UMPQUA HOLDINGS CORP
Form 10-Q
November 05, 2015

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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended: September 30, 2015
or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to .

Commission File Number: 001-34624

Umpqua Holdings Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

[X] Yes [ ] No

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

[X] Yes [ ] No

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

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

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

[ ] Yes [X] No

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

Common stock, no par value: 220,217,028 shares outstanding as of October 31, 2015

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

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

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Noninterest bearing cash | $283,773 | $282,455 |
| Interest bearing cash and temporary investments (restricted cash of $70,707 and $47,717) | 673,843 | 1,322,716 |
| Total cash and cash equivalents | 957,616 | 1,605,171 |
| Investment securities | | |
| Trading, at fair value | 9,509 | 9,999 |
| Available for sale, at fair value | 2,482,478 | 2,298,555 |
| Held to maturity, at amortized cost | 4,699 | 5,211 |
| Loans held for sale ($395,421 and $286,802, at fair value) | 398,015 | 286,802 |
| Loans and leases | 16,387,934 | 15,327,732 |
| Allowance for loan and lease losses | (130,133) | (116,167) |
| Net loans and leases | 16,257,801 | 15,211,565 |
| Restricted equity securities | 46,904 | 119,334 |
| Premises and equipment, net | 330,306 | 317,834 |
| Goodwill | 1,788,640 | 1,786,225 |
| Other intangible assets, net | 48,314 | 56,733 |
| Residential mortgage servicing rights, at fair value | 124,814 | 117,259 |
| Other real estate owned | 23,892 | 37,942 |
| FDIC indemnification asset | 892 | 4,417 |
| Bank owned life insurance | 297,321 | 294,296 |
| Deferred tax asset, net | 149,320 | 230,442 |
| Other assets | 241,783 | 228,118 |
| Total assets | $23,162,304 | $22,609,903 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | | |
| Noninterest bearing | $5,207,129 | $4,744,804 |
| Interest bearing | 12,259,895 | 12,147,295 |
| Total deposits | 17,467,024 | 16,892,099 |
| Securities sold under agreements to repurchase | 323,722 | 313,321 |
| Term debt | 889,358 | 1,006,395 |
| Junior subordinated debentures, at fair value | 253,665 | 249,294 |
| Junior subordinated debentures, at amortized cost | 101,334 | 101,576 |
| Other liabilities | 291,649 | 269,592 |
| Total liabilities | 19,326,752 | 18,832,277 |
| COMMITMENTS AND CONTINGENCIES (NOTE 9) | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no par value, shares authorized: 400,000,000 in 2015 and 2014; issued and outstanding: 220,216,672 in 2015 and 220,161,120 in 2014 | 3,517,751 | 3,519,316 |
| Retained earnings | 303,729 | 246,242 |

| | | |
|---|---|---|
| Accumulated other comprehensive income | 14,072 | 12,068 |
| Total shareholders' equity | 3,835,552 | 3,777,626 |
| Total liabilities and shareholders' equity | $23,162,304 | $22,609,903 |

See notes to condensed consolidated financial statements

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

| (in thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| INTEREST INCOME | | | | |
| Interest and fees on loans and leases | $219,488 | $223,972 | $651,979 | $536,950 |
| Interest and dividends on investment securities: | | | | |
| Taxable | 11,639 | 12,136 | 34,458 | 34,155 |
| Exempt from federal income tax | 2,637 | 2,790 | 8,014 | 7,599 |
| Dividends | 113 | 81 | 382 | 259 |
| Interest on temporary investments and interest bearing deposits | 440 | 544 | 1,814 | 1,407 |
| Total interest income | 234,317 | 239,523 | 696,647 | 580,370 |
| INTEREST EXPENSE | | | | |
| Interest on deposits | 7,450 | 6,773 | 21,934 | 16,696 |
| Interest on securities sold under agreement to repurchase | 43 | 54 | 134 | 298 |
| Interest on term debt | 3,629 | 3,586 | 10,585 | 9,223 |
| Interest on junior subordinated debentures | 3,465 | 3,394 | 10,208 | 8,340 |
| Total interest expense | 14,587 | 13,807 | 42,861 | 34,557 |
| Net interest income | 219,730 | 225,716 | 653,786 | 545,813 |
| PROVISION FOR LOAN AND LEASE LOSSES | 8,153 | 14,333 | 32,044 | 35,000 |
| Net interest income after provision for loan and lease losses | 211,577 | 211,383 | 621,742 | 510,813 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposits | 15,638 | 16,090 | 44,759 | 39,228 |
| Brokerage revenue | 5,003 | 4,882 | 14,420 | 13,173 |
| Residential mortgage banking revenue, net | 24,041 | 25,996 | 92,282 | 60,776 |
| Gain on investment securities, net | 220 | 902 | 355 | 1,878 |
| Gain on loan sales | 5,212 | 8,309 | 20,651 | 9,383 |
| Loss on junior subordinated debentures carried at fair value | (1,590) | (1,590) | (4,717) | (3,501) |
| Change in FDIC indemnification asset | 1,432 | (2,728) | (1,053) | (13,169) |
| BOLI income | 1,656 | 2,161 | 6,460 | 4,864 |
| Other income | 8,737 | 8,143 | 31,186 | 18,237 |
| Total non-interest income | 60,349 | 62,165 | 204,343 | 130,869 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 105,974 | 102,564 | 324,683 | 251,340 |
| Occupancy and equipment, net | 37,235 | 33,029 | 104,253 | 78,276 |
| Communications | 4,443 | 3,932 | 15,131 | 11,000 |
| Marketing | 2,860 | 2,739 | 7,936 | 4,901 |
| Services | 10,285 | 14,619 | 35,063 | 33,010 |
| FDIC assessments | 3,369 | 3,038 | 9,738 | 7,476 |
| (Gain) loss on other real estate owned, net | (158) | 313 | 2,136 | 507 |
| Intangible amortization | 2,806 | 3,103 | 8,419 | 7,105 |
| Merger related expenses | 5,991 | 8,632 | 41,870 | 72,146 |
| Other expenses | 9,881 | 10,589 | 28,452 | 27,446 |
| Total non-interest expense | 182,686 | 182,558 | 577,681 | 493,207 |
| Income before provision for income taxes | 89,240 | 90,990 | 248,404 | 148,475 |

| | | | | |
|---|---|---|---|---|
| Provision for income taxes | 31,633 | 32,107 | 88,884 | 53,399 |
| Net income | $57,607 | $58,883 | $159,520 | $95,076 |

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

| (in thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $57,607 | $58,883 | $159,520 | $95,076 |
| Dividends and undistributed earnings allocated to participating securities | 84 | 142 | 261 | 338 |
| Net earnings available to common shareholders | $57,523 | $58,741 | $159,259 | $94,738 |
| Earnings per common share: | | | | |
| Basic | $0.26 | $0.27 | $0.72 | $0.54 |
| Diluted | $0.26 | $0.27 | $0.72 | $0.54 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 220,297 | 217,245 | 220,370 | 175,627 |
| Diluted | 220,904 | 218,941 | 221,062 | 176,656 |

See notes to condensed consolidated financial statements

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

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $57,607 | $58,883 | $159,520 | $95,076 |
| Available for sale securities: | | | | |
| Unrealized gains (losses) arising during the period | 15,258 | (8,862) | 3,695 | 21,052 |
| Reclassification adjustment for net gains realized in earnings (net of tax expense of $88 and $361 for the three months ended September 30, 2015 and 2014, respectively, and net of tax expense of $142 and $751 for the nine months ended September 30, 2015 and 2014, respectively) | (132) | (542) | (213) | (1,127) |
| Income tax (expense) benefit related to unrealized gains | (6,103) | 3,545 | (1,478) | (8,421) |
| Net change in unrealized gains (losses) | 9,023 | (5,859) | 2,004 | 11,504 |
| 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 the nine months ended September 30, 2014) | — | — | — | 57 |
| Net change in unrealized losses related to factors other than credit | — | — | — | 57 |
| Other comprehensive income (loss), net of tax | 9,023 | (5,859) | 2,004 | 11,561 |
| Comprehensive income | $66,630 | $53,024 | $161,524 | $106,637 |

See notes to condensed consolidated financial statements

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

| (in thousands, except shares) | Common Stock | | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|
| | Shares | Amount | Earnings | Income (Loss) | Total |
| BALANCE AT JANUARY 1, 2014 | 111,973,203 | $1,514,485 | $217,917 | $(4,976) | $1,727,426 |
| Cumulative effect adjustment | | | (3,509) | | (3,509) |
| Restated balance at January 1, 2014 | | | 214,408 | | 1,723,917 |
| Net income, retrospectively adjusted | | | 147,658 | | 147,658 |
| Other comprehensive income, net of tax | | | | 17,044 | 17,044 |
| Stock issued in connection with merger (1) | 104,385,087 | 1,989,030 | | | 1,989,030 |
| Stock-based compensation | | 15,292 | | | 15,292 |
| Stock repurchased and retired | (403,828) | (7,183) | | | (7,183) |
| Issuances of common stock under stock plans and related net tax benefit (2) | 4,206,658 | 7,692 | | | 7,692 |
| Cash dividends on common stock ($0.60 per share) | | | (115,824) | | (115,824) |
| Balance at December 31, 2014 | 220,161,120 | $3,519,316 | $246,242 | $12,068 | $3,777,626 |
| | | | | | |
| BALANCE AT JANUARY 1, 2015 | 220,161,120 | $3,519,316 | $246,242 | $12,068 | $3,777,626 |
| Net income | | | 159,520 | | 159,520 |
| Other comprehensive income, net of tax | | | | 2,004 | 2,004 |
| Stock-based compensation | | 11,275 | | | 11,275 |
| Stock repurchased and retired | (778,579) | (14,536) | | | (14,536) |
| Issuances of common stock under stock plans and related net tax benefit | 834,131 | 1,696 | | | 1,696 |
| Cash dividends on common stock ($0.46 per share) | | | (102,033) | | (102,033) |
| Balance at September 30, 2015 | 220,216,672 | $3,517,751 | $303,729 | $14,072 | $3,835,552 |

(1) The amount of common stock issued in connection with the merger is net of $784,000 of issuance costs.
(2) The shares issued include 2,889,896 of warrants exercised.

