BRAZILIAN DISTRIBUTION CO COMPANHIA BRASILEIRA DE DISTR CBD
Form 6-K
July 25, 2018

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of July, 2018

Brazilian Distribution Company
(Translation of Registrant's Name Into English)

Av. Brigadeiro Luiz Antonio,
3142 São Paulo, SP 01402-901
Brazil
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F)

Form 20-F _X_ Form 40-F___

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (1)):

Yes ___ No _X_

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101 (b) (7)):

Yes ___ No _X_

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ___ No _X_

***São Paulo, July 24, 2018 - GPA** [B3: PCAR4; NYSE: CBD] announces its results for the 2nd quarter of 2018. Due to the ongoing divestment of the interest held by GPA in Via Varejo S.A., as announced in the material fact notice of November 23, 2016, the operations of Via Varejo are treated as discontinued operations. Accordingly, net sales and other profit or loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 – Non-current assets held for sale and discontinued operations. The following statements are related to the results of continuing operations. All comparisons are with the same period in 2017, except where stated otherwise.*

2Q18 RESULTS

GPA Food:

- **Gross sales revenue of R$12.8 billion, up 9.9%, driven by the accelerated growth at Multivarejo and the solid performance of Assaí, despite a relevant food deflation;**

- **Adjusted EBITDA(*) reached R$679 million (+25.5% vs. 2Q17), with margin expanding from 5.1% to 5.8%, maintaining a strong pace of growth;**

- **Net income attributed to controlling shareholders of R$462 million 2.4 times higher than 2Q17 profit. Ex-tax credits, profit reached R$ 185 million, reversing the loss of the same period of the previous year;**

- **Maintenance of solid financial structure, with a leverage ratio of around 1 time EBITDA.**

Multivarejo:

§ **Gross sales revenue of R$7.0 billion**, with solid **same-store sales growth excluding the calendar effect of 5.3%.** Sales improved significantly across all banners, supporting a market share gain of 100 bps in the quarter;

§ **Gross margin(*)** remained stable at 28.1%, striking a good balance between successful promotional campaigns and price competitiveness;

§ **Operating expenses** as a percentage of net revenue decreased from 23.9% to 23.1% in 2Q18, due to the ongoing efficiency gains, led by productivity gains in stores;

§ **Adjusted EBITDA(*)** of R$358 million, up 18.6%, as a result of the significant evolution of sales and greater operational efficiency. EBITDA margin(*) stood at 5.6%, expanding 90 bps.

Assaí:

- **Gross sales revenue of R$5.7 billion**, up 22.8%, maintaining the banner's strong performance. This growth translated into a market share gain of around 200 bps in the quarter;

- **Gross margin(*) reached 16.4%**, mainly due to the successful organic expansion and the consequent rapid maturation of the stores opened in recent years;

Adjusted EBITDA margin(*) reached 6.1%, expanding a robust 50 bps;

- **Net income reached R$412 million** (R$ 168 million ex tax credits), registering strong growth of 4.3 times vs 2Q17 (or 1.8 times ex tax credits)

(R$ million)[1]	2Q18	2Q17	Δ	2Q18	2Q17	Δ	2Q18	2Q17	
Gross Revenue	12,772	11,623	9.9%	12,772	11,623	9.9%	7,030	6,945	
Net Revenue Ex. tax credits(*)	11,730	10,663	10.0%	11,730	10,663	10.0%	6,452	6,390	
Gross Profit Ex. tax credits(*)	2,684	2,489	7.8%	2,684	2,489	7.8%	1,816	1,812	
Gross Margin Ex. tax credits(*)	**22.9%**	**23.3%**	**-40 bps**	**22.9%**	**23.3%**	**-40 bps**	**28.1%**	**28.3%**	**-2**
Adjusted EBITDA Ex. tax credits[2][3](*)	648	505	28.3%	679	541	25.5%	358	302	
Adjusted EBITDA Margin Ex. tax credits(*)	**5.5%**	**4.7%**	**80 bps**	**5.8%**	**5.1%**	**70 bps**	**5.6%**	**4.7%**	**9**
Net Income - Controlling Shareholders - continuing operations	431	160	169.9%	462	196	136.1%	50	99	-
Net margin - continuing operations	**3.7%**	**1.5%**	**220 bps**	**3.9%**	**1.8%**	**210 bps**	**0.8%**	**1.6%**	**-8**
Net Income (Loss) - Controlling Shareholders - continuing operations ex. tax credits(*)	153	(177)	n.a	185	(141)	n.a	16	(237)	
Net Margin - continuing operations ex. tax credits (*)	**1.3%**	**-1.7%**	**300 bps**	**1.6%**	**-1.3%**	**290 bps**	**0.3%**	**-3.7%**	**40**

[1] Sums and percentages may present discrepancies due to rounding. All margins were calculated as a percentage of net sales. [2] Earnings before interest, taxes, depreciation and amortization. [3] EBITDA adjusted by Other Operating Income and Expenses.

