UMPQUA HOLDINGS CORP
Form 10-K
February 25, 2016

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, 2015
[ ] 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. [X]

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, 2015, based on the closing price on that date of $17.99 per share, and 218,594,607 shares held was $3,932,516,980.

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, 2016 was 220,302,009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2016 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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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; the Federal Deposit Insurance Corporation ("FDIC") indemnification asset; the benefits of the mergers and acquisitions; the Sterling merger integration and system conversions; 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;
- our ability to effectively develop and implement new technology;
- 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 increase expenses or 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 FDIC deposit insurance, interchange fees, stress testing and executive compensation that could affect our compliance costs, interest expense, revenue and ability to recruit executives;
- the impact of the "Basel III" capital rules issued by federal banking regulators ("Basel III Rules");
- benefits from the Merger may not be fully realized or may take longer to realize than expected due to Merger integration delays, diversion of resources including management time and effort from other activities, and disruption to customers and employees; and
- competition, including from financial technology companies.

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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

Headquartered in Roseburg, Oregon, Umpqua Bank is considered one of the most innovative community banks in the United States, recognized nationally and internationally for its unique company culture and customer experience strategy, which differentiate the Company from its competition. The Bank provides a broad range of banking, wealth management, mortgage and other financial services to corporate, institutional, and individual customers, and 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, Vancouver, Washington, 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.

In 2015, we formed Pivotus Ventures, Inc. as a subsidiary of Umpqua Holdings Corporation. Pivotus will use small cross-functional teams with a startup dynamic to validate, develop, and test new bank platforms that could have a significant impact on the experience and economics of banking. The collaborative model will enhance its ability to imagine and develop disruptive technologies, test them with a broad range of customers, and deliver them at scale.

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 Developments

As of the close of business on April 18, 2014, the Company completed its merger with 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 primary objective is to become the leading community-oriented financial services organization throughout the Western United States. The Sterling merger expanded Umpqua Bank's footprint 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 create a unique delivery model that transforms banking from a chore into an experience that's both relevant to customers and highly differentiated from other financial institutions. With this approach in mind, in 1995 we introduced a bank store concept designed to reflect customer and community preferences and drive revenue growth by making the Bank's products and services more tangible and accessible. We've continued to evolve this model, introducing the next generation of our Neighborhood Store in the Capitol Hill area of Seattle, Washington, in 2010, and in 2013, rolling out the next generation of our flagship store in San Francisco.

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In April 2014 we completed the largest acquisition in Umpqua's history, merging with Sterling Financial Corporation. The Sterling acquisition was a strategic opportunity to enhance shareholder value through a transformative business combination. It allowed us to accelerate significantly our objective of creating something unique in the financial services industry: an organization that offers the products and expertise of a large bank but delivers them with the personal service and commitment of a community bank. As the landscape of the financial services industry is being reshaped by technological advances and the introduction of new digital customer delivery channels and technology-driven products and services, we believe the alignment of our physical and digital customer delivery channels is crucial in creating an exceptional customer experience. Doing so will allow us to drive stronger customer retention, greater penetration of "share of wallet," and improved new business growth. With that in mind, during 2015, we focused on completing the integration of Sterling and realizing the financial benefits of the merger, as well as growing the combined bank and launching Pivotus Ventures, Inc.

Focus on Customer Experience. At every level of the Company, from the Board of Directors to our newest associates, and across all customer service delivery channels, we are focused on delivering an extraordinary customer experience. It's an integral part of our culture, and we believe we are among the first banks to introduce a measurable quality service program. Under our Return on Quality or ROQ program, the performance of each sales associate and store is 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 ROQ program rewards both individual sales associates and store teams with financial incentives. Through such programs, we are able to measure the quality of the experience 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, and delivery through our customer-facing channels, as well as through active public relations, social media and community based events and initiatives. From Bank-branded bags of custom roasted coffee beans and Umpqua-branded ice cream trucks, to educational seminars, in-store events and social giving campaigns, Umpqua's goal is to engage our customers and communities in fresh and engaging ways. The unique look and feel of our stores and interactive displays help demonstrate our commitment to being an innovative, customer-friendly retailer of financial products and services, and our active community engagement and investments stand out with commercial customers. Our brand activation approach is based on actions not just advertising, and builds strong consumer awareness of our products and services.

Use Technology to Retain and Expand Customer Base. As consumer preferences evolve with technological changes, our strategy remains consistent: deliver an extraordinary experience across all customer touchpoints. As a result, we continue to expand user-friendly, technology-based systems that reflect and complement the distinct customer experience the company is known for. We believe this positions Umpqua well to adapt quickly as customer use of physical and digital channels evolves. 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 web site. We believe the combination of physical 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, strong brand awareness, and distinct customer experience across all delivery channels, we believe there is significant potential to increase business with current customers, to attract new customers in our existing markets and continue entering new markets.

Prudently Manage Capital. An important part of our strategy is to continue to manage capital prudently, and to employ excess capital in a thoughtful and opportunistic manner that improves shareholder returns. We accomplish this through dividends, share repurchases, and pursuing strategic acquisitions, which could include technology-driven enterprises or 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, communications and sales strategy with the following key components:

Integrated Marketing and Communications. Our comprehensive marketing and communications strategy aims to strengthen the Umpqua Bank brand and generate public awareness through innovative marketing and PR initiatives that stand out in our markets and our industry. The Bank has been recognized nationally for its use of new media and unique approach. From the Bank's Local Spotlight program, ice cream trucks and social giving platform, to interactive initiatives like Made to Grow, Umpqua is leveraging both traditional and emerging media channels in new ways to advance the brand and create meaningful connections with consumers.

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Retail Store Concept. As a financial services provider, we believe that the physical environment plays a critical role both in creating awareness for the Company and in successfully selling products and services. Like retailers, who display merchandise in their stores to encourage customers to purchase their products, Umpqua Bank believes this same concept can be applied to financial institutions. As a result, we've designed our physical locations to display financial services and products in ways that are highly tactile and engaging. Unlike many financial institutions, we encourage all in our communities 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 product packaging. The stores host a variety of after-hours events, from poetry readings and yoga classes to movie nights and 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. 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, the first time in the organization's history that a financial services institution received the award.

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 highly tuned service environment and well-trained sales team are critical to selling products and services. Umpqua's service culture has become well established throughout the organization due to a clear focus 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 become iconic in our industry, and is a key element in our ability to attract both talented associates and loyal customers.

Products and Services

We offer a vast array of traditional and digital 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 quickly and easily. Other avenues through which customers can access our products include our web site, mobile banking app, 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 and nonprofits, providing trust and investment services. The private bank is designed to augment Umpqua's existing high-touch customer experience, and works collaboratively with the Bank's affiliate Umpqua Investments to offer a comprehensive, integrated approach that meets clients' financial goals, including financial planning, trust services, and investments.

Broker Dealer and Investment Advisory Services. In its combined role as a broker/dealer and a registered investment advisor, Umpqua Investments may provide comprehensive financial planning advice to its clients as well as investment services. This advice can include cash management, risk management (insurance planning/sales), investment planning (including investment advice 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, 2015, Umpqua Investments has 42 Series 7-licensed financial advisors serving clients at five 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 a broad array of 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.

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Residential Real Estate Loans. Real estate loans are available for the 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.

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 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 banks 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.

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The following table presents the Bank's market share percentage for total deposits as of June 30, 2015, 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, 2015 and updates the information for any bank mergers and acquisitions completed subsequent to the reporting date.

Oregon				Washington			
County	Market Share	Market Rank	Number of Stores	County	Market Share	Market Rank	Number of Stores
Baker	27.4	%2	1	Adams	22.6	%3	2
Benton	7.6	%7	2	Asotin	17.3	%3	1
Clackamas	2.3	%8	6	Benton	6.4	%7	2
Columbia	16.2	%3	1	Clallam	6.7	%7	2
Coos	34.5	%1	5	Clark	18.6	%3	12
Curry	49.6	%1	4	Columbia	24.9	%3	1
Deschutes	6.5	%7	9	Douglas	11.0	%3	1
Douglas	70.5	%1	9	Franklin	10.7	%3	1
Grant	21.6	%3	1	Garfield	57.2	%1	1
Harney	22.4	%3	1	Grant	8.3	%7	2
Jackson	19.0	%1	10	Grays Harbor	19.4	%2	3
Josephine	21.7	%1	5	King	2.3	%8	24
Klamath	28.1	%2	4	Kitsap	0.8	%12	1
Lake	28.9	%3	1	Kittitas	16.4	%3	2
Lane	16.8	%2	10	Klickitat	51.0	%1	2
Lincoln	7.3	%7	2	Lewis	17.0	%2	4
Linn	12.7	%4	3	Okanogan	22.1	%2	2
Malheur	21.9	%2	3	Pierce	3.7	%8	12
Marion	7.8	%6	4	Skamania	100.0	%1	1
Multnomah	3.4	%6	20	Snohomish	1.4	%13	2
Polk	6.5	%7	1	Spokane	9.3	%5	9
Tillamook	31.5	%2	2	Thurston	3.9	%11	4
Umatilla	5.4	%6	2	Walla Walla	4.4	%6	2
Union	23.8	%1	3	Whatcom	2.6	%11	4
Wallowa	24.1	%2	1	Whitman	6.1	%6	3
Washington	6.6	%6	7				
Yamhill	3.4	%8	1				

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California

County	Market Share		Market Rank	Number of Stores
Amador	5.9	%	6	1
Butte	2.5	%	10	2
Calaveras	38.7	%	1	4
Colusa	41.7	%	1	2
Contra Costa	0.5	%	16	3
El Dorado	8.0	%	4	5
Glenn	29.0	%	2	2
Humboldt	23.0	%	1	7
Lake	17.5	%	2	2
Los Angeles	0.0	%	73	3
Marin	1.9	%	10	3
Mendocino	3.2	%	7	1
Napa	9.0	%	4	6
Orange	0.6	%	25	1
Placer	4.4	%	6	9
Sacramento	0.7	%	16	6
San Diego	0.1	%	35	3
San Francisco	0.0	%	35	2
San Joaquin	0.5	%	18	1
San Luis Obispo	0.3	%	11	1
Santa Clara	0.0	%	40	1
Shasta	1.9	%	8	1
Solano	3.2	%	8	4
Sonoma	5.2	%	7	9
Stanislaus	0.8	%	15	2
Sutter	12.3	%	3	2
Tehama	16.7	%	1	2
Trinity	29.4	%	2	1
Tuolumne	15.5	%	3	5
Ventura	0.1	%	24	1
Yolo	2.3	%	12	1
Yuba	26.6	%	3	2

Idaho

County	Market Share		Market Rank	Number of Stores
Ada	0.6	%	17	2
Adams	32.0	%	2	1
Benewah	20.8	%	3	1
Idaho	47.5	%	1	3
Kootenai	2.9	%	10	3
Latah	25.8	%	1	3
Nez Perce	16.1	%	3	2
Valley	21.8	%	3	2

Nevada

County	Market Share		Market Rank	Number of Stores
Washoe	3.0	%	7	4

Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2015, commercial real estate, commercial, residential, and consumer and other represented approximately 55.3%, 19.0%, 22.6%, and 3.1%, 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.

