

UMPQUA HOLDINGS CORP  
Form 10-K  
February 18, 2014

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended: December 31, 2013

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 (I.R.S. Employer Identification Number)  
of Incorporation or Organization)  
One SW Columbia Street, Suite 1200  
Portland, Oregon 97258  
(Address of Principal Executive Offices)(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:  
Title of each class Name of each exchange on which registered

NONE

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
 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).  
 Yes  No

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

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

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  No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2013, based on the closing price on that date of \$15.01 per share, and 110,811,826 shares held was \$1,663,285,508.

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

The number of shares of the Registrant's common stock (no par value) outstanding as of January 31, 2014 was 112,185,772.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2014 Annual Meeting of Shareholders of Umpqua Holdings Corporation ("Proxy Statement") are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

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PART I

ITEM 1. BUSINESS.

This Annual Report on Form 10-K contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for “forward-looking statements” provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. You can find many of these statements by looking for words such as “anticipates,” “expects,” “believes,” “estimates” and “intends” and words or phrases of similar meaning. We make forward-looking statements regarding projected sources of funds, availability of acquisition and growth opportunities, dividends, adequacy of our allowance for loan and lease losses, reserve for unfunded commitments and provision for loan and lease losses, performance of troubled debt restructurings, our commercial real estate portfolio and subsequent chargeoffs, our covered loan portfolio and the Federal Deposit Insurance Corporation (“FDIC”) indemnification asset, the benefits of the Financial Pacific leasing, Inc. (“FinPac”) acquisition, and the proposed merger (“Merger”) with Sterling Financial Corporation (“Sterling”). Forward-looking statements involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond our control. There are many factors that could cause actual results to differ materially from those contemplated by these forward-looking statements. Risks and uncertainties that could cause our financial performance to differ materially from our goals, plans, expectations and projections expressed in forward-looking statements include those set forth in our filings with the Securities and Exchange Commission (“SEC”), Item 1A of this Annual Report on Form 10-K, and the following:

- our ability to attract new deposits and loans and leases;
- demand for financial services in our market areas;
- competitive market pricing factors;
- deterioration in economic conditions that could result in increased loan and lease losses;
- risks associated with concentrations in real estate related loans;
- market interest rate volatility;
- compression of our net interest margin;
- stability of funding sources and continued availability of borrowings;
- changes in legal or regulatory requirements or the results of regulatory examinations that could restrict growth;
- our ability to recruit and retain key management and staff;
- availability of, and competition for acquisition opportunities;
- risks associated with merger and acquisition integration;
- significant decline in the market value of the Company that could result in an impairment of goodwill;
- our ability to raise capital or incur debt on reasonable terms;
- regulatory limits on the Bank’s ability to pay dividends to the Company;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) and related rules and regulations on the Company’s business operations and competitiveness, including the impact of executive compensation restrictions, which may affect the Company’s ability to retain and recruit executives in competition with firms in other industries who do not operate under those restrictions;
- the impact of the Dodd-Frank Act on the Company’s interest expense, FDIC deposit insurance assessments, regulatory compliance expenses, and interchange fee revenue, which includes a maximum permissible interchange fee that an issuer may receive for an electronic debit transaction, resulting in a decrease in interchange revenue on an average transaction; and
- the impact of the new “Basel III” capital rules issued by federal banking regulators in July 2013 (“Basel III Rules”) that could require the Company to adjust the fair value, including the acceleration of losses, of the trust preferred securities.
- the possibility that the proposed Merger with Sterling does not close when expected or at all because required regulatory, shareholder or other approvals and other conditions to closing are not received or satisfied on a timely basis or at all;

the effect on the trading price of our stock if the Merger with Sterling is not completed;

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benefits from the Merger may not be fully realized or may take longer to realize than expected, including as a result of changes in general economic and market conditions, interest rates, monetary policy, laws and regulations and their enforcement, and the degree of competition in the geographic and business areas in which we operate;

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

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

## Introduction

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

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC. You may obtain these reports, and any amendments, from the SEC's website at [www.sec.gov](http://www.sec.gov). You may obtain copies of these reports, and any amendments, through our website at [www.umpquaholdingscorp.com](http://www.umpquaholdingscorp.com). These reports are available through our website as soon as reasonably practicable after they are filed electronically with the SEC. All of our SEC filings since November 14, 2002 have been made available on our website within two days of filing with the SEC.

## General Background

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

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

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

## Business Strategy

Umpqua Bank's principal objective is to become the leading community-oriented financial services retailer throughout the Western United States. With the proposed Sterling merger, we plan to continue the expansion of our market into Southern California, Eastern Washington, Eastern Oregon, and Idaho. We intend to continue to grow our assets and increase profitability and shareholder value by differentiating ourselves from competitors through the following strategies:

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

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

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

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

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

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

### Marketing and Sales

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

**Media Advertising.** Our comprehensive marketing campaigns aim to strengthen the Umpqua Bank brand and heighten public awareness about our innovative delivery of financial products and services. The Bank has been recognized nationally for its use of new media and unique approach. From programs like the Bank's Discover Local Music Project and ice cream trucks, to campaigns like Save Hard Spend Smart and the Lemonaire, Umpqua is utilizing nontraditional media channels and leveraging mass market media in new ways. In 2005 Umpqua dubbed the term “hand-shake marketing” to describe the Bank's fresh approach to localized marketing.





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

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

### **Products and Services**

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

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

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

of 2009 to further enhance our offerings to individuals, unions and corporate retirement plans, endowments and foundations.

**Retail Brokerage Services and Investment Advisory Services.** Umpqua Investments in its combined role as a broker/dealer and a registered investment advisor may provide comprehensive financial planning advice to its clients as well as standard broker/dealer services for traditional brokerage accounts. This advice can include cash management, risk management (insurance planning/sales), investment planning (including investment advice, supervisory services and/or portfolio checkups), retirement planning (for employees and employers), and/or estate planning. The broker/dealer side of Umpqua Investments offers a full range of brokerage services including equity and fixed income products, mutual funds, annuities, options and life insurance products. At December 31, 2013, Umpqua Investments had 41 Series 7-licensed financial advisors serving clients at four stand-alone retail brokerage offices, one location located within a retirement facility, and “Investment Opportunity Centers” located in many Bank stores.

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

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

**Consumer Loans.** We provide loans to individual borrowers for a variety of purposes, including secured and unsecured personal loans, home equity and personal lines of credit and motor vehicle loans.

### **Market Area and Competition**

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

As the industry becomes increasingly dependent on and oriented toward technology-driven delivery systems, permitting transactions to be conducted by telephone, computer and the internet, non-bank institutions are able to attract funds and provide lending and other financial services even without offices located in our primary service area. Some insurance companies and brokerage firms compete for deposits by offering rates that are higher than may be appropriate for the Bank in relation to its asset and liability management objectives. However, we offer a wide array of deposit products and believe we can compete effectively through rate-driven product promotions. We also compete with full service investment firms for non-bank financial products and services offered by Umpqua Investments. Credit unions present a significant competitive challenge for our banking services and products. As credit unions currently enjoy an exemption from income tax, they are able to offer higher deposit rates and lower loan rates than we can on a comparable basis. Credit unions are also not currently subject to certain regulatory constraints, such as the Community Reinvestment Act ("CRA"), which, among other things, requires us to implement procedures to make and monitor loans throughout the communities we serve. Adhering to such regulatory requirements raises the costs associated with our lending activities, and reduces potential operating profits. Accordingly, we seek to compete by focusing on building customer relationships, providing superior service and offering a wide variety of commercial banking products, such as commercial real estate loans, inventory and accounts receivable financing, and SBA program loans for qualified businesses.

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

The following table presents the Bank's market share percentage for total deposits as of June 30, 2013, in each county where we have operations. The table also indicates the ranking by deposit size in each market. All information in the table was obtained from SNL Financial of Charlottesville, Virginia, which compiles deposit data published by the FDIC as of June 30, 2013 and updates the information for any bank mergers and acquisitions completed subsequent to

the reporting date.

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## Oregon

County	Market Share	Market Rank	Number of Stores
Benton	5.3	%7	1
Clackamas	2.8	%7	5
Coos	36.4	%1	5
Curry	19.3	%3	1
Deschutes	4.5	%8	5
Douglas	62.5	%1	9
Jackson	14.5	%2	9
Josephine	15.6	%2	5
Lane	15.5	%2	9
Lincoln	7.8	%7	2
Linn	12.2	%5	3
Marion	7.2	%6	3
Multnomah	4.3	%6	16
Washington	3.9	%7	5

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## California

County	Market Share	Market Rank	Number of Stores
Amador	4.9	%7	1
Butte	2.8	%10	2
Calaveras	24.0	%2	4
Colusa	39.5	%1	2
Contra Costa	0.3	%22	2
El Dorado	6.9	%4	5
Glenn	29.7	%2	2
Humboldt	24.0	%1	7
Lake	17.6	%2	2
Marin	1.7	%12	3
Mendocino	3.3	%7	1
Napa	10.8	%3	7
Placer	4.1	%6	9
Sacramento	0.8	%17	6
San Francisco	0.0	%40	1
San Joaquin	0.6	%18	1
San Luis Obispo	0.1	%13	1
Santa Clara	0.0	%47	1
Shasta	1.8	%9	1
Solano	3.3	%9	4
Sonoma	0.4	%19	3
Stanislaus	0.9	%15	2
Sutter	13.8	%2	2
Tehama	16.8	%1	2
Trinity	26.4	%2	1
Tuolumne	15.7	%3	5
Yolo	2.6	%11	1
Yuba	25.9	%2	2

## Washington

County	Market Share	Market Rank	Number of Stores
Clark	6.7	%7	5
King	0.7	%18	15
Pierce	3.5	%8	11
Snohomish	0.8	%22	1

## Nevada

County	Market Share	Market Rank	Number of Stores
Washoe	0.3	%8	4

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### Lending and Credit Functions

The Bank makes both secured and unsecured loans to individuals and businesses. At December 31, 2013, commercial real estate, commercial, residential, and consumer and other represented approximately 58.8%, 28.8%, 11.7%, and 0.7%, respectively, of the total non-covered loan and lease portfolio.

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

### Allowance for Loan and Lease Losses (“ALLL”) Methodology

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. The Company’s risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management ALLL Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans and leases with similar risk rating. Credit loss factors may vary by region based on management's belief that there may ultimately be different credit loss rates experienced in each region. Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses.

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of deteriorating economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of December 31, 2013, there was no unallocated allowance amount.

Management believes that the ALLL was adequate as of December 31, 2013. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 74% of our total loan portfolio is secured by real estate, and any future significant decline in real estate market values may require an increase in the ALLL.

### Employees



As of December 31, 2013, we had a total of 2,490 full-time equivalent employees. None of the employees are subject to a collective bargaining agreement and management believes its relations with employees to be good. For the eighth year in a row, Umpqua Bank was named to Fortune magazine's list of "100 Best Companies to Work For," ranked #71 on the 2014 list. Information regarding employment agreements with our executive officers is contained in Item 11 below, which item is incorporated by reference to our proxy statement for the 2014 annual meeting of shareholders.

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### Government Policies

The operations of our subsidiaries are affected by state and federal legislative changes and by policies of various regulatory authorities. These policies include, for example, statutory maximum legal lending rates, domestic monetary policies of the Board of Governors of the Federal Reserve System ("Federal Reserve"), United States fiscal policy, and capital adequacy and liquidity constraints imposed by federal and state regulatory agencies.

### Supervision and Regulation

**General.** We are extensively regulated under federal and state law. These laws and regulations are generally intended to protect depositors and customers, not shareholders. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statute or regulation. Any change in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and by the policies of various regulatory authorities. We cannot accurately predict the nature or the extent of the effects on our business and earnings that fiscal or monetary policies, or new federal or state legislation may have in the future. Umpqua is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission. As a listed company on NASDAQ, Umpqua is subject to NASDAQ rules for listed companies.

**Holding Company Regulation.** We are a registered financial holding company under the GLB Act, and are subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the "Federal Reserve"). As a financial holding company, we are examined by and file reports with the Federal Reserve. The Federal Reserve expects a bank holding company to serve as a source of financial and managerial strength to its subsidiary bank and, under appropriate circumstances, to commit resources to support the subsidiary bank.

Financial holding companies are bank holding companies that satisfy certain criteria and are permitted to engage in activities that traditional bank holding companies are not. The qualifications and permitted activities of financial holding companies are described below under "Regulatory Structure of the Financial Services Industry."

**Federal and State Bank Regulation.** Umpqua Bank, as a state chartered bank with deposits insured by the FDIC, is primarily subject to the supervision and regulation of the Oregon Department of Consumer and Business Services Division of Finance ("DCBS") and Corporate Securities, the Washington Department of Financial Institutions ("DFI"), the California Department of Business Oversight ("DBO"), the Nevada Division of Financial Institutions, the FDIC and the Consumer Financial Protection Bureau ("CFPB"). These agencies may prohibit the Bank from engaging in what they believe constitute unsafe or unsound banking practices. Our primary state regulator, DCBS, regularly examines the Bank or participates in joint examinations with the FDIC.

The CRA requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or new facility. A less than "Satisfactory" rating would result in the suspension of any growth of the Bank through acquisitions or opening de novo branches until the rating is improved. As of the most recent CRA examination in July 2013, the Bank's CRA rating was "Satisfactory."

Banks are also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal shareholders or any related interest of such persons. Extensions of credit must be made on substantially the same terms, including interest rates and collateral as, and follow credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with persons not affiliated with the bank, and must not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

The Federal Reserve Act and related Regulation W limit the amount of certain loan and investment transactions between the Bank and its affiliates, require certain levels of collateral for such loans, and limit the amount of advances

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

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

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

On February 7, 2011, the FDIC adopted a final rule modifying the risk-based assessment system from a domestic deposit base to a scorecard based assessment system, effective April 1, 2011. As of April 1, 2011, the Bank was categorized as a large institution as the Bank has more than \$10 billion in assets. The initial base assessment rates range from 5 to 35 basis points. After potential adjustments related to unsecured debt and brokered deposit balances, the final total assessment rates range from 2.5 to 45 basis points. Initial base assessment rates for large institutions ranged from five to 35 basis points. The Bank’s assessment rate for 2013 fell at the low end of this range. Further increases in the assessment rate could have a material adverse effect on our earnings, depending upon the amount of the increase.

In 2006, the Federal Deposit Insurance Reform Act (“Reform Act”) increased the deposit insurance limit for certain retirement plan deposit accounts from \$100,000 to \$250,000. The basic insurance limit for other deposits, including individuals, joint account holders, businesses, government entities, and trusts, remained at \$100,000. The Reform Act also provided for the merger of the two deposit insurance funds administered by the FDIC, the Bank Insurance Fund and the Savings Association Insurance Fund, into the DIF. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (“EESA”) temporarily raised the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The basic deposit insurance limit would have returned to \$100,000 after December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in the standard maximum deposit insurance amount to \$250,000 per depositor through December 31, 2013. The standard maximum deposit insurance amount would have returned to \$100,000 on January 1, 2014. The Dodd-Frank Act permanently raises the current standard maximum federal deposit insurance amount from \$100,000 to \$250,000 per qualified account.