(*) Excluding tax credits, as detailed in the section "Tax Credits" on page 4.

Outlook:

GPA's performance in **2Q18** enabled it to reaffirm its **guidance for 2018**:

§ **Same-store sales growth:** above inflation at Assaí and in line with food inflation at Multivarejo, with continued market share gains;

§ **Adjusted EBITDA margin:** 5.5%-5.6% at Multivarejo and 5.8%-5.9% at Assaí;

§ **Financial Result:** around 1% of net sales;

§ **LATAM synergies:** should surpass US$85 million in savings for the Brazil perimeter.

"*We closed the second quarter of the year with great prospects for the GPA business. Driven by the assertiveness of the new promotional dynamics and adjustments made in the operation of the Multivarejo business, we registered a significant acceleration of the sales level, with gains in market share and improved profitability in all brands. This result reaffirms a new trend of revenue for the business. Assaí continues to deliver consistent sales growth, with market share evolution, coupled with a solid result.*"

Peter Estermann – Chief Executive Officer, GPA

(R$ million)[1]	2Q18	2Q17	Δ	2Q18	2Q17	Δ
Gross Revenue	12,772	11,623	9.9%	12,772	11,623	9.9%
Net Revenue Ex. tax credits(*)	11,730	10,663	10.0%	11,730	10,663	10.0%
Gross Profit Ex. tax credits(*)	2,684	2,489	7.8%	2,684	2,489	7.8%
Gross Margin Ex. tax credits(*)	**22.9%**	**23.3%**	**-40 bps**	**22.9%**	**23.3%**	**-40 bps**
Selling, General and Adm. Expenses	(2,037)	(1,969)	3.5%	(2,037)	(1,969)	3.5%
% of Net Revenue	**17.4%**	**18.5%**	**-110 bps**	**17.4%**	**18.5%**	**-110 bps**
Other Operating Revenue (Expenses)	(90)	(307)	0.0%	(90)	(307)	-7057.7%
% of Net Revenue	**0.8%**	**2.9%**	**-2 bps**	**0.8%**	**2.9%**	**-210 bps**
EBITDA [2]	972	645	50.7%	1,003	681	47.3%
EBITDA Margin	**8.3%**	**6.0%**	**230 bps**	**8.6%**	**6.4%**	**220 bps**
Adjusted EBITDA[2][3]	1,062	952	11.5%	1,093	988	10.6%
Adjusted EBITDA Margin	**9.1%**	**8.9%**	**20 bps**	**9.3%**	**9.3%**	**0 bps**
Adjusted EBITDA Ex. tax credits[2][3](*)	648	505	28.3%	679	541	25.5%
Adjusted EBITDA Margin Ex. tax credits(*)	**5.5%**	**4.7%**	**80 bps**	**5.8%**	**5.1%**	**70 bps**
Net Financial Revenue (Expenses)	(148)	(188)	-21.5%	(148)	(188)	-21.5%
% of Net Revenue	**1.3%**	**1.8%**	**-50 bps**	**1.3%**	**1.8%**	**-50 bps**
Net Income - Controlling Shareholders - continuing operations	431	160	169.9%	462	196	136.1%
Net Margin- continuing operations	**3.7%**	**1.5%**	**220 bps**	**3.9%**	**1.8%**	**210 bps**
Net Income (Loss) - Controlling Shareholders - continuing operations ex. tax credits(*)	153	(177)	n.a	185	(141)	n.a
Net Margin - continuing operations ex. tax credits (*)	**1.3%**	**-1.7%**	**300 bps**	**1.6%**	**-1.3%**	**290 bps**

[1] Sums and percentages may present discrepancies due to rounding. All margins were calculated as a percentage of net sales. [2] Earnings before interest, taxes, depreciation and amortization. [3] EBITDA adjusted by Other Operating Income and Expenses.