See notes to condensed consolidated financial statements

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

| (in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $159,520 | $95,076 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of investment premiums, net | 18,135 | 15,320 |
| Gain on sale of investment securities, net | (355) | (1,878) |
| (Gain) loss on sale of other real estate owned, net | (646) | 301 |
| Valuation adjustment on other real estate owned | 2,782 | 206 |
| Provision for loan and lease losses | 32,044 | 35,000 |
| Change in cash surrender value of bank owned life insurance | (6,588) | (4,008) |
| Change in FDIC indemnification asset | 1,053 | 13,169 |
| Depreciation and amortization | 37,716 | 27,299 |
| Increase in residential mortgage servicing rights | (27,812) | (16,583) |
| Change in residential mortgage servicing rights carried at fair value | 20,257 | 8,393 |
| Change in junior subordinated debentures carried at fair value | 4,371 | 4,082 |
| Stock-based compensation | 11,275 | 11,597 |
| Net decrease in trading account assets | 490 | 724 |
| Gain on sale of loans | (115,399) | (63,729) |
| Change in loans held for sale carried at fair value | (5,716) | (6,894) |
| Origination of loans held for sale | (2,703,100) | (1,523,959) |
| Proceeds from sales of loans held for sale | 2,694,945 | 1,638,975 |
| Excess tax benefits from the exercise of stock options | (563) | (2,046) |
| Change in other assets and liabilities: | | |
| Net increase in other assets | 67,919 | 19,847 |
| Net increase in other liabilities | 23,317 | 23,203 |
| Net cash provided by operating activities | 213,645 | 274,095 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investment securities available for sale | (706,964) | (346,844) |
| Proceeds from investment securities available for sale | 508,428 | 1,116,539 |
| Proceeds from investment securities held to maturity | 481 | 566 |
| Redemption of restricted equity securities | 72,430 | 4,190 |
| Net loan and lease originations | (1,313,156) | (792,592) |
| Proceeds from sales of loans | 246,100 | 284,274 |
| Proceeds from disposals of furniture and equipment | 3,571 | 1,923 |
| Purchases of premises and equipment | (59,117) | (43,761) |
| Net proceeds from (payments to) FDIC indemnification asset | 1,571 | (2,359) |
| Proceeds from bank owned life insurance | 4,485 | 681 |
| Proceeds from sales of other real estate owned | 18,747 | 11,768 |
| Net cash paid in branch divestiture | — | (127,557) |
| Cash acquired in merger, net of cash consideration paid | — | 116,867 |
| Net cash (used) provided by investing activities | $(1,223,424) | $223,695 |

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

| (in thousands) | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in deposit liabilities | $578,995 | $739,173 |
| Net increase (decrease) in securities sold under agreements to repurchase | 10,401 | (470,261) |
| Repayment of term debt | (114,999) | (47,003) |
| Dividends paid on common stock | (99,333) | (66,557) |
| Excess tax benefits from stock based compensation | 563 | 2,046 |
| Proceeds from stock options exercised | 1,133 | 5,161 |
| Retirement of common stock | (14,536) | (7,062) |
| Net cash provided by financing activities | 362,224 | 155,497 |
| Net (decrease) increase in cash and cash equivalents | (647,555) | 653,287 |
| Cash and cash equivalents, beginning of period | 1,605,171 | 790,423 |
| Cash and cash equivalents, end of period | $957,616 | $1,443,710 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | $50,156 | $38,955 |
| Income taxes | $17,334 | $6,622 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Change in unrealized gains on investment securities available for sale, net of taxes | $2,004 | $11,504 |
| Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes | $— | $57 |
| Cash dividend declared on common stock and payable after period-end | $35,285 | $32,684 |
| Transfer of loans to other real estate owned | $6,833 | $14,089 |
| Transfer from FDIC indemnification asset to due from FDIC and other | $2,472 | $2,194 |
| Acquisitions: | | |
| Assets acquired, including goodwill of $1,024,335 | $— | $9,877,740 |
| Liabilities assumed | $— | $8,769,608 |

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 – Summary of Significant Accounting Policies

The accounting and financial reporting policies of Umpqua Holdings Corporation conform to accounting principles generally accepted in the United States of America. The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company balances and transactions have been eliminated. The condensed consolidated financial statements have not been audited. A more detailed description of our accounting policies is included in the 2014 Annual Report filed on Form 10-K. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the 2014 Annual Report filed on Form 10-K. All references in this report to "Umpqua," "we," "our," "us," the "Company" or similar references mean Umpqua Holdings Corporation, and include our consolidated subsidiaries where the context so requires. References to "Bank" refer to our subsidiary Umpqua Bank, an Oregon state-chartered commercial bank, and references to "Umpqua Investments" refer to our subsidiary Umpqua Investments, Inc., a registered broker-dealer and investment adviser. The Bank also has a wholly-owned subsidiary, Financial Pacific Leasing Inc., a commercial equipment leasing company.

In preparing these condensed consolidated financial statements, the Company has evaluated events and transactions subsequent to September 30, 2015 for potential recognition or disclosure. In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying financial statements have been made. These adjustments include normal and recurring accruals considered necessary for a fair and accurate presentation. The results for interim periods are not necessarily indicative of results for the full year or any other interim period. Certain reclassifications of prior period amounts have been made to conform to current classifications.

Application of new accounting guidance
As of January 1, 2015, Umpqua adopted the Financial Accounting Standards Board's ("FASB") Accounting Standard Update ("ASU") No. 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. Application of ASU No. 2014-01 provides for a consistent accounting method for our investments in qualified affordable housing projects using a proportional amortization method. As required by ASU No. 2014-01, the new accounting methodology has been retrospectively applied resulting in changes to other non-interest income, tax expense, and net income, deferred tax asset, other assets, and retained earnings in the prior periods presented. The effect of this change was a decrease in net income of $110,000 and $330,000 for the three and nine months ended September 30, 2015, respectively. The effect of this change on the revised September 30, 2014 income statements was a decrease in net income of $107,000 for the three months ended September 30, 2014 and an increase of $102,000 for the nine months ended September 30, 2014. Retained earnings as of January 1, 2014, has been adjusted down by $3.5 million for the effect of the retroactive application of the new standard.

As of January 1, 2015, Umpqua applied FASB ASU No. 2014-04, Receivables -Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies when a repossession or foreclosure has occurred. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. As of September 30, 2015, Umpqua had $2.4 million of foreclosed residential real estate property held as other real estate owned. Umpqua's recorded investment in consumer mortgage loans collateralized by residential real estate property in process of foreclosure was $4.1 million as of September 30, 2015.

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Note 2 – Business Combinations

Sterling Financial Corporation

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

The structure of the transaction was as follows:

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

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

| | Sterling April 18, 2014 | |
|---|---|---|
| Fair value of consideration to Sterling shareholders: | | |
| Cash paid | | $136,200 |
| Liability recorded for warrants' cash payment per share | | 6,453 |
| Fair value of common shares issued | | 1,939,497 |
| Fair value of warrants, common stock options, and restricted stock exchanged | | 50,317 |
| Total consideration | | 2,132,467 |
| Fair value of assets acquired: | | |
| Cash and cash equivalents | $253,067 | |
| Investment securities | 1,378,300 | |
| Loans held for sale | 214,911 | |
| Loans and leases | 7,123,168 | |
| Premises and equipment | 116,576 | |
| Residential mortgage servicing rights | 62,770 | |
| Other intangible assets | 54,562 | |
| Other real estate owned | 8,666 | |
| Bank owned life insurance | 193,246 | |
| Deferred tax asset | 300,015 | |
| Accrued interest receivable | 23,553 | |
| Other assets | 148,906 | |
| Total assets acquired | 9,877,740 | |
| Fair value of liabilities assumed: | | |
| Deposits | 7,086,052 | |
| Securities sold under agreements to repurchase | 584,746 | |
| Term debt | 854,737 | |
| Junior subordinated debentures | 156,171 | |
| Other liabilities | 87,902 | |
| Total liabilities assumed | $8,769,608 | |
| Net assets acquired | | 1,108,132 |
| Goodwill | | $1,024,335 |

The primary reason for the Merger was to continue the Company's growth strategy, including expanding our geographic footprint in markets throughout the West Coast. All of the goodwill recorded has been attributed to the Community Banking segment and reporting unit. None of the goodwill will be deductible for income tax purposes.

Subsequent to acquisition, the Company repaid securities sold under agreements to repurchase acquired of $500.0 million, funded through the sale of acquired investment securities in the second quarter of 2014. On June 20, 2014, the Company completed the required divestiture of six stores acquired in the Merger to another financial institution. The divestiture of the six stores included $211.5 million of deposits and $88.3 million of loans. The assets were sold at a discount of $7.0 million, which was recorded by Sterling prior to the Merger.
As of April 18, 2014, the unpaid principal balance on purchased non-impaired loans was $7.0 billion. The fair value of the purchased non-impaired loans was $6.7 billion, resulting in a discount of $230.5 million being recorded on these loans.

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

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

The operations of Sterling are included in our operating results beginning on April 19, 2014, and contributed an estimated net interest income of $106.9 million and $328.2 million and net income of $34.7 million and $97.6 million for the three and nine months ended September 30, 2015, respectively.

The following table provides a breakout of Merger related expense for the three and nine months ended September 30, 2015.

| (in thousands) | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2015 |
| --- | --- | --- |
| Personnel | $2,665 | $10,395 |
| Legal and professional | 2,238 | 19,977 |
| Contract termination | 154 | 154 |
| Premises and Equipment | 1,473 | 6,738 |
| Communication | 548 | 1,980 |
| Other | (1,087) | 2,626 |
| Total Merger related expense | $5,991 | $41,870 |

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The following table presents unaudited pro forma results of operations for the three and nine months ended September 30, 2014, as if the Sterling Merger had occurred on January 1, 2013. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2013. The pro forma results include the impact of certain purchase accounting adjustments including accretion of loan discount, intangible assets amortization and deposit and borrowing premium accretion. These purchase accounting adjustments increased pro forma net income by $1.6 million and $50.5 million for the three and nine months ended September 30, 2014.

| (in thousands, except per share data) | Pro Forma | | |
|---|---|---|---|
| | Three Months Ended | Nine Months Ended | |
| | September 30, 2014 | September 30, 2014 | |
| Net interest income | $225,715 | $682,679 | (1), (2), (3) |
| Provision for loan and lease losses | 14,333 | 35,000 | |
| Non-interest income | 62,163 | 157,134 | (4), (5), (6) |
| Non-interest expense | 179,918 | 565,573 | (7), (8) |
| Income before provision for income taxes | 93,627 | 239,240 | |
| Provision for income taxes | 33,122 | 88,325 | |
| Net income | 60,505 | 150,915 | |
| Dividends and undistributed earnings allocated to participating securities | 142 | 338 | |
| Net earnings available to common shareholders | $60,363 | $150,577 | |
| Earnings per share: | | | |
| Basic | $0.28 | $0.69 | |
| Diluted | $0.28 | $0.69 | |
| Average shares outstanding: | | | |
| Basic | 217,245 | 216,884 | |
| Diluted | 218,941 | 218,801 | |

(1) Includes zero and $31.9 million of incremental loan discount accretion for the three and nine months ended September 30, 2014.
(2) Includes a reduction of interest income of zero and $1.8 million related to investment securities premiums amortization for the three and nine months ended September 30, 2014.
(3) Includes a reduction of interest expense of zero and $5.9 million related to deposit and borrowing premiums amortization for the three and nine months ended September 30, 2014.
(4) Includes a reduction of service charges on deposits of zero and $1.7 million as a result of passing the $10 billion asset threshold for the three and nine months ended September 30, 2014.
(5) Includes a loss on junior subordinated debentures carried at fair value of zero and $1.1 million for the three and nine months ended September 30, 2014.
(6) Includes the reversal of the $7.0 million loss on the required divestiture of six Sterling stores in connection with the Merger for the nine months ended September 30, 2014.
(7) Includes a net increase of zero and $2.1 million of incremental core deposit intangible amortization for the three and nine months ended September 30, 2014.
(8) Includes a net decrease of $2.6 million and $46.1 million of merger expenses for the three and nine months ended September 30, 2014.