In November 2008, the FDIC approved the final rule establishing the Transaction Account Guarantee Program (“TAGP”) as part of the Temporary Liquidity Guarantee Program (“TLGP”). Under this program, effective immediately and through December 31, 2009, all non-interest bearing transaction accounts became fully guaranteed by the FDIC for the entire amount in the account. This unlimited coverage also extended to NOW (interest bearing deposit accounts) earning an interest rate no greater than 0.50% and all IOLTAs (lawyers’ trust accounts). Coverage under the TAGP, funded through insurance premiums paid by participating financial institutions, was in addition to and separate from the additional coverage announced under EESA. In August 2009, the FDIC extended the TAGP portion of the TLGP through June 30, 2010. In June 2010, the FDIC extended the TAGP portion of the TLGP for an additional six months, from July 1, 2010 to December 31, 2010. The rule required that interest rates on qualifying NOW accounts offered by banks participating in the program be reduced to 0.25% from 0.50%. The rule provided for an additional extension of the program, without further rulemaking, for a period of time not to exceed December 31, 2011. Umpqua elected to participate in the TAGP through the extended period. In July 2010, the Dodd-Frank Act was enacted, which provides for unlimited deposit insurance for noninterest bearing transactions accounts (excluding NOW, but including IOLTAs) beginning December 31, 2010 for a period of two years. The TAGP expired as of December 31, 2012 and the FDIC will no longer provide separate, unlimited deposit insurance under that program.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines that the institution has engaged in or is engaging in unsafe and unsound banking practices, is in an unsafe or unsound condition or has violated any applicable law, regulation or order or any condition imposed in writing by, or pursuant to, any written

agreement with the FDIC. The termination of deposit insurance for the Bank could have a material adverse effect on our financial condition and results of operations due to the fact that the Bank's liquidity position would likely be affected by deposit withdrawal activity.

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

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

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

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

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

The final rules, among other things, include a new common equity Tier 1 capital ("CET1") to risk-weighted assets ratio, including a capital conservation buffer, which will gradually increase from 4.5% on January 1, 2015 to 7.0% on January 1, 2019. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% on January 1, 2015 to 8.5% on January 1, 2019, as well as require a minimum leverage ratio of 4.0%.

Also, under the final rules, if an institution grows above \$15 billion as a result of an acquisition, or organically grows above \$15 billion and then makes an acquisition, the combined trust preferred security debt issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). It is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. The Company currently does not intend to redeem the junior subordinated debentures following the proposed merger in order to support regulatory total capital levels.

The final rules also provide for a number of adjustments to and deductions from the new CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the

purposes of determining regulatory capital ratios. Under Basel III, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. The Company and Bank expect to make this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company's securities portfolio. In addition, deductions include, for example, the requirement that mortgage servicing rights, certain deferred tax assets not dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. FDICIA requires federal banking regulators to take "prompt corrective action" with respect to a capital-deficient institution, including requiring a capital restoration plan and restricting certain growth activities of the institution. Umpqua could be required to guarantee any such capital restoration plan required of the Bank if the Bank became undercapitalized. Pursuant to FDICIA, regulations were adopted defining five capital levels: well capitalized, adequately capitalized, undercapitalized, severely undercapitalized and critically undercapitalized. Under the regulations, the Bank is considered "well capitalized" as of December 31, 2013.

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

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

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

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

Regulatory Structure of the Financial Services Industry. Federal laws and regulations governing banking and financial services underwent significant changes in recent years and are subject to significant changes in the future. From time to time, legislation is introduced in the United States Congress that contains proposals for altering the structure, regulation, and competitive relationships of the nation's financial institutions. If enacted into law, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, and other financial institutions. Whether or in what form any such legislation may be adopted or the extent to which our business might be affected thereby cannot be predicted. The GLB Act, enacted in November 1999, repealed sections of the Banking Act of 1933, commonly referred to as the Glass-Steagall Act, that prohibited banks from engaging in securities activities, and prohibited securities firms from engaging in banking. The GLB Act created a new form of holding company, known as a financial holding company, that is permitted to acquire subsidiaries that are variously engaged in banking, securities underwriting and dealing, and insurance underwriting.

A bank holding company, if it meets specified requirements, may elect to become a financial holding company by filing a declaration with the Federal Reserve, and may thereafter provide its customers with a broader spectrum of products and services than a traditional bank holding company is permitted to do. A financial holding company may, through a subsidiary, engage in any activity that is deemed to be financial in nature and activities that are incidental or complementary to activities that are financial in nature. These activities include traditional banking services and activities previously permitted to bank holding companies under Federal Reserve regulations, but also include underwriting and dealing in securities, providing investment advisory services, underwriting and selling insurance, merchant banking (holding a portfolio of commercial businesses, regardless of the nature of the business, for investment), and arranging or facilitating financial transactions for third parties.

To qualify as a financial holding company, the bank holding company must be deemed to be well-capitalized and well-managed, as those terms are used by the Federal Reserve. In addition, each subsidiary bank of a bank holding company must also be well-capitalized and well-managed and be rated at least “satisfactory” under the CRA. A bank holding company that does not qualify, or has not chosen, to become a financial holding company must limit its activities to traditional banking activities and those non-banking activities the Federal Reserve has deemed to be permissible because they are closely related to the business of banking.

The GLB Act also includes provisions to protect consumer privacy by prohibiting financial services providers, whether or not affiliated with a bank, from disclosing non-public personal, financial information to unaffiliated parties without the consent of the customer, and by requiring annual disclosure of the provider's privacy policy.



The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (“Riegle-Neal Act”), which became effective in 1995, permits interstate banking and branching, which allows banks to expand nationwide through acquisition, consolidation or merger. Under this law, an adequately capitalized bank holding company may acquire banks in any state or merge banks across state lines if permitted by state law. Further, banks may establish and operate branches in any state subject to the restrictions of applicable state law. Under Oregon law, an out-of-state bank or bank holding company may merge with or acquire an Oregon state chartered bank or bank holding company upon receipt of approval from the Director of the Oregon Department of Consumer and Business Services. The Bank now has the ability to open additional de novo branches in the states of Oregon, California, Washington, and Nevada.

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

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

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

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

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

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

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

- prohibition on personal loans by Umpqua to its directors and executive officers except loans made by the Bank in accordance with federal banking regulations;
- independence requirements for Board audit committee members and our auditors;
- certification of reports under the Securities Exchange Act of 1994 ("Exchange Act") by the chief executive officer, chief financial officer and principal accounting officer;
- disclosure of off-balance sheet transactions;
- expedited reporting of stock transactions by insiders; and
- increased criminal penalties for violations of securities laws.

The Sarbanes-Oxley Act also requires:

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

The SEC has adopted regulations to implement various provisions of the Sarbanes-Oxley Act, including disclosures in periodic filings pursuant to the Exchange Act. Also, in response to the Sarbanes-Oxley Act, NASDAQ adopted new standards for listed companies. In 2004, the Sarbanes-Oxley Act substantially increased our reporting and compliance expenses.

**Emergency Economic Stabilization Act of 2008.** This act granted broad powers to the U.S. Treasury, the FDIC, and the Federal Reserve to stabilize the financial markets under the following programs:

- the Capital Purchase Program allocated \$250 billion to the United States Treasury ("Treasury") to purchase senior preferred shares and warrants to purchase common stock from approved financial institutions;



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the Troubled Asset Purchase Program allocated \$250 billion to the Treasury to purchase troubled assets from financial institutions, with Treasury to also receive securities issued by participating institutions;

the TLGP authorized the FDIC to insure newly issued senior unsecured debt and insure the total balance in non-interest bearing transactional deposit accounts of those institutions who elect to participate; and

the Commercial Paper and Money Market Investor Funding Facilities authorized the Federal Reserve Bank of New York to purchase rated commercial paper from U.S. companies and to purchase money market instruments from U.S. money market mutual funds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act. On July 21, 2010, President Barack Obama signed the Dodd-Frank Act, which was a sweeping overhaul of financial industry regulation. In general, the Act:

Created a systemic-risk council of top regulators, the Financial Stability Oversight Council (FSOC), whose purpose is to identify risks and respond to emerging threats to the financial stability of the U.S. arising from large, interconnected bank holding companies or nonbank financial companies;

Gave the FDIC authority to unwind large failing financial firms. Treasury would supply funds to cover the up-front costs of winding down the failed firm, but the government would have to put a "repayment plan" in place. Regulators will recoup any losses incurred from the wind-down afterwards by assessing fees on financial firms with more than \$50 billion in assets;

Directed the FDIC to base deposit-insurance assessments on assets minus tangible capital instead of on domestic deposits and requires the FDIC to increase premium rates to raise the Deposit Insurance Fund's ("DIF") minimum reserve ratio from 1.15% to 1.35% by September 30, 2020. Banks, like Umpqua, with consolidated assets greater than \$10 billion would pay the increased premiums;

Extended the FDIC's Transaction Account Guarantee (TAG) program to December 31, 2012. There was no "opt-out" from the extension;

Permanently increased FDIC deposit-insurance coverage to \$250,000, retroactive to January 1, 2008. The act also eliminated the 1.5% cap on the DIF reserve ratio and automatic dividends when the ratio exceeds 1.35%. The FDIC also has discretion on whether to provide dividends to DIF members;

Authorized banks to pay interest on business checking accounts, which is likely to significantly increase our interest expense;

Created the CFPB, housed under the Federal Reserve and led by a director appointed by the President and confirmed by the Senate. All existing consumer laws and regulations will be transferred to this agency and each existing regulatory agency will contribute their respective consumer regulatory and exam staffs to the CFPB;

Gave the CFPB the authority to write consumer protection rules for banks and nonbank financial firms offering consumer financial services or products and to ensure that consumers are protected from "unfair, deceptive, or abusive" acts or practices. The CFPB also now has authority to examine and enforce regulations for banks with greater than \$10 billion in assets;

Authorized the CFPB to require banks to compile and provide reports relating to its consumer lending, marketing and other consumer business activities and to make that information available to the public if doing so "in the public interest";

Directed the Federal Reserve to set interchange fees for debit card transactions charged by banks with more than \$10 billion in assets. The Federal Reserve must establish what it determines are reasonable fees by factoring in their transaction costs compared to those for checks;

Requires loan originators to retain 5% of any loan sold and securitized, unless it is a "qualified residential mortgage", which includes standard 30 and 15 year fixed rate loans. It also specifically exempts from risk retention FHA, VA, Farmer Mac and Rural Housing Service loans;

Excludes the proceeds of trust preferred securities from Tier 1 capital except for trust preferred securities issued before May 19, 2010 by bank holding companies, like the Company, with less than \$15 billion in assets at December 31, 2009;

Adopted additional various mortgage lending and predatory lending provisions;

Required federal regulators jointly to prescribe regulations mandating that financial institutions with more than \$1 billion in assets to disclose to their regulators their incentive compensation plans to permit the regulators to determine whether the plans provide executive officers, employees, directors or principal shareholders with excessive compensation, fees or benefits, or could lead to material financial loss to the institution;

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Imposed a number of requirements related to executive compensation that apply to all public companies, such as prohibition of broker discretionary voting in connection with a shareholder vote on executive compensation; mandatory shareholder “say on pay” (every one to three years) and “say on golden parachutes”; and clawback of incentive compensation from current or former executive officers following any accounting restatement;

Established a modified version of the “Volcker Rule” and generally prohibits banks from engaging in proprietary trading or holding or obtaining an interest in a hedge fund or private equity fund, to the extent that it would exceed 3% of the bank's Tier 1 capital. A bank's interest in any single hedge fund or private equity fund may not exceed 3% of the assets of that fund.

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

• Provide employees incentives that appropriately balance risk and reward.

• Be compatible with effective controls and risk- management; and

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

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

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ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the factors discussed below. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Difficult market conditions have adversely affected and may continue to have an adverse effect on our industry. Since 2007, dramatic declines in the housing market, with falling home prices and increasing foreclosures and unemployment and under-employment have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. The protracted poor economy has led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. We have experienced only moderate improvement in these conditions in the recent past, and we do not expect significant improvement in the economy in the near future. There is a risk that economic conditions will deteriorate. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

We face increased regulation of our industry, including regulations promulgated under the Dodd-Frank Act.

• Compliance with such regulation will increase our costs, reduce existing sources of revenue and may limit our ability to pursue business opportunities.

• Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future performance.

The process we use to estimate losses inherent in our loan portfolio requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which process may no longer be capable of accurate estimation and may, in turn, impact its reliability.

• There may be downward pressure on our stock price.

• We may face increased competition due to intensified consolidation of the financial services industry.

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

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

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

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

As of December 31, 2013, approximately 74% of our total loan portfolio is secured by real estate, the majority of which is commercial real estate. Increases in commercial and consumer delinquency levels or continued declines in real estate market values would require increased net charge-offs and increases in the allowance for loan and lease

losses, which could have a material adverse effect on our business, financial condition and results of operations and prospects.

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



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At December 31, 2013, impaired loans of \$68.8 million were classified as performing restructured loans. We restructured the loans in response to borrower financial difficulty, by providing modification of loan repayment terms. Loans are reported as restructured when we grant significant concessions to a borrower experiencing financial difficulties that we would not otherwise consider. Examples of such concessions include forgiveness of principal or accrued interest, extending loan maturity dates or providing a lower interest rate than would be normally available for a transaction of similar risk. In exchange for these concessions, at the time of restructure, we require additional collateral to bring the loan to value to at most 100%. A further decline in the economic conditions in our general market areas or other factors could adversely impact borrowers with restructured loans and cause borrowers to become delinquent or otherwise default or call into question their ability to repay full interest and principal in accordance with the restructured terms, which would result in the restructured loan being reclassified as a non-accrual loan. The effects of the economic recession have been particularly severe in our primary market areas in the Pacific Northwest, Northern California, and Nevada.

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

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

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

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

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

Management must certify to the FDIC on a quarterly basis our compliance with the terms of the Loss share Agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The required terms of the Loss Share Agreements are extensive and failure to comply with any of the guidelines could result in a specific asset or group of assets permanently losing their loss-sharing coverage. Additionally, management may decide to forgo loss-share coverage on certain assets to allow greater flexibility over the management of certain assets. As of December 31, 2013, covered assets were \$366.1 million, or 3.1%, of the Company's total assets.

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

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

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The successful closing and integration of our proposed merger with Sterling is presently our top priority and it will take significant resources over the next 12 to 24 months to accomplish that goal. During this integration phase it is unlikely that we would receive regulatory approval to acquire another bank and our ability to engage in traditional merger and acquisition transactions will be constrained over the near term.

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

Our earnings are largely derived from net interest income, which is interest income and fees earned on loans and investments, less interest paid on deposits and other borrowings. Interest rates are highly sensitive to many factors that are beyond the control of our management, including general economic conditions and the policies of various governmental and regulatory authorities. As interest rates change, net interest income is affected. With fixed rate assets (such as fixed rate loans and most investment securities) and liabilities (such as certificates of deposit), the effect on net interest income depends on the cash flows associated with the maturity of the asset or liability.