Employees

As of December 31, 2015, we had a total of 4,491 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 2016 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.

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The CRA requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC evaluate the records 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, 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.

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. 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.

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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.

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 began 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%.

Under the final rules, as Umpqua grew above $15.0 billion in assets as a result of an acquisition, the combined trust preferred security debt issuances are required to be phased out of Tier 1 and into Tier 2 capital (75% starting in the first quarter of 2015 and 100% starting in the first quarter of 2016). The final rules also provide for a number of adjustments to and deductions from the new CET1. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, the Company and the Bank, have made a one-time permanent election to continue to exclude these items 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, 2015.

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"), as well as the SEC, and has deposits insured through the Securities Investors Protection Corp ("SIPC") as well as third party insurers. FINRA and the SEC perform regular examinations of the Umpqua Investments that include reviews of policies, procedures, recordkeeping, trade practices, and customer protection as well as other inquiries.

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SIPC protects client securities and cash up to $500,000, including $100,000 for cash with additional coverage provided through First Clearing who maintains additional coverage through Lexington Insurance Company, 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.

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.

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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.

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 external auditor;
- 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;

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- 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 enforcement will be transferred to this agency and each existing regulatory agency will contribute their respective consumer regulatory and exam staffs to the CFPB;
- 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 is "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.

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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.

On October 3, 2015, the CFPB's final rules on integrated mortgage disclosures under the Truth in Lending Act and the Real Estate Settlement Procedures Act became effective. Throughout 2015, the CFPB continued its focus on fair lending practices of indirect automobile lenders. This focus led to some lenders to enter into consent orders with the CFPB and Department of Justice. Indirect automobile lenders have also received continued pressure from the CFPB to limit or eliminate discretionary pricing by dealers. Banking regulatory agencies have increasingly used their authority under Section 5 of the Federal Trade Commission Act to take supervisory or enforcement action with respect to unfair or deceptive acts or practices (UDAP) by banks under standards developed many years ago by the Federal Trade Commission in order to address practices that may not necessarily fall within the scope of a specific banking or consumer finance law. The Dodd-Frank Act also gave to the CFPB similar authority to take action in connection with unfair, deceptive, or abusive acts or practices (UDAAP) by entities subject to CFPB supervisory or enforcement authority. Banks face considerable uncertainty as to the regulatory interpretation of "abusive" practices. Financial services companies face increased regulation and exposure under the new Military Lending Act (MLA) final rules issued by the Department of Defense that become effective for new loans entered into on and after October 3, 2016. The new rules dramatically expand the scope of coverage of the MLA and compliance with the new rules will affect operations of more financial services companies than under the previous rules. We continue to monitor, evaluate, and implement new regulations.

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
- 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 and weak economic conditions have adversely affected us in the past and may adversely affect the financial services industry and our business, financial condition and results of operations in the future.

Our business and financial performance are vulnerable to weak economic conditions, primarily in the United States and especially in the western 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. A deterioration in 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. In addition, we could 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 would 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.

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, 2015, approximately 78% 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.

Completing the final Sterling merger-related projects 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, depends, 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 process of converting systems and consolidating operations could result in the loss of key employees, disrupt our ongoing businesses or adversely affect our ability to maintain customer relationships or to achieve the anticipated benefits and cost savings of the Merger. If we experience difficulties completing the final integration-related systems conversion, the anticipated benefits of the Merger may not be realized fully and management's attention and Company resources could be diverted.

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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 with the potential for slight increases over time, could affect consumer and business behavior in ways that are adverse to us and negatively impact our ability to increase our net interest income. In late 2015, the Federal Reserve increased the rate by 25 basis points. 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".

Changes in interest rates could reduce the value of mortgage servicing rights (MSR).

We acquire MSR when we keep servicing rights after we sell originated residential mortgage loans. We initially measure MSR at fair value and subsequently amortize MSR in proportion to, and over the period of, estimated net servicing income. Fair value is the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. Changes in interest rates can affect prepayment assumptions and consequently MSR fair value. When interest rates fall, borrowers are usually more likely to prepay their mortgage loans by refinancing them at a lower rate. As the likelihood of prepayment increases, MSR fair value can decrease, which reduces earnings in the period in which the decrease occurs.

Our mortgage banking revenue can fluctuate significantly.

We earn revenue from fees received for originating and servicing mortgage loans. Generally, if interest rates rise, the demand for mortgage loans tends to fall, reducing the revenue we receive from originations. At the same time, revenue from MSR can increase through increases in fair value. When interest rates decline, originations tend to increase and the value of MSR tends to decline, also with some offsetting revenue effect. The negative effect on revenue from a decrease in the fair value of residential MSR is immediate, but any offsetting revenue benefit from more originations and the MSR relating to new loans accrues over time. It is also possible that even if interest rates were to fall, mortgage originations may also fall or any increase in mortgage originations may not be enough to offset the decrease in the MSR value caused by the lower rates.

We depend upon programs administered by Fannie Mae, Freddie Mac and Ginnie Mae.

Our ability to generate revenues in our home lending group depends on programs administered by government-sponsored entities that play an important role in the residential mortgage industry. During 2015, we sold 65% of our mortgage loans to, or through programs sponsored by, Fannie Mae, Freddie Mac or Ginnie Mae. We service loans on behalf of Fannie Mae and Freddie Mac, as well as loans that have been securitized pursuant to securitization programs sponsored by Fannie Mae, Freddie Mac and Ginnie Mae. A majority of our mortgage servicing rights and loans serviced through subservicing agreements relate to these servicing activities. These entities establish the base service fee to compensate us for servicing loans as well as the assessment of fines and penalties that may be imposed upon us for failing to meet servicing standards. Our status as a Fannie Mae, Freddie Mac and Ginnie Mae approved seller and servicer is subject to compliance with guidelines and failure to meet such guidelines could result in the unilateral termination of our status as an approved seller or servicer. Changes in the existing government-sponsored mortgage programs or servicing eligibility standards through legislation or otherwise, or our failure to maintain a relationship with each of Fannie Mae, Freddie Mac and Ginnie Mae, could materially and adversely affect our business, financial position, results of operations and cash flows through negative impact on the pricing of mortgage related assets in the secondary market, higher mortgage rates to borrowers, or lower mortgage origination volumes and margins.

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The financial services industry is highly competitive.

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, but more recently has also come from financial technology (or "fintech") companies that rely on technology to provide financial services. We also face competition from credit unions, government-sponsored enterprises, mutual fund companies, insurance companies and other non-bank businesses. The 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, which can reduce net interest income and non-interest income from fee-based products and services. New technology-driven products and services are often introduced and adopted, including innovative ways that customers can make payments, access products and manage accounts. We could be required 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 if we do not effectively develop and implement new technology. In addition, advances in technology such as telephone, text, and on-line banking; e-commerce; and self-service automatic teller machines and other equipment, as well as changing customer preferences to access our products and services through digital channels, could decrease the value of our store network and other assets. We may close or sell certain stores and restructure or reduce our remaining stores and work force. These actions could lead to losses on assets, expense to reconfigure stores and loss of customers in certain markets. As a result, our business, financial condition or results of operations may be adversely affected.

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, which have significantly increased costs and could have an adverse impact on our business, financial condition, results of operations or the price of our common stock. 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 and the SEC and must comply with NASDAQ listing standards. 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.

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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.

New rules will require increased capital and restrict TRUPS as a component of 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 22% of our Tier 1 capital. Our trust preferred issuances will be completely phased out of Tier 1 and into Tier 2 capital 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.

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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.

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.

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.

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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.

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.

Deterioration in the real estate market could result in restructured loans becoming 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.

We have a gross deferred tax asset position of $308.4 million at December 31, 2015, 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 could include mergers and acquisitions.

Umpqua is among the fastest-growing community financial services organizations in the United States. Over the past several years, we have completed the acquisition and integration of multiple other financial institutions. There is no assurance that future acquisitions will be successfully integrated. We continue to pursue traditional merger and acquisition transactions, expand into new markets and open new stores or offices 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 depend 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.

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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.

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, 2015, the Bank conducted community banking activities or operated Commercial Banking Centers at 382 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 145 are owned and 237 are leased under various agreements. As of December 31, 2015, the Bank also operated 22 facilities for the purpose of administrative and other functions, such as back-office support, of which 3 are owned and 19 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, 2015, Umpqua Investments leased four stand-alone offices from unrelated third parties, one stand-alone office from the Bank, and also leased space in 15 Bank stores under lease agreements based on market rates.

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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.

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. Appellant filed its opening brief on April 3, 2015 and the Company filed its reply brief on June 17, 2015; additional appellate briefing was filed in the third quarter 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, 2015, 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, 2015	$18.05	$15.52	$0.16
September 30, 2015	$18.89	$15.53	$0.16
June 30, 2015	$18.92	$16.82	$0.15
March 31, 2015	$17.50	$14.70	$0.15
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

As of December 31, 2015, our common stock was held by approximately 5,247 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, 2015, a total of 472,000 stock options, 1,376,000 shares of restricted stock and 263,000 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 2015, Umpqua's Board of Directors approved a quarterly cash dividend of $0.15 per common share for first and second quarters and $0.16 for third and fourth 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.