(*) *Excluding tax credits, as detailed in the section “Tax Credits” on page 4.*

OPERATING PERFORMANCE BY BUSINESS

Tax Credits

2Q18

Multivarejo sold a portion of the tax credits related to the exclusion of ICMS from the PIS / COFINS calculation bases. The gain from this sale amounted to approximately R$ 50 million (R$ 45 million net of tax). The amount was recognized as deduction from net revenue.

In the quarter, **Assaí** reversed R$369 million of a provision accrued in 2Q17 related to ICMS ST credits for periods prior to the Supreme Court (STF) decision. The changes in the monetization prospects motivated by the new legislation made it possible to justify this reversal of the provision. The amount was recognized as a deduction from cost of good sold.

2Q17

In the second quarter of last year there was recognition of non-recurring tax credits in **Multivarejo** related to the restitution of ICMS ST (Tax Substitution). The amount of R$ 447 million was recognized as a deduction from cost of good sold.

Multivarejo

Gross sales revenue of R$7.0 billion, with solid **same-store sales growth excluding the calendar effect of 5.3%.** Multivarejo captured 100 bps in market share in the quarter (source: Nielsen), led by the banners Extra Hiper and Pão de Açúcar. The expansion of commercial actions and more-successful promotional campaigns drove the strong growth at Multivarejo, with sales volumes recovering and accelerating across all banners.

Gross profit excluding tax credits amounted to R$1,816 million, with gross margin of **28.1%.** The success of these actions combined with the increased customization of offerings (My Discount) enabled the segment to maintain gross margin at similar levels to 2Q17, despite more promotional activations in the period.

Selling, general and administrative expenses amounted to R$1,489 million, **reduction of 2.7% from 2Q17**. As a ratio of net revenue, these expenses **decreased 80 bps** (23.1%) compared to 2Q17. This improvement was due to the closing of hypermarket stores and ongoing initiatives to capture efficiency gains to mitigate the effects from inflation, led by productivity gains in stores.

Adjusted EBITDA excluding tax credits amounted to R$358 million, **improving 18.6% from 2Q17,** as result of the significant evolution of sales and greater operational efficiency. **Margin reached 5.6%, improving 90 bps.**

Assaí

Gross margin came to R$5.7 billion, representing robust growth of 22.8%. This growth translated into a market share gain of around 200 bps in the quarter (source: Nielsen). **Same-store net sales ex-calendar grew 4.7% (2.5% ex-conversions).**

Gross profit excluding tax credits came to R$868 million, with gross margin of **16.4%.** Despite the negative effect from food deflation in the quarter of around -2.8%, the gross margin expansion of 50 bps was mainly due to the successful expansion over the past two years:

- 17 organic stores with accelerated maturation, reflecting a well-defined business model and market demand;

- Positive impact from store conversions, resulting in more attractive stores that better meet the needs of target market.

Regarding the new tax framework for ICMS-ST, it is important to note that 2Q17 and 2Q18 are on a comparable basis.

Selling, general and administrative expenses corresponded to 10.4% of net revenue, in line with 2Q17, reflecting the maturation of stores, despite the increase in expenses due to stronger individual customer and the higher number of stores.

Adjusted EBITDA excluding tax credits amounted to R$321 million, with margin **expanding 50 bps to 6.1%**.

FINANCIAL PERFORMANCE

Other Income and Expenses

Other Operating Income and Expenses came to R$90 million and were mainly related to:

- Expenses associated with store closures/conversions (Extra Hiper into Assaí and Extra Super into Compre Bem), in the amount of R$46 million;

- Expenses with the integration and restructuring of Multivarejo, in the amount of R$43 million.

Financial result

The Company’s financial result amounted to R$148 million, or 1.3% of net sales, improving 50 bps from 2Q17. The main variations were as follows:

§ Decrease in **debt cost:** in line with the decline in the CDI interest rate, from 10.9% in 2Q17 to 6.4% in 2Q18;

§ Increase in the **cost of selling receivables**: despite the lower interest rate there was an increase in the volume anticipated due to the growth of sales and greater participation of non-food;

§ Variations in **contingencies and other expenses:** corresponded to 0.4% of net revenue, in line with 1Q18.