Asset/liability management policies may not be successfully implemented and from time to time our risk position is not balanced. An unanticipated rapid decrease or increase in interest rates could have an adverse effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore on the level of net interest income. For instance, any rapid increase in interest rates in the future could result in interest expense increasing faster than interest income because of fixed rate loans and longer-term investments. Historically low rates for an extended period of time result in reduced returns from the investment and loan portfolios. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth than previously experienced. See Management's Discussion and Analysis of Financial Condition and Results of Operations—"Quantitative and Qualitative Disclosures about Market Risk".

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

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

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

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

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

We are subject to extensive regulation under federal and state laws. These laws and regulations are primarily intended to protect customers, depositors and the deposit insurance fund, rather than shareholders. The Bank is an Oregon state-chartered commercial bank whose primary regulator is the DSBS. The Bank is also subject to the supervision by

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

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

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

New rules will require increased capital and restrict TRUPS as a component of as Tier 1 Capital.

In June 2013, federal banking regulators jointly issued the Basel III Rules. The rules impose new capital requirements and implement Section 171 of the Dodd Frank Act. The new rules are to be phased in through 2019, beginning January 1, 2015. Among other things, the rules will require that we maintain a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a leverage ratio of 4%. In addition, we will have to maintain an additional capital conservation buffer of 2.5% of total risk weighted assets or be subject to limitations on dividends and other capital distributions, as well as limiting discretionary bonus payments to executive officers. The new rules also restrict trust preferred securities/junior subordinated debentures ("TRUPS") from comprising more than 25% of our Tier 1 capital. TRUPS now constitute approximately 18% of our Tier 1 capital. If an institution grows above \$15 billion as a result of an acquisition, or organically grows above \$15 billion and then makes an acquisition, the combined trust preferred issuances would be phased out of Tier 1 and into Tier 2 capital (75% in 2015 and 100% in 2016). It is possible the Company may accelerate redemption of the existing junior subordinated debentures. This could result in adjustments to the fair value of these instruments including the acceleration of losses on junior subordinated debentures carried at fair value within non-interest income. The Company currently does not intend to redeem the junior subordinated debentures following the proposed merger in order to support regulatory total capital levels. The new rules may require us to raise more common capital or other capital that qualifies as Tier 1 capital. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital and result in regulatory actions if we were to be unable to comply with such requirements. But based on the current components and levels of our capital and assets, we believe that we will be in compliance with the new capital requirements.

Conditions in the financial markets may limit our access to additional funding to meet our liquidity needs.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. An adverse regulatory action against us could detrimentally impact our access to liquidity sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole as evidenced by turmoil in the domestic and worldwide credit markets.

Our wholesale funding sources may prove insufficient to support our future growth or an unexpected reduction in deposits.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. If we grow more rapidly than any increase in our deposit balances, we are likely to become

more dependent on these sources, which include Federal Home Loan Bank advances, proceeds from the sale of loans and liquidity resources at the holding company. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs, and our profitability would be adversely affected. As a bank holding company that conducts substantially all of our operations through the Bank, our ability to pay dividends, repurchase our shares or to repay our indebtedness depends upon liquid assets held by the holding company and the results of operations of our subsidiaries.

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The Company is a separate and distinct legal entity from our subsidiaries and it receives substantially all of its revenue from dividends paid from the Bank. There are legal limitations on the extent to which the Bank may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, us. Our inability to receive dividends from the Bank could adversely affect our business, financial condition, results of operations and prospects.

Our net income depends primarily upon the Bank's net interest income, which is the income that remains after deducting from total income generated by earning assets the expense attributable to the acquisition of the funds required to support earning assets (primarily interest paid on deposits). The amount of interest income is dependent on many factors including the volume of earning assets, the general level of interest rates, the dynamics of changes in interest rates and the levels of nonperforming loans. All of those factors affect the Bank's ability to pay dividends to the Company.

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

A decline in the Company's stock price or expected future cash flows, or a material adverse change in our results of operations or prospects, could result in impairment of our goodwill

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

We have a gross deferred tax asset position of \$98.4 million at December 31, 2013, and we are required to assess the recoverability of this asset on an ongoing basis.

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

We are pursuing an aggressive growth strategy that is expected to include mergers and acquisitions, which could create integration risks.

Umpqua is among the fastest-growing community financial services organizations in the United States. Since 2000, we have completed the acquisition and integration of 11 other financial institutions. There is no assurance that future acquisitions will be successfully integrated. We continue to pursue traditional merger and acquisition transactions and to open new stores in Oregon, Washington and California to continue our growth strategy. If we pursue our growth strategy too aggressively, or if factors beyond management's control divert attention away from our integration plans, we might not be able to realize some or all of the anticipated benefits. Moreover, we are dependent on the efforts of key personnel to achieve the synergies associated with our acquisitions. The loss of one or more of our key persons

could have a material adverse effect upon our ability to achieve the anticipated benefits.  
The financial services industry is highly competitive with respect to deposits, loans and products.



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We face pricing competition for loans and deposits. We also face competition with respect to customer convenience, product lines, accessibility of service and service capabilities. Our most direct competition comes from other banks, brokerages, mortgage companies and savings institutions. We also face competition from credit unions, government-sponsored enterprises, mutual fund companies, insurance companies and other non-bank businesses. This significant competition in attracting and retaining deposits and making loans as well as in providing other financial services throughout our market area may impact future earnings and growth. Our success depends, in part, on the ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and non-interest income from fee-based products and services. In addition, new technology-driven products and services are often introduced and adopted, which could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services or those new products may not achieve market acceptance. We could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases. As a result, our business, financial condition or results of operations may be adversely affected.

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

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

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

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

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

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

Our business involves storing and processing sensitive consumer and business customer data. A cyber security breach may result in theft of such data or disruption of our transaction processing systems. We depend on internal systems and outsourced technology to support these data storage and processing operations. Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations. A material breach of customer data security may negatively impact our business reputation and cause a loss of customers, result in increased expense to contain the event and/or require that we provide credit monitoring

services for affected customers, result in regulatory fines and sanctions and/or result in litigation. Cyber security risk management programs are expensive to maintain and will not protect the Company from all risks associated with maintaining the security of customer data and the Company's proprietary data from external and internal intrusions, disaster recovery and failures in the controls used by our vendors. In addition, Congress and the legislatures of states in which we operate regularly consider legislation that would impose more stringent data privacy requirements. Our business is highly reliant on third party vendors and our ability to manage the operational risks associated with outsourcing those services.

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

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

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

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

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

The market price of Umpqua common stock after the Merger may be affected by factors different from those affecting the shares of Sterling or Umpqua currently.

Upon completion of the Merger, holders of Sterling common stock will become holders of Umpqua common stock. Umpqua's business differs in important respects from that of Sterling, and, accordingly, the results of operations of the combined company and the market price of Umpqua common stock after the completion of the Merger may be affected by factors different from those currently affecting the independent results of Umpqua's operations.

Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the merger. Before the Merger and the related merger of the Bank and Sterling Savings Bank may be completed, Umpqua and Sterling must obtain approvals from the Federal Reserve Board, the FDIC, the Director of the DCBS, and the Director of the DFI. Other approvals, waivers or consents from regulators may also be required. In determining whether to grant these approvals the regulators consider a variety of factors, including the regulatory standing of each party. An adverse development in either party's regulatory standing or other factors could result in an inability to obtain approval or delay their receipt. Regulators may impose conditions on the completion of the Merger or the bank merger or require changes to the terms of the Merger or the bank merger. Such conditions or changes could have the effect of delaying or preventing completion of the Merger or the bank merger or imposing additional costs on or limiting the

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revenues of the combined company following the Merger and the bank merger, any of which might have an adverse effect on the combined company following the merger.

Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the merger may not be realized.

Umpqua and Sterling have operated and, until the completion of the Merger, will continue to operate, independently. The success of the Merger, including anticipated benefits and cost savings, will depend, in part, on Umpqua's ability to successfully combine and integrate the businesses of Umpqua and Sterling in a manner that permits growth opportunities and does not materially disrupt the existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. The loss of key employees could adversely affect Umpqua's ability to successfully conduct its business, which could have an adverse effect on Umpqua's financial results and the value of its common stock. If Umpqua experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause Umpqua and/or Sterling to lose customers or cause customers to remove their accounts from Umpqua and/or Sterling and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of Umpqua and Sterling during this transition period and for an undetermined period after completion of the Merger on the combined company. In addition, the actual cost savings of the Merger could be less than anticipated.

Termination of the Merger agreement could negatively impact Umpqua.

If the Merger agreement is terminated, there may be various consequences. For example, Umpqua's businesses may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the merger. Umpqua has also devoted significant internal resources to the pursuit of the Merger and the expected benefit of those resource allocations would be lost if the merger is not completed. Additionally, if the Merger agreement is terminated, the market price of Umpqua's common stock could decline to the extent that the current market prices reflect a market assumption that the merger will be completed. If the Merger agreement is terminated under certain circumstances, Umpqua may be required to pay to Sterling a termination fee of \$75 million.

Umpqua will be subject to business uncertainties and contractual restrictions while the Merger is pending.

Uncertainty about the effect of the Merger on employees and customers may have an adverse effect on Umpqua. These uncertainties may impair Umpqua's ability to attract, retain and motivate key personnel until the Merger is completed, and could cause customers and others that deal with Umpqua to seek to change existing business relationships. Retention of certain employees by Umpqua may be challenging while the merger is pending, as certain employees may experience uncertainty about their future roles with Umpqua. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with Umpqua, Umpqua's business could be harmed. In addition, subject to certain exceptions, each of Umpqua and Sterling has agreed to operate its business in the ordinary course prior to closing.

If the Merger is not completed, Umpqua will have incurred substantial expenses without realizing the expected benefits of the Merger.

Umpqua has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Merger agreement. If the Merger is not completed, Umpqua would have to recognize these expenses without realizing the expected benefits of the Merger.

The merger agreement limits Umpqua's ability to pursue acquisition proposals and requires us to pay a termination fee of \$75 million under limited circumstances, including circumstances relating to acquisition proposals. Additionally, certain provisions of Umpqua's articles of incorporation and bylaws may deter potential acquirers.

The Merger agreement prohibits Umpqua from soliciting, initiating, knowingly encouraging or knowingly facilitating certain third party acquisition proposals. The Merger agreement also provides that Umpqua must pay a termination fee

in the amount of \$75 million in the event that the Merger agreement is terminated under certain circumstances, including Umpqua's failure to abide by certain obligations not to solicit acquisition proposals. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Umpqua from considering or proposing such an acquisition. Additionally, Umpqua's restated articles of incorporation authorize the board of directors, when evaluating a merger, tender offer or exchange offer, sale of substantially all assets or similar transaction to consider the effects on Umpqua's employees, customers, suppliers and

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communities as well as its shareholders. This provision can be amended only by the affirmative vote of at least 75% of outstanding shares. In addition, under both Oregon and Washington law, certain business combinations involving Umpqua or Sterling with their large shareholders are restricted without the approval of the board of directors of Umpqua or Sterling, respectively.

In addition, in connection with the merger agreement, certain funds associated with Warburg Pincus & Co. (which we refer to collectively as “Warburg Pincus”) and certain funds associated with Thomas H. Lee Advisors, LLC (which we refer to collectively as “Thomas H. Lee”), which collectively as of the Merger announcement date had the right to vote approximately 44% of the outstanding shares of Sterling common stock, agreed, subject to certain exceptions to vote their shares of Sterling common stock in favor of the Merger.

These provisions and agreements, and other provisions of Umpqua’s articles of incorporation or bylaws or of the Oregon Business Corporation Act, could make it more difficult for a third party to acquire control of Umpqua or Sterling or may discourage a potential competing acquirer.

Holders of Umpqua common stock will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

Holders of Umpqua common stock currently have the right to vote in the election of the board of directors and on other matters affecting Umpqua. Upon the completion of the Merger, each Sterling shareholder who receives shares of Umpqua common stock will become a shareholder of Umpqua. It is currently expected that the former shareholders of Sterling as a group will receive shares in the Merger constituting approximately 49% of the outstanding shares of Umpqua common stock immediately after the Merger. As a result, current shareholders of Umpqua as a group will own approximately 51% of the outstanding shares of Umpqua common stock immediately after the Merger. Because of this, current Umpqua shareholders may have less influence than they now have on the management and policies of Umpqua.

Umpqua’s shareholders may not approve the increase in authorized shares of common stock necessary to pay the merger consideration to Sterling.

Umpqua’s shareholders will be asked to approve an amendment to Umpqua’s restated articles of incorporation to increase the number of authorized shares of no par value common stock from 200,000,000 to 400,000,000. Currently, Umpqua does not have sufficient shares of common stock authorized, unissued and unreserved under its restated articles of incorporation to allow for the issuance of the shares needed to complete the Merger. If Umpqua fails to obtain shareholder approval of the articles amendment proposal, the merger agreement may be terminated.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

The executive offices of Umpqua and Umpqua Investments are located at One SW Columbia Street in Portland, Oregon in office space that is leased. The Bank's headquarters, located in Roseburg, Oregon, is owned. At December 31, 2013, the Bank conducted community banking activities or operated Commercial Banking Centers at 206 locations, in Northern California, Oregon and Washington along the I-5 corridor; in the San Francisco Bay area, Inland Foothills, Napa, and Coastal regions in California; in Bend and along the Pacific Coast of Oregon; in greater Seattle and Bellevue, Washington, and in Reno, Nevada, of which 65 are owned and 141 are leased under various agreements. As of December 31, 2013, the Bank also operated 13 facilities for the purpose of administrative and other functions, such as back-office support, of which 4 are owned and 9 are leased. All facilities are in a good state of repair and appropriately designed for use as banking or administrative office facilities. As of December 31, 2013, Umpqua Investments leased four stand-alone offices from unrelated third parties, one stand-alone office from the Bank, and also leased space in nine Bank stores under lease agreements based on market rates.

Additional information with respect to owned premises and lease commitments is included in Notes 8 and 20, respectively, of the Notes to Consolidated Financial Statements in Item 8 below.

ITEM 3. LEGAL PROCEEDINGS.

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

In our Form 10-K for the period ending December 31, 2011, we initially reported on a class action lawsuit filed in the U.S. District Court for the Northern District of California against the Bank by Amber Hawthorne relating to overdraft fees and the posting order of point of sale and ACH items. On October 25, 2013, U.S. District Judge Jon S. Tigar issued an order dismissing with prejudice the plaintiff's claims for "unfair" prong of the California Unfair Competition Law (the UCL), breach of the implied covenant of good faith and fair dealing, breach of contract, and unjust enrichment. Accordingly, the only claims remaining in the action are for alleged violation of the "unlawful" and "fraudulent" prongs of the UCL and for conversion.

The Company has also been named as a defendant in two separate class action lawsuits filed in Spokane County, Washington, Superior Court arising from the proposed Sterling merger (Case Nos. 13-2-03848-4 and 13-2-03904-9). Specifically, the plaintiffs in the actions allege that Sterling and its directors breached their fiduciary shareholder duties by agreeing to the merger terms and that the Company aided and abetted such breach. The actions further seek to enjoin the proposed Sterling merger. The court has consolidated the cases before a single judge for further administration. On January 16, 2014, the parties executed a Memorandum of Understanding (the "MOU") that contains the essential terms of a settlement and dismissal of the consolidated cases. The MOU does not call for the payment of any money damages, but does require the defendants to make certain additional disclosures relating to the proposed merger and to pay the attorney fees, costs, and expenses of plaintiffs' counsel incurred in connection with the action. The terms of the MOU further provided that if the parties cannot agree on the amount of fees, costs, and expenses to be paid by the defendants to plaintiffs' counsel, such amount shall be decided by the court.