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Note 3 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at September 30, 2015 and December 31, 2014:

| (in thousands) | September 30, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| AVAILABLE FOR SALE: | | | | |
| Obligations of states and political subdivisions | $314,305 | $12,974 | $(815) | $326,464 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,143,275 | 18,866 | (8,208) | 2,153,933 |
| Investments in mutual funds and other equity securities | 2,016 | 65 | — | 2,081 |
| | $2,459,596 | $31,905 | $(9,023) | $2,482,478 |
| HELD TO MATURITY: | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $4,699 | $582 | $(1) | $5,280 |
| | $4,699 | $582 | $(1) | $5,280 |

| (in thousands) | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| AVAILABLE FOR SALE: | | | | |
| U.S. Treasury and agencies | $213 | $16 | $— | $229 |
| Obligations of states and political subdivisions | 325,189 | 14,056 | (841) | 338,404 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,951,514 | 17,398 | (11,060) | 1,957,852 |
| Investments in mutual funds and other equity securities | 2,016 | 54 | — | 2,070 |
| | $2,278,932 | $31,524 | $(11,901) | $2,298,555 |
| HELD TO MATURITY: | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $5,088 | $358 | $(15) | $5,431 |
| Other investment securities | 123 | — | — | 123 |
| | $5,211 | $358 | $(15) | $5,554 |

Investment securities that were in an unrealized loss position as of September 30, 2015 and December 31, 2014 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

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| September 30, 2015 (in thousands) | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| AVAILABLE FOR SALE: | | | | | | |
| Obligations of states and political subdivisions | $12,536 | $158 | $8,034 | $657 | $20,570 | $815 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 463,453 | 3,239 | 312,840 | 4,969 | 776,293 | 8,208 |
| Total temporarily impaired securities | $475,989 | $3,397 | $320,874 | $5,626 | $796,863 | $9,023 |
| HELD TO MATURITY: | | | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $39 | $1 | $— | $— | $39 | $1 |
| Total temporarily impaired securities | $39 | $1 | $— | $— | $39 | $1 |

| December 31, 2014 (in thousands) | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| AVAILABLE FOR SALE: | | | | | | |
| Obligations of states and political subdivisions | $11,100 | $547 | $8,550 | $294 | $19,650 | $841 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 220,577 | 815 | 495,096 | 10,245 | 715,673 | 11,060 |
| Total temporarily impaired securities | $231,677 | $1,362 | $503,646 | $10,539 | $735,323 | $11,901 |
| HELD TO MATURITY: | | | | | | |
| Residential mortgage-backed securities and collateralized mortgage obligations | $224 | $15 | $— | $— | $224 | $15 |
| Total temporarily impaired securities | $224 | $15 | $— | $— | $224 | $15 |

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of September 30, 2015. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at September 30, 2015 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will be settled at a price at least equal to the amortized cost of each investment. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, these investments are not considered other-than-temporarily impaired.

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The following table presents the maturities of investment securities at September 30, 2015:

| (in thousands) | Available For Sale | | Held To Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| AMOUNTS MATURING IN: | | | | |
| Three months or less | $13,055 | $13,108 | $— | $— |
| Over three months through twelve months | 82,603 | 83,377 | 9 | 12 |
| After one year through five years | 1,778,642 | 1,798,598 | 391 | 934 |
| After five years through ten years | 431,360 | 431,514 | 239 | 273 |
| After ten years | 151,920 | 153,800 | 4,060 | 4,061 |
| Other investment securities | 2,016 | 2,081 | — | — |
| | $2,459,596 | $2,482,478 | $4,699 | $5,280 |

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties. The following table presents the gross realized gains and losses on the sale of securities available for sale for the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2015 | | September 30, 2014 | |
| | Gains | Losses | Gains | Losses |
| U.S. Treasury and agencies | $13 | $— | $— | $— |
| Obligations of states and political subdivisions | 6 | — | — | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 634 | 433 | 902 | — |
| | $653 | $433 | $902 | $— |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2015 | | September 30, 2014 | |
| | Gains | Losses | Gains | Losses |
| U.S. Treasury and agencies | $13 | $— | $— | $— |
| Obligations of states and political subdivisions | 6 | — | 3 | 1 |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,177 | 841 | 1,876 | — |
| | $1,196 | $841 | $1,879 | $1 |

The following table presents, as of September 30, 2015, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

| (in thousands) | Amortized Cost | Fair Value |
|---|---|---|
| To Federal Home Loan Bank to secure borrowings | $825 | $850 |
| To state and local governments to secure public deposits | 1,633,090 | 1,651,026 |
| Other securities pledged principally to secure repurchase agreements | 508,903 | 511,231 |
| Total pledged securities | $2,142,818 | $2,163,107 |

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Note 4 – Loans and Leases

The following table presents the major types of loans and leases, net of deferred fees and costs, as of September 30, 2015 and December 31, 2014:

| (in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Commercial real estate | | |
| Non-owner occupied term, net | $3,148,288 | $3,290,610 |
| Owner occupied term, net | 2,655,340 | 2,633,864 |
| Multifamily, net | 2,961,609 | 2,638,618 |
| Construction & development, net | 287,757 | 258,722 |
| Residential development, net | 94,380 | 81,846 |
| Commercial | | |
| Term, net | 1,398,346 | 1,396,089 |
| LOC & other, net | 1,014,523 | 1,029,620 |
| Leases and equipment finance, net | 679,033 | 523,114 |
| Residential | | |
| Mortgage, net | 2,740,228 | 2,233,735 |
| Home equity loans & lines, net | 910,287 | 852,478 |
| Consumer & other, net | 498,143 | 389,036 |
| Total loans and leases, net of deferred fees and costs | $16,387,934 | $15,327,732 |

The loan balances are net of deferred fees and costs of $42.8 million and $26.3 million as of September 30, 2015 and December 31, 2014, respectively. Net loans include discounts on acquired loans of $131.9 million and $236.6 million as of September 30, 2015 and December 31, 2014, respectively. As of September 30, 2015, loans totaling $9.4 billion were pledged to secure borrowings and available lines of credit.

The outstanding contractual unpaid principal balance of purchased impaired loans, excluding acquisition accounting adjustments, was $599.2 million and $770.9 million at September 30, 2015 and December 31, 2014, respectively. The carrying balance of purchased impaired loans was $448.1 million and $562.9 million at September 30, 2015 and December 31, 2014, respectively.

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The following table presents the changes in the accretable yield for purchased impaired loans for the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Evergreen | Rainier | Nevada Security | Circle | Sterling | Total |
| Balance, beginning of period | $7,057 | $43,242 | $17,453 | $422 | $97,188 | $165,362 |
| Accretion to interest income | (1,228) | (3,585) | (2,107) | (56) | (7,456) | (14,432) |
| Disposals | (844) | (1,468) | (1,230) | (69) | (2,958) | (6,569) |
| Reclassifications from nonaccretable difference | 745 | 872 | 1,992 | — | 1,676 | 5,285 |
| Balance, end of period | $5,730 | $39,061 | $16,108 | $297 | $88,450 | $149,646 |

| | Three Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Evergreen | Rainier | Nevada Security | Circle | Sterling | Total |
| Balance, beginning of period | $10,576 | $56,609 | $27,837 | $965 | $104,540 | $200,527 |
| Additions | — | — | — | — | — | — |
| Accretion to interest income | (1,546) | (4,134) | (2,798) | (36) | (9,743) | (18,257) |
| Disposals | (320) | (1,051) | (1,352) | — | (4,111) | (6,834) |
| Reclassifications from (to) nonaccretable difference | 2,213 | 3,260 | 728 | (49) | 2,843 | 8,995 |
| Balance, end of period | $10,923 | $54,684 | $24,415 | $880 | $93,529 | $184,431 |

| (in thousands) | Nine Months Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Evergreen | Rainier | Nevada Security | Circle | Sterling | Total |
| Balance, beginning of period | $9,466 | $49,989 | $23,666 | $796 | $117,782 | $201,699 |
| Accretion to interest income | (3,748) | (10,522) | (6,822) | (205) | (21,567) | (42,864) |
| Disposals | (3,227) | (4,081) | (3,295) | (331) | (10,891) | (21,825) |
| Reclassifications from nonaccretable difference | 3,239 | 3,675 | 2,559 | 37 | 3,126 | 12,636 |
| Balance, end of period | $5,730 | $39,061 | $16,108 | $297 | $88,450 | $149,646 |

| | Nine Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Evergreen | Rainier | Nevada Security | Circle | Sterling | Total |
| Balance, beginning of period | $20,063 | $71,789 | $34,632 | $1,140 | $— | $127,624 |
| Additions | — | — | — | — | 110,757 | 110,757 |
| Accretion to interest income | (9,998) | (14,671) | (11,792) | (211) | (15,645) | (52,317) |
| Disposals | (5,061) | (9,658) | (5,258) | — | (4,426) | (24,403) |
| Reclassifications from (to) nonaccretable difference | 5,919 | 7,224 | 6,833 | (49) | 2,843 | 22,770 |
| Balance, end of period | $10,923 | $54,684 | $24,415 | $880 | $93,529 | $184,431 |

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Loans acquired in an FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as covered loans. Covered loans are reported exclusive of the cash flow reimbursements expected from the FDIC. The following table summarizes the activity related to the FDIC indemnification asset for the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Balance, beginning of period | $432 | $11,293 | $4,417 | $23,174 |
| Change in FDIC indemnification asset | 1,432 | (2,728) | (1,053) | (13,169) |
| Transfers to due from FDIC and other | (972) | (754) | (2,472) | (2,194) |
| Balance, end of period | $892 | $7,811 | $892 | $7,811 |

Loans and leases sold

In the course of managing the loan and lease portfolio, at certain times, management may decide to sell loans and leases. The following table summarizes loans and leases sold by loan portfolio during the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $— | $— | $7,181 | $14,799 |
| Owner occupied term, net | 20,003 | 22,884 | 39,963 | 71,128 |
| Multifamily, net | — | 35,306 | 435 | 60,508 |
| Construction & development, net | — | — | — | 566 |
| Residential development, net | — | — | — | 800 |
| Commercial | | | | |
| Term, net | 1,079 | 4,199 | 4,499 | 30,068 |
| LOC & other, net | — | 299 | — | 5,361 |
| Residential | | | | |
| Mortgage, net | 54,938 | 54,917 | 173,371 | 60,951 |
| Home equity loans & lines. net | — | — | — | 24,445 |
| Consumer & other, net | — | — | — | 7,344 |
| Total, net of deferred fees and costs | $76,020 | $117,605 | $225,449 | $275,970 |

Note 5 – Allowance for Loan and Lease Loss and Credit Quality

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

Formula Allowance

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

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

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

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

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

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

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

Management believes that the ALLL was adequate as of September 30, 2015. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses.