Net Income

In the Food segment, the profit of the controlling shareholders of continuing operations totaled R$ 462 million, 2.4 times higher than 2Q17. Excluding tax credits reached R$ 185 million, reversing the loss of the same period of the previous year.

Consolidated net income of controlling shareholders of continuing operations reached R$ 431 million, 2.7 times higher than 2Q17. Excluding tax credits totaled R$ 153 million, reversing the loss in 2Q17.

Earnings per Share

Diluted earnings per common share was R$ 1.68439 and earnings per preferred share was R$ 1.84454 in the quarter.

Net Debt

Net debt, adjusted for the balance of unsold receivables, stood at R$2,711 million. The Company maintained its low financial leverage, with the ratio of net debt to EBITDA falling from -1.16x in June 2017 to -1.03x in June 2018.

The Company's cash balance stood at R$3,054 million and R$88 million in unsold receivables, representing R$3,143 million in cash and equivalents. The Company also has around R$1.3 billion in pre-approved/confirmed credit facilities.

Contingencies

Following the trend of the last quarters, there was a reduction of R$ 340 million in the quarter in total of possible and probable contingencies. This decrease is the result of favorable decisions regarding tax contingencies and a reduction in the volume of labor lawsuits.

Capital Expenditure

CAPEX in the Food segment came to R$ 330 million, 15.1% higher than in 2Q17, mainly due to the following:

○ Expansion of Assaí: 3 Assaí stores were opened, one of which was converted from an Extra Hiper. Around 20 stores are slated to open this year, including new and converted ones.

○ Renovation of Pão de Açúcar stores: 6 stores were renovated in the quarter under the Generation 7 concept, as part of the plan to renovate around 20 stores in 2018. Furthermore, 30 stores will be included in the Premium Project to offer customers a high-end experience with higher quality perishables and customer service and a unique assortment.

The Company also announced two pilot projects for the Extra Super banner to increase penetration in its target public:

- Compre Bem: The pilot project involves the conversion of 20 stores in order to enter a market niche currently dominated by regional supermarkets. The store model will be better adapted to the needs of consumers in the regions where the stores are located. The service and assortment of the perishables category will be strengthened, while other categories will have a leaner assortment. Compre Bem will be managed independent of the Extra Super banner, with the focus on simplifying operating costs, especially logistics and IT.
- Mercado Extra: pilot project at 10 stores, with 4 stores already opened in 2T18. The goal is to reinvigorate Extra Super by reinforcing the quality of perishables and customer service, with the focus on the B and C income groups. There will be no change in the operating model of the stores, which will continue to be managed by the Extra banner.

2Q18 Results Conference Call and Webcast

Wednesday, July 25, 2018
10:30 a.m. (Brasília) | 9:30 a.m. (New York) | 2:30 p.m. (London)

Conference call in Portuguese (original language)
+55 (11) 3193-1001 or (11) 2820-4001

Conference call in English (simultaneous translation)
+1 (646) 828-8246

Webcast: http://www.gpari.com.br

Replay
+55 (11) 3193-1012 or +55 (11) 2820-4012
Access code for audio in Portuguese: 127474#
Access code for audio in English: 389567#

http://www.gpari.com.br

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About GPA: GPA is Brazil’s largest retailer, with a distribution network comprising over 2,000 points of sale as well as electronic channels. Established in 1948 in São Paulo, it has its head office in the city and operations in 18 Brazilian states and the Federal District. With a strategy of focusing its decisions on customers and better serving them based on their consumer profile in the wide variety of shopping experiences it offers, GPA adopts a multi-business and multi-channel platform consisting of brick-and-mortar stores and e-commerce operations, divided into three business units: Multivarejo, which operates the supermarket, hypermarket and Minimercado store formats, as well as gas stations and drugstores under the Pão de Açúcar and Extra banners; Assaí, which operates in the cash-and-carry wholesale segment; GPA Malls, responsible for the management of real estate assets, expansion projects and inauguration of new stores; and Via Varejo’s discontinued operations, with its brick-and-mortar electronics and home appliances stores under the Casas Bahia and Pontofrio banners, and the e-commerce segment.

Disclaimer: Statements contained in this release relating to the business outlook of the Company, projections of operating/financial results, growth prospects of the Company and market and macroeconomic estimates are merely forecasts and are based on the beliefs, plans and expectations of Management in relation to the Company’s future. These expectations are highly dependent on changes in the market, the general economic performance of Brazil, the industry and international markets, and hence are subject to change.

