held to maturity security.

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment ("OTTI") or permanent impairment, 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. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income ("OCI"). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated.

Loans Held for Sale-The Company has elected to account for loans held for sale, which is comprised of residential mortgage loans, at fair value. Fair value is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights. The change in fair value of loans held for sale is primarily driven by changes in interest rates subsequent to loan funding and changes in the fair value of related servicing asset, resulting in revaluation adjustments to the recorded fair value. The inputs used in the fair value measurements are considered Level 2 inputs. The use of the fair value option allows the change in the fair value of loans to more effectively offset the change in the fair value of derivative instruments that are used as economic hedges to loans held for sale. Loan origination fees and direct origination costs are recognized immediately in net income in accordance with the fair value option accounting requirements. Interest income on loans held for sale is included in interest income in the Consolidated Statements of Income and recognized when earned. Loans held for sale are placed on nonaccrual in a manner consistent with loans.

Acquired Loans and Leases-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.

Purchased impaired loans are 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 risk characteristics used to aggregate the purchased impaired loans into different pools include risk rating, underlying collateral, type of interest rate (fixed or adjustable), types of amortization, loan purpose, and other similar factors. A loan will be removed from a pool of loans only if the loan is sold, foreclosed, or assets are received in full satisfaction of the loan, and will be removed from the pool at its carrying value. If an individual loan is removed from a pool of loans, the difference between its relative carrying amount and its cash, fair value of the collateral, or other assets received will be recognized in income immediately as interest income on loans and would not affect the effective yield used to recognize the accretable yield on the remaining pool. If, at acquisition, the loans are collateral dependent and acquired primarily for the rewards of ownership of the underlying collateral, or if cash flows expected to be collected cannot be reasonably estimated, accrual of income is inappropriate.

The cash flows expected to be received over the life of the pool were estimated by management. These cash flows were input into a loan accounting 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 speed assumptions will be periodically reassessed and updated within the accounting system 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 pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows. Changes in the accretable yield are disclosed quarterly.