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

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

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Activity in the Allowance for Loan and Lease Losses

The following table summarizes activity related to the allowance for loan and lease losses by loan and lease portfolio segment for the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $58,164 | $45,697 | $17,964 | $5,246 | $127,071 |
| Charge-offs | (2,789) | (3,266) | (171) | (2,250) | (8,476) |
| Recoveries | 960 | 1,360 | 281 | 784 | 3,385 |
| Provision | 1,878 | 2,823 | 1,186 | 2,266 | 8,153 |
| Balance, end of period | $58,213 | $46,614 | $19,260 | $6,046 | $130,133 |

| | Three Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $56,920 | $35,426 | $11,953 | $2,196 | $106,495 |
| Charge-offs | (1,104) | (4,424) | (727) | (1,269) | (7,524) |
| Recoveries | 393 | 1,412 | 49 | 477 | 2,331 |
| Provision | 430 | 8,817 | 1,697 | 3,389 | 14,333 |
| Balance, end of period | $56,639 | $41,231 | $12,972 | $4,793 | $115,635 |

| (in thousands) | Nine Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $55,184 | $41,216 | $15,922 | $3,845 | $116,167 |
| Charge-offs | (5,618) | (11,544) | (617) | (10,684) | (28,463) |
| Recoveries | 2,448 | 3,544 | 420 | 3,973 | 10,385 |
| Provision | 6,199 | 13,398 | 3,535 | 8,912 | 32,044 |
| Balance, end of period | $58,213 | $46,614 | $19,260 | $6,046 | $130,133 |

| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Balance, beginning of period | $59,538 | $27,028 | $7,487 | $1,032 | $95,085 |
| Charge-offs | (4,674) | (13,105) | (1,473) | (1,838) | (21,090) |
| Recoveries | 1,993 | 3,618 | 351 | 678 | 6,640 |
| Provision (recapture) | (218) | 23,690 | 6,607 | 4,921 | 35,000 |
| Balance, end of period | $56,639 | $41,231 | $12,972 | $4,793 | $115,635 |

Provision expense includes amounts related to subsequent deterioration of purchased impaired loans of $279,000 and $1.9 million for the three and nine months ended September 30, 2015, respectively, and $242,000 and $1.3 million for the three and nine months ended September 30, 2014, respectively.

The valuation allowance on purchased impaired loans was reduced by recaptured provision of $2.2 million and $2.4 million for the three and nine months ended September 30, 2015, respectively, and $311,000 and $1.6 million for the three and nine months ended September 30, 2014, respectively.

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The following table presents the allowance and recorded investment in loans and leases by portfolio segment as of September 30, 2015 and 2014:

| (in thousands) | September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for loans and leases: | | | | | |
| Collectively evaluated for impairment | $54,660 | $46,087 | $18,577 | $5,978 | $125,302 |
| Individually evaluated for impairment | 533 | 390 | — | — | 923 |
| Loans acquired with deteriorated credit quality | 3,020 | 137 | 683 | 68 | 3,908 |
| Total | $58,213 | $46,614 | $19,260 | $6,046 | $130,133 |
| Loans and leases: | | | | | |
| Collectively evaluated for impairment | $8,741,621 | $3,050,922 | $3,589,753 | $497,107 | $15,879,403 |
| Individually evaluated for impairment | 34,734 | 25,709 | — | — | 60,443 |
| Loans acquired with deteriorated credit quality | 371,019 | 15,271 | 60,762 | 1,036 | 448,088 |
| Total | $9,147,374 | $3,091,902 | $3,650,515 | $498,143 | $16,387,934 |

| (in thousands) | September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential | Consumer & Other | Total |
| Allowance for loans and leases: | | | | | |
| Collectively evaluated for impairment | $51,283 | $38,681 | $12,239 | $4,722 | $106,925 |
| Individually evaluated for impairment | 1,156 | 13 | — | — | 1,169 |
| Loans acquired with deteriorated credit quality | 4,200 | 2,537 | 733 | 71 | 7,541 |
| Total | $56,639 | $41,231 | $12,972 | $4,793 | $115,635 |
| Loans and leases: | | | | | |
| Collectively evaluated for impairment | $8,388,827 | $2,898,567 | $2,864,076 | $365,335 | $14,516,805 |
| Individually evaluated for impairment | 85,804 | 20,445 | — | 128 | 106,377 |
| Loans acquired with deteriorated credit quality | 522,068 | 37,608 | 74,311 | 2,032 | 636,019 |
| Total | $8,996,699 | $2,956,620 | $2,938,387 | $367,495 | $15,259,201 |

The loan and lease balances are net of net deferred loans costs of $42.8 million and $20.2 million at September 30, 2015 and September 30, 2014, respectively.

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Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the RUC and unfunded commitments for the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Balance, beginning of period | $2,864 | $4,845 | $3,539 | $1,436 |
| Net change to other expense | 217 | (457) | (458) | (1,014) |
| Acquired reserve | — | — | — | 3,966 |
| Balance, end of period | $3,081 | $4,388 | $3,081 | $4,388 |

| (in thousands) | Total |
|---|---|
| Unfunded loan and lease commitments: | |
| September 30, 2015 | $3,454,473 |
| September 30, 2014 | $2,949,211 |

Asset Quality and Non-Performing Loans and Leases

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

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

The following table summarizes our non-accrual loans and leases and loans and leases past due, by loan and lease class, as of September 30, 2015 and December 31, 2014:

| (in thousands) | September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greater than 30 to 59 Days Past Due | 60 to 89 Days Past Due | Greater than 90 Days and Accruing | Total Past Due | Non-Accrual | Current & Other (1) | Total Loans and Leases |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $3,299 | $5,264 | $177 | $8,740 | $ 2,769 | $3,136,779 | $3,148,288 |
| Owner occupied term, net | 5,156 | 990 | 596 | 6,742 | 6,195 | 2,642,403 | 2,655,340 |
| Multifamily, net | — | — | — | — | — | 2,961,609 | 2,961,609 |
| Construction & development, net | 918 | — | — | 918 | — | 286,839 | 287,757 |
| Residential development, net | — | — | 12 | 12 | — | 94,368 | 94,380 |
| Commercial | | | | | | | |
| Term, net | 7 | 101 | 81 | 189 | 17,038 | 1,381,119 | 1,398,346 |
| LOC & other, net | 172 | 334 | 6 | 512 | 797 | 1,013,214 | 1,014,523 |
| Leases and equipment finance, net | 2,546 | 2,206 | 892 | 5,644 | 4,190 | 669,199 | 679,033 |
| Residential | | | | | | | |
| Mortgage, net | — | 1,675 | 6,079 | 7,754 | — | 2,732,474 | 2,740,228 |
| Home equity loans & lines, net | 1,152 | 1,809 | 1,773 | 4,734 | — | 905,553 | 910,287 |
| Consumer & other, net | 2,608 | 682 | 351 | 3,641 | — | 494,502 | 498,143 |
| Total, net of deferred fees and costs | $15,858 | $13,061 | $9,967 | $38,886 | $ 30,989 | $16,318,059 | $16,387,934 |

(1) Other includes purchased credit impaired loans of $448.1 million.

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| (in thousands) | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greater than 30 to 59 Days Past Due | 60 to 89 Days Past Due | Greater than 90 Days and Accruing | Total Past Due | Non-Accrual | Current & Other (1) | Total Loans and Leases |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $452 | $— | $283 | $735 | $ 8,957 | $3,280,918 | $3,290,610 |
| Owner occupied term, net | 2,304 | 347 | — | 2,651 | 8,292 | 2,622,921 | 2,633,864 |
| Multifamily, net | — | 512 | — | 512 | 300 | 2,637,806 | 2,638,618 |
| Construction & development, net | 1,091 | — | — | 1,091 | — | 257,631 | 258,722 |
| Residential development, net | 6,155 | — | — | 6,155 | — | 75,691 | 81,846 |
| Commercial | | | | | | | |
| Term, net | 1,098 | 242 | 3 | 1,343 | 19,097 | 1,375,649 | 1,396,089 |
| LOC & other, net | 1,637 | 1,155 | 1,223 | 4,015 | 8,825 | 1,016,780 | 1,029,620 |
| Leases and equipment finance, net | 1,482 | 1,695 | 695 | 3,872 | 5,084 | 514,158 | 523,114 |
| Residential | | | | | | | |
| Mortgage, net | 8 | 1,224 | 4,289 | 5,521 | 655 | 2,227,559 | 2,233,735 |
| Home equity loans & lines, net | 1,924 | 702 | 749 | 3,375 | 615 | 848,488 | 852,478 |
| Consumer & other, net | 2,133 | 498 | 270 | 2,901 | 216 | 385,919 | 389,036 |
| Total, net of deferred fees and costs | $18,284 | $6,375 | $7,512 | $32,171 | $ 52,041 | $15,243,520 | $15,327,732 |

(1) Other includes purchased credit impaired loans of $562.9 million

Impaired Loans

Loans with no related allowance reported generally represent non-accrual loans. The Bank recognizes the charge-off on impaired loans in the period it arises for collateral-dependent loans. Therefore, the non-accrual loans as of September 30, 2015 have already been written down to their estimated net realizable value and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

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The following table summarizes our impaired loans by loan class as of September 30, 2015 and December 31, 2014:

| (in thousands) | September 30, 2015 | | | |
|---|---|---|---|---|
| | Unpaid | Recorded Investment | | |
| | Principal | Without | With | Related |
| | Balance | Allowance | Allowance | Allowance |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $10,753 | $2,332 | $7,975 | $148 |
| Owner occupied term, net | 11,864 | 4,898 | 6,942 | 211 |
| Multifamily, net | 3,519 | — | 3,519 | 68 |
| Construction & development, net | 1,091 | — | 1,091 | 11 |
| Residential development, net | 7,974 | — | 7,977 | 95 |
| Commercial | | | | |
| Term, net | 27,526 | 19,621 | 2,932 | 216 |
| LOC & other, net | 3,512 | 795 | 2,361 | 174 |
| Residential | | | | |
| Mortgage, net | — | — | — | — |
| Home equity loans & lines, net | — | — | — | — |
| Consumer & other, net | — | — | — | — |
| Total, net of deferred fees and costs | $66,239 | $27,646 | $32,797 | $923 |

| (in thousands) | December 31, 2014 | | | |
|---|---|---|---|---|
| | Unpaid | Recorded Investment | | |
| | Principal | Without | With | Related |
| | Balance | Allowance | Allowance | Allowance |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $42,793 | $16,916 | $22,190 | $502 |
| Owner occupied term, net | 16,339 | 8,290 | 7,655 | 364 |
| Multifamily, net | 4,040 | 300 | 3,519 | 49 |
| Construction & development, net | 2,655 | — | 1,091 | 7 |
| Residential development, net | 9,670 | — | 9,675 | 166 |
| Commercial | | | | |
| Term, net | 31,733 | 18,701 | 256 | 12 |
| LOC & other, net | 18,761 | 8,575 | 5,404 | 308 |
| Residential | | | | |
| Mortgage, net | — | — | — | — |
| Home equity loans & lines, net | 626 | — | — | — |
| Consumer & other, net | 152 | — | — | — |
| Total, net of deferred fees and costs | $126,769 | $52,782 | $49,790 | $1,408 |