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, 2015.

(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 [3]	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]	—	$—	923
2003 Stock Incentive Plan [1]	449	$15.90	—
Other [2]	325	$17.39	—
Total	774	$16.52	923
Equity compensation plans not approved by security holders	—	$—	—
Total	774	$16.52	923

(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 million shares of the Company's common stock for issuance under the plan (up to 2 million shares for "full value awards" as described below). 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. The 2013 Plan weights "full value awards" (restricted stock and performance share awards) as two shares issued from the total authorized under the 2013 Plan; we have issued only full value awards under the 2013 Plan. For purposes of column (C) above, the total number of shares available for future issuance under the 2013 Plan for full value awards was 462,000 at December 31, 2015. At December 31, 2015, 1.3 million shares issued under the 2013 Plan as restricted stock/performance share awards were outstanding, but subject to forfeiture in the event time or performance based conditions are not met.

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

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

(b) Not applicable.

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2015:

Period	Total number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan
10/1/15 - 10/31/15	184	16.31	—	11,503,429
11/1/15 - 11/30/15	61,932	17.79	61,000	11,442,429
12/1/15 - 12/31/15	364	16.23	—	11,442,429
Total for quarter	62,480	17.78	61,000	

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(1) Common shares repurchased by the Company during the quarter consist of cancellation of 1,195 shares to be issued upon vesting of restricted stock awards and 285 shares to be issued upon vesting of restricted stock units to pay withholding taxes. During the three months ended December 31, 2015, 61,000 shares were repurchased pursuant to the Company's publicly announced corporate stock repurchase plan described in (2) below.

(2) The Company's share repurchase plan, which was first approved by 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 has been extended multiple times by the board with the current expiration date of July 31, 2017. As of December 31, 2015, a total of 11.4 million shares remained available for repurchase. The Company repurchased 571,000 shares under the repurchase plan during 2015, repurchased no shares in 2014, and 98,027 shares under the repurchase plan in 2013. 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 51,693 and 161,568 shares tendered in connection with option exercises during the years ended December 31, 2015 and 2014, respectively. Restricted shares cancelled to pay withholding taxes totaled 135,474 and 107,131 shares during the years ended December 31, 2015 and 2014, respectively. There were 86,048 restricted stock units cancelled to pay withholding taxes during the years ended December 31, 2015 and 129,766 in 2014, 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, 2015, 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, 2010, 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, 2010 to December 31, 2015, was obtained by using the NASDAQ closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Umpqua Holdings Corporation	$100.00	$103.69	$101.52	$169.97	$156.39	$151.88
Nasdaq Bank Stocks	$100.00	$89.54	$106.14	$149.99	$157.21	$170.98
Nasdaq U.S.	$100.00	$99.23	$116.80	$163.38	$187.42	$200.69
S&P 500	$100.00	$102.09	$118.30	$156.21	$177.32	$179.76

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

(in thousands, except per share data)	2015	2014	2013	2012	2011
Interest income	$929,866	$822,521	$442,846	$456,085	$501,753
Interest expense	58,232	48,693	37,881	48,849	73,301
Net interest income	871,634	773,828	404,965	407,236	428,452
Provision for loan and lease losses	36,589	40,241	10,716	29,201	62,361
Non-interest income	275,724	181,174	122,895	138,304	85,217
Non-interest expense	718,060	601,746	355,825	357,314	338,611
Merger related expenses	45,582	82,317	8,836	2,338	360
Income before provision for income taxes	347,127	230,698	152,483	156,687	112,337
Provision for income taxes	124,588	83,040	54,192	54,768	38,046
Net income	222,539	147,658	98,291	101,919	74,291
Dividends and undistributed earnings allocated to participating securities	357	484	788	682	356
Net earnings available to common shareholders	$222,182	$147,174	$97,503	$101,237	$73,935
YEAR END					
Assets	$23,387,205	$22,609,903	$11,632,604	$11,792,004	$11,559,391
Earning assets	20,290,398	19,370,349	10,267,981	10,465,505	10,263,923
Loans and leases (1)	16,847,360	15,327,732	7,728,166	7,176,433	6,524,869
Deposits	17,707,189	16,892,099	9,117,660	9,379,275	9,236,690
Term debt	888,769	1,006,395	251,494	253,605	255,676
Junior subordinated debentures, at fair value	255,457	249,294	87,274	85,081	82,905
Junior subordinated debentures, at amortized cost	101,254	101,576	101,899	110,985	102,544
Total shareholders' equity	3,849,334	3,777,626	1,723,917	1,720,600	1,668,946
Common shares outstanding	220,171	220,161	111,973	111,890	112,165
AVERAGE					
Assets	$22,905,541	$19,169,098	$11,507,688	$11,499,499	$11,600,435
Earning assets	19,727,031	16,484,664	10,224,606	10,252,167	10,332,242
Loans and leases (1)	15,938,127	13,003,762	7,367,602	6,707,194	6,430,797
Deposits	17,250,810	14,407,331	9,057,673	9,124,619	9,301,978
Term debt	923,992	815,017	252,546	254,601	257,496
Junior subordinated debentures	352,872	301,525	189,237	187,139	184,115
Total shareholders' equity	3,820,505	3,137,858	1,729,083	1,701,403	1,671,893
Basic common shares outstanding	220,327	186,550	111,938	111,935	114,220
Diluted common shares outstanding	221,045	187,544	112,176	112,151	114,409
PER COMMON SHARE DATA					
Basic earnings	$1.01	$0.79	$0.87	$0.90	$0.65
Diluted earnings	1.01	0.78	0.87	0.90	0.65
Book value	17.48	17.16	15.40	15.38	14.88
Tangible book value (2)	9.16	8.79	8.46	9.25	8.84
Cash dividends declared	0.62	0.60	0.60	0.34	0.24

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(dollars in thousands)

	2015	2014	2013	2012	2011
PERFORMANCE RATIOS					
Return on average assets [3]	0.97 %	0.77 %	0.85 %	0.88 %	0.64 %
Return on average common shareholders' equity [4]	5.82 %	4.69 %	5.64 %	5.95 %	4.42 %
Return on average tangible common shareholders' equity [5]	11.22 %	9.17 %	9.77 %	9.88 %	7.45 %
Efficiency ratio [6]	66.19 %	71.23 %	66.83 %	64.94 %	65.37 %
Average common shareholders' equity to average assets	16.68 %	16.37 %	15.03 %	14.80 %	14.41 %
Leverage ratio [7]	9.73 %	10.99 %	10.90 %	11.44 %	10.91 %
Net interest margin (fully tax equivalent) [8]	4.44 %	4.73 %	4.01 %	4.02 %	4.19 %
Non-interest income to total net revenue [9]	24.03 %	18.97 %	23.28 %	25.35 %	16.59 %
Dividend payout ratio [10]	61.39 %	75.95 %	68.97 %	37.78 %	36.92 %
ASSET QUALITY					
Non-performing loans and leases	$44,384	$59,553	$35,321	$70,968	$91,383
Non-performing assets	66,691	97,495	59,256	98,480	145,049
Allowance for loan and lease losses	130,322	116,167	95,085	103,666	107,288
Net charge-offs	22,434	19,159	19,297	32,823	59,715
Non-performing loans and leases to loans and leases	0.26 %	0.39 %	0.46 %	0.99 %	1.40 %
Non-performing assets to total assets	0.29 %	0.43 %	0.51 %	0.84 %	1.25 %
Allowance for loan and lease losses to total loans and leases	0.77 %	0.76 %	1.23 %	1.44 %	1.64 %
Allowance for credit losses to loans and leases	0.79 %	0.78 %	1.25 %	1.46 %	1.66 %
Net charge-offs to average loans and leases	0.14 %	0.15 %	0.26 %	0.49 %	0.93 %

(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, 2015 were as follows:

Financial Performance

- Net earnings available to common shareholders per diluted common share were $1.01 for the year ended December 31, 2015, as compared to $0.78 for the year ended December 31, 2014. 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 $1.15 for the year ended December 31, 2015, as compared to operating income per diluted common share of $1.08 for the year ended December 31, 2014. 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 4.44% for the year ended December 31, 2015, compared to 4.73% for the year ended December 31, 2014. The decrease in net interest margin is primarily attributable to the lower level of accretion of the credit discount recorded on loans acquired from Sterling, as well as lower average yields on interest-earning assets.

- Residential mortgage banking revenue was $124.7 million for 2015, compared to $77.3 million for 2014. The increase was the result of an increase in closed sale mortgage volume, which increased by 63% as compared to the year ended December 31, 2014. The increase was offset by $20.7 million in negative fair value adjustments to the mortgage servicing rights ("MSR") asset as well as a decrease in the gain on sale margin.

- Total gross loans and leases were $16.8 billion as of December 31, 2015, an increase of $1.5 billion, or 9.9%, as compared to December 31, 2014. This increase is primarily the result of strong loan growth in both the commercial and consumer portfolios.

- Total deposits were $17.7 billion as of December 31, 2015, an increase of $815.1 million, or 4.8%, as compared to December 31, 2014. The increase resulted primarily from growth in demand, money market and savings deposits, partially offset by a decrease in time deposits.

- Total consolidated assets were $23.4 billion as of December 31, 2015, as compared to $22.6 billion at December 31, 2014.

Credit Quality

- Non-performing assets decreased to $66.7 million, or 0.29% of total assets, as of December 31, 2015, as compared to $97.5 million, or 0.43% of total assets, as of December 31, 2014. Non-performing loans and leases decreased to $44.4 million, or 0.26% of total loans and leases, as of December 31, 2015, as compared to $59.6 million, or 0.39% of total loans and leases as of December 31, 2014.

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Net charge-offs on loans were $22.4 million for the year ended December 31, 2015, or 0.14% of average loans and leases, as compared to net charge-offs of $19.2 million, or 0.15% of average loans and leases, for the year ended December 31, 2014.

- The provision for loan and lease losses was $36.6 million for 2015, as compared to $40.2 million recognized for 2014. The decrease is primarily due to decreasing credit factors used in the calculation of the allowance for loan and lease losses due to the improved credit quality of the portfolio, offset by the increase in the provision relating to new originations.