See Note 20 (Legal Proceedings) of the Notes to Consolidated Financial Statements in Item 8 below for a discussion of the Company's involvement in litigation pertaining to Visa, Inc.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

PART II



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

(a) Our common stock is traded on The NASDAQ Global Select Market under the symbol "UMPQ." As of December 31, 2013, there were 200,000,000 common shares authorized for issuance. The following table presents the high and low sales prices of our common stock for each period, based on inter-dealer prices that do not include retail mark-ups, mark-downs or commissions, and cash dividends declared for each period:

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Quarter Ended	High	Low	Cash Dividend Per Share
December 31, 2013	\$19.65	\$16.09	\$0.15
September 30, 2013	\$17.48	\$15.08	\$0.15
June 30, 2013	\$15.29	\$11.45	\$0.20
March 31, 2013	\$13.54	\$12.00	\$0.10
December 31, 2012	\$13.03	\$11.17	\$0.09
September 30, 2012	\$13.88	\$11.84	\$0.09
June 30, 2012	\$13.72	\$11.84	\$0.09
March 31, 2012	\$13.86	\$11.72	\$0.07

As of December 31, 2013, our common stock was held by approximately 4,299 shareholders of record, a number that does not include beneficial owners who hold shares in “street name”, or shareholders from previously acquired companies that have not exchanged their stock. At December 31, 2013, a total of 981,000 stock options, 992,000 shares of restricted stock and 95,000 restricted stock units were outstanding. Additional information about stock options, restricted stock and restricted stock units is included in Note 22 of the Notes to Consolidated Financial Statements in Item 8 below and in Item 12 below.

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

During 2013, Umpqua's Board of Directors approved a quarterly cash dividend of \$0.10 per common share for the first quarter, \$0.20 per common share for the second quarter and \$0.15 per common share for the third and fourth quarters. These dividends were made pursuant to our existing dividend policy and in consideration of, among other things, earnings, regulatory capital levels, the overall payout ratio and expected asset growth. We expect that the dividend rate will be reassessed on a quarterly basis by the Board of Directors in accordance with the dividend policy. We have a dividend reinvestment plan that permits shareholder participants to purchase shares at the then-current market price in lieu of the receipt of cash dividends. Shares issued in connection with the dividend reinvestment plan are purchased in open market transactions.

#### Equity Compensation Plan Information

The following table sets forth information about equity compensation plans that provide for the award of securities or the grant of options to purchase securities to employees and directors of Umpqua and its subsidiaries and predecessors by merger that were in effect at December 31, 2013.

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(shares in thousands)

Plan category	Equity Compensation Plan Information		
	(A) Number of securities to be issued upon exercise of outstanding options warrants and rights	(B) Weighted average exercise price of outstanding options, warrants and rights (4)	(C) Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (A)
Equity compensation plans approved by security holders			
2013 Stock Incentive Plan (1)	—	\$—	3,831
2003 Stock Incentive Plan (1)	981	\$16.58	—
2007 Long Term Incentive Plan (1),(2)	95	\$—	—
Other (3)	38	\$15.87	—
Total	1,114	\$16.17	3,831
Equity compensation plans not approved by security holders	—	\$—	—
Total	1,114	\$16.17	3,831

At the annual meeting on April 16, 2013, shareholders approved the Company's 2013 Incentive Plan (the "2013 Plan"), which, among other things, authorizes the issuance of equity awards to directors and employees and reserves 4,000,000 shares of the Company's common stock for issuance under the plan. With the adoption of the 2013 Plan, no additional awards will be issued from the 2003 Stock Incentive Plan or the 2007 Long Term Incentive Plan. The Company has options outstanding under two prior plans adopted in 1995 and 2000, respectively. With the adoption (1) of the 2013 Plan, no additional grants can be issued under the previous plans. The Company also assumed various plans in connection with mergers and acquisitions but does not make grants under those plans. Stock options and restricted stock awards generally vest ratably over three to five years and are recognized as expense over that same period of time. Under the terms of the 2013 Plan, options and awards generally vest ratably over a period of three to five years, the exercise price of each option equals the market price of the Company's common stock on the date of the grant, and the maximum term is ten years.

At Umpqua's 2007 Annual Meeting, shareholders approved a 2007 Long Term Incentive Plan. The plan authorized the issuance of one million shares of stock through awards of performance-based restricted stock unit grants to executive officers. There were no grants approved to be issued in 2013 and target grants of 20,000 and maximum grants of 25,000 were approved to be issued in 2012 under this plan. During 2011, 63,300 units vested and were (2) released and 47,475 units forfeited. During 2012, no units vested and were released and 113,750 units forfeited. During 2013, no units vested and were released and 35,000 units forfeited. As of December 31, 2013, 95,000 restricted stock units are expected to vest if the current estimate of performance-based targets is satisfied, and there are no securities available for future issuance.

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

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

(b) Not applicable.

(c) The following table provides information about repurchases of common stock by the Company during the quarter ended December 31, 2013:

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Period	Total number of Common Shares Purchased (1)	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Remaining Shares that May be Purchased at Period End under the Plan
10/1/13 - 10/31/13	200	\$16.40	—	12,013,429
11/1/13 - 11/30/13	228,282	\$17.32	—	12,013,429
12/1/13 - 12/31/13	37,031	\$18.88	—	12,013,429
Total for quarter	265,513	\$17.54	—	

Shares repurchased by the Company during the quarter consist of cancellation of 1,134 restricted shares to pay (1) withholding taxes. There were 264,379 shares tendered in connection with option exercises and no shares were repurchased pursuant to the Company's publicly announced corporate stock repurchase plan described in (2) below.

The Company's share repurchase plan, which was first approved by the Board and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. The repurchase program was extended in April 2013 to run through June 2015. As of (2) December 31, 2013, a total of 12.0 million shares remained available for repurchase. The Company repurchased 98,027 shares in 2013, 512,280 shares in 2012, and 2.5 million shares under the repurchase plan in 2011. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan.

There were 438,136 and 37,720 shares tendered in connection with option exercises during the years ended December 31, 2013 and 2012, respectively. Restricted shares cancelled to pay withholding taxes totaled 48,514 and 45,873 shares during the years ended December 31, 2013 and 2012, respectively. There were no restricted stock units cancelled to pay withholding taxes during the years ended December 31, 2013 and 2012, respectively.

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## Stock Performance Graph

The following chart, which is furnished not filed, compares the yearly percentage changes in the cumulative shareholder return on our common stock during the five fiscal years ended December 31, 2013, with (i) the Total Return Index for NASDAQ Bank Stocks (ii) the Total Return Index for The Nasdaq Stock Market (U.S. Companies) and (iii) the Standard and Poor's 500. This comparison assumes \$100.00 was invested on December 31, 2008, in our common stock and the comparison indices, and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. Price information from December 31, 2008 to December 31, 2013, was obtained by using the NASDAQ closing prices as of the last trading day of each year.

	Period Ending					
	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Umpqua Holdings Corporation	\$100.00	\$93.10	\$85.95	\$89.49	\$87.45	\$149.79
Nasdaq Bank Stocks	\$100.00	\$65.67	\$74.97	\$67.10	\$79.64	\$143.84
Nasdaq U.S.	\$100.00	\$87.24	\$103.08	\$102.26	\$120.42	\$281.22
S&P 500	\$100.00	\$79.68	\$91.68	\$93.61	\$108.59	\$228.19

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## ITEM 6. SELECTED FINANCIAL DATA.

Umpqua Holdings Corporation  
Annual Financial Trends

(in thousands, except per share data)

	2013	2012	2011	2010	2009
Interest income	\$442,846	\$456,085	\$501,753	\$488,596	\$423,732
Interest expense	37,881	48,849	73,301	93,812	103,024
Net interest income	404,965	407,236	428,452	394,784	320,708
Provision for non-covered loan and lease losses	16,829	21,796	46,220	113,668	209,124
(Recapture of) provision for covered loan and lease losses	(6,113)	)7,405	16,141	5,151	—
Non-interest income	121,441	136,829	84,118	75,904	73,516
Non-interest expense	355,825	357,314	338,611	311,063	267,178
Goodwill impairment	—	—	—	—	111,952
Merger related expenses	8,836	2,338	360	6,675	273
Income (loss) before provision for (benefit from) income taxes	151,029	155,212	111,238	34,131	(194,303 )
Provision for (benefit from) income taxes	52,668	53,321	36,742	5,805	(40,937 )
Net income (loss)	98,361	101,891	74,496	28,326	(153,366 )
Preferred stock dividends	—	—	—	12,192	12,866
Dividends and undistributed earnings allocated to participating securities	788	682	356	67	30
Net earnings (loss) available to common shareholders	\$97,573	\$101,209	\$74,140	\$16,067	\$(166,262 )

## YEAR END

Assets	\$11,636,112	\$11,795,443	\$11,562,858	\$11,668,710	\$9,381,372
Earning assets	10,267,981	10,465,505	10,263,923	10,374,131	8,344,203
Non-covered loans and leases <sup>(1)</sup>	7,354,403	6,681,080	5,888,098	5,658,987	5,999,267
Covered loans and leases, net	363,992	477,078	622,451	785,898	—
Deposits	9,117,660	9,379,275	9,236,690	9,433,805	7,440,434
Term debt	251,494	253,605	255,676	262,760	76,274
Junior subordinated debentures, at fair value	87,274	85,081	82,905	80,688	85,666
Junior subordinated debentures, at amortized cost	101,899	110,985	102,544	102,866	103,188
Common shareholders' equity	1,727,426	1,724,039	1,672,413	1,642,574	1,362,182
Total shareholders' equity	1,727,426	1,724,039	1,672,413	1,642,574	1,566,517
Common shares outstanding	111,973	111,890	112,165	114,537	86,786

## AVERAGE

Assets	\$11,507,688	\$11,499,499	\$11,600,435	\$10,830,486	\$8,975,178
Earning assets	10,224,606	10,252,167	10,332,242	9,567,341	7,925,014
Non-covered loans and leases <sup>(1)</sup>	6,950,740	6,153,116	5,723,771	5,783,452	6,103,666
Covered loans and leases, net	416,862	554,078	707,026	681,569	—
Deposits	9,057,673	9,124,619	9,301,978	8,607,980	7,010,739
Term debt	252,546	254,601	257,496	261,170	129,814
Junior subordinated debentures	189,237	187,139	184,115	184,134	190,491
Common shareholders' equity	1,729,083	1,701,403	1,671,893	1,589,393	1,315,953
Total shareholders' equity	1,729,083	1,701,403	1,671,893	1,657,544	1,519,119

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Basic common shares outstanding	111,938	111,935	114,220	107,922	70,399
Diluted common shares outstanding	112,176	112,151	114,409	108,153	70,399

PER COMMON SHARE DATA

Basic earnings (loss)	\$0.87	\$0.90	\$0.65	\$0.15	\$(2.36 )
Diluted earnings (loss)	0.87	0.90	0.65	0.15	(2.36 )
Book value	15.43	15.41	14.91	14.34	15.70

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Tangible book value <sup>(2)</sup>	8.49	9.28	8.87	8.39	8.33	
Cash dividends declared	0.60	0.34	0.24	0.20	0.20	
(dollars in thousands)						
	2013	2012	2011	2010	2009	
<b>PERFORMANCE RATIOS</b>						
Return on average assets <sup>(3)</sup>	0.85	%0.88	%0.64	%0.15	%(1.85)	)%
Return on average common shareholders' equity <sup>(4)</sup>	5.64	%5.95	%4.43	%1.01	%(12.63)	)%
Return on average tangible common shareholders' equity <sup>(5)</sup>	9.78	%9.87	%7.47	%1.76	%(26.91)	)%
Efficiency ratio <sup>(6), (7)</sup>	68.68	%65.54	%65.58	%66.90	%95.34	%
Average common shareholders' equity to average assets	15.03	%14.80	%14.41	%14.68	%14.66	%
Leverage ratio <sup>(8)</sup>	10.90	%11.44	%10.91	%10.56	%12.79	%
Net interest margin (fully tax equivalent) <sup>(9)</sup>	4.01	%4.02	%4.19	%4.17	%4.09	%
Non-interest revenue to total net revenue <sup>(10)</sup>	23.07	%25.15	%16.41	%16.13	%18.65	%
Dividend payout ratio <sup>(11)</sup>	68.97	%37.78	%36.92	%133.33	%(8.47)	)%
<b>ASSET QUALITY</b>						
Non-covered, non-performing loans and leases	\$35,321	\$70,968	\$91,383	\$145,248	\$199,027	
Non-covered, non-performing assets	57,154	88,106	125,558	178,039	223,593	
Allowance for non-covered loan and lease losses	85,314	85,391	92,968	101,921	107,657	
Net non-covered charge-offs	16,906	29,373	55,173	119,404	197,332	
Non-covered, non-performing loans and leases to non-covered loans and leases	0.48	%1.06	%1.55	%2.57	%3.32	%
Non-covered, non-performing assets to total assets	0.49	%0.75	%1.09	%1.53	%2.38	%
Allowance for non-covered loan and lease losses to total non-covered loans and leases	1.16	%1.28	%1.58	%1.80	%1.79	%
Allowance for non-covered credit losses to non-covered loans and leases	1.18	%1.30	%1.59	%1.82	%1.81	%
Net charge-offs to average non-covered loans and leases	0.24	%0.48	%0.96	%2.06	%3.23	%

(1) Excludes loans held for sale

Average common shareholders' equity less average intangible assets (excluding MSR) divided by shares outstanding at the end of the year. See Management's Discussion and Analysis of Financial Condition and Results

(2) of Operations—"Results of Operations - Overview" for the reconciliation of non-GAAP financial measures, in Item 7 of this report.

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

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

Net earnings (loss) available to common shareholders divided by average common shareholders' equity less average intangible assets. See Management's Discussion and Analysis of Financial Condition and Results of

(5) Operations—"Results of Operations - Overview" for the reconciliation of non-GAAP financial measures, in Item 7 of this report.

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

The efficiency ratio calculation includes goodwill impairment charges of \$112.0 million in 2009. Goodwill

(7) impairment losses are a non-cash expense that have no direct effect on the Company's or the Bank's liquidity or capital ratios.

(8)

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

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

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

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

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

### FORWARD LOOKING STATEMENTS AND RISK FACTORS

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

### EXECUTIVE OVERVIEW

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Significant items for the year ended December 31, 2013 were as follows:

#### Financial Performance

Net earnings available to common shareholders per diluted common share were \$0.87 for the year ended December 31, 2013, as compared to \$0.90 for the year ended December 31, 2012. Operating earnings per diluted common share, defined as earnings available to common shareholders before net gains or losses on junior subordinated debentures carried at fair value, net of tax and merger related expenses, net of tax, divided by the same diluted share total used in determining diluted earnings per common share, were \$0.94 for the year ended December 31, 2013, as compared to operating income per diluted common share of \$0.93 for the year ended December 31, 2012. Operating income per diluted share is considered a “non-GAAP” financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading Results of Operations - Overview below.