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The following table summarizes our average recorded investment and interest income recognized on impaired loans by loan class for the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, 2015 | | Three Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $10,356 | $67 | $55,246 | $573 |
| Owner occupied term, net | 11,577 | 49 | 11,686 | 79 |
| Multifamily, net | 3,519 | 32 | 4,830 | 113 |
| Construction & development, net | 1,091 | 6 | 5,288 | 11 |
| Residential development, net | 8,018 | 67 | 12,190 | 124 |
| Commercial | | | | |
| Term, net | 24,272 | 39 | 18,381 | 4 |
| LOC & other, net | 3,473 | 19 | 3,478 | 13 |
| Residential | | | | |
| Mortgage, net | — | — | — | — |
| Home equity loans & lines, net | — | — | — | — |
| Consumer & other, net | — | — | 64 | — |
| Total, net of deferred fees and costs | $62,306 | $279 | $111,163 | $917 |

| (in thousands) | Nine Months Ended September 30, 2015 | | Nine Months Ended September 30, 2014 | |
|---|---|---|---|---|
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Commercial real estate | | | | |
| Non-owner occupied term, net | $24,213 | $569 | $53,460 | $1,532 |
| Owner occupied term, net | 13,592 | 198 | 11,989 | 231 |
| Multifamily, net | 3,594 | 93 | 2,737 | 113 |
| Construction & development, net | 1,091 | 43 | 7,423 | 33 |
| Residential development, net | 8,820 | 256 | 14,128 | 373 |
| Commercial | | | | |
| Term, net | 22,089 | 153 | 14,512 | 12 |
| LOC & other, net | 6,982 | 132 | 2,928 | 38 |
| Leases, net | — | — | — | — |
| Residential | | | | |
| Mortgage, net | — | — | — | — |
| Home equity loans & lines, net | — | 7 | — | — |
| Consumer & other, net | — | — | 32 | — |
| Total, net of deferred fees and costs | $80,381 | $1,451 | $107,209 | $2,332 |

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

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Credit Quality Indicators

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

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

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

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

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

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

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

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

Substandard—A substandard asset, risk rated 8, is inadequately protected by the current worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans and leases are classified as substandard

when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan or lease normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard.

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

cases, once the collateral is valued and appropriate margin applied, the remaining un-collateralized portion will be charged-off. The remaining balance, properly margined, may then be upgraded to substandard, however must remain on non-accrual.

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

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

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

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

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

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

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

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

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

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

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

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The following table summarizes our internal risk rating by loan and lease class for the loan and lease portfolio as of September 30, 2015 and December 31, 2014:

| (in thousands) | September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired (1) | Total |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $2,947,350 | $96,196 | $93,975 | $309 | $151 | $10,307 | $3,148,288 |
| Owner occupied term, net | 2,505,149 | 57,875 | 77,522 | 818 | 2,136 | 11,840 | 2,655,340 |
| Multifamily, net | 2,935,017 | 6,668 | 16,405 | — | — | 3,519 | 2,961,609 |
| Construction & development, net | 279,830 | 3,705 | 3,131 | — | — | 1,091 | 287,757 |
| Residential development, net | 84,548 | 402 | 1,453 | — | — | 7,977 | 94,380 |
| Commercial | | | | | | | |
| Term, net | 1,342,019 | 25,180 | 8,051 | 241 | 302 | 22,553 | 1,398,346 |
| LOC & other, net | 982,591 | 9,168 | 19,588 | 2 | 18 | 3,156 | 1,014,523 |
| Leases and equipment finance, net | 669,200 | 2,546 | 2,206 | 4,571 | 510 | — | 679,033 |
| Residential | | | | | | | |
| Mortgage, net | 2,725,712 | 2,776 | 2,206 | — | 9,534 | — | 2,740,228 |
| Home equity loans & lines, net | 903,813 | 3,609 | 871 | — | 1,994 | — | 910,287 |
| Consumer & other, net | 494,459 | 3,299 | 191 | — | 194 | — | 498,143 |
| Total, net of deferred fees and costs | $15,869,688 | $211,424 | $225,599 | $5,941 | $14,839 | $60,443 | $16,387,934 |

(1) The percentage of impaired loans classified as pass/watch, special mention, substandard, doubtful, and loss was 4.0%, 4.0%, 91.7%, 0.3% and 0.0% respectively, as of September 30, 2015.

| (in thousands) | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pass/Watch | Special Mention | Substandard | Doubtful | Loss | Impaired (1) | Total |
| Commercial real estate | | | | | | | |
| Non-owner occupied term, net | $3,027,777 | $99,556 | $123,350 | $821 | $— | $39,106 | $3,290,610 |
| Owner occupied term, net | 2,475,944 | 58,425 | 81,567 | 309 | 1,674 | 15,945 | 2,633,864 |
| Multifamily, net | 2,610,039 | 9,583 | 15,177 | — | — | 3,819 | 2,638,618 |
| Construction & development, net | 248,547 | 4,081 | 5,003 | — | — | 1,091 | 258,722 |
| Residential development, net | 68,789 | 963 | 2,419 | — | — | 9,675 | 81,846 |
| Commercial | | | | | | | |
| Term, net | 1,346,148 | 12,661 | 17,901 | 198 | 224 | 18,957 | 1,396,089 |
| LOC & other, net | 991,209 | 17,665 | 6,399 | 280 | 88 | 13,979 | 1,029,620 |
| Leases and equipment finance, net | 513,104 | 2,554 | 3,809 | 3,255 | 392 | — | 523,114 |
| Residential | | | | | | | |
| Mortgage, net | 2,215,956 | 2,330 | 4,497 | — | 10,952 | — | 2,233,735 |
| Home equity loans & lines, net | 846,277 | 3,271 | 1,079 | — | 1,851 | — | 852,478 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Consumer & other, net | 385,754 | 2,717 | 198 | — | 367 | — | 389,036 |
| Total, net of deferred fees and costs | $14,729,544 | $213,806 | $261,399 | $4,863 | $15,548 | $102,572 | $15,327,732 |

(1) The percentage of impaired loans classified as pass/watch, special mention, substandard, doubtful, and loss was 5.6%, 15.1%, 77.9%, 0.1% and 1.3% respectively, as of December 31, 2014.

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Troubled Debt Restructurings

At September 30, 2015 and December 31, 2014, impaired loans of $35.7 million and $54.8 million, respectively, were classified as accruing restructured loans. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. Impaired restructured loans carry a specific allowance and the allowance on impaired restructured loans is calculated consistently across the portfolios.

There were no available commitments for troubled debt restructurings outstanding as of September 30, 2015 and $1.0 million as of December 31, 2014.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of September 30, 2015 and December 31, 2014:

| (in thousands) | September 30, 2015 | | |
|---|---|---|---|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate, net | $23,467 | $1,374 | $24,841 |
| Commercial, net | 8,631 | 9,875 | 18,506 |
| Residential, net | 3,608 | — | 3,608 |
| Total, net of deferred fees and costs | $35,706 | $11,249 | $46,955 |

| (in thousands) | December 31, 2014 | | |
|---|---|---|---|
| | Accrual Status | Non-Accrual Status | Total Modifications |
| Commercial real estate, net | $48,817 | $2,319 | $51,136 |
| Commercial, net | 5,404 | 9,541 | 14,945 |
| Residential, net | 615 | — | 615 |
| Total, net of deferred fees and costs | $54,836 | $11,860 | $66,696 |

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

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The following table presents newly restructured loans that occurred during the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $— | $— | $— | $1,374 | $1,374 |
| Commercial, net | — | — | — | — | 8,388 | 8,388 |
| Residential, net | — | — | — | — | 185 | 185 |
| Total, net of deferred fees and costs | $— | $— | $— | $— | $9,947 | $9,947 |

| | Three Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $1,088 | $— | $— | $— | $1,088 |
| Total, net of deferred fees and costs | $— | $1,088 | $— | $— | $— | $1,088 |

| | Nine Months Ended September 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $— | $— | $— | $1,374 | $1,374 |
| Commercial, net | — | — | — | — | 11,737 | 11,737 |
| Residential, net | — | 74 | — | — | 3,241 | 3,315 |
| Total, net of deferred fees and costs | $— | $74 | $— | $— | $16,352 | $16,426 |

| (in thousands) | Nine Months Ended September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Rate Modifications | Term Modifications | Interest Only Modifications | Payment Modifications | Combination Modifications | Total Modifications |
| Commercial real estate, net | $— | $2,332 | $— | $— | $3,519 | $5,851 |
| Residential, net | — | — | — | — | 138 | 138 |
| Total, net of deferred fees and costs | $— | $2,332 | $— | $— | $3,657 | $5,989 |

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

There were $434,000 of financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the three and nine months ended September 30, 2015. For the three and nine months ended September 30, 2014, there were none.

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Note 6–Goodwill and Other Intangible Assets

The following tables summarize the changes in the Company's goodwill and other intangible assets for the year ended December 31, 2014, and the nine months ended September 30, 2015. Goodwill and all other intangible assets are related to the Community Banking segment.

| (in thousands) | Goodwill | | |
|---|---|---|---|
| | Gross | Accumulated Impairment | Total |
| Balance, December 31, 2013 | $877,239 | $(112,934) | $764,305 |
| Net additions | 1,021,920 | — | 1,021,920 |
| Balance, December 31, 2014 | 1,899,159 | (112,934) | 1,786,225 |
| Net additions | 2,415 | — | 2,415 |
| Balance, September 30, 2015 | $1,901,574 | $(112,934) | $1,788,640 |

Goodwill represents the excess of the total acquisition price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. Additional information on the acquisitions and acquisition price allocations is provided in Note 2. The additions to goodwill in 2015 of $2.4 million relate to immaterial acquisition accounting adjustments.

| (in thousands) | Other Intangible Assets | | |
|---|---|---|---|
| | Gross | Accumulated Amortization | Net |
| Balance, December 31, 2013 | $58,909 | $(46,531) | $12,378 |
| Net additions | 54,562 | — | 54,562 |
| Amortization | — | (10,207) | (10,207) |
| Balance, December 31, 2014 | 113,471 | (56,738) | 56,733 |
| Amortization | — | (8,419) | (8,419) |
| Balance, September 30, 2015 | $113,471 | $(65,157) | $48,314 |

Intangible additions in 2014 relate to the Merger and represent the value of the core deposits, which includes all deposits except certificates of deposit. Core deposit intangible assets values were determined by an analysis of the cost differential between the core deposits inclusive of estimated servicing costs and alternative funding sources. The core deposit intangible recorded in connection with the Merger will be amortized on an accelerated basis over a period of 10 years.