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Capital and Growth Initiatives

- Based on Basel III rules, the Company's total risk based capital was 14.3% and its Tier 1 common to risk weighted assets ratio was 11.4% as of December 31, 2015. As of December 31, 2014, which is based on Basel I rules, the Company's total risk based ratio was 15.2% and its Tier 1 common to risk weighted assets ratio was 11.5%.

- Declared cash dividends of $0.62 per common share for 2015 and $0.60 per common share for 2014.

- Completed the Sterling merger in April 2014 with significant system conversion activities completed in 2015.

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, 2015, 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, 2015. 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 78% 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 using the effective interest method over the remaining contractual period to maturity.

The acquired loans that are 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 cash flows expected to be received over the life of the pool were estimated by management. 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.

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 the related loan 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 circumstances 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.

The Company performed its annual goodwill impairment analysis of the Community Banking reporting segment as of December 31, 2015. 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.

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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, 2015, net earnings available to common shareholders were $222.2 million, or $1.01 per diluted common share, as compared to net earnings available to common shareholders of $147.2 million, or $0.78 per diluted common share for the year ended December 31, 2014. The increase in net earnings available to common shareholders in 2015 is principally attributable to net income contribution from the full year of the operations acquired from Sterling, increased residential mortgage banking revenue resulting from the current mortgage interest rate environment, gain on sale of portfolio loans, and lower merger related expenses.

For the year ended December 31, 2014, net earnings available to common shareholders were $147.2 million, or $0.78 per diluted common share, as compared to net earnings available to common shareholders of $97.5 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.

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, 2015, 2014, and 2013:

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

(in thousands, except per share data)	2015	2014	2013
Net earnings available to common shareholders	$222,182	$147,174	$97,503
Adjustments:			
Net loss on junior subordinated debentures carried at fair value, net of tax (1)	3,783	3,054	1,318
Merger-related expenses, net of tax (1)	27,349	52,311	6,820
Operating earnings	$253,314	$202,539	$105,641
Per diluted share:			
Net earnings available to common shareholders	$1.01	$0.78	$0.87
Adjustments:			
Net loss on junior subordinated debentures carried at fair value, net of tax (1)	0.02	0.02	0.01
Merger-related expenses, net of tax (1)	0.12	0.28	0.06
Operating earnings	$1.15	$1.08	$0.94

(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, 2015, 2014, and 2013. For each of the periods presented, the table includes the calculated ratios based on reported net earnings available to common shareholders and operating income as shown in the table above. Our return on average common shareholders' equity is negatively impacted as the result of capital required to support goodwill. 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)	2015		2014		2013	
Returns on average assets:						
Net earnings available to common shareholders	0.97	%	0.77	%	0.85	%
Operating earnings	1.11	%	1.06	%	0.92	%
Returns on average common shareholders' equity:						
Net earnings available to common shareholders	5.82	%	4.69	%	5.64	%
Operating earnings	6.63	%	6.45	%	6.11	%
Returns on average tangible common shareholders' equity:						
Net earnings available to common shareholders	11.22	%	9.17	%	9.78	%
Operating earnings	12.79	%	12.62	%	10.60	%
Calculation of average common tangible shareholders' equity:						

Average common shareholders' equity	$3,820,505	$3,137,858	$1,729,083
Less: average goodwill and other intangible assets, net	(1,839,599)	(1,533,403)	(731,525)
Average tangible common shareholders' equity	$1,980,906	$1,604,455	$997,558

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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, 2015 and December 31, 2014:

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

(dollars in thousands)	December 31, 2015	December 31, 2014
Total shareholders' equity	$3,849,334	$3,777,626
Subtract:		
Goodwill and other intangible assets, net	1,833,301	1,842,958
Tangible common shareholders' equity	$2,016,033	$1,934,668
Total assets	$23,387,205	$22,609,903
Subtract:		
Goodwill and other intangible assets, net	1,833,301	1,842,958
Tangible assets	$21,553,904	$20,766,945
Tangible common equity ratio	9.35 %	9.32 %

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 2015 was $871.6 million, an increase of $97.8 million or 12.6% compared to the same period in 2014. The increase in net interest income in 2015 as compared to 2014 is attributable to an increase in average interest-earning assets, primarily loans, loans held for sale and investment securities, partially offset by a lower level of accretion of the credit discount recorded on loans acquired from Sterling.

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 the merger with Sterling in April 2014, which resulted in 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.

The net interest margin (net interest income as a percentage of average interest-earning assets) on a fully tax equivalent basis was 4.44% for 2015, a decrease of 29 basis points as compared to the same period in 2014. The decrease in net interest margin primarily resulted from the lower level of accretion of the credit discount recorded on loans acquired from Sterling, as well as decreased yields on earning assets. The yield on loans and leases decreased by 43 basis points. The cost of interest-bearing liabilities remained relatively unchanged in 2015, as compared to 2014. The total cost of interest-bearing liabilities for 2015 was 0.42%, representing an increase of 1 basis point compared 2014. The cost of time deposits was 0.64% in 2015 compared to 0.58% in 2014.

The net interest margin on a fully tax-equivalent basis was 4.73% for 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.

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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, 2015, 2014 and 2013:

Average Rates and Balances (dollars in thousands)	2015			2014			2013		
	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	$333,455	$12,407	3.72%	$205,580	$8,337	4.06%	$138,383	$4,835	3.49%
Loans and leases (1)	15,938,127	857,026	5.38%	13,003,762	755,466	5.81%	7,367,602	393,379	5.34%
Taxable securities	2,275,512	48,550	2.13%	2,072,936	46,109	2.22%	1,952,611	34,398	1.76%
Non-taxable securities (2)	310,684	14,684	4.73%	301,535	15,692	5.20%	247,010	13,477	5.46%
Temporary investments and interest-bearing deposits	869,253	2,236	0.26%	900,851	2,264	0.25%	519,000	1,336	0.26%
Total interest earning assets	19,727,031	934,903	4.74%	16,484,664	827,868	5.02%	10,224,606	447,425	4.38%
Allowance for loan and lease losses	(126,063)			(96,513)			(86,227)		
Other assets	3,304,573			2,780,947			1,369,309		
Total assets	$22,905,541			$19,169,098			$11,507,688		
INTEREST-BEARING LIABILITIES:									
Interest-bearing checking	$2,080,126	$1,957	0.09%	$1,721,452	$950	0.06%	$1,176,841	$978	0.08%
Money market deposits	6,376,178	9,491	0.15%	5,255,622	6,991	0.13%	3,277,780	3,485	0.11%
Savings deposits	1,063,151	1,105	0.10%	829,737	426	0.05%	521,387	321	0.06%
Time deposits	2,715,847	17,286	0.64%	2,649,091	15,448	0.58%	1,796,669	15,971	0.89%
Total interest-bearing deposits	12,235,302	29,839	0.24%	10,455,902	23,815	0.23%	6,772,677	20,755	0.31%
Federal funds purchased and repurchase agreements	321,079	173	0.05%	303,358	346	0.11%	177,888	141	0.08%
Term debt	923,992	14,470	1.57%	815,017	12,793	1.57%	252,546	9,248	3.66%
Junior subordinated debentures	352,872	13,750	3.90%	301,525	11,739	3.89%	189,237	7,737	4.09%
Total interest-bearing liabilities	13,833,245	58,232	0.42%	11,875,802	48,693	0.41%	7,392,348	37,881	0.51%
Non-interest-bearing deposits	5,015,508			3,951,429			2,284,996		
Other liabilities	236,283			204,009			101,261		
Total liabilities	19,085,036			16,031,240			9,778,605		

Common equity	3,820,505		3,137,858		1,729,083	
Total liabilities and shareholders' equity	$22,905,541		$19,169,098		$11,507,688	
NET INTEREST INCOME		$876,671		$779,175		$409,544
NET INTEREST SPREAD		4.32%		4.61%		3.87%
AVERAGE YIELD ON EARNING ASSETS (1), (2)		4.74%		5.02%		4.38%
INTEREST EXPENSE TO EARNING ASSETS		0.30%		0.30%		0.37%
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)		4.44%		4.73%		4.01%

(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 $5.0 million, $5.3 million, and $4.6 million for the years ended 2015, 2014, and 2013, 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 2015 as compared to 2014 and 2014 compared to 2013. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

(in thousands)	2015 compared to 2014 Increase (decrease) in interest income and expense due to changes in			2014 compared to 2013 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST-EARNING ASSETS:						
Loans held for sale	$4,808	$(738)	$4,070	$2,631	$871	$3,502
Loans and leases	160,934	(59,374)	101,560	324,701	37,386	362,087
Taxable securities	4,376	(1,935)	2,441	2,225	9,486	11,711
Non-taxable securities (1)	465	(1,473)	(1,008)	2,862	(647)	2,215
Temporary investments and interest bearing deposits	(80)	52	(28)	961	(33)	928
Total (1)	170,503	(63,468)	107,035	333,380	47,063	380,443
INTEREST-BEARING LIABILITIES:						
Interest bearing demand	231	776	1,007	365	(393)	(28)
Money market	1,605	895	2,500	2,476	1,030	3,506
Savings	147	532	679	165	(60)	105
Time deposits	397	1,441	1,838	6,067	(6,590)	(523)
Repurchase agreements and federal funds	20	(193)	(173)	126	79	205
Term debt	1,706	(29)	1,677	11,232	(7,687)	3,545
Junior subordinated debentures	2,001	10	2,011	4,388	(386)	4,002
Total	6,107	3,432	9,539	24,819	(14,007)	10,812
Net increase (decrease) in net interest income (1)	$164,396	$(66,900)	$97,496	$308,561	$61,070	$369,631

(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 $36.6 million for 2015, as compared to $40.2 million for 2014, and $10.7 million for 2013. As a percentage of average outstanding loans and leases, the provision for loan and lease losses recorded for 2015 was 0.23%, a decrease of 8 basis points from 2014 and an increase of 8 basis points from 2013.