Net interest margin, on a tax equivalent basis, was 4.01% for the year ended December 31, 2013, compared to 4.02% for the year ended December 31, 2012. The decrease in net interest margin resulted from the decline in non-covered loan and lease yields, the decline in investment yields, an increase in interest bearing cash, the decrease in average investment balances and in average covered loan balances, partially offset by the increase in average non-covered loans and leases outstanding, the increase in non-interest bearing deposits, and the decrease in the cost of interest bearing deposits. Excluding the impact of loan disposal gains from the covered loan portfolio and interest and fee reversals on non-accrual loans, our adjusted net interest margin was 3.89% for the year ended December 31, 2013, as compared to adjusted net interest margin of 3.86% for the year ended December 31, 2012. Adjusted net interest margin is considered a “non-GAAP” financial measure. More information regarding this measurement and reconciliation to the comparable GAAP measurement is provided under the heading Results of Operations - Overview below.

Mortgage banking revenue was \$78.9 million for 2013, compared to \$84.2 million for 2012. Closed mortgage volume decreased 12% in the current year-to-date over the prior year same period due to lower refinancing activity attributable to the increase in mortgage interest rates, partially offset by increased purchase activity driven by continued improvement of the housing market.

Total gross non-covered loans and leases were \$7.4 billion as of December 31, 2013, an increase of \$673.3 million, or 10.1%, as compared to December 31, 2012. This increase is attributable to increased commercial real estate, commercial, and residential mortgage production during the year as well as the acquired FinPac lease portfolio.

Total deposits were \$9.1 billion as of December 31, 2013, a decrease of \$261.6 million, or 2.8%, as compared to December 31, 2012. The decline resulted primarily from customer transfers of balances to securities sold under agreements to repurchase and from anticipated run-off of higher priced money market and time deposits.

Total consolidated assets were \$11.6 billion as of December 31, 2013, as compared to \$11.8 billion at December 31, 2012.

#### Credit Quality

Non-covered, non-performing assets decreased to \$57.2 million, or 0.49% of total assets, as of December 31, 2013, as compared to \$88.1 million, or 0.75% of total assets, as of December 31, 2012. Non-covered, non-performing loans and leases decreased to \$35.3 million, or 0.48% of total non-covered loans and leases, as of December 31, 2013, as compared to \$71.0 million, or 1.06% of total non-covered loans and leases as of December 31, 2012. Non-accrual loans have been written-down to their estimated net realizable values.

Net charge-offs on non-covered loans were \$16.9 million for the year ended December 31, 2013, or 0.24% of average non-covered loans and leases, as compared to net charge-offs of \$29.4 million, or 0.48% of average non-covered loans and leases, for the year ended December 31, 2012.

The provision for non-covered loan and lease losses was \$16.8 million for 2013, as compared to \$21.8 million recognized for 2012. This change resulted primarily from a decrease in net charge-offs as a result of continued reduction of non-performing loans and leases.

#### Capital and Growth Initiatives

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Total risk based capital decreased to 14.7% as of December 31, 2013, compared to 16.5% as of December 31, 2012, due to the increase in goodwill and risk-weighted assets as compared to December 31, 2012, as a result of the FinPac acquisition and organic loan growth.

Declared cash dividends of \$0.60 per common share for 2013 compared to \$0.34 per common share for 2012.

Completed the acquisition of FinPac in July 2013 and announced in September 2013, the proposed merger with Sterling.

Opened four new Home Lending offices and four new Community Banking stores.

## SUMMARY OF CRITICAL ACCOUNTING POLICIES

The SEC defines “critical accounting policies” as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in future periods. Our significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements in Item 8 of this report. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. Management believes that the following policies would be considered critical under the SEC's definition.

### Allowance for Loan and Lease Losses and Reserve for Unfunded Commitments

The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality and adherence to underwriting standards. When loans and leases are originated, they are assigned a risk rating that is reassessed periodically during the term of the loan through the credit review process. The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the allowance for loan and lease losses. The Bank has a management Allowance for Loan and Lease Losses (“ALLL”) Committee, which is responsible for, among other things, regularly reviewing the ALLL methodology, including loss factors, and ensuring that it is designed and applied in accordance with generally accepted accounting principles. The ALLL Committee reviews and approves loans and leases recommended for impaired status. The ALLL Committee also approves removing loans and leases from impaired status. The Bank's Audit and Compliance Committee provides board oversight of the ALLL process and reviews and approves the ALLL methodology on a quarterly basis.

Each risk rating is assessed an inherent credit loss factor that determines the amount of the allowance for loan and lease losses provided for that group of loans and leases with similar risk rating. Credit loss factors may vary by region based on management's belief that there may ultimately be different credit loss rates experienced in each region. Regular credit reviews of the portfolio also identify loans that are considered potentially impaired. Potentially impaired loans are referred to the ALLL Committee which reviews and approves designated loans as impaired. A loan is considered impaired when based on current information and events, we determine that we will probably not be able to collect all amounts due according to the loan contract, including scheduled interest payments. When we identify a loan as impaired, we measure the impairment using discounted cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we use the current fair value of the collateral, less selling costs, instead of discounted cash flows. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we either recognize an impairment reserve as a specific component to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. The combination of the risk rating-based allowance component and the impairment reserve allowance component lead to an allocated allowance for loan and lease losses.

The Bank may also maintain an unallocated allowance amount to provide for other credit losses inherent in a loan and lease portfolio that may not have been contemplated in the credit loss factors. This unallocated amount generally comprises less than 5% of the allowance, but may be maintained at higher levels during times of economic conditions characterized by falling real estate values. The unallocated amount is reviewed periodically based on trends in credit losses, the results of credit reviews and overall economic trends. As of December 31, 2013, there was no unallocated allowance amount.

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

Management believes that the ALLL was adequate as of December 31, 2013. There is, however, no assurance that future loan losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the

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provision for loan and lease losses in future periods if warranted as a result of their review. Approximately 74% of our loan portfolio is secured by real estate, and a significant decline in real estate market values may require an increase in the allowance for loan and lease losses.

### Covered Loans and FDIC Indemnification Asset

Loans acquired in a FDIC-assisted acquisition that are subject to a loss-share agreement are referred to as “covered loans” and reported separately in our statements of financial condition. Acquired loans were aggregated into pools based on individually evaluated common risk characteristics and aggregate expected cash flows were estimated for each pool. A pool is accounted for as a single asset with a single interest rate, cumulative loss rate and cash flow expectation. The cash flows expected to be received over the life of the pool were estimated by management with the assistance of a third party valuation specialist. These cash flows were input into a FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”), compliant accounting loan system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions are periodically reassessed and updated within the accounting model to update our expectation of future cash flows. The excess of the cash flows expected to be collected over a pool’s carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the loan or pool using the effective yield method. The accretable yield may change due to changes in the timing and amounts of expected cash flows. Changes in the accretable yield are disclosed quarterly.

The Company has elected to account for amounts receivable under the loss-share agreement as an indemnification asset in accordance with FASB ASC 805, Business Combinations (“ASC 805”). The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement. The difference between the carrying value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted or amortized into non-interest income over the life of the FDIC indemnification asset, which is maintained at the loan pool level.

### Mortgage Servicing Rights (“MSR”)

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

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

The expected life of the loan can vary from management's estimates due to prepayments by borrowers, especially when rates fall. Prepayments in excess of management's estimates would negatively impact the recorded value of the mortgage servicing rights. The value of the mortgage servicing rights is also dependent upon the discount rate used in

the model, which we base on current market rates. Management reviews this rate on an ongoing basis based on current market rates. A significant increase in the discount rate would reduce the value of mortgage servicing rights. Additional information is included in Note 10 of the Notes to Consolidated Financial Statements.

#### Valuation of Goodwill and Intangible Assets

At December 31, 2013, we had \$776.7 million in goodwill and other intangible assets as a result of business combinations. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management performs an impairment analysis for the intangible assets with indefinite lives on an annual basis as of December 31. Additionally, goodwill and other intangible assets with indefinite lives are evaluated on an interim basis when events or circumstance indicate impairment potentially exists. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption may result in additional impairment of all, or some portion of, goodwill.



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The Company performed its annual goodwill impairment analysis of the Community Banking reporting segment as of December 31, 2013. In the first step of the goodwill impairment test the Company determined that the fair value of the Community Banking reporting unit exceeded its carrying amount. The impairment analysis requires management to make subjective judgments. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures, technology, changes in discount rates and specific industry and market conditions. There can be no assurance that changes in circumstances, estimates or assumption will not result in additional impairment of all, or some portion of, goodwill. Additional information is included in Note 9 of the Notes to Consolidated Financial Statements.

### Stock-based Compensation

In accordance with FASB ASC 718, Stock Compensation, we recognize expense in the income statement for the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period). The requisite service period may be subject to performance conditions. The fair value of each grant is estimated as of the grant date using the Black-Scholes option-pricing model or a Monte Carlo simulation pricing model, as required by the features of the grants. Management assumptions utilized at the time of grant impact the fair value of the option calculated under the pricing model, and ultimately, the expense that will be recognized over the expected service period related to each option. Additional information is included in Note 1 of the Notes to Consolidated Financial Statements.

### Fair Value

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. See Note 24 of the Notes to Consolidated Financial Statements for additional information about the level of pricing transparency associated with financial instruments carried at fair value.

## RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. With the Update, a company testing indefinite-lived intangibles for impairment now has the option to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with current guidance. An entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In October 2012, the FASB issued ASU. No. 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution. The Update clarifies that when an entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently, a change in the cash flows expected to be collected on the indemnification asset occurs, as a result of a change in cash flows expected to be collected on the assets subject to indemnification, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

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In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The Update clarifies that ASU No. 2011-11 applies only to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement are no longer subject to the disclosure requirements in ASU No. 2011-11. The amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present either on the face of the statement where net income is presented, or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2012. The adoption of ASU No. 2013-02 did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. ASU No. 2013-10 permits the use of the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge account purposes. The amendment is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU No. 2013-10 did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. No new recurring disclosures are required. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2013 and are to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of ASU No. 2013-11 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-04 permit an entity to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and should be applied prospectively. The Company is currently reviewing the requirements of ASU No. 2014-01, but does not expect the ASU to have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon foreclosure. ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate

property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments are effective for annual and interim reporting periods beginning on or after December 15, 2014 and can be applied with a modified retrospective transition method or prospectively. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's consolidated financial statements.

#### RESULTS OF OPERATIONS--OVERVIEW

For the year ended December 31, 2013, net earnings available to common shareholders were \$97.6 million, or \$0.87 per diluted common share, as compared to net earnings available to common shareholders of \$101.2 million, or \$0.90 per diluted common share for the year ended December 31, 2012. The decrease in net earnings available to common shareholders in 2013 is principally

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attributable to decreased net interest income, decreased non-interest income increased non-interest expense, partially offset by decreased provision for covered loan and lease losses and recapture of provision for covered loan losses.

For the year ended December 31, 2012, net earnings available to common shareholders were \$101.2 million, or \$0.90 per diluted common share, as compared to net earnings available to common shareholders of \$74.1 million, or \$0.65 per diluted common share for the year ended December 31, 2011. The increase in net earnings available to common shareholders in 2012 is principally attributable to increased non-interest income and decreased provision for loan losses, partially offset by decreased net interest income and increased non-interest expense.

Umpqua recognizes gains or losses on our junior subordinated debentures carried at fair value resulting from the estimated market credit risk adjusted spread and changes in interest rates that do not directly correlate with the Company's operating performance. Also, Umpqua incurs significant expenses related to the completion and integration of mergers and acquisitions. Additionally, we may recognize goodwill impairment losses that have no direct effect on the Company's or the Bank's cash balances, liquidity, or regulatory capital ratios. Lastly, Umpqua may recognize one-time bargain purchase gains on certain acquisitions that are not reflective of Umpqua's on-going earnings power. Accordingly, management believes that our operating results are best measured on a comparative basis excluding the impact of gains or losses on junior subordinated debentures measured at fair value, net of tax, merger-related expenses, net of tax, and other charges related to business combinations such as goodwill impairment charges or bargain purchase gains, net of tax. We define operating earnings as earnings available to common shareholders before gains or losses on junior subordinated debentures carried at fair value, net of tax, bargain purchase gains on acquisitions, net of tax, merger related expenses, net of tax, and goodwill impairment, and we calculate operating earnings per diluted share by dividing operating earnings by the same diluted share total used in determining diluted earnings per common share (see Note 25 of the Notes to Consolidated Financial Statements in Item 8 below). Operating earnings and operating earnings per diluted share are considered "non-GAAP" financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the Financial Statements and Supplementary Data in Item 8 below.

The following table provides the reconciliation of earnings available to common shareholders (GAAP) to operating earnings (non-GAAP), and earnings per diluted common share (GAAP) to operating earnings per diluted share (non-GAAP) for the years ended December 31, 2013, 2012, and 2011:

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

(in thousands, except per share data)

	2013	2012	2011
Net earnings available to common shareholders	\$97,573	\$101,209	\$74,140
Adjustments:			
Net loss on junior subordinated debentures carried at fair value, net of tax (1)	1,318	1,322	1,318
Merger-related expenses, net of tax (1)	6,820	1,403	216
Operating earnings	\$105,711	\$103,934	\$75,674
Per diluted share:			
Net earnings available to common shareholders	\$0.87	\$0.90	\$0.65
Adjustments:			
Net loss on junior subordinated debentures carried at fair value, net of tax (1)	0.01	0.01	0.01
Merger-related expenses, net of tax (1)	0.06	0.02	—
Operating earnings	\$0.94	\$0.93	\$0.66

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



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Management believes adjusted net interest income and adjusted net interest margin are useful financial measures because they enable investors to evaluate the underlying growth or compression in these values excluding interest income adjustments related to credit quality. Management uses these measures to evaluate adjusted net interest income operating results exclusive of credit costs, in order to monitor our effectiveness in growing higher interest yielding assets and managing our cost of interest bearing liabilities over time. Adjusted net interest income is calculated as net interest income, adjusting tax exempt interest income to its taxable equivalent, adding back interest and fee reversals related to new non-accrual loans during the period, and deducting the interest income gains recognized from loan disposition activities within covered loan pools. Adjusted net interest margin is calculated by dividing adjusted net interest income by a period's average interest earning assets. Adjusted net interest income and adjusted net interest margin are considered "non-GAAP" financial measures. Although we believe the presentation of non-GAAP financial measures provides a better indication of our operating performance, readers of this report are urged to review the GAAP results as presented in the Financial Statements and Supplementary Data in Item 8 below. The following table presents a reconciliation of net interest income to adjusted net interest income and net interest margin to adjusted net interest margin for the years ended December 31, 2013, 2012, and 2011:

Reconciliation of Net Interest Income to Adjusted Net Interest Income and Net Interest Margin to Adjusted Net Interest Margin  
Years Ended December 31,

(dollars in thousands)

	2013	2012	2011	
Net interest income - tax equivalent basis (1)	\$409,544	\$411,886	\$432,748	
Adjustments:				
Interest and fee reversals on non-accrual loans	922	1,498	1,751	
Covered loan disposal gains	(13,135 )	(17,829 )	(26,327 )	
Adjusted net interest income - tax equivalent basis (1)	\$397,331	\$395,555	\$408,172	
Average interest earning assets	\$10,224,606	\$10,252,167	\$10,332,242	
Net interest margin - consolidated (1)	4.01	% 4.02	% 4.19	%
Adjusted net interest margin - consolidated (1)	3.89	% 3.86	% 3.95	%

Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment (1) was an addition to recorded income of approximately \$4.6 million, \$4.7 million, and \$4.3 million for the years ended 2013, 2012, and 2011 respectively.