The Company conducts its annual evaluation of goodwill for impairment as of its year end of December 31. Goodwill and other intangibles are required to be analyzed for impairment if certain triggering events occur. During the nine months ended September 30, 2015, management determined that no triggering events occurred that required an impairment analysis. The table below presents the forecasted amortization expense for other intangible assets acquired in all mergers:

(in thousands)

| Year | Expected Amortization |
|---|---|
| Remainder of 2015 | $2,806 |
| 2016 | 8,622 |
| 2017 | 6,756 |
| 2018 | 6,166 |

| | |
|---|---|
| 2019 | 5,618 |
| Thereafter | 18,346 |
| | $48,314 |

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Note 7 – Residential Mortgage Servicing Rights

The following table presents the changes in the Company's residential mortgage servicing rights ("MSR"), which are carried at fair value, for the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Balance, beginning of period | $127,206 | $114,192 | $117,259 | $47,765 |
| Acquired/purchased MSR | — | — | — | 62,770 |
| Additions for new MSR capitalized | 7,711 | 8,813 | 27,812 | 16,583 |
| Changes in fair value: | | | | |
| Due to changes in model inputs or assumptions(1) | (6,794) | (672) | (5,860) | (2,543) |
| Other(2) | (3,309) | (3,608) | (14,397) | (5,850) |
| Balance, end of period | $124,814 | $118,725 | $124,814 | $118,725 |

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

Information related to our residential mortgage serviced loan portfolio as of September 30, 2015 and December 31, 2014 is as follows:

| (dollars in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Balance of residential mortgage loans serviced for others | $12,693,451 | $11,590,310 |
| MSR as a percentage of serviced loans | 0.98% | 1.01% |

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in residential mortgage banking revenue, was $7.2 million and $20.5 million for the three and nine months ended September 30, 2015, respectively, as compared to $6.2 million and $14.5 million for the three and nine months ended September 30, 2014, respectively.

Key assumptions used in measuring the fair value of MSR as of September 30, 2015 and December 31, 2014 are as follows:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Constant prepayment rate | 13.69% | 12.39% |
| Discount rate | 9.19% | 9.17% |
| Weighted average life (years) | 5.9 | 6.4 |

A sensitivity analysis of the current fair value to changes in discount and prepayment speed assumptions as of September 30, 2015 and December 31, 2014 is as follows:

| (in thousands) | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Constant prepayment rate | | |
| Effect on fair value of a 10% adverse change | $(5,466) | $(4,965) |
| Effect on fair value of a 20% adverse change | $(10,490) | $(9,547) |
| | | |
| Discount rate | | |
| Effect on fair value of a 100 basis point adverse change | $(4,509) | $(4,539) |
| Effect on fair value of a 200 basis point adverse change | $(8,680) | $(8,771) |

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

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Note 8 – Junior Subordinated Debentures

Following is information about the Company's wholly-owned trusts ("Trusts") as of September 30, 2015:

| (dollars in thousands) Trust Name | Issue Date | Issued Amount | Carrying Value (1) | Rate (2) | Effective Rate (3) | Maturity Date |
|---|---|---|---|---|---|---|
| AT FAIR VALUE: | | | | | | |
| Umpqua Statutory Trust II | October 2002 | $20,619 | $15,346 | Floating rate, LIBOR plus 3.35%, adjusted quarterly | 4.89% | October 2032 |
| Umpqua Statutory Trust III | October 2002 | 30,928 | 23,202 | Floating rate, LIBOR plus 3.45%, adjusted quarterly | 5.03% | November 2032 |
| Umpqua Statutory Trust IV | December 2003 | 10,310 | 7,276 | Floating rate, LIBOR plus 2.85%, adjusted quarterly | 4.45% | January 2034 |
| Umpqua Statutory Trust V | December 2003 | 10,310 | 7,248 | Floating rate, LIBOR plus 2.85%, adjusted quarterly | 4.46% | March 2034 |
| Umpqua Master Trust I | August 2007 | 41,238 | 24,065 | Floating rate, LIBOR plus 1.35%, adjusted quarterly | 2.89% | September 2037 |
| Umpqua Master Trust IB | September 2007 | 20,619 | 13,985 | Floating rate, LIBOR plus 2.75%, adjusted quarterly | 4.55% | December 2037 |
| Sterling Capital Trust III | April 2003 | 14,433 | 11,263 | Floating rate, LIBOR plus 3.25%, adjusted quarterly | 4.55% | April 2033 |
| Sterling Capital Trust IV | May 2003 | 10,310 | 7,960 | Floating rate, LIBOR plus 3.15%, adjusted quarterly | 4.50% | May 2033 |
| Sterling Capital Statutory Trust V | May 2003 | 20,619 | 15,971 | Floating rate, LIBOR plus 3.25%, adjusted quarterly | 4.62% | June 2033 |
| Sterling Capital Trust VI | June 2003 | 10,310 | 7,934 | Floating rate, LIBOR plus 3.20%, adjusted quarterly | 4.60% | September 2033 |
| Sterling Capital Trust VII | June 2006 | 56,702 | 34,259 | Floating rate, LIBOR plus 1.53%, adjusted quarterly | 2.52% | June 2036 |
| Sterling Capital Trust VIII | September 2006 | 51,547 | 31,462 | Floating rate, LIBOR plus 1.63%, adjusted quarterly | 3.22% | December 2036 |
| Sterling Capital Trust IX | July 2007 | 46,392 | 27,020 | Floating rate, LIBOR plus 1.40%, adjusted quarterly | 2.81% | October 2037 |
| Lynnwood Financial Statutory Trust I | March 2003 | 9,279 | 7,111 | Floating rate, LIBOR plus 3.15%, adjusted quarterly | 4.54% | March 2033 |
| | June 2005 | 10,310 | 6,550 | | 3.36% | June 2035 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Lynnwood Financial Statutory Trust II | | | | Floating rate, LIBOR plus 1.80%, adjusted quarterly | | |
| Klamath First Capital Trust I | July 2001 | 15,464 | 13,013 | Floating rate, LIBOR plus 3.75%, adjusted semiannually | 5.03% | July 2031 |
| | | $379,390 | $253,665 | | | |
| AT AMORTIZED COST: | | | | | | |
| HB Capital Trust I | March 2000 | $5,310 | $6,119 | 10.875% | 8.52% | March 2030 |
| Humboldt Bancorp Statutory Trust I | February 2001 | 5,155 | 5,751 | 10.200% | 8.46% | February 2031 |
| Humboldt Bancorp Statutory Trust II | December 2001 | 10,310 | 11,177 | Floating rate, LIBOR plus 3.60%, adjusted quarterly | 3.15% | December 2031 |
| Humboldt Bancorp Statutory Trust III | September 2003 | 27,836 | 30,116 | Floating rate, LIBOR plus 2.95%, adjusted quarterly | 2.60% | September 2033 |
| CIB Capital Trust | November 2002 | 10,310 | 11,055 | Floating rate, LIBOR plus 3.45%, adjusted quarterly | 3.12% | November 2032 |
| Western Sierra Statutory Trust I | July 2001 | 6,186 | 6,186 | Floating rate, LIBOR plus 3.58%, adjusted quarterly | 3.88% | July 2031 |
| Western Sierra Statutory Trust II | December 2001 | 10,310 | 10,310 | Floating rate, LIBOR plus 3.60%, adjusted quarterly | 3.94% | December 2031 |
| Western Sierra Statutory Trust III | September 2003 | 10,310 | 10,310 | Floating rate, LIBOR plus 2.90%, adjusted quarterly | 3.19% | September 2033 |
| Western Sierra Statutory Trust IV | September 2003 | 10,310 | 10,310 | Floating rate, LIBOR plus 2.90%, adjusted quarterly | 3.19% | September 2033 |
| | | 96,037 | 101,334 | | | |
| | Total | $475,427 | $354,999 | | | |

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(1) Includes acquisition accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of September 30, 2015.

The Trusts are reflected as junior subordinated debentures in the Condensed Consolidated Balance Sheets. The common stock issued by the Trusts is recorded in other assets in the Condensed Consolidated Balance Sheets, and totaled $14.3 million at September 30, 2015 and December 31, 2014. As of September 30, 2015, all of the junior subordinated debentures were redeemable at par, at their applicable quarterly or semiannual interest payment dates.

The Company selected the fair value measurement option for junior subordinated debentures originally issued by the Company (the Umpqua Statutory Trusts) and for junior subordinated debentures acquired from Sterling. Refer to Note 15 for discussion of the rationale for election of fair value and the approach used to fair value the selected junior subordinated debentures.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments, the discounts will reverse over time in a manner similar to the effective interest rate method as if these instruments were accounted for under the amortized cost method. Losses recorded resulting from the change in the fair value of these instruments were $1.6 million and $4.7 million for the three and nine months ended September 30, 2015, respectively, and $1.6 million and $3.5 million for the three and nine months ended September 30, 2014, respectively.

Note 9 – Commitments and Contingencies

Lease Commitments — As of September 30, 2015, the Bank leased 277 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the three and nine months ended September 30, 2015 was $9.5 million and $28.2 million and for the three and nine months ended September 30, 2014 was $9.8 million and $23.6 million. Rent expense was partially offset by rent income for the three and nine months ended September 30, 2015 of $298,000 and $527,000 and for the three and nine months ended September 30, 2014 of $170,000 and $441,000.

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

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

| (in thousands) | As of September 30, 2015 |
|---|---|
| Commitments to extend credit | $3,392,037 |
| Commitments to extend overdrafts | $807,044 |
| Forward sales commitments | $601,060 |
| Commitments to originate residential mortgage loans held for sale | $402,051 |
| Standby letters of credit | $62,436 |

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

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

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank was not required to perform on any financial guarantees during the three and nine months ended September 30, 2015 and September 30, 2014. At September 30, 2015, approximately $44.4 million of standby letters of credit expire within one year, and $18.0 million expire thereafter. Upon issuance, the Bank recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $1.2 million as of September 30, 2015.

Residential mortgage loans sold into the secondary market are sold with limited recourse against the Company, meaning that the Company may be obligated to repurchase or otherwise reimburse the investor for incurred losses on any loans that suffer an early payment default, are not underwritten in accordance with investor guidelines or are determined to have pre-closing borrower misrepresentations. As of September 30, 2015, the Company had a residential mortgage loan repurchase reserve liability of $2.7 million.