The decrease in the provision for loan and lease losses in 2015 as compared to 2014 is principally attributable to improved portfolio quality, offset by the increase in the loan portfolio, as well as an increase in net charge-offs for the 2015 period. The decrease in the provision relates primarily to decreasing credit factors used in the calculation of the allowance for loan and lease losses due to the improving credit quality of the portfolio, offset by the increase in the provision relating to new originations. The economy in the Pacific Northwest has improved causing the risk ratings of many of our borrowers to improve as well as the value of the underlying collateral for real estate collateral loans to improve as compared to prior years. The loan portfolio increased by $1.5 billion since December 31, 2014. For 2015, $375,000 of the provision for loan and lease losses related to previously acquired loans that were not purchased credit impaired as compared to $1.1 million for the year ended December 31, 2014. Net-charge offs for 2015 were $22.4 million compared to $19.2 million for 2014.

The increase as compared to 2013 is principally attributable to originations of new loans and leases by the legacy Sterling and FinPac lending teams. The allowance allocated to the commercial category increased in 2014 as compared to 2013 due primarily to the increased volume of leases originated by FinPac and the additional allowance on the new leases given the increased risk of loss in that portfolio compared to other commercial loans. The percentage of commercial as compared to the total loans decreased due the overall increase in all loan categories from the Sterling merger. As no allowance is brought over with the loan balances at the time of acquisition, the allocation as compared to the percentage of loans by category has unusual variations.

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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 $29.2 million as of December 31, 2015 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 2015 was $275.7 million, an increase of $94.6 million, or 52.2%, as compared to the same period in 2014. Non-interest income for 2014 was $181.2 million, a decrease of $58.3 million, or 47.4%, as compared to 2013. The following table presents the key components of non-interest income for years ended December 31, 2015, 2014 and 2013:

Non-Interest Income Years Ended December 31, (dollars in thousands)	2015 compared to 2014				2014 compared to 2013			
	2015	2014	Change Amount	Change Percent	2014	2013	Change Amount	Change Percent
Service charges on deposits	$59,740	$54,700	$5,040	9 %	$54,700	$30,952	$23,748	77 %
Brokerage revenue	18,481	18,133	348	2 %	18,133	14,736	3,397	23 %
Residential mortgage banking revenue, net	124,722	77,265	47,457	61 %	77,265	78,885	(1,620)	(2)%
Gain on investment securities, net	2,922	2,904	18	1 %	2,904	209	2,695	nm
Gain on sale of loans, net	22,380	15,113	7,267	48 %	15,113	2,744	12,369	nm
Loss on junior subordinated debentures carried at fair value	(6,306)	(5,090)	(1,216)	24 %	(5,090)	(2,197)	(2,893)	132 %
Change in FDIC indemnification asset	(853)	(15,151)	14,298	(94)%	(15,151)	(25,549)	10,398	(41)%
BOLI income	8,351	6,835	1,516	22 %	6,835	3,035	3,800	125 %
Other income	46,287	26,465	19,822	75 %	26,465	20,080	6,385	32 %
Total	$275,724	$181,174	$94,550	52 %	$181,174	$122,895	$58,279	47 %

nm = not meaningful

The overall increase in non-interest income is primarily the result of the merger with Sterling in April 2014. In 2015, the Company benefited from the legacy Sterling operations contributing for the full year, whereas in 2014 the legacy Sterling operations only contributed to the period subsequent to the acquisition date of April 18, 2014. The increase in deposit service charges in 2015 compared to 2014 is primarily the result of organic growth in deposit balances during 2015. The increase in deposit service charges in 2014 compared to 2013 is primarily the result of the additional deposits brought on from the Sterling acquisition.

Brokerage commissions and fees in 2015 increased due to the increase in managed account fees and new balances at Umpqua Investments. In 2015, assets under management at Umpqua Investments increased to $3.2 billion as compared to $2.8 billion at December 31, 2014. 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 $2.8 billion as compared to $2.6 billion at December 31, 2013.

Residential mortgage banking revenue for the year ended December 31, 2015 increased due to an increase in production, partially offset by losses related to the change in fair value of MSR which were higher in 2015 as compared to 2014. Closed mortgage volume for sale for 2015 was $3.5 billion, representing a 63% increase compared to 2014 production of $2.1 billion. The gain on sale margin was 3.36% compared to 3.40% for 2014. Cash flows received from the servicing of the mortgage servicing rights' underlying loans over the course of the year, as well as lower mortgage interest rates compared to the same period of the prior year has contributed to a $20.7 million decline in fair value on the MSR asset in 2015, compared to a $16.6 million decline in fair value recognized in 2014. As of December 31, 2015, the Company serviced $13.0 billion of mortgage loans for others, and the related mortgage servicing right asset is valued at $131.8 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 2015 and 2014, and a gain on sale of $209,000 for 2013. During 2015, 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.
The gain on loan sales for the year ended December 31, 2015, increased by $7.3 million due to portfolio loan sales of $266.4 million during the period, with the majority of loans sales being residential mortgage loans.

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A loss of $6.3 million was recognized in 2015, compared to a loss of $5.1 million for 2014, and a loss of $2.2 million for 2013, 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.
BOLI income increased to $8.4 million in 2015. The increase in 2015 as compared to 2014 relates to increased cash surrender value associated with BOLI assets. The increase in 2014 as compared to 2013 related to the additional BOLI acquired in the Sterling merger.
Other income in 2015 compared to 2014 increased by $19.8 million, with increases attributable to various fees that have increased due to the increase in loans. Other income also increased due to increased swap revenue of $8.4 million as compared to 2014, as well as, BOLI death benefits received in 2015 of $5.4 million. Other income in 2014 as compared to 2013 increased by $6.4 million due to additional activity from the Sterling merger.

NON-INTEREST EXPENSE

Non-interest expense for 2015 was $763.6 million, an increase of $79.6 million, or 11.6%, as compared to 2014. Non-interest expense for 2014 was $684.1 million, an increase of $319.4 million, or 87.6%, as compared to 2013. The following table presents the key elements of non-interest expense for the years ended December 31, 2015, 2014 and 2013.

Non-Interest Expense
Years Ended December 31,

(dollars in thousands)	2015 compared to 2014				2014 compared to 2013			
	2015	2014	Change Amount	Change Percent	2014	2013	Change Amount	Change Percent
Salaries and employee benefits	$430,936	$355,379	$75,557	21 %	$355,379	$209,991	$145,388	69 %
Occupancy and equipment, net	142,975	111,263	31,712	29 %	111,263	62,067	49,196	79 %
Communications	20,615	14,728	5,887	40 %	14,728	11,974	2,754	23 %
Marketing	11,419	9,504	1,915	20 %	9,504	6,062	3,442	57 %
Services	46,379	49,086	(2,707)	(6)%	49,086	25,483	23,603	93 %
FDIC assessments	13,480	10,998	2,482	23 %	10,998	6,954	4,044	58 %
Loss on other real estate owned, net	1,894	4,116	(2,222)	(54)%	4,116	1,248	2,868	230 %
Intangible amortization	11,225	10,207	1,018	10 %	10,207	4,781	5,426	113 %
Merger related expenses	45,582	82,317	(36,735)	(45)%	82,317	8,836	73,481	832 %
Other expenses	39,137	36,465	2,672	7 %	36,465	27,265	9,200	34 %
Total	$763,642	$684,063	$79,579	12 %	$684,063	$364,661	$319,402	88 %

Salaries and employee benefits costs increased $75.6 million as compared to the same period prior year primarily as a result of the full year of compensation expense relating to the employees who joined the Bank through the Sterling merger which was completed in April 2014. In addition, salaries and employee benefit costs also increased due to increased fixed and variable compensation expense associated with higher than expected mortgage banking originations. The increase from 2013 to 2014 related to an increase of full-time equivalent employees primarily from the merger with Sterling.

Net occupancy and equipment expense increased in 2015 as compared to the prior year due a full year of rent expense and depreciation expense related to the full year of activity from Sterling related operations, partially offset by store consolidations in 2015. The increase for 2014 as compared to 2013 was to the Sterling merger adding additional stores, partially offset by store consolidations that occurred in the second half of 2014.

Communications costs increased in 2015 compared to 2014, and in 2014 compared to 2013, primarily due to increased data processing cost as a result of the Company's continued growth and expansion. Marketing expense increased in 2015 compared to 2014 and 2013 due to costs associated with branding initiatives. Services expense decreased in 2015 compared to 2014 primarily due to fluctuations related to managed hosting servicing fees.

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FDIC assessments increased in 2015 compared to 2014 due to the increase in the assets from organic growth. In 2014 compared to 2013, the increase was a result of the increase in the assets as a result of the Sterling merger.

In the year ended December 31, 2015, the Company recognized a net loss (which includes loss on sale and valuation adjustments) on OREO properties of $1.9 million, as compared to a net loss on OREO properties of $4.1 million and $1.2 million in the years ended December 31, 2014 and 2013, respectively. The decrease in 2015 is primarily the result of improving real estate values, allowing for better realization of market values of existing OREO properties. The increase in 2014 is primarily due a depressed valuation of a single OREO property in the fourth quarter of 2014.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. These merger related expenses are recorded in accordance with a Board approved accounting policy with respect to merger related charges, including internal and external charges. These expenses include acquisition related expenses, facility closure related costs, customer communications, restructuring expenses (including associate severance and retention charges) and expenses related to conversions of systems, including consulting costs. The merger-related expenses incurred in 2013, primarily relate to the acquisition of FinPac and the merger with Sterling; and in 2014 and 2015, primarily relate to the merger with Sterling.

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

	2015	2014	2013
Legal and professional	$21,849	$22,276	$5,648
Personnel	11,564	18,837	225
Premises and Equipment	6,640	3,677	17
Communication	2,309	2,522	49
Contract termination	154	10,378	66
Charitable contributions	—	10,000	28
Investment banking fees	—	9,573	2,042
Other	3,066	5,054	761
Total merger-related expense	$45,582	$82,317	$8,836

Other non-interest expense increased in 2015 as compared to 2014 and 2013 due to increased costs of the additional stores and associates added from the Sterling merger.

INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2015 was 35.9%, compared to 36.0% for 2014 and 35.6% for 2013. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 5.3% (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 $9.6 million at December 31, 2015, as compared to $10.0 million at December 31, 2014. This decrease is principally attributable to a decrease in Rabbi Trusts balances.