Glossary

Food Segment: Represents the combined results of Multivarejo and Assaí, excluding equity income (loss) from Cdiscount, which is not included in the operating segments reported by the Company. Includes retail and wholesale activities of products in general, including - but not limited to - food products, clothing, hygiene, medicines, fuel, furniture, consumer electronics and domestic utilities. These activities are carried out in both physical and virtual establishments.

Discontinued Operations: Due to the ongoing divestment of the interest held by GPA in Via Varejo S.A., the operations of Via Varejo are treated as discontinued operations. Accordingly, net sales and other profit or loss accounts were adjusted retrospectively, as required by IFRS 5/CPC 31, approved by CVM Resolution 598/09 – Non-current assets held for sale and discontinued operations.

Growth and changes: The growth and changes presented in this document refer to variations from the same period last year, except where stated otherwise.

EBITDA: EBITDA is calculated in accordance with Instruction 527 issued by the Securities and Exchange Commission of Brazil (CVM) on October 4, 2012.

Adjusted EBITDA: Measure of profitability calculated by excluding Other Operating Income and Expenses from EBITDA. Management uses this measure in its analyses as it believes it eliminates nonrecurring expenses and revenues and other nonrecurring items that could compromise the comparability and analysis of results.

Earnings per share: Diluted earnings per share are calculated as follows:

- Numerator: profit for the year adjusted by dilutive effects from stock options granted by subsidiaries.

- Denominator: the number of shares of each category adjusted to include potential shares corresponding to dilutive instruments (stock options), less the number of shares that could be repurchased in the market, as applicable.

Equity instruments that must or may be settled with the shares of the Company and its subsidiaries are only included in the calculation when their settlement has a dilutive impact on earnings per share.

CONSOLIDATED FINANCIAL STATEMENTS

1. Balance Sheet

(R$ million)	**06.30.2018**	**03.31.2018**	**06.30.2017**	**06.30.20**
Current Assets	**31,240**	**30,612**	**26,714**	**9,8**
Cash and Marketable Securities	3,054	1,701	2,366	3,
Accounts Receivable	296	857	477	
Credit Cards	86	594	307	
Sales Vouchers and Trade Account Receivable	160	206	127	
Allowance for Doubtful Accounts	(4)	(4)	(6)	
Resulting from Commercial Agreements	54	61	49	
Inventories	5,136	4,758	4,427	5,
Recoverable Taxes	532	573	449	
Noncurrent Assets for Sale	21,698	22,133	18,568	
Prepaid Expenses and Other Accounts Receivables	523	590	427	
Noncurrent Assets	**15,255**	**14,805**	**14,035**	**15,2**
Long-Term Assets	4,143	3,546	2,898	4,
Accounts Receivables	3	42	-	
Credit Cards	3	42	-	
Recoverable Taxes	2,335	1,785	1,278	2,
Deferred Income Tax and Social Contribution	174	147	178	
Amounts Receivable from Related Parties	31	52	19	
Judicial Deposits	784	788	738	
Prepaid Expenses and Others	817	733	684	
Investments	209	188	265	
Property and Equipment	8,976	9,150	8,985	8,
Intangible Assets	1,927	1,920	1,887	1,
TOTAL ASSETS	**46,494**	**45,417**	**40,749**	**25,0**

	06.30.2018	**03.31.2018**	**06.30.2017**	**06.30.20**
Current Liabilities	**26,016**	**25,610**	**22,161**	**9,9**
Suppliers	6,370	5,510	5,172	6,
Loans and Financing	1,321	883	1,439	1,
Debentures	500	506	47	
Payroll and Related Charges	615	664	602	

Taxes and Social Contribution Payable	264	272	363	
Dividends Proposed	0	78	-	
Financing for Purchase of Fixed Assets	39	24	28	
Rents	67	77	75	
Debt with Related Parties	145	160	160	
Advertisement	43	39	32	
Provision for Restructuring	13	3	2	
Advanced Revenue	151	125	79	
Non-current Assets Held for Sale	16,269	17,057	13,885	
Others	221	211	277	
Long-Term Liabilities	**6,738**	**6,536**	**5,872**	**6,7**
Loans and Financing	834	766	669	
Debentures	3,338	3,336	2,980	3,
Deferred Income Tax and Social Contribution	548	424	258	
Tax Installments	517	540	765	
Provision for Contingencies	1,127	1,155	1,016	1,
Advanced Revenue	15	19	19	
Provision for loss on investment in Associates	304	246	108	
Others	56	49	57	
Shareholders' Equity	**13,740**	**13,271**	**12,715**	**8,4**
Capital	6,823	6,822	6,818	5,
Capital Reserves	400	379	349	
Profit Reserves	3,599	3,198	2,888	2,
Other Comprehensive Results	(71)	(60)	(47)	(
Minority Interest	2,989	2,932	2,707	
TOTAL LIABILITIES	**46,494**	**45,417**	**40,749**	**25,0**