Legal Proceedings—The Bank owns 483,806 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 1.6483 per Class A share. As of September 30, 2015, the closing value of the Class A shares was $69.40 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $55.3 million as of September 30, 2015, and has not been reflected in the accompanying consolidated financial statements. The shares of Visa Inc. Class B common stock are restricted and may not be transferred. Visa member banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa Inc. may sell additional Class A shares and use the proceeds to settle litigation, thereby reducing the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

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

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

Concentrations of Credit Risk— The Bank grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, Idaho, and Nevada. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 79% and 80% of the Bank's loan and lease portfolio at September 30, 2015 and December 31, 2014, respectively. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Bank's primary market areas in particular, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds

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

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

Note 10 – Derivatives

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

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in the three and nine months ended September 30, 2015 and 2014. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At September 30, 2015, the Bank had commitments to originate mortgage loans held for sale totaling $402.1 million and forward sales commitments of $601.1 million, which are used to hedge both on-balance sheet and off-balance sheet exposures.

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

The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of September 30, 2015, the Bank had 354 interest rate swaps with an aggregate notional amount of $1.7 billion related to this program.

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

these provisions at September 30, 2015, it could have been required to settle its obligations under the agreements at the termination value.

As of September 30, 2015 and December 31, 2014, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $48.4 million and $29.0 million, respectively. The Bank has collateral posting requirements for initial or variation margins with its clearing members and clearing houses and has been required to post collateral against its obligations under these agreements of $66.7 million and $43.5 million as of September 30, 2015 and December 31, 2014, respectively.

The Bank incorporates credit valuation adjustments ("CVA") to appropriately reflect nonperformance risk in the fair value measurement of its derivatives. As of September 30, 2015, the net CVA decreased the settlement values of the Bank's net derivative assets by $2.5 million. Various factors impact changes in the CVA over time, including changes in the credit spreads

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of the parties to the contracts, which are impacted by changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

The following tables summarize the types of derivatives, separately by assets and liabilities, and the fair values of such derivatives as of September 30, 2015 and December 31, 2014:

| (in thousands) | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| Derivatives not designated as hedging instrument | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| Interest rate lock commitments | $5,466 | $2,867 | $— | $— |
| Interest rate forward sales commitments | 2 | 16 | 5,271 | 2,627 |
| Interest rate swaps | 45,134 | 26,327 | 47,520 | 28,158 |
| Foreign currency derivative | 6 | 565 | 5 | 103 |
| Total | $50,608 | $29,775 | $52,796 | $30,888 |

The fair values of the derivatives are recorded in other assets and other liabilities. The following table summarizes the types of derivatives and the gains (losses) recorded during the three and nine months ended September 30, 2015 and 2014:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Derivatives not designated as hedging instrument | 2015 | 2014 | 2015 | 2014 |
| Interest rate lock commitments | $1,783 | $(5,475) | $2,977 | $1,312 |
| Interest rate forward sales commitments | (11,383) | 1,788 | (6,275) | (14,228) |
| Interest rate swaps | (1,179) | 107 | (554) | (2,893) |
| Foreign currency derivative | (3) | (1) | (462) | 16 |
| Total | $(10,782) | $(3,581) | $(4,314) | $(15,793) |

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

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The following table summarizes the derivatives that have a right of offset as of September 30, 2015 and December 31, 2014:

| (in thousands) | | | | Gross Amounts Not Offset in the Statement of Financial Position | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Assets/Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets/Liabilities presented in the Statement of Financial Position | Financial Instruments | Collateral Posted | Net Amount |
| September 30, 2015 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | $ 45,134 | $— | $ 45,134 | $— | $— | $45,134 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | $ 47,520 | $— | $ 47,520 | $— | $(47,520 ) | $— |
| December 31, 2014 | | | | | | |
| Derivative Assets | | | | | | |
| Interest rate swaps | $ 26,327 | $— | $ 26,327 | $(131 ) | $— | $26,196 |
| Derivative Liabilities | | | | | | |
| Interest rate swaps | $ 28,158 | $— | $ 28,158 | $(131 ) | $(28,027 ) | $— |

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Note 11 – Shareholders' Equity and Stock Compensation

On April 18, 2014, the Company completed the Merger with Sterling. The details of the conversion of Sterling common stock, stock options, and restricted stock units are included in Note 2. The conversion resulted in the issuance of 104,385,087 shares of common stock, 994,214 restricted stock units, and 439,921 stock options granted. Additionally, the 2,960,238 outstanding Sterling warrants were converted into warrants exercisable to receive 1.671 shares of Umpqua stock per warrant, with an exercise price of $12.88 as of the merger date. In November 2014, the warrants were net exercised in full for 2,889,896 shares and $6.6 million, and are no longer outstanding.

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

Stock-Based Compensation

The compensation cost related to stock options, restricted stock and restricted stock units (included in salaries and employee benefits) was $3.1 million and $10.7 million for the three and nine months ended September 30, 2015, as compared to $3.7 million and $8.8 million for the three and nine months ended September 30, 2014. The total income tax benefit recognized related to stock-based compensation was $1.2 million and $3.9 million for the three and nine months ended September 30, 2015, respectively, as compared to $1.4 million and $3.4 million for the three and nine months ended September 30, 2014, respectively.

The following table summarizes information about stock option activity for the nine months ended September 30, 2015:

| (in thousands, except per share data) | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Options Outstanding | Weighted-Avg Exercise Price | Weighted-Avg Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| Balance, beginning of period | 807 | $16.80 | | |
| Granted/Assumed | — | $— | | |
| Exercised | (80) | $11.01 | | |
| Forfeited/expired | (251) | $22.88 | | |
| Balance, end of period | 476 | $14.56 | 4.20 | $1,625 |
| Options exercisable, end of period | 437 | $14.78 | 3.91 | $1,458 |

The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the three and nine months ended September 30, 2015 was $47,000 and $512,000, as compared to the three and nine months ended September 30, 2014 of $241,000 and $3.1 million.

During the three and nine months ended September 30, 2015, the amount of cash received from the exercise of stock options was $16 and $195,000, respectively, as compared to the three and nine months ended September 30, 2014 of $239,000 and $4.5 million, respectively. Total consideration was $117,000 and $877,000 for the three and nine months ended September 30, 2015, respectively, as compared to the three and nine months ended September 30, 2014 of $483,000 and $6.7 million, respectively.

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The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model. There were no stock options granted in the nine months ended September 30, 2015. The following weighted average assumptions were used to determine the fair value of stock options grants as of grant date for the nine months ended September 30, 2014:

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

The Company grants restricted stock periodically for the benefit of employees and directors. Restricted shares issued prior to 2011 generally vest on an annual basis over five years. Restricted shares issued since 2011 generally vest over a three year period, subject to time or time plus performance vesting conditions. The following table summarizes information about nonvested restricted share activity for the nine months ended September 30, 2015:

| (in thousands, except per share data) | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|
| | Restricted Shares Outstanding | | Weighted Average Grant Date Fair Value |
| Balance, beginning of period | 1,386 | | $15.39 |
| Granted/assumed | 599 | | $15.71 |
| Released | (501 | ) | $14.53 |
| Forfeited | (125 | ) | $15.17 |
| Balance, end of period | 1,359 | | $16.14 |

The total fair value of restricted shares vested and released during the three and nine months ended September 30, 2015 was $1.6 million and $8.3 million, respectively, as compared to the three and nine months ended September 30, 2014 of $615,000 and $7.0 million, respectively.

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

| (in thousands, except per share data) | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|
| | Restricted Stock Units Outstanding | | Weighted Average Grant Date Fair Value |
| Balance, beginning of period | 675 | | $18.03 |
| Granted/assumed | — | | $— |
| Released | (253 | ) | $17.99 |
| Forfeited | (143 | ) | $18.48 |
| Balance, end of period | 279 | | $18.58 |

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The total fair value of restricted stock units vested and released during the three and nine months ended September 30, 2015 was $430,000 and $4.4 million as compared to the three and nine months ended September 30, 2014 of $363,000 and $6.0 million.

As of September 30, 2015, there was $135,000 of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 1.71 years. As of September 30, 2015, there was $10.1 million of total unrecognized compensation cost related to nonvested restricted stock awards which is expected to be recognized over a weighted-average period of 1.35 years. As of September 30, 2015, there was $4.6 million of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 1.77 years, assuming expected performance conditions are met.

For the three and nine months ended September 30, 2015, the Company received income tax benefits of $700,000 and $5.1 million, respectively, as compared to the three and nine months ended September 30, 2014 of $469,000 and $6.2 million, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions on the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units. In the nine months ended September 30, 2015, the Company had net excess tax benefit (tax benefit resulting from tax deductions greater than the compensation cost recognized) of $544,000, as compared to $1.2 million of net excess tax benefit for the nine months ended September 30, 2014.

Note 12 – Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as in the majority of states and in Canada. The Company acquired a $276.8 million net deferred tax asset before acqusition accounting adjustments in the Merger, including $238.4 million of federal and state net operating loss ("NOL") and tax credit carry-forwards. The Merger triggered an "ownership change" as defined in Section 382 of the Internal Revenue Service Code ("Section 382"). As a result of being subject to Section 382, the Company will be limited in the amount of federal NOL carry-forwards that can be used annually to offset future taxable income. The Company believes it is more likely than not that it will be able to fully realize the benefit of its federal NOL carry-forwards. The Company also believes that it is more likely than not that the benefit from certain state NOL and tax credit carry-forwards will not be realized and therefore has provided a valuation allowance of $2.6 million against the deferred tax assets relating to these NOL and tax credit carry-forwards.

The Company had gross unrecognized tax benefits of $2.9 million as of September 30, 2015. If recognized, the unrecognized tax benefit would reduce the 2015 annual effective tax rate by 0.7%. During the three and nine months ended September 30, 2015, the Company reversed $21,000 and $4,000 of interest relating to its liability for unrecognized tax benefits. Interest on unrecognized tax benefits is reported by the Company as a component of tax expense. As of September 30, 2015, the accrued interest related to unrecognized tax benefits was $395,000.

Note 13 – Earnings Per Common Share

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

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

restricted shares.

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

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The following is a computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2015 and 2014:

| (in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| NUMERATORS: | | | | |
| Net income | $57,607 | $58,883 | $159,520 | $95,076 |
| Less: | | | | |
| Dividends and undistributed earnings allocated to participating securities (1) | 84 | 142 | 261 | 338 |
| Net earnings available to common shareholders | $57,523 | $58,741 | $159,259 | $94,738 |
| DENOMINATORS: | | | | |
| Weighted average number of common shares outstanding - basic | 220,297 | 217,245 | 220,370 | 175,627 |
| Effect of potentially dilutive common shares (2) | 607 | 1,696 | 692 | 1,029 |
| Weighted average number of common shares outstanding - diluted | 220,904 | 218,941 | 221,062 | 176,656 |
| EARNINGS PER COMMON SHARE: | | | | |
| Basic | $0.26 | $0.27 | $0.72 | $0.54 |
| Diluted | $0.26 | $0.27 | $0.72 | $0.54 |

(1) Represents dividends paid and undistributed earnings allocated to nonvested restricted stock awards.
(2) Represents the effect of the assumed exercise of stock options, vesting of non-participating restricted shares, and vesting of restricted stock units, based on the treasury stock method.