Investment securities available for sale were $2.5 billion as of December 31, 2015 compared to $2.3 billion at December 31, 2014. The increase is due to purchases of investment securities of $1.1 billion of investment securities available for sale, and a decrease in fair value of investments securities available for sale of $23.8 million, offset by paydowns of $805.6 million and amortization of net purchase price premiums of $23.5 million.

Investment securities held to maturity were $4.6 million as of December 31, 2015 as compared to holdings of $5.2 million at December 31, 2014. The change primarily relates paydowns and maturities of investment securities held to maturity of $598,000.

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

(in thousands)	December 31, 2015	2014	2013
AVAILABLE FOR SALE			
U.S. Treasury and agencies	$—	$229	$268
Obligations of states and political subdivisions	313,117	338,404	235,205
Residential mortgage-backed securities and collateralized mortgage obligations	2,207,420	1,957,852	1,553,541
Investments in mutual funds and other equity securities	2,002	2,070	1,964
	$2,522,539	$2,298,555	$1,790,978
HELD TO MATURITY			
Residential mortgage-backed securities and collateralized mortgage obligations	$4,609	$5,088	$5,563
Other investment securities	—	123	—
	$4,609	$5,211	$5,563

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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, 2015.
Investment Securities Composition*
December 31, 2015

(dollars in thousands)	Amortized Cost	Fair Value	Average Yield	
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
One year or less	$42,098	$42,654	5.70	%
One to five years	193,709	202,873	5.68	%
Five to ten years	55,054	56,498	4.18	%
Over ten years	10,137	11,092	5.28	%
	300,998	313,117	5.40	%
OTHER SECURITIES				
Residential mortgage-backed securities and collateralized mortgage obligations	2,228,351	2,213,010	2.18	%
Other investment securities	1,959	2,002	2.12	%
Total securities	$2,531,308	$2,528,129	2.58	%

*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 the table above include both pooled mortgage-backed issues and high-quality collaterized mortgage obligation structures, with an average duration of 3.5 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, 2015 and 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 $24.2 million at December 31, 2015. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of $23.5 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.

RESTRICTED EQUITY SECURITIES

Restricted equity securities were $46.9 million at December 31, 2015 and $119.3 million at December 31, 2014. The decrease is attributable to redemptions of Federal Home Loan Banks ("FHLB") stock. Of the $46.9 million at December 31, 2015, $45.5 million represent the Bank's investment in the FHLBs of Des Moines 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.

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LOANS AND LEASES

Loans and Leases, net

Total loans and leases outstanding at December 31, 2015 were $16.8 billion, an increase of $1.5 billion as compared to year-end 2014. This increase is principally attributable to net new loan and lease originations of $1.8 billion, partially offset by charge-offs of $35.6 million, transfers to other real estate owned of $9.1 million, and loans sold of $266.4 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)	2015		2014		2013		2012		2011	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Commercial real estate, net	$9,309,035	55.3 %	$8,903,660	58.1 %	$4,630,155	59.9 %	$4,582,768	63.9 %	$4,308,889	66.0 %
Commercial, net	3,197,246	19.0 %	2,948,823	19.2 %	2,142,213	27.7 %	1,757,660	24.5 %	1,513,905	23.2 %
Residential, net	3,813,890	22.6 %	3,086,213	20.2 %	903,423	11.7 %	792,367	11.0 %	655,055	10.1 %
Consumer & other, net	527,189	3.1 %	389,036	2.5 %	52,375	0.7 %	43,638	0.6 %	47,020	0.7 %
Total loans and leases, net	$16,847,360	100.0%	$15,327,732	100.0%	$7,728,166	100.0%	$7,176,433	100.0%	$6,524,869	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, 2015		December 31, 2014	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Non-owner occupied term, net	$3,140,845	18.6 %	$3,290,610	21.5 %
Owner occupied term, net	2,691,921	16.0 %	2,633,864	17.2 %
Multifamily, net	3,074,918	18.3 %	2,638,618	17.2 %
Construction & development, net	301,892	1.8 %	258,722	1.7 %
Residential development, net	99,459	0.6 %	81,846	0.5 %
Commercial				
Term, net	1,425,009	8.5 %	1,396,089	9.1 %
LOC & other, net	1,043,076	6.2 %	1,029,620	6.7 %
Leases and equipment finance, net	729,161	4.3 %	523,114	3.4 %
Residential				
Mortgage, net	2,890,223	17.1 %	2,233,735	14.6 %
Home equity loans & lines, net	923,667	5.5 %	852,478	5.6 %
Consumer & other, net	527,189	3.1 %	389,036	2.5 %

Total, net of deferred fees and costs	$16,847,360	100.0 %	$15,327,732	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 commercial loan portfolios and the sensitivity of these loans to changes in interest rates as of December 31, 2015:

(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	$651,289	$2,062,789	$6,594,957	$9,309,035	$1,768,888	$6,888,858
Commercial (1)	$1,202,238	$687,754	$578,093	$2,468,085	$738,934	$526,913

(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,

(dollars in thousands)	2015	2014	2013	2012	2011
Loans and leases on non-accrual status	$29,215	$52,041	$31,891	$66,736	$80,562
Loans and leases past due 90 days or more and accruing	15,169	7,512	3,430	4,232	10,821
Total non-performing loans and leases	44,384	59,553	35,321	70,968	91,383
Other real estate owned	22,307	37,942	23,935	27,512	53,666
Total non-performing assets	$66,691	$97,495	$59,256	$98,480	$145,049
Restructured loans (1)	$31,355	$54,836	$68,791	$70,602	$80,563
Allowance for loan and lease losses	$130,322	$116,167	$95,085	$103,666	$107,288
Reserve for unfunded commitments	3,574	3,539	1,436	1,223	940
Allowance for credit losses	$133,896	$119,706	$96,521	$104,889	$108,228
Asset quality ratios:					
Non-performing assets to total assets	0.29 %	0.43 %	0.51 %	0.84 %	1.25 %
Non-performing loans and leases to total loans and leases	0.26 %	0.39 %	0.46 %	0.99 %	1.40 %
Allowance for loan and lease losses to total loans and leases	0.77 %	0.76 %	1.23 %	1.44 %	1.64 %
Allowance for credit losses to total loans and leases	0.79 %	0.78 %	1.25 %	1.46 %	1.66 %
Allowance for credit losses to total non-performing loans and leases	302 %	201 %	273 %	148 %	118 %

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

Under acquisition accounting rules, loans (including those considered non-performing) acquired from Sterling were recorded at their estimated fair value. The Company recognized the loan portfolio acquired from Sterling at fair value as of the acquisition date, which resulted in a discount to the loan portfolio's previous carrying value. Neither the credit portion nor any other portion of the fair value mark is reflected in the reported allowance for loan and lease losses, or related allowance coverage ratios, but we believe should be considered when comparing the current period ratios to similar ratios in periods prior to the acquisition of Sterling due to the impact of the purchase credit impaired loans not being included in non-performing loans, however, these acquired loans are included in the total loans and leases. In addition, the allowance for credit loss ratios have declined from periods prior to the acquisition of Sterling due to the acquired loans being included in total loans and leases, but not having a related allowance due to the application of the credit discount.

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The purchased non-credit impaired loans had remaining credit discount that will accrete into interest income over the life of the loans of $72.8 million and $122.4 million, as of December 31, 2015 and 2014, respectively. The purchased impaired loan pools had remaining credit discount of $44.4 million and $66.5 million, as of December 31, 2015 and 2014, respectively.

Loans acquired with deteriorating credit quality are accounted for as purchased credit impaired pools. Typically this would include loans that were considered non-performing or restructured as of acquisition date. Accordingly, subsequent to acquisition, loans included in the purchased credit impaired pools are not reported as non-performing loans based upon their individual performance status, so the categories of nonaccrual, impaired and 90 days past due and accruing do not include any purchased credit impaired loans.

Restructured Loans

At December 31, 2015 and December 31, 2014, impaired loans of $31.4 million and $54.8 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 loans accruing interest at December 31, 2015. 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 no available commitments for troubled debt restructurings outstanding as of December 31, 2015 and $1.0 million as of December 31, 2014.

The following table presents a distribution of our performing restructured loans by year of maturity, according to the restructured terms, as of December 31, 2015:

(in thousands)

Year	Amount
2016	$22,315
2017	846
2018	—
2019	218
2020	182
Thereafter	7,794
Total	$31,355

ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED COMMITMENTS

The allowance for loan and lease losses ("ALLL") totaled $130.3 million at December 31, 2015, an increase of $14.2 million from the $116.2 million at December 31, 2014. 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.

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The following table provides a summary of activity in the ALLL by major loan type, net of deferred fees for each of the five years ended December 31:

Allowance for Loan and Lease Losses (dollars in thousands)	2015	2014	2013	2012	2011
Balance, beginning of period	$116,167	$95,085	$103,666	$107,288	$104,642
Loans charged-off:					
Commercial real estate, net	(6,194)	(8,030)	(9,748)	(25,270)	(39,188)
Commercial, net	(15,875)	(16,824)	(20,810)	(13,822)	(21,731)
Residential, net	(879)	(1,855)	(3,655)	(5,878)	(7,990)
Consumer & other, net	(12,623)	(3,469)	(1,285)	(2,158)	(2,828)
Total loans charged-off	(35,571)	(30,178)	(35,498)	(47,128)	(71,737)
Recoveries:					
Commercial real estate, net	2,682	2,539	4,436	6,673	7,254
Commercial, net	5,001	6,744	10,445	6,089	3,860
Residential, net	641	462	569	999	381
Consumer & other, net	4,813	1,274	751	544	527
Total recoveries	13,137	11,019	16,201	14,305	12,022
Net charge-offs	(22,434)	(19,159)	(19,297)	(32,823)	(59,715)
Provision charged to operations	36,589	40,241	10,716	29,201	62,361
Balance, end of period	$130,322	$116,167	$95,085	$103,666	$107,288
As a percentage of average loans and leases:					
Net charge-offs	0.14 %	0.15 %	0.26 %	0.49 %	0.93 %
Provision for loan and lease losses	0.23 %	0.31 %	0.15 %	0.44 %	0.97 %
Recoveries as a percentage of charge-offs	36.93 %	36.51 %	45.64 %	30.35 %	16.76 %

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, 2015 and December 31, 2014, 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)	2015		2014		2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate, net	$54,085	55.3 %	$55,184	58.1 %	$59,538	59.9 %	$67,038	63.9 %	$68,513	66.1 %
Commercial, net	47,695	19.0 %	41,216	19.2 %	27,028	27.7 %	27,905	24.5 %	24,449	23.2 %
Residential, net	22,017	22.6 %	15,922	20.2 %	7,487	11.7 %	7,729	11.0 %	8,616	10.0 %
Consumer & other, net	6,525	3.1 %	3,845	2.5 %	1,032	0.7 %	994	0.6 %	1,293	0.7 %
Unallocated	—		—		—		—		4,417	
Allowance for loan and lease losses	$130,322		$116,167		$95,085		$103,666		$107,288	

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At December 31, 2015, the recorded investment in loans classified as impaired totaled $52.1 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $788,000. The valuation allowance on impaired loans represents the impairment reserves on performing current and former restructured loans and nonaccrual loans. At December 31, 2014, the total recorded investment in impaired loans was $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, 2014.