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2.1 Income Statement - 2Q18

The table below represents the full of reported results and does not exclude any adjustment or other non-recurring item.

R$ - Million	2Q18	2Q17	Δ	2Q18	2Q17	Δ	2Q18	2Q17	Δ	2
Gross Revenue	**12,772**	**11,623**	**9.9%**	**12,772**	**11,623**	**9.9%**	**7,030**	**6,945**	**1.2%**	**5**
Net Revenue	**11,775**	**10,663**	**10.4%**	**11,775**	**10,663**	**10.4%**	**6,497**	**6,390**	**1.7%**	**5**
Cost of Goods Sold	**(8,665)**	**(7,713)**	**12.3%**	**(8,665)**	**(7,713)**	**12.3%**	**(4,626)**	**(4,120)**	**12.3%**	**(4**
Depreciation (Logistic)	(12)	(14)	-9.2%	(12)	(14)	-9.2%	(10)	(12)	-17.2%	
Gross Profit	**3,098**	**2,936**	**5.5%**	**3,098**	**2,936**	**5.5%**	**1,861**	**2,259**	**-17.6%**	**1**
Selling Expenses	(1,787)	(1,722)	3.8%	(1,787)	(1,722)	3.8%	(1,307)	(1,336)	-2.1%	
General and Administrative Expenses	(250)	(246)	1.4%	(250)	(246)	1.4%	(181)	(194)	-6.5%	
Selling, General and Adm. Expenses	**(2,037)**	**(1,969)**	**3.5%**	**(2,037)**	**(1,969)**	**3.5%**	**(1,489)**	**(1,529)**	**-2.7%**	
Equity Income[2]	(11)	(29)	-62.0%	20	7	175.6%	20	7	175.6%	
Other Operating Revenue (Expenses)	(90)	(307)	-70.6%	(90)	(307)	-70.6%	(80)	(272)	-70.7%	
Depreciation and Amortization	(209)	(190)	9.8%	(209)	(190)	9.8%	(153)	(149)	2.2%	
Earnings before interest and Taxes - EBIT	**750**	**441**	**70.2%**	**782**	**477**	**63.9%**	**161**	**316**	**-49.0%**	
Financial Revenue	39	41	-4.8%	39	41	-4.8%	31	33	-6.4%	
	(186)	(229)	-18.6%	(186)	(229)	-18.6%	(174)	(203)	-14.4%	

Financial Expenses									
Net Financial Result	**(148)**	**(188)**	**-21.5%**	**(148)**	**(188)**	**-21.5%**	**(143)**	**(170)**	**-15.9%**
Income (Loss) Before Income Tax	**603**	**253**	**138.4%**	**634**	**289**	**119.4%**	**18**	**146**	**-87.6%**
Income Tax	(172)	(93)	85.7%	(172)	(93)	85.7%	32	(46)	-169.9%

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 (1)
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

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 [2]	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
PERFORMANCE RATIOS					
Return on average assets [3]	0.85 %	0.88 %	0.64 %	0.15 %	(1.85)%
Return on average common shareholders' equity [4]	5.64 %	5.95 %	4.43 %	1.01 %	(12.63)%
Return on average tangible common shareholders' equity [5]	9.78 %	9.87 %	7.47 %	1.76 %	(26.91)%
Efficiency ratio [6], [7]	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 [8]	10.90 %	11.44 %	10.91 %	10.56 %	12.79 %
Net interest margin (fully tax equivalent) [9]	4.01 %	4.02 %	4.19 %	4.17 %	4.09 %
Non-interest revenue to total net revenue [10]	23.07 %	25.15 %	16.41 %	16.13 %	18.65 %
Dividend payout ratio [11]	68.97 %	37.78 %	36.92 %	133.33 %	(8.47)%
ASSET QUALITY					
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

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

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

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

(7) The efficiency ratio calculation includes goodwill impairment charges of $112.0 million in 2009. Goodwill 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. 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 redesiginated 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%

(1) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $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 MSRs). The return on average tangible common shareholders' equity is considered a non-GAAP financial measure and should be viewed in conjunction with the return on average common shareholders' equity.