The following table presents the returns on average assets, average common shareholders' equity and average tangible common shareholders' equity for the years ended December 31, 2013, 2012, and 2011. For each of the periods presented, the table includes the calculated ratios based on reported net earnings available to common shareholders and operating income as shown in the table above. Our return on average common shareholders' equity is negatively impacted as the result of capital required to support goodwill. To the extent this performance metric is used to compare our performance with other financial institutions that do not have merger and acquisition-related intangible assets, we believe it beneficial to also consider the return on average tangible common shareholders' equity. The return on average tangible common shareholders' equity is calculated by dividing net earnings available to common shareholders by average shareholders' common equity less average goodwill and intangible assets, net (excluding MSR's). The return on average tangible common shareholders' equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders' equity.

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





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(dollars in thousands)

	2013	2012	2011	
Returns on average assets:				
Net earnings available to common shareholders	0.85	% 0.88	% 0.64	%
Operating earnings	0.92	% 0.90	% 0.65	%
Returns on average common shareholders' equity:				
Net earnings available to common shareholders	5.64	% 5.95	% 4.43	%
Operating earnings	6.11	% 6.11	% 4.53	%
Returns on average tangible common shareholders' equity:				
Net earnings available to common shareholders	9.78	% 9.87	% 7.47	%
Operating earnings	10.60	% 10.14	% 7.63	%
Calculation of average common tangible shareholders' equity:				
Average common shareholders' equity	\$1,729,083	\$1,701,403	\$1,671,893	
Less: average goodwill and other intangible assets, net	(731,525 )	(676,354 )	(679,588 )	
Average tangible common shareholders' equity	\$997,558	\$1,025,049	\$992,305	

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

The following table provides a reconciliation of ending shareholders' equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of December 31, 2013 and December 31, 2012:

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

(dollars in thousands)

	December 31, 2013	December 31, 2012	
Total shareholders' equity	\$1,727,426	\$1,724,039	
Subtract:			
Goodwill and other intangible assets, net	776,683	685,331	
Tangible common shareholders' equity	\$950,743	\$1,038,708	
Total assets	\$11,636,112	\$11,795,443	
Subtract:			
Goodwill and other intangible assets, net	776,683	685,331	
Tangible assets	\$10,859,429	\$11,110,112	
Tangible common equity ratio	8.75	% 9.35	%

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

NET INTEREST INCOME

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

Net interest income for 2012 was \$407.2 million, a decrease of \$21.2 million or 5.0% compared to the same period in 2011. The decrease in net interest income in 2012 as compared to 2011 is attributable to a decrease in outstanding average interest-earning assets, primarily covered loans, investment securities and interest bearing cash, and a decrease in net interest margin, partially offset by an increase in average non-covered loans and leases and a decrease in average interest-bearing liabilities.

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

Loan disposal related activities within the covered loan portfolio, either through loans being paid off in full or transferred to other real estate owned (“OREO”), result in gains within covered loan interest income to the extent assets received in satisfaction of debt (such as cash or the net realizable value of OREO received) exceeds the allocated carrying value of the loan disposed of from the pool. Loan disposal activities contributed \$13.1 million of interest income for 2013 compared to \$17.8 million of interest income for 2012 and \$26.3 million of interest income for 2011. While dispositions of covered loans positively impact net interest margin, we recognize a corresponding decrease to the change in FDIC indemnification asset within other non-interest income that partially offsets the impact to net income.

Net interest income for 2013 was negatively impacted by \$0.9 million reversal of interest and fee income on non-covered, non-accrual loans, as compared to the \$1.5 million for 2012 and \$1.8 million for 2011.

Excluding the impact of covered loan disposal gains and interest and fee income reversals on non-covered, non-accrual loans, tax equivalent net interest margin would have been 3.89%, 3.86%, and 3.95% for 2013, 2012, and 2011 respectively.

Partially offsetting the decrease in earning asset yields in 2013, as compared to 2012, is the continued reduction of the cost of interest-bearing liabilities, specifically interest-bearing deposits. The total cost of interest-bearing deposits for 2013 was 0.31%, representing a decrease of 13 basis points compared 2012.

The net interest margin on a fully tax-equivalent basis was 4.02% for 2012, a decrease of 17 basis points as compared to the same period in 2011. The decrease in net interest margin primarily resulted from a decline in non-covered loan yields, decrease in average covered loans outstanding, a decrease in loan disposal gains from the covered loan portfolio, and a decline in investment yields, partially offset by a decrease in average interest bearing cash, an increase in average non-covered loans outstanding, a decrease in the cost of interest-bearing deposits, and a decrease in average interest-bearing liabilities.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds. The following tables present condensed average balance sheet information, together with interest income and

yields on average interest-earning assets, and interest expense and rates paid on average interest-bearing liabilities for years ended December 31, 2013, 2012 and 2011:

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## Average Rates and Balances

(dollars in thousands)

	2013			2012			2011		
	Average	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
<b>INTEREST-EARNING ASSETS:</b>									
Non-covered loans and leases (1)	\$7,089,123	\$343,717	4.85 %	\$6,331,519	\$313,294	4.95 %	\$5,794,106	\$319,702	5.52 %
Covered loans, net	416,862	54,497	13.07%	554,078	73,518	13.27%	707,026	86,011	12.17%
Taxable securities	1,952,611	34,398	1.76 %	2,743,672	59,161	2.16 %	2,968,501	85,797	2.89 %
Non-taxable securities (2)	247,010	13,477	5.46 %	258,816	13,834	5.34 %	224,085	12,949	5.78 %
Temporary investments and interest-bearing deposits	519,000	1,336	0.26 %	364,082	928	0.25 %	638,524	1,590	0.25 %
Total interest earning assets	10,224,606	447,425	4.38 %	10,252,167	460,735	4.49 %	10,332,242	506,049	4.90 %
Allowance for non-covered loan and lease losses	(86,227 )			(86,656 )			(96,748 )		
Other assets	1,369,309			1,333,988			1,364,941		
Total assets	\$11,507,688			\$11,499,499			\$11,600,435		
<b>INTEREST-BEARING LIABILITIES:</b>									
Interest-bearing checking and savings accounts	\$4,976,008	\$4,784	0.10 %	\$4,987,873	\$9,463	0.19 %	\$4,765,091	\$20,647	0.43 %
Time deposits	1,796,669	15,971	0.89 %	2,102,711	21,670	1.03 %	2,754,533	35,096	1.27 %
Federal funds purchased and repurchase agreements	177,888	141	0.08 %	142,363	288	0.20 %	113,129	539	0.48 %
Term debt	252,546	9,248	3.66 %	254,601	9,279	3.64 %	257,496	9,255	3.59 %
Junior subordinated debentures	189,237	7,737	4.09 %	187,139	8,149	4.35 %	184,115	7,764	4.22 %
Total interest-bearing liabilities	7,392,348	37,881	0.51 %	7,674,687	48,849	0.64 %	8,074,364	73,301	0.91 %
Non-interest-bearing deposits	2,284,996			2,034,035			1,782,354		
Other liabilities	101,261			89,373			71,824		
Total liabilities	9,778,605			9,798,095			9,928,542		
Common equity	1,729,083			1,701,403			1,671,893		
Total liabilities and shareholders' equity	\$11,507,688			\$11,499,498			\$11,600,435		
NET INTEREST INCOME		\$409,544			\$411,886			\$432,748	

NET INTEREST SPREAD	3.87 %	3.85 %	3.99 %
AVERAGE YIELD ON EARNING ASSETS (1), (2)	4.38 %	4.49 %	4.90 %
INTEREST EXPENSE TO EARNING ASSETS	0.37 %	0.47 %	0.71 %
NET INTEREST INCOME TO EARNING ASSETS OR NET INTEREST MARGIN (1), (2)	4.01 %	4.02 %	4.19 %

(1) Non-covered non-accrual loans, leases, and mortgage loans held for sale are included in the average balance.

Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment (2) was an addition to recorded income of approximately \$4.6 million, \$4.7 million, and \$4.3 million for the years ended 2013, 2012, and 2011, respectively.

The following table sets forth a summary of the changes in tax equivalent net interest income due to changes in average asset and liability balances (volume) and changes in average rates (rate) for 2013 as compared to 2012 and 2012 compared to 2011. Changes in tax equivalent interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

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(in thousands)

	2013 compared to 2012			2012 compared to 2011		
	Increase (decrease) in interest income and expense due to changes in			Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
<b>INTEREST-EARNING ASSETS:</b>						
Non-covered loans and leases	\$36,842	\$(6,419 )	\$30,423	\$28,204	\$(34,612)	\$(6,408 )
Covered loans, net	(17,953 )	(1,068 )	(19,021 )	(19,795 )	7,302	(12,493 )
Taxable securities	(15,148 )	(9,615 )	(24,763 )	(6,119 )	(20,517 )	(26,636 )
Non-taxable securities (1)	(640 )	283	(357 )	1,905	(1,020 )	885
Temporary investments and interest bearing deposits	399	9	408	(698 )	36	(662 )
Total (1)	3,500	(16,810 )	(13,310 )	3,497	(48,811 )	(45,314 )
<b>INTEREST-BEARING LIABILITIES:</b>						
Interest bearing checking and savings accounts	(22 )	(4,657 )	(4,679 )	923	(12,107 )	(11,184 )
Time deposits	(2,931 )	(2,768 )	(5,699 )	(7,427 )	(5,999 )	(13,426 )
Repurchase agreements and federal funds	59	(206 )	(147 )	114	(365 )	(251 )
Term debt	(75 )	44	(31 )	(105 )	129	24
Junior subordinated debentures	91	(503 )	(412 )	129	256	385
Total	(2,878 )	(8,090 )	(10,968 )	(6,366 )	(18,086 )	(24,452 )
Net increase (decrease) in net interest income (1)	\$6,378	\$(8,720 )	\$(2,342 )	\$9,863	\$(30,725)	\$(20,862 )

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

**PROVISION FOR LOAN AND LEASE LOSSES**

The provision for non-covered loan and lease losses was \$16.8 million for 2013, as compared to \$21.8 million for 2012, and \$46.2 million for 2011. As a percentage of average outstanding non-covered loans and leases, the provision for loan and lease losses recorded for 2013 was 0.24%, a decrease of 11 basis points from 2012 and a decrease of 57 basis points from 2011.

The decrease in the provision for loan and lease losses in 2013 as compared to 2012 and 2012 compared to 2011 is principally attributable to a decrease in net charge-offs as a result of the continued resolution of non-performing loans and reduction in classified assets, partially offset by non-covered loan growth.

The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. Therefore, the non-covered, non-accrual loans of \$31.9 million as of December 31, 2013 have already been written-down to their estimated fair value, less estimated costs to sell, and are expected to be resolved with no additional material loss, absent further decline in market prices. Depending on the characteristics of a loan, the fair value of collateral is estimated by obtaining external appraisals.

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

The recapture of covered loan and lease losses was \$6.1 million for 2013, as compared to provision for covered loan and lease losses of \$7.4 million for 2012 and \$16.1 million for 2011. Recapture of provision results from improvements in the amount and the timing of expected cash flows on the acquired loans compared to those

previously estimated and charge-offs of unpaid principal balance against previously established allowance, as measured on a pool basis. Provisions for covered loans are recognized subsequent to acquisition to the extent it is probable we will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition, considering both the timing and amount of those expected cash flows. Provisions may be required when determined losses of unpaid principal incurred exceed previous loss expectations to-date, or future cash flows previously expected to be collectible are no longer probable of collection. Provisions for covered loan losses, including amounts advanced subsequent to acquisition, are not reflected in the allowance for non-covered loan losses, rather as a valuation allowance netted against the carrying value of the covered loan balance accounted for under ASC 310-30, in accordance with applicable guidance.



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## NON-INTEREST INCOME

Non-interest income for the 2013 was \$121.4 million, a decrease of \$15.4 million, or 11.2%, as compared to the same period in 2012. Non-interest income for 2012 was \$136.8 million, an increase of \$52.7 million, or 62.7%, as compared to 2011. The following table presents the key components of non-interest income for years ended December 31, 2013, 2012 and 2011:

Non-Interest Income  
Years Ended December 31,

(in thousands)

	2013 compared to 2012				2012 compared to 2011			
	2013	2012	Change Amount	Change Percent	2012	2011	Change Amount	Change Percent
Service charges on deposit accounts	\$30,952	\$28,299	\$2,653	9 %	\$28,299	\$33,096	\$(4,797)	(14)%
Brokerage commissions and fees	14,736	12,967	1,769	14 %	12,967	12,787	180	1 %
Mortgage banking revenue, net	78,885	84,216	(5,331)	(6)%	84,216	26,550	57,666	217 %
Gain on investment securities, net	209	3,868	(3,659)	(95)%	3,868	7,376	(3,508)	(48)%
Loss on junior subordinated debentures carried at fair value	(2,197)	(2,203)	6	0 %	(2,203)	(2,197)	(6)	0 %
Change in FDIC indemnification asset	(25,549)	(15,234)	(10,315)	68 %	(15,234)	(6,168)	(9,066)	147 %
Other income	24,405	24,916	(511)	(2)%	24,916	12,674	12,242	97 %
Total	\$121,441	\$136,829	\$(15,388)	(11)%	\$136,829	\$84,118	\$52,711	63 %

The increase in deposit service charges in 2013 compared to 2012 is primarily the result of the acquisition of Circle Bank ("Circle") in the fourth quarter of 2012 and related to our newly expanded business and consumer checking account options. The decrease in deposit service charges in 2012 compared to 2011 is the result of a reduction in interchange fee revenue relating to the Durbin Amendment, part of the Dodd-Frank Act, which became effective October 1, 2011.

Brokerage commissions and fees in 2013 increased due to the increase in managed account fees and new balances at Umpqua Investments. In 2013, assets under management at Umpqua Investments, a part of the Wealth Management segment, increased to \$2.60 billion as compared to \$2.28 billion at December 31, 2012. Brokerage commissions and fees in 2012 increased due to the increase in managed account fees at Umpqua Investments. In 2012, assets under management at Umpqua Investments increased to \$2.28 billion as compared to \$2.09 billion at December 31, 2011. Mortgage banking revenue for the year ended December 31, 2013 decreased due to lower refinancing activity attributable to the increase in mortgage interest rates, partially offset by increased purchase activity driven by continued improvement of the housing market compared to the same period of the prior year. Closed mortgage volume for 2013 was \$1.9 billion, representing a 12% decrease compared to 2012 production. Closed mortgage volume for 2012 was \$2.2 billion, representing a 121% increase over 2011 production. Increased mortgage interest rates compared to the same period of the prior year has contributed to a \$2.4 million increase in fair value on the MSR asset in 2013, compared to a \$8.5 million decline in fair value recognized in 2012. As of December 31, 2013, the Company serviced \$4.4 billion of mortgage loans for others, and the related mortgage servicing right asset is valued at

\$47.8 million, or 1.09% of the total serviced portfolio principal balance.