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)	2015	2014	2013
Balance, beginning of period	$3,539	$1,436	$1,223
Net change to other expense	35	(1,863)	213
Acquired reserve	—	3,966	—
Balance, end of period	$3,574	$3,539	$1,436

We believe that the ALLL and RUC at December 31, 2015 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.

RESIDENTIAL MORTGAGE SERVICING RIGHTS

The following table presents the key elements of our residential mortgage servicing rights asset as of December 31, 2015, 2014, and 2013:

Summary of Residential Mortgage Servicing Rights

Years Ended December 31, (in thousands)	2015	2014	2013
Balance, beginning of period	$117,259	$47,765	$27,428
Acquired/purchased MSR	—	62,770	—
Additions for new MSR capitalized	35,284	23,311	17,963
Changes in fair value:			
Due to changes in model inputs or assumptions(1)	(380)	(5,757)	5,688
Other(2)	(20,346)	(10,830)	(3,314)
Balance, end of period	$131,817	$117,259	$47,765

(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, 2015, 2014, and 2013 was as follows:

(dollars in thousands)	December 31, 2015	December 31, 2014	December 31, 2013
Balance of loans serviced for others	$13,047,266	$11,590,310	$4,362,499
MSR as a percentage of serviced loans	1.01 %	1.01 %	1.09 %

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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, 2015 and 2014, we had goodwill of $1.8 billion. 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. At December 31, 2014, we had recorded goodwill of $1.8 billion, as compared to $764.3 million at December 31, 2013, with the increase due to the Sterling merger.

At December 31, 2015, we had other intangible assets of $45.5 million, as compared to $56.7 million at December 31, 2014. As part of a business acquisition, the fair value of identifiable intangible assets such as core deposits, which includes all deposits except certificates of deposit, are recognized at the acquisition date. 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 decreased in 2015 from 2014 as a result of amortization of the other intangible assets of $11.2 million during the year. No impairment losses have been recognized in the periods presented.

DEPOSITS

Total deposits were $17.7 billion at December 31, 2015, an increase of $815.1 million, or 4.8%, as compared to year-end 2014 due to growth in demand, money market and savings deposits, partially offset by a decrease in total time deposits.

The following table presents the deposit balances by major category as of December 31, 2015 and December 31, 2014:

Deposits

	December 31, 2015		December 31, 2014	
(dollars in thousands)	Amount	Percentage	Amount	Percentage
Non-interest bearing	$5,318,591	30 %	$4,744,804	28 %
Interest bearing demand	2,157,376	12 %	2,054,994	12 %
Money market	6,599,516	37 %	6,113,138	36 %
Savings	1,136,809	6 %	971,185	6 %
Time, $100,000 or greater	1,604,446	9 %	1,765,721	10 %
Time, less than $100,000	890,451	6 %	1,242,257	8 %
Total	$17,707,189	100 %	$16,892,099	100 %

The following table presents the scheduled maturities of time deposits of $100,000 and greater as of December 31, 2015:

Maturities of Time Deposits of $100,000 and Greater

(in thousands)	Amount
Three months or less	$494,891

Over three months through six months	299,599
Over six months through twelve months	310,738
Over twelve months	499,218
Time, $100,000 and over	$1,604,446

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, 2015, the Company's brokered deposits, including CDARS, were $758.9 million compared to $866.2 million as of December 31, 2014.

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BORROWINGS

At December 31, 2015, the Bank had outstanding $304.6 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. The Bank had outstanding term debt of $888.8 million at December 31, 2015, primarily with the Federal Home Loan Bank ("FHLB"). Term debt outstanding as of December 31, 2015 decreased $117.6 million since December 31, 2014 as a result of 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 0.54% to 7.10% and mature in 2016 through 2030.

JUNIOR SUBORDINATED DEBENTURES

We had junior subordinated debentures with carrying values of $356.7 million and $350.9 million at December 31, 2015 and December 31, 2014, respectively. The increase is due to the change in fair value for the junior subordinated debentures elected to be carried at fair value. As of December 31, 2015, the majority of the junior subordinated debentures had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR.

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 10.6% and 11.7% of total deposits at December 31, 2015 and at December 31, 2014, 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 $5.4 billion at December 31, 2015 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 $333.3 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 $450.0 million at December 31, 2015. 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 $153.0 million of dividends paid by the Bank to the Company in 2015. 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, 2015, 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 $376.7 million during 2015, 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 $3.5 billion, offset by originations of loans held for sale of $3.5 billion. This compares to net cash provided by operating activities of $359.2 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.

Net cash of $1.8 billion used by investing activities during the 2015 consisted principally of $1.8 billion of net changes in loans and $1.1 billion of purchases of investment securities available for sale, partially offset by proceeds from investment securities available for sale of $805.6 million and proceeds from sale of loans and leases of $288.8 million. This compares to net cash of $242.1 million provided by investing activities during 2014, which consisted principally of proceeds from investment securities available for sale of $1.2 billion, proceeds from the sale of loans and leases of $356.5 million, net cash acquired in acquisition of $116.9 million, partially offset by net loan and lease originations of $943.1 million and purchases of investment securities available for sale of $363.1 million.

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Net cash of $548.7 million provided by financing activities during 2015 primarily consisted of $820.2 million increase in net deposits, partially offset by dividends paid on common stock of $134.6 million, and repayment of debt of $265.0 million. This compares to net cash of $213.4 million provided by financing activities during 2014, which consisted primarily of $905.4 million increase in net deposits, partially offset by $496.3 million decrease in net securities sold under agreements to repurchase, $99.2 million of dividends paid on common stock, and repayment of term debt of $97.0 million.

Although we expect the Bank's and the Company's liquidity positions to remain satisfactory during 2016, it is possible that our deposit balances for 2016 may not be maintained at previous levels due to pricing pressure or, in order to generate deposit growth, our pricing may need to be adjusted in a manner that results in increased interest expense on deposits.

OFF-BALANCE-SHEET-ARRANGEMENTS

Information regarding Off-Balance-Sheet Arrangements is included in Note 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, 2015 and maturing as indicated:
Future Contractual Obligations
As of December 31, 2015:

(in thousands)	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Deposits (1)	$16,868,492	$535,346	$294,942	$8,409	$17,707,189
Term debt	525,016	205,000	150,000	5,151	885,167
Junior subordinated debentures (2)	—	—	—	475,427	475,427
Operating leases	30,822	49,562	36,436	43,852	160,672
Other long-term liabilities (3)	3,710	6,925	7,637	52,222	70,494
Total contractual obligations	$17,428,040	$796,833	$489,015	$585,061	$19,298,949

(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, 2015, the Company has a liability for unrecognized tax benefits in the amount of $3.3 million, which includes accrued interest of $428,000. 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, 2015 was $3.8 billion, an increase of $71.7 million from December 31, 2014. The increase in shareholders' equity during the year ended was principally due to net income of $222.5 million, offset by other comprehensive loss, net of tax, of $14.6 million and common stock dividends declared of $137.5 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.

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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 began 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%.

Under the final rule, as Umpqua is above $15.0 billion in assets as a result of an acquisition, the combined trust preferred security debt issuances are required to be phased out of Tier 1 and into Tier 2 capital (75% starting in the first quarter of 2015 and 100% starting in the first quarter of 2016). It is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the carrying 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 Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, the Company and the Bank have made a one-time permanent election to continue to exclude these items in order to avoid significant variations in the level of capital depending on 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.

Under the BASEL III guidelines, capital strength is measured in three 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 6% must be Tier 1 capital and 4.5% must be CET1. Our CETI capital primarily includes shareholders' equity less certain deductions for goodwill and other intangibles, net of taxes, net unrealized gains (losses) on AFS securities, net of tax, and certain DTAs that arise from tax loss and credit carryforwards, and totaled $2.0 billion at December 31, 2015. Tier 1 capital is primarily comprised of common equity Tier 1 capital and qualifying trust preferred securities, less certain additional deductions applied during the phase-in period, totaled $2.1 billion at December 31, 2015. 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 $2.6 billion at December 31, 2015. The percentage ratios, as calculated under the guidelines, were 11.35%, 11.65% and 14.34% for CET1, Tier 1 and Total Risk-Based Capital, respectively, at December 31, 2015. The Tier 1 and Total Risk-Based Capital ratios at December 31, 2014 were 14.44% and 15.20%, respectively.
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 accumulated 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, 2015 and 2014 were 9.73% and 10.99%, respectively. As of December 31, 2015, 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.

During the year ended December 31, 2015, the Company made no contributions to the Bank. At December 31, 2015, all four 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 2015, Umpqua's Board of Directors approved a cash dividend of $0.15 in the first and second quarters and $0.16 in the third and fourth 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.

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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, 2015, 2014 and 2013:

Cash Dividends and Payout Ratios per Common Share

	2015	2014	2013
Dividend declared per common share	$0.62	$0.60	$0.60
Dividend payout ratio	61 %	76 %	69 %

The Company's share repurchase plan, which was first approved by the Board and announced in August 2003, provided authority to repurchase up to 15 million shares of our common stock. In 2015, the Board extended the repurchase program for two years to July 31, 2017. As of December 31, 2015, a total of 11.4 million shares remained available for repurchase. The Company repurchased 571,000 shares under the repurchase plan in 2015. 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.