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the three and nine months ended September 30, 2015 and 2014.

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Stock options | — | 5 | — | 398 |

Note 14 – Segment Information

The Company operates two primary segments: Community Banking and Home Lending. The Community Banking segment's principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of September 30, 2015, the Community Banking segment operated 381 locations throughout Oregon, Washington, California, Idaho, and Nevada.

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

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

| (in thousands) | Three Months Ended September 30, 2015 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $204,393 | $29,924 | $234,317 |
| Interest expense | 12,269 | 2,318 | 14,587 |
| Net interest income | 192,124 | 27,606 | 219,730 |
| Provision for loan and lease losses | 7,294 | 859 | 8,153 |
| Non-interest income | 32,020 | 28,329 | 60,349 |
| Non-interest expense | 152,174 | 30,512 | 182,686 |
| Income before income taxes | 64,676 | 24,564 | 89,240 |
| Provision for income taxes | 22,925 | 8,708 | 31,633 |
| Net income | $41,751 | $15,856 | $57,607 |

| (in thousands) | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $618,710 | $77,937 | $696,647 |
| Interest expense | 36,480 | 6,381 | 42,861 |
| Net interest income | 582,230 | 71,556 | 653,786 |
| Provision for loan and lease losses | 29,067 | 2,977 | 32,044 |
| Non-interest income | 93,845 | 110,498 | 204,343 |
| Non-interest expense | 486,514 | 91,167 | 577,681 |
| Income before income taxes | 160,494 | 87,910 | 248,404 |
| Provision for income taxes | 57,430 | 31,454 | 88,884 |
| Net income | $103,064 | $56,456 | $159,520 |

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| (in thousands) | Three Months Ended September 30, 2014 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $219,268 | $20,255 | $239,523 |
| Interest expense | 12,003 | 1,804 | 13,807 |
| Net interest income | 207,265 | 18,451 | 225,716 |
| Provision for loan and lease losses | 14,333 | — | 14,333 |
| Non-interest income | 30,439 | 31,726 | 62,165 |
| Non-interest expense | 160,559 | 21,999 | 182,558 |
| Income before income taxes | 62,812 | 28,178 | 90,990 |
| Provision for income taxes | 22,165 | 9,942 | 32,107 |
| Net income | $40,647 | $18,236 | $58,883 |

| | Nine Months Ended September 30, 2014 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Interest income | $536,922 | $43,448 | $580,370 |
| Interest expense | 30,858 | 3,699 | 34,557 |
| Net interest income | 506,064 | 39,749 | 545,813 |
| Provision for loan and lease losses | 35,000 | — | 35,000 |
| Non-interest income | 64,072 | 66,797 | 130,869 |
| Non-interest expense | 445,189 | 48,018 | 493,207 |
| Income before income taxes | 89,947 | 58,528 | 148,475 |
| Provision for income taxes | 32,353 | 21,046 | 53,399 |
| Net income | $57,594 | $37,482 | $95,076 |

| (in thousands) | September 30, 2015 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Total assets | $20,115,935 | $3,046,369 | $23,162,304 |
| Total loans and leases | $13,825,307 | $2,562,627 | $16,387,934 |
| Total deposits | $17,371,561 | $95,463 | $17,467,024 |

| (in thousands) | December 31, 2014 | | |
|---|---|---|---|
| | Community Banking | Home Lending | Consolidated |
| Total assets | $20,095,189 | $2,514,714 | $22,609,903 |
| Total loans and leases | $13,181,463 | $2,146,269 | $15,327,732 |
| Total deposits | $16,850,682 | $41,417 | $16,892,099 |

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Note 15 – Fair Value Measurement

The following table presents estimated fair values of the Company's financial instruments as of September 30, 2015 and December 31, 2014, whether or not recognized or recorded at fair value in the Condensed Consolidated Balance Sheets:

| (in thousands) | | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | Level | Carrying Value | Fair Value | Carrying Value | Fair Value |
| FINANCIAL ASSETS: | | | | | |
| Cash and cash equivalents | 1 | $957,616 | $957,616 | $1,605,171 | $1,605,171 |
| Trading securities | 1,2 | 9,509 | 9,509 | 9,999 | 9,999 |
| Investment securities available for sale | 2 | 2,482,478 | 2,482,478 | 2,298,555 | 2,298,555 |
| Investment securities held to maturity | 3 | 4,699 | 5,280 | 5,211 | 5,554 |
| Loans held for sale | 2 | 398,015 | 398,015 | 286,802 | 286,802 |
| Loans and leases, net | 3 | 16,257,801 | 16,279,789 | 15,211,565 | 15,252,083 |
| Restricted equity securities | 1 | 46,904 | 46,904 | 119,334 | 119,334 |
| Residential mortgage servicing rights | 3 | 124,814 | 124,814 | 117,259 | 117,259 |
| Bank owned life insurance assets | 1 | 297,321 | 297,321 | 294,296 | 294,296 |
| FDIC indemnification asset | 3 | 892 | 254 | 4,417 | 2,058 |
| Derivatives | 2,3 | 50,608 | 50,608 | 29,775 | 29,775 |
| Visa Class B common stock | 3 | — | 52,576 | — | 49,663 |
| FINANCIAL LIABILITIES: | | | | | |
| Deposits | 1,2 | $17,467,024 | $17,474,312 | $16,892,099 | $16,893,890 |
| Securities sold under agreements to repurchase | 2 | 323,722 | 323,722 | 313,321 | 313,321 |
| Term debt | 2 | 889,358 | 905,454 | 1,006,395 | 1,018,948 |
| Junior subordinated debentures, at fair value | 3 | 253,665 | 253,665 | 249,294 | 249,294 |
| Junior subordinated debentures, at amortized cost | 3 | 101,334 | 75,127 | 101,576 | 73,840 |
| Derivatives | 2 | 52,796 | 52,796 | 30,888 | 30,888 |

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Fair Value of Assets and Liabilities Measured on a Recurring Basis

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

| (in thousands) | September 30, 2015 | | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| FINANCIAL ASSETS: | | | | |
| Trading securities | | | | |
| Obligations of states and political subdivisions | $241 | $— | $241 | $— |
| Equity securities | 9,268 | 9,268 | — | — |
| Investment securities available for sale | | | | |
| Obligations of states and political subdivisions | 326,464 | — | 326,464 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 2,153,933 | — | 2,153,933 | — |
| Investments in mutual funds and other equity securities | 2,081 | — | 2,081 | — |
| Loans held for sale, at fair value | 395,421 | | 395,421 | |
| Residential mortgage servicing rights, at fair value | 124,814 | — | — | 124,814 |
| Derivatives | | | | |
| Interest rate lock commitments | 5,466 | — | — | 5,466 |
| Interest rate forward sales commitments | 2 | — | 2 | — |
| Interest rate swaps | 45,134 | — | 45,134 | — |
| Foreign currency derivative | 6 | — | 6 | — |
| Total assets measured at fair value | $3,062,830 | $9,268 | $2,923,282 | $130,280 |
| FINANCIAL LIABILITIES: | | | | |
| Junior subordinated debentures, at fair value | $253,665 | $— | $— | $253,665 |
| Derivatives | | | | |
| Interest rate forward sales commitments | 5,271 | — | 5,271 | — |
| Interest rate swaps | 47,520 | — | 47,520 | — |
| Foreign currency derivative | 5 | — | 5 | — |
| Total liabilities measured at fair value | $306,461 | $— | $52,796 | $253,665 |

| (in thousands) | December 31, 2014 | | | |
|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 |
| FINANCIAL ASSETS: | | | | |
| Trading securities | | | | |
| Obligations of states and political subdivisions | $124 | $— | $124 | $— |
| Equity securities | 5,283 | 5,283 | — | — |
| Other investments securities(1) | 4,592 | — | 4,592 | — |
| Available for sale securities | | | | |
| U.S. Treasury and agencies | 229 | — | 229 | — |
| Obligations of states and political subdivisions | 338,404 | — | 338,404 | — |
| Residential mortgage-backed securities and collateralized mortgage obligations | 1,957,852 | — | 1,957,852 | — |
| Investments in mutual funds and other equity securities | 2,070 | — | 2,070 | — |
| Loans held for sale | 286,802 | | 286,802 | |
| Residential mortgage servicing rights, at fair value | 117,259 | — | — | 117,259 |
| Derivatives | | | | |
| Interest rate lock commitments | 2,867 | — | — | 2,867 |
| Interest rate forward sales commitments | 16 | — | 16 | — |
| Interest rate swaps | 26,327 | — | 26,327 | — |
| Foreign currency derivative | 565 | — | 565 | — |
| Total assets measured at fair value | $2,742,390 | $5,283 | $2,616,981 | $120,126 |
| FINANCIAL LIABILITIES: | | | | |
| Junior subordinated debentures, at fair value | $249,294 | $— | $— | $249,294 |
| Derivatives | | | | |
| Interest rate forward sales commitments | 2,627 | — | 2,627 | — |
| Interest rate swaps | 28,158 | — | 28,158 | — |
| Foreign currency derivative | 103 | — | 103 | — |
| Total liabilities measured at fair value | $280,182 | $— | $30,888 | $249,294 |

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

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

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

Securities— Fair values for investment securities are based on quoted market prices when available or through the use of alternative approaches, such as matrix or model pricing, or broker indicative bids, when market quotes are not readily accessible or available. Management periodically reviews the pricing information received from the third-party pricing service and compares it to a secondary pricing service, evaluating significant price variances between services to determine an appropriate estimate of fair value to report.

Loans Held for Sale— Fair value for residential mortgage loans held for sale is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights. For non-residential mortgage loans held for sale, these loans are accounted for at lower of cost or market based on the estimated sales price.

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

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

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

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

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

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

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

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

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

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

Derivative Instruments— The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The pull-through rate assumptions are considered Level 3 valuation inputs and are significant to the interest rate lock commitment valuation; as such, the interest rate lock commitment derivatives are classified as Level 3. The fair value of the interest rate swaps is

determined using a discounted cash flow technique incorporating credit valuation adjustments to reflect nonperformance risk in the measurement of fair value. Although the Bank has determined that the majority of the inputs used to value its interest rate swap derivatives fall within Level 2 of the fair value hierarchy, the CVA associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2015, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its interest rate swap positions and has determined that the CVA are not significant to the overall valuation of its interest rate swap derivatives. As a result, the Bank has classified its interest rate swap derivative valuations in Level 2 of the fair value hierarchy.

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

The following table provides a description of the valuation technique, significant unobservable inputs, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at September 30, 2015:

| Financial Instrument | Valuation Technique | Unobservable Input | Weighted Average |
| --- | --- | --- | --- |
| Residential mortgage servicing rights | Discounted cash flow | | |
| | | Constant Prepayment Rate | 13.69% |
| | | Discount Rate | 9.19% |
| Interest rate lock commitment | Internal Pricing Model | | |
| | | Pull-through rate | 82.35% |
| Junior subordinated debentures | Discounted cash flow | | |