In connection with the sale of investment securities, we recognized a gain on sale of \$209,000 in 2013, compared to \$4.0 million for 2012 and \$7.7 million for 2011. During 2012, the Company sold investment securities to fund non-covered loan growth as well as to reduce the price risk of the portfolio if interest rates were to increase significantly.

A loss of \$2.2 million was recognized in 2013, 2012, and 2011 respectively, which represents the change of fair value on the junior subordinated debentures recorded at fair value. Absent future changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional value at their expected redemption dates. This will result in recognizing losses on junior subordinated debentures carried at fair value within non-interest income. Additional information on the junior subordinated debentures carried at fair value is included in Note 18 of the Notes to Consolidated Financial Statements and under the heading Junior Subordinated Debentures.

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The change in FDIC indemnification asset represents a change in cash flows expected to be recoverable under the loss-share agreements entered into with the FDIC in connection with FDIC-assisted acquisitions. Additional information on the FDIC indemnification asset is included in Note 7 of the Notes to Consolidated Financial Statements and under the heading Covered Assets below.

Other income in 2013 compared to 2012 decreased primarily due to a \$2.8 million reduction in debt capital market revenue from \$9.9 million in 2012 to \$7.1 million in 2013, partially offset by income from FinPac operations of \$1.1 million. Other income in 2012 as compared to 2011 increased primarily due to the debt capital market revenue of \$9.9 million related to initiation of this interest rate swap program in the second half of 2011 with commercial banking customers to facilitate their risk management strategies. Additionally, in 2012, in connection with the termination of a definitive agreement between the Company and American Perspective Bank, the Company received a termination fee of \$1.6 million.

## NON-INTEREST EXPENSE

Non-interest expense for 2013 was \$364.7 million, an increase of \$5.0 million, or 1.4%, as compared to 2012. Non-interest expense for 2012 was \$359.7 million, an increase of \$20.7 million, or 6.1%, as compared to 2011. The following table presents the key elements of non-interest expense for the years ended December 31, 2013, 2012 and 2011.

Non-Interest Expense  
Years Ended December 31,

(in thousands)

	2013 compared to 2012					2012 compared to 2011				
	2013	2012	Change Amount	Change Percent		2012	2011	Change Amount	Change Percent	
Salaries and employee benefits	\$209,991	\$200,946	\$9,045	5 %		\$200,946	\$179,480	\$21,466	12 %	
Net occupancy and equipment	62,067	55,081	6,986	13 %		55,081	51,284	3,797	7 %	
Communications	11,974	11,573	401	3 %		11,573	11,214	359	3 %	
Marketing	6,062	5,064	998	20 %		5,064	6,138	(1,074 )	(17 )%	
Services	25,483	25,823	(340 )	(1 )%		25,823	24,170	1,653	7 %	
Supplies	2,843	2,506	337	13 %		2,506	2,824	(318 )	(11 )%	
FDIC assessments	6,954	7,308	(354 )	(5 )%		7,308	10,768	(3,460 )	(32 )%	
Net loss on non-covered other real estate owned	1,113	9,245	(8,132 )	(88 )%		9,245	10,690	(1,445 )	(14 )%	
Net loss on covered other real estate owned	135	3,410	(3,275 )	(96 )%		3,410	7,481	(4,071 )	(54 )%	
Intangible amortization	4,781	4,816	(35 )	(1 )%		4,816	4,948	(132 )	(3 )%	
Merger related expenses	8,836	2,338	6,498	278 %		2,338	360	1,978	549 %	
Other expenses	24,422	31,542	(7,120 )	(23 )%		31,542	29,614	1,928	7 %	
Total	\$364,661	\$359,652	\$5,009	1 %		\$359,652	\$338,971	\$20,681	6 %	

Salaries and employee benefits costs increased \$9.0 million as compared to the same period prior year primarily as a result of an increase of full-time equivalent employees, which includes 39 employees associated with the Circle acquisition in November 2012 and 125 employees associated with the FinPac acquisition (since the July 1, 2013 acquisition date). Of the \$21.5 million increase in total salaries and employee benefits expense in 2012 compared to 2011, approximately \$17.7 million of the increase is due to mortgage and commercial banking production in 2012,

\$2.6 million relates to ongoing growth initiatives in our technology group and the remainder of the increase is the result of the Circle acquisition.

Net occupancy and equipment expense increased in 2013 as compared to the prior year as a result of the addition of 4 stores, full phase in of the six locations from the Circle acquisition, and \$857,000 in occupancy and equipment expense related to FinPac subsequent to acquisition. Net occupancy and equipment expense increased in 2012 a result of the addition of the cost of three new Home Lending Centers in Oregon, the operation of a full year of 2011 additions, and the six locations now operating from the acquisition of Circle. The 2011 additions included ten de novo Community Banking locations, one Mortgage Office and an administrative facility in Hillsboro, Oregon.

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Communications costs increased in 2013 compared to 2012, and in 2012 compared to 2011, primarily due to increased data processing cost as a result of the Company's continued growth and expansion. Marketing and supplies expenses increased in 2013 compared to 2012 due to costs associated with branding initiatives and decreased in 2012 compared to 2011, due to cost containment efforts and a reduced spend associated with acquisitions and expansion into new markets in 2011. Services expense decreased in 2013 compared to 2012 and increased in 2012 compared to 2011 primarily due to fluctuations related to legal and professional fees.

FDIC assessments decreased in 2013, compared to 2012, and in 2012, compared to 2011, as a result of the adoption by the FDIC of a final rule that changed the assessment rate and the assessment base (from a domestic deposit base to a scorecard based assessment system for banks with more than \$10 billion in assets) effective in the second quarter of 2011, resulting in a lower assessment rate and base and decreased assessment to the Company.

In the year ended December 31, 2013, the Company recognized a net loss (which includes loss on sale and valuation adjustments) on non-covered OREO properties of \$1.1 million, as compared to a net loss on non-covered OREO properties of \$9.2 million and \$10.7 million in the years ended December 31, 2012 and 2011, respectively. In the year ended December 31, 2013, the Company recognized a net loss (which includes loss on sale and valuation adjustments) on covered OREO properties of \$135,000, as compared to net losses on covered OREO properties of \$3.4 million and \$7.5 million in the year ended December 31, 2012 and 2011, respectively. This is primarily the result of improving real estate values, allowing for better realization of market values of existing OREO properties.

We incur significant expenses in connection with the completion and integration of bank acquisitions that are not capitalizable. The merger-related expense incurred in 2011 related primarily to FDIC-assisted acquisitions, while those incurred in 2012 relate to the acquisition of Circle and in 2013, primarily relate to the acquisition of FinPac and the proposed merger with Sterling. Classification of expenses as merger-related is done in accordance with the provisions of a Board-approved policy. The following table presents the merger-related expenses by major category for the years ended December 31, 2013, 2012 and 2011.

## Merger-Related Expense

Years Ended December 31,

(in thousands)

	2013	2012	2011
Professional fees	\$7,755	\$1,145	\$173
Compensation and relocation	158	856	—
Communications	49	66	—
Premises and equipment	44	29	82
Travel	140	98	11
Other	690	144	94
Total	\$8,836	\$2,338	\$360

Other non-interest expense decreased in 2013 as compared to 2012 as a result of a decrease in loan and OREO workout related costs, partially offset by an increase due to FinPac operations and an FDIC loss sharing claw back liability expense recorded due to better than expected performance of the Evergreen Bank FDIC assisted acquisition. Other non-interest expense increased in 2012 over 2011 as a result of increased professional fees and increased local taxes, partially offset by decreased expenses related to problem covered and non-covered loans and covered and non-covered other real estate owned.

## INCOME TAXES

Our consolidated effective tax rate as a percentage of pre-tax income for 2013 was 34.9%, compared to 34.4% for 2012 and 33.0% for 2011. The effective tax rates differed from the federal statutory rate of 35% and the apportioned state rate of 7.1% (net of the federal tax benefit) principally because of the relative amount of income we earn in each state jurisdiction, non-taxable income arising from bank-owned life insurance, income on tax-exempt investment

securities, nondeductible merger expenses and tax credits arising from low income housing investments.

Additional information on income taxes is provided in Note 13 of the Notes to Consolidated Financial Statements in Item 8 below.

FINANCIAL CONDITION

INVESTMENT SECURITIES

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The composition of our investment securities portfolio reflects management's investment strategy of maintaining an appropriate level of liquidity while providing a relatively stable source of interest income. The investment securities portfolio also mitigates interest rate and credit risk inherent in the loan portfolio, while providing a vehicle for the investment of available funds, a source of liquidity (by pledging as collateral or through repurchase agreements) and collateral for certain public funds deposits.

Trading securities consist of securities held in inventory by Umpqua Investments for sale to its clients and securities invested in trust for the benefit of certain executives or former employees of acquired institutions as required by agreements. Trading securities were \$6.0 million at December 31, 2013, as compared to \$3.7 million at December 31, 2012. This increase is principally attributable to an increase in Umpqua Investments' inventory of trading securities.

Investment securities available for sale were \$1.8 billion as of December 31, 2013 compared to \$2.6 billion at December 31, 2012. Paydowns of \$803.9 million, amortization of net purchase price premiums of \$32.7 million and a decrease in fair value of investments securities available for sale of \$49.0 million were partially offset by purchases of \$51.2 million of investment securities available for sale.

Investment securities held to maturity were \$5.6 million as of December 31, 2013 as compared to holdings of \$4.5 million at December 31, 2012. The change primarily relates to purchases of \$2.1 million, partially offset by paydowns and maturities of investment securities held to maturity of \$1.4 million.

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

## Summary of Investment Securities

As of December 31,  
(dollars in thousands)

	December 31, 2013	2012	2011
<b>AVAILABLE FOR SALE</b>			
U.S. Treasury and agencies	\$268	\$45,820	\$118,465
Obligations of states and political subdivisions	235,205	263,725	253,553
Residential mortgage-backed securities and collateralized mortgage obligations	1,553,541	2,313,376	2,794,355
Other debt securities	—	222	134
Investments in mutual funds and other equity securities	1,964	2,086	2,071
	\$1,790,978	\$2,625,229	\$3,168,578
<b>HELD TO MATURITY</b>			
Obligations of states and political subdivisions	\$—	\$595	\$1,335
Residential mortgage-backed securities and collateralized mortgage obligations	5,563	3,946	3,379
	\$5,565	\$4,543	\$4,714

The following table presents information regarding the amortized cost, fair value, average yield and maturity structure of the investment portfolio at December 31, 2013.

## Investment Securities Composition\*

December 31, 2013

(dollars in thousands)





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	Amortized Cost	Fair Value	Average Yield	
<b>U.S. TREASURY AND AGENCIES</b>				
One year or less	\$34	\$34	2.56	%
One to five years	215	234	3.68	%
	249	268	3.54	%
<b>OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS</b>				
One year or less	26,276	26,598	5.72	%
One to five years	89,020	93,325	6.03	%
Five to ten years	78,196	80,461	5.30	%
Over ten years	36,477	34,821	4.74	%
	229,969	235,205	5.55	%
<b>OTHER DEBT SECURITIES</b>				
Serial maturities	1,572,564	1,559,415	2.23	%
Other investment securities	1,959	1,964	2.40	%
Total securities	\$1,804,741	\$1,796,852	2.67	%

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

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

The equity security in “Other investment securities” in the table above at December 31, 2013 principally represents an investment in a Community Reinvestment Act investment fund comprised largely of mortgage-backed securities, although funds may also invest in municipal bonds, certificates of deposit, repurchase agreements, or securities issued by other investment companies.

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

For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI.

The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (“OCI”). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and

timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is reevaluated according to the procedures described above.

Gross unrealized losses in the available for sale investment portfolio was \$31.4 million at December 31, 2013. This consisted primarily of unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations of \$28.8 million. The

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unrealized losses were primarily caused by interest rate increases subsequent to the purchase of the securities, and not credit quality. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral. Additional information about the investment portfolio is provided in Note 3 of the Notes to Consolidated Financial Statements.

**RESTRICTED EQUITY SECURITIES**

Restricted equity securities were \$30.7 million at December 31, 2013 and \$33.4 million at December 31, 2012. The decrease of \$2.7 million is attributable to stock redemptions by the Federal Home Loan Banks (“FHLB”) of San Francisco and Seattle during the period. Of the \$30.7 million at December 31, 2013, \$29.4 million represent the Bank’s investment in the FHLBs of Seattle and San Francisco. The remaining restricted equity securities represent investments in Pacific Coast Bankers’ Bancshares stock. FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

In September 2012, the FHLB of Seattle was notified by the Federal Housing Finance Agency (“Finance Agency”) that it is now classified as “adequately capitalized” as compared to the prior classification of “undercapitalized.” Under Finance Agency regulations, the FHLB of Seattle may repurchase excess capital stock under certain conditions; however it may not redeem stock or pay a dividend without Finance Agency approval. Based on the above, the Company has determined there is not an other-than-temporary impairment on the FHLB stock investment as of December 31, 2013.

**LOANS AND LEASES****Non-Covered Loans and Leases, net**

Total non-covered loans and leases outstanding at December 31, 2013 were \$7.4 billion, an increase of \$673.3 million as compared to year-end 2012. This increase is principally attributable to net loan and lease originations of \$484.9 million, loans and leases acquired in the FinPac acquisition of \$264.3 million, and covered loans transferred to non-covered loans and leases of \$14.8 million, partially offset by charge-offs of \$31.0 million, transfers to other real estate owned of \$21.6 million, and non-covered loans sold of \$60.3 million during the period.

The Bank provides a wide variety of credit services to its customers, including construction loans, commercial lines of credit, secured and unsecured commercial loans, commercial real estate loans, residential mortgage loans, home equity credit lines, consumer loans and commercial leases. Loans are principally made on a secured basis to customers who reside, own property or operate businesses within the Bank's principal market area.