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

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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 MSRs). In addition, tangible assets are total assets less goodwill and other intangible assets, net (excluding MSRs). The tangible common equity ratio is calculated as tangible common shareholders’ equity divided by tangible assets. The tangible common equity and tangible common equity ratio is considered a non-GAAP financial measure and should be viewed in conjunction with the total shareholders’ equity and the total shareholders’ equity ratio.
The following table provides a reconciliation of ending shareholders’ equity (GAAP) to ending tangible common equity (non-GAAP), and ending assets (GAAP) to ending tangible assets (non-GAAP) as of December 31, 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 Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates	Average Balance	Interest Income or Expense	Average Yields or Rates
INTEREST-EARNING ASSETS:									
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		
INTEREST-BEARING LIABILITIES:									
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.

(2) Tax-exempt income has been adjusted to a tax equivalent basis at a 35% tax rate. The amount of such adjustment was an addition to recorded income of approximately $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 Increase (decrease) in interest income and expense due to changes in			2012 compared to 2011 Increase (decrease) in interest income and expense due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST-EARNING ASSETS:						
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)
INTEREST-BEARING LIABILITIES:						
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 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
AVAILABLE FOR SALE			
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
HELD TO MATURITY			
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	
U.S. TREASURY AND AGENCIES				
One year or less	$34	$34	2.56	%
One to five years	215	234	3.68	%
	249	268	3.54	%
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
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	%
OTHER DEBT SECURITIES				
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 collaterized mortgage obligation structures, with an average duration of 4.0 years. These mortgage-related securities provide yield spread to U.S. Treasury or agency securities; however, the cash flows arising from them can be volatile due to refinancing of the underlying mortgage loans.

The equity security in “Other investment securities” in the table above at December 31, 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	%
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	%

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				Loans Over One Year by Rate Sensitivity	
	One Year or Less	One Through Five Years	Over Five Years	Total	Fixed Rate	Floating Rate
Commercial real estate	$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

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						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
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							
Mortgage	—	—	45	—	—	—	45
Home equity loans & lines	—	356	—	—	—	—	356
Consumer & other	—	—	—	—	—	—	—
Total	662	17,598	607	374	2,592	—	21,833
Total non-performing assets	$4,006	$29,723	$4,358	$7,198	$4,972	$6,897	$57,154

(in thousands)	December 31, 2012						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Loans and leases on non-accrual status:							
Commercial real estate							
Non-owner occupied term, net	$139	$21,165	$3,543	$2,259	$2,506	$4,183	$33,795
Owner occupied term, net	—	1,199	—	255	6,995	—	8,449
Multifamily, net	—	319	—	—	727	—	1,046
Construction & development, net	662	—	—	—	3,515	—	4,177
Residential development, net	—	5,132	—	—	—	—	5,132
Commercial							
Term, net	114	2,602	239	2,987	921	177	7,040
LOC & other, net	—	1,180	172	—	2,922	2,753	7,027
Leases and equipment finance, net	—	—	—	—	—	—	—
Residential							
Mortgage, net	—	—	—	—	—	—	—
Home equity loans & lines, net	—	—	—	—	—	49	49
Consumer & other, net	—	—	—	—	—	21	21
Total	915	31,597	3,954	5,501	17,586	7,183	66,736
Loans and leases past due 90 days or more and accruing:							
Commercial real estate							
Non-owner occupied term, net	$—	$—	$—	$—	$—	$—	$—
Owner occupied term, net	—	—	—	—	—	—	—
Multifamily, net	—	—	—	—	—	—	—
Construction & development, net	—	—	—	—	—	—	—
Residential development, net	—	—	—	—	—	—	—
Commercial							
Term, net	—	81	—	—	—	—	81
LOC & other, net	—	—	—	—	—	—	—
Leases and equipment finance, net	—	—	—	—	—	—	—
Residential							
Mortgage, net	—	3,303	—	—	—	—	3,303
Home equity loans & lines, net	—	