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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, 2015.

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 cash and temporary investments	$496,080	$—	$—	$—	$—	$496,080
Trading account assets	9,586	—	—	—	—	9,586
Securities held to maturity	1,844	106	133	5,330	(2,804)	4,609
Securities available for sale	103,706	290,507	1,104,882	949,777	73,667	2,522,539
Loans held for sale	340,302	—	—	—	22,973	363,275
Loans and leases	4,739,762	2,373,255	7,355,645	2,350,753	27,945	16,847,360
Non-interest earning assets	—	—	—	—	3,143,756	3,143,756
Total assets	5,691,280	2,663,868	8,460,660	3,305,860	3,265,537	$23,387,205
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest bearing demand deposits	$2,157,376	$—	$—	$—	$—	$2,157,376
Money market deposits	6,599,516	—	—	—	—	6,599,516
Savings deposits	1,136,809	—	—	—	—	1,136,809
Time deposits	682,328	980,120	824,299	8,150	—	2,494,897
Securities sold under agreements to repurchase	304,560	—	—	—	—	304,560
Term debt	150,159	425,041	305,132	5,331	3,106	888,769
Junior subordinated debentures, at fair value	379,390	—	—	—	(123,933)	255,457
Junior subordinated debentures, at amortized cost	85,572	—	—	10,465	5,217	101,254
Non-interest bearing liabilities and shareholders' equity	—	—	—	—	9,448,567	9,448,567
Total liabilities and shareholders' equity	11,495,710	1,405,161	1,129,431	23,946	9,332,957	23,387,205
Interest rate sensitivity gap	(5,804,430)	1,258,707	7,331,229	3,281,914	(6,067,420)	
Cumulative interest rate sensitivity gap	$(5,804,430)	$(4,545,723)	$2,785,506	$6,067,420	$—	
	(29)%	(22)%	14%	30%		

Cumulative gap as a % of earning assets

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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.

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, the Bank incorporates a three month lag on money market and interest bearing demand deposits. The incorporation of a lag is a result of a deposit pricing study performed in 2015 which shows the Bank historically has been able to lag market rate increases. The Bank did not incorporate deposit pricing lags in 2014 or 2013 analyses.

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.

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The estimated impact on our net interest income over a time horizon of one year as of December 31, 2015, 2014, and 2013 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,

	2015		2014		2013	
Up 300 basis points	2.5	%	0.3	%	0.8	%
Up 200 basis points	1.9	%	0.5	%	0.8	%
Up 100 basis points	1.2	%	0.5	%	0.6	%
Down 100 basis points	(2.7	)%	(2.4	)%	(2.9	)%
Down 200 basis points	(5.7	)%	(5.2	)%	(6.8	)%
Down 300 basis points	(7.8	)%	(7.3	)%	(10.1	)%

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, 2015 has increased from the prior periods presented due to a key model assumption change to incorporate a three month lag on money market and interest bearing demand accounts. 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.
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 assumes 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, 2015 is indicated in the table below.
Interest Rate Simulation Impact on Net Interest Income
As of December 31, 2015

	Year 1		Year 2	
Up 300 basis points	2.5	%	0.7	%
Up 200 basis points	1.9	%	1.1	%
Up 100 basis points	1.2	%	0.9	%
Down 100 basis points	(2.7	)%	(7.3	)%
Down 200 basis points	(5.7	)%	(15.4	)%
Down 300 basis points	(7.8	)%	(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.

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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,

	2015	2014
Up 300 basis points	(8.1)%	(4.8)%
Up 200 basis points	(4.6)%	(2.2)%
Up 100 basis points	(1.9)%	(0.4)%
Down 100 basis points	0.6%	7.8%
Down 200 basis points	3.4%	7.1%
Down 300 basis points	2.9%	6.6%

As of December 31, 2015, 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, 2015 has increased as compared to December 31, 2014. As of December 31, 2015, 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.

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, 2015 and 2014, 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, 2015. We also have audited the Company's internal control over financial reporting as of December 31, 2015, 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, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, Umpqua Holdings Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, 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 25, 2016

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

(in thousands, except shares)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$277,645	$282,455
Interest bearing cash and temporary investments	496,080	1,322,716
Total cash and cash equivalents	773,725	1,605,171
Investment securities		
Trading, at fair value	9,586	9,999
Available for sale, at fair value	2,522,539	2,298,555
Held to maturity, at amortized cost	4,609	5,211
Loans held for sale, at fair value	363,275	286,802
Loans and leases	16,847,360	15,327,732
Allowance for loan and lease losses	(130,322)	(116,167)
Net loans and leases	16,717,038	15,211,565
Restricted equity securities	46,949	119,334
Premises and equipment, net	328,734	317,834
Goodwill	1,787,793	1,786,225
Other intangible assets, net	45,508	56,733
Residential mortgage servicing rights, at fair value	131,817	117,259
Other real estate owned	22,307	37,942
FDIC indemnification asset	855	4,417
Bank owned life insurance	291,892	294,296
Deferred tax asset, net	138,082	230,442
Other assets	202,496	228,118
Total assets	$23,387,205	$22,609,903
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$5,318,591	$4,744,804
Interest bearing	12,388,598	12,147,295
Total deposits	17,707,189	16,892,099
Securities sold under agreements to repurchase	304,560	313,321
Term debt	888,769	1,006,395
Junior subordinated debentures, at fair value	255,457	249,294
Junior subordinated debentures, at amortized cost	101,254	101,576
Other liabilities	280,642	269,592
Total liabilities	19,537,871	18,832,277
COMMITMENTS AND CONTINGENCIES (NOTE 19)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, shares authorized: 400,000,000 as of December 31, 2015 and 2014; issued and outstanding: 220,171,091 in 2015 and 220,161,120 in 2014	3,520,591	3,519,316
Retained earnings	331,301	246,242

Accumulated other comprehensive (loss) income	(2,558)	12,068
Total shareholders' equity	3,849,334	3,777,626
Total liabilities and shareholders' equity	$23,387,205	$22,609,903

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, 2015, 2014 and 2013
(in thousands, except per share amounts)

	2015	2014	2013
INTEREST INCOME			
Interest and fees on loans and leases	$869,433	$763,803	$398,214
Interest and dividends on investment securities:			
Taxable	47,842	45,784	34,146
Exempt from federal income tax	9,647	10,345	8,898
Dividends	708	325	252
Interest on temporary investments and interest bearing deposits	2,236	2,264	1,336
Total interest income	929,866	822,521	442,846
INTEREST EXPENSE			
Interest on deposits	29,839	23,815	20,755
Interest on securities sold under agreement to repurchase	173	346	141
Interest on term debt	14,470	12,793	9,248
Interest on junior subordinated debentures	13,750	11,739	7,737
Total interest expense	58,232	48,693	37,881
Net interest income	871,634	773,828	404,965
PROVISION FOR LOAN AND LEASE LOSSES	36,589	40,241	10,716
Net interest income after provision for loan and lease losses	835,045	733,587	394,249
NON-INTEREST INCOME			
Service charges on deposits	59,740	54,700	30,952
Brokerage revenue	18,481	18,133	14,736
Residential mortgage banking revenue, net	124,722	77,265	78,885
Gain on investment securities, net	2,922	2,904	209
Gain on loan sales, net	22,380	15,113	2,744
Loss on junior subordinated debentures carried at fair value	(6,306)	(5,090)	(2,197)
Change in FDIC indemnification asset	(853)	(15,151)	(25,549)
BOLI income	8,351	6,835	3,035
Other income	46,287	26,465	20,080
Total non-interest income	275,724	181,174	122,895
NON-INTEREST EXPENSE			
Salaries and employee benefits	430,936	355,379	209,991
Occupancy and equipment, net	142,975	111,263	62,067
Communications	20,615	14,728	11,974
Marketing	11,419	9,504	6,062
Services	46,379	49,086	25,483
FDIC assessments	13,480	10,998	6,954
Loss on other real estate owned, net	1,894	4,116	1,248
Intangible amortization	11,225	10,207	4,781
Merger related expenses	45,582	82,317	8,836
Other expenses	39,137	36,465	27,265
Total non-interest expense	763,642	684,063	364,661
Income before provision for income taxes	347,127	230,698	152,483
Provision for income taxes	124,588	83,040	54,192
Net income	$222,539	$147,658	$98,291

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)
For the Years Ended December 31, 2015, 2014 and 2013

(in thousands, except per share amounts)

	2015	2014	2013
Net income	$222,539	$147,658	$98,291
Dividends and undistributed earnings allocated to participating securities	357	484	788
Net earnings available to common shareholders	$222,182	$147,174	$97,503
Earnings per common share:			
Basic	$1.01	$0.79	$0.87
Diluted	$1.01	$0.78	$0.87
Weighted average number of common shares outstanding:			
Basic	220,327	186,550	111,938
Diluted	221,045	187,544	112,176

See notes to consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2015, 2014 and 2013
(in thousands)

	2015	2014	2013
Net income	$222,539	$147,658	$98,291
Available for sale securities:			
Unrealized (losses) gains arising during the period	(20,860)	31,215	(48,755)
Reclassification adjustment for net gains realized in earnings (net of tax expense $1,125, $1,162, and $84 in 2015, 2014, and 2013, respectively)	(1,797)	(1,742)	(125)
Income tax benefit (expense) related to unrealized (losses) gains	8,031	(12,486)	19,502
Net change in unrealized (losses) gains	(14,626)	16,987	(29,378)
Held to maturity securities:			
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $37 for both 2014 and 2013, respectively)	—	57	56
Net change in unrealized losses related to factors other than credit	—	57	56
Other comprehensive (loss) income, net of tax	(14,626)	17,044	(29,322)
Comprehensive income	$207,913	$164,702	$68,969

See notes to consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2015, 2014 and 2013

(in thousands, except shares)	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Income (Loss)	Total
BALANCE AT JANUARY 1, 2013	111,889,959	$1,512,400	$187,293	$24,346	$1,724,039
Cumulative Effect Adjustment ASU 2014-01			(3,439)		(3,439)
Restated balance at January 1, 2013			183,854		1,720,600
Net income			98,291		98,291
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)		