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

**Non-covered Loan and Lease Portfolio Composition**

As of December 31,

(dollars in thousands)

	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate, net	\$4,325,024	58.8 %	\$4,183,254	62.7 %	\$3,802,252	64.6 %	\$3,868,396	68.3 %	\$4,104,308	68.4 %
Commercial, net	2,119,796	28.8 %	1,719,139	25.7 %	1,456,329	24.8 %	1,255,142	22.2 %	1,388,325	23.2 %
	861,470	11.7 %	741,100	11.0 %	590,467	10.0 %	502,170	8.9 %	470,315	7.8 %

Residential,  
net

Consumer & other, net	48,113	0.7	%	37,587	0.6	%	39,050	0.6	%	33,279	0.6	%	36,319	0.6	%
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Total loans

and leases, net	\$7,354,403	100.0%	\$6,681,080	100.0%	\$5,888,098	100.0%	\$5,658,987	100.0%	\$5,999,267	100.0%
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The following table presents the concentration distribution of our non-covered loan and lease portfolio by major type:

Non-Covered Loan and Lease Concentrations

As of December 31, 2013 and 2012

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(dollars in thousands)

	December 31, 2013		December 31, 2012		
	Amount	Percentage	Amount	Percentage	
Commercial real estate					
Non-owner occupied term, net	\$2,328,260	31.7	% \$2,316,909	34.5	%
Owner occupied term, net	1,259,583	17.1	% 1,276,840	19.2	%
Multifamily, net	403,537	5.5	% 331,735	5.1	%
Construction & development, net	245,231	3.3	% 200,631	3.0	%
Residential development, net	88,413	1.2	% 57,139	0.9	%
Commercial					
Term, net	770,845	10.5	% 797,061	11.9	%
LOC & other, net	987,360	13.4	% 890,808	13.3	%
Leases and equipment finance, net	361,591	4.9	% 31,270	0.5	%
Residential					
Mortgage, net	597,201	8.1	% 478,463	7.1	%
Home equity loans & lines, net	264,269	3.6	% 262,637	3.9	%
Consumer & other, net	48,113	0.7	% 37,587	0.6	%
Total, net of deferred fees and costs	\$7,354,403	100.0	% \$6,681,080	100.0	%

The following table presents the maturity distribution of our non-covered loan portfolios and the sensitivity of these loans to changes in interest rates:

## Maturities and Sensitivities of Non-covered Loans to Changes in Interest Rates

as of December 31, 2013

(in thousands)

	By Maturity			Total	Loans Over One Year by Rate Sensitivity	
	One Year	One	Over Five		Fixed	Floating
	or Less	Through	Years		Rate	Rate
Commercial real estate	\$531,755	\$1,384,831	\$2,408,438	\$4,325,024	\$830,941	\$2,962,328
Commercial (1)	\$905,562	\$453,797	\$398,846	\$1,758,205	\$360,324	\$492,319

(1) Excludes the lease and equipment finance portfolio.

## Covered Loans, Net

Total covered loans outstanding at December 31, 2013 were \$364.0 million, a decrease of \$113.1 million as compared to year-end 2012. This decrease is principally attributable to net loan paydowns and maturities of \$101.9 million and transfers of covered loans to non-covered loans and leases of \$14.8 million.

The following table presents the composition of the covered loan portfolio for each of the last four years.

## Covered Loan Portfolio Composition

As of December 31,

(dollars in thousands)

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	2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate, net	\$305,131	81.6 %	\$399,514	80.8 %	\$506,637	79.4 %	\$619,248	78.5 %
Commercial, net	22,417	6.0 %	38,521	7.7 %	57,576	9.1 %	78,003	9.9 %
Residential, net	41,953	11.3 %	51,267	10.3 %	64,588	10.2 %	80,504	10.2 %
Consumer & other, net	4,262	1.1 %	6,051	1.2 %	7,970	1.3 %	10,864	1.4 %
Total, net of deferred fees and costs	373,763	100.0 %	495,353	100.0 %	636,771	100.0 %	788,619	100.0 %
Allowance for covered loans	(9,771 )		(18,275 )		(14,320 )		(2,721 )	
Total	\$363,992		\$477,078		\$622,451		\$785,898	

The following table presents the concentration distribution of our covered loan portfolio by major type:

## Covered Loan Concentrations

As of December 31,

(dollars in thousands)

	December 31, 2013		December 31, 2012	
	Amount	Percentage	Amount	Percentage
Commercial real estate				
Non-owner occupied term, net	\$206,902	55.4 %	\$264,481	53.4 %
Owner occupied term, net	49,817	13.3 %	68,650	13.9 %
Multifamily, net	37,671	10.1 %	44,878	9.1 %
Construction & development, net	3,455	0.9 %	11,711	2.4 %
Residential development, net	7,286	1.9 %	9,794	2.0 %
Commercial				
Term, net	15,719	4.2 %	23,524	4.7 %
LOC & other, net	6,698	1.8 %	14,997	3.0 %
Residential				
Mortgage, net	22,316	6.0 %	27,825	5.6 %
Home equity loans & lines, net	19,637	5.3 %	23,442	4.7 %
Consumer & other, net	4,262	1.1 %	6,051	1.2 %
Total, net of deferred fees and costs	373,763	100.0 %	495,353	100.0 %
Allowance for covered loans	(9,771 )		(18,275 )	
Total	\$363,992		\$477,078	

The covered loans are subject to loss-sharing agreements with the FDIC. Under the terms of the Evergreen Bank acquisition loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first \$90.0 million on covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding \$90.0 million, except for the Bank will incur losses up to \$30.2 million before the loss-sharing will commence. As of December 31, 2013, losses have exceeded \$30.2 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Under the terms of the Rainier Pacific Bank loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on the first \$95.0 million of losses on

covered assets and absorb 95% of losses and share in 95% of loss recoveries exceeding \$95.0 million. The loss-sharing arrangements for non-single family residential and single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

Under the terms of the Nevada Security Bank loss-sharing agreement, the FDIC will cover a substantial portion of any future losses on loans, related unfunded loan commitments, OREO and accrued interest on loans for up to 90 days. The FDIC will absorb 80% of losses and share in 80% of loss recoveries on all covered assets. The loss-sharing arrangements for non-single family residential and

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single family residential loans are in effect for 5 years and 10 years, respectively, and the loss recovery provisions are in effect for 8 years and 10 years, respectively, from the acquisition dates.

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

## ASSET QUALITY AND NON-PERFORMING ASSETS

### Non-Covered Loans and Leases

We manage asset quality and control credit risk through diversification of the non-covered loan and lease portfolio and the application of policies designed to promote sound underwriting and loan and lease monitoring practices. The Bank's Credit Quality Group is charged with monitoring asset quality, establishing credit policies and procedures and enforcing the consistent application of these policies and procedures across the Bank. The provision for non-covered loan and lease losses charged to earnings is based upon management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb probable incurred losses. The amount of provision charge is dependent upon many factors, including loan and lease growth, net charge-offs, changes in the composition of the non-covered loan and lease portfolio, delinquencies, management's assessment of loan and lease portfolio quality, general economic conditions that can impact the value of collateral, and other trends. The evaluation of these factors is performed through an analysis of the adequacy of the allowance for loan and lease losses. Reviews of non-performing, past due non-covered loans and leases and larger credits, designed to identify potential charges to the allowance for loan and lease losses, and to determine the adequacy of the allowance, are conducted on a quarterly basis. These reviews consider such factors as the financial strength of borrowers, the value of the applicable collateral, loan and lease loss experience, estimated loan and lease losses, growth in the loan and lease portfolio, prevailing economic conditions and other factors. Additional information regarding the methodology used in determining the adequacy of the allowance for loan and lease losses is contained in Part I Item 1 of this report in the section titled Lending and Credit Functions.

Non-covered, non-performing loans and leases, which include non-covered, non-accrual loans and leases and non-covered accruing loans and leases past due over 90 days, totaled \$35.3 million or 0.48% of total non-covered loans and leases as of December 31, 2013, as compared to \$71.0 million, or 1.06% of total non-covered loans and leases, at December 31, 2012. Non-covered, non-performing assets, which include non-covered, non-performing loans and leases and non-covered, foreclosed real estate i.e. OREO, totaled \$57.2 million, or 0.49% of total assets as of December 31, 2013 compared with \$88.1 million, or 0.75% of total assets as of December 31, 2012. The decrease in non-performing assets in 2013 is attributable to the improving economic environment, an increase in real estate values in our markets and the resulting impact on our commercial real estate and commercial construction portfolio.

A loan is considered impaired when, based on current information and events, we determine it is probable that we will not be able to collect all amounts due according to the loan contract, including scheduled interest payments.

Generally, when non-covered loans are identified as impaired they are moved to our Special Assets Department.

When we identify a loan as impaired, we measure the loan for potential impairment using discount cash flows, except when the sole remaining source of the repayment for the loan is the liquidation of the collateral. In these cases, we will use the current fair value of collateral, less selling costs. The starting point for determining the fair value of collateral is through obtaining external appraisals. Generally, external appraisals are updated every 12 months. We obtain appraisals from a pre-approved list of independent, third party, local appraisal firms. Approval and addition to the list is based on experience, reputation, character, consistency and knowledge of the respective real estate market. At a minimum, it is ascertained that the appraiser is: (a) currently licensed in the state in which the property is located, (b) is experienced in the appraisal of properties similar to the property being appraised, (c) is actively engaged in the appraisal work, (d) has knowledge of current real estate market conditions and financing trends, (e) is reputable, and (f) is not on Freddie Mac's or the Bank's Exclusionary List of appraisers and brokers. In certain cases appraisals will be reviewed by our Real Estate Valuation Services Group to ensure the quality of the appraisal and the expertise and



independence of the appraiser. Upon receipt and review, an external appraisal is utilized to measure a loan for potential impairment. Our impairment analysis documents the date of the appraisal used in the analysis, whether the officer preparing the report deems it current, and, if not, allows for internal valuation adjustments with justification. Typical justified adjustments might include discounts for continued market deterioration subsequent to appraisal date, adjustments for the release of collateral contemplated in the appraisal, or the value of other collateral or consideration not contemplated in the appraisal. An appraisal over one year old in most cases will be considered stale dated and an updated or new appraisal will be required. Any adjustments from appraised value to net realizable value are detailed and justified in the impairment analysis, which is reviewed and approved by senior credit quality officers and the Bank's ALLL Committee. Although an external appraisal is the primary source to value collateral dependent loans, we may also utilize values obtained through purchase and sale agreements, negotiated short sales, broker price opinions, or the sales price of the note. These alternative sources of value are used only if deemed to be more representative of value based on updated information regarding collateral resolution. Impairment analyses are updated, reviewed and approved on a quarterly basis at or near the end of each reporting period. Appraisals or other alternative sources of value received subsequent to the reporting period, but prior to our filing of periodic reports, are considered and evaluated to ensure our periodic filings are materially correct and not misleading. Based on these processes, we do not believe there are significant time lapses for the recognition of additional loan loss provisions or charge-offs from the date they become known.

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

Upon acquisition of real estate collateral, typically through the foreclosure process, we promptly begin to market the property for sale. If we do not begin to receive offers or indications of interest we will analyze the price and review market conditions to assess whether a lower price reflects the market value of the property and would enable us to sell the property. In addition, we update appraisals on other real estate owned property six to 12 months after the most recent appraisal. Increases in valuation adjustments recorded in a period are primarily based on a) updated appraisals received during the period, or b) management's authorization to reduce the selling price of the property during the period. Unless a current appraisal is available, an appraisal will be ordered prior to a loan moving to other real estate owned. Foreclosed properties held as other real estate owned are recorded at the lower of the recorded investment in the loan (prior to foreclosure) or the fair market value of the property less expected selling costs. Non-covered other real estate owned at December 31, 2013 totaled \$21.8 million and consisted of 19 properties.

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

The Company has written down impaired, non-covered non-accrual loans as of December 31, 2013 to their estimated net realizable value and expects resolution with no additional material loss, absent further decline in market prices.

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

## Non-Covered Non-Performing Assets

As of December 31,

(in thousands)

	2013	2012	2011	2010	2009
Non-covered loans and leases on non-accrual status	\$31,891	\$66,736	\$80,562	\$138,177	\$193,118
Non-covered loans and leases past due 90 days or more and accruing	3,430	4,232	10,821	7,071	5,909
Total non-covered non-performing loans and leases	35,321	70,968	91,383	145,248	199,027
Non-covered other real estate owned	21,833	17,138	34,175	32,791	24,566
Total non-covered non-performing assets	\$57,154	\$88,106	\$125,558	\$178,039	\$223,593
Restructured loans (1)	\$68,791	\$70,602	\$80,563	\$84,441	\$134,439
Allowance for non-covered loan and lease losses	\$85,314	\$85,391	\$92,968	\$101,921	\$107,657
Reserve for unfunded commitments	1,436	1,223	940	818	731

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Allowance for non-covered credit losses	\$86,750	\$86,614	\$93,908	\$102,739	\$108,388	
Asset quality ratios:						
Non-covered non-performing assets to total assets	0.49	% 0.75	% 1.09	% 1.53	% 2.38	%
Non-covered non-performing loans and leases to total non-covered loans and leases	0.48	% 1.06	% 1.55	% 2.57	% 3.32	%
Allowance for non-covered loan and lease losses to total non-covered loans and leases	1.16	% 1.28	% 1.58	% 1.80	% 1.79	%
Allowance for non-covered credit losses to total non-covered loans and leases	1.18	% 1.30	% 1.59	% 1.82	% 1.81	%
Allowance for non-covered credit losses to total non-covered non-performing loans and leases	246	% 122	% 103	% 71	% 54	%

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

The following tables summarize our non-covered non-performing assets by loan type and region as of December 31, 2013 and December 31, 2012:

## Non-Covered Non-Performing Assets by Type and Region

(in thousands)

	December 31, 2013						Total
	Northwest		Southern	Northern	Central	Greater Bay	
	Washington	Oregon	Oregon	California	California	California	
Loans and leases on non-accrual status:							
Commercial real estate							
Non-owner occupied term, net	\$—	\$1,065	\$3,484	\$389	\$1,599	\$2,656	\$9,193
Owner occupied term, net	—	509	—	2,093	—	3,602	6,204
Multifamily, net	—	—	—	—	580	355	935
Construction & development, net	—	—	—	—	—	—	—
Residential development, net	—	2,801	—	—	—	—	2,801
Commercial							
Term, net	—	1,040	—	182	—	—	1,222
LOC & other, net	—	4,620	207	3,615	171	110	8,723
Leases and equipment finance, net	2,813	—	—	—	—	—	2,813
Residential							
Mortgage, net	—	—	—	—	—	—	—
Home equity loans & lines, net	—	—	—	—	—	—	—
Consumer & other, net	—	—	—	—	—	—	—
Total	2,813	10,035	3,691	6,279	2,350	6,723	31,891
Loans and leases past due 90 days or more and accruing:							
Commercial real estate							
Non-owner occupied term, net	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Owner occupied term, net	—	—	—	437	—	173	610
Multifamily, net	—	—	—	—	—	—	—
Construction & development, net	—	—	—	—	—	—	—
Residential development, net	—	—	—	—	—	—	—
Commercial							
Term, net	—	—	—	—	—	—	—
LOC & other, net	—	—	—	—	—	—	—
Leases and equipment finance, net	517	—	—	—	—	—	517
Residential							
Mortgage, net	—	—	35	100	25	—	160
Home equity loans & lines, net	—	2,070	—	—	—	—	2,070
Consumer & other, net	14	20	25	8	5	1	73
Total	531	2,090	60	545	30	174	3,430
Total non-performing loans and leases	3,344	12,125	3,751	6,824	2,380	6,897	35,321
Other real estate owned:							
Commercial real estate							
Non-owner occupied term	\$—	\$11,428	\$—	\$155	\$64	\$—	\$11,647

Owner occupied term	—	311	562	219	1,905	—	2,997
Multifamily	—	—	—	—	—	—	—

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Construction & development	662	5,130	—	—	163	—	5,955
Residential development	—	373	—	—	—	—	373
Commercial							
Term	—	—	—	—	460	—	460
LOC & other	—	—	—	—	—	—	—
Leases and equipment finance	—	—	—	—	—	—	—
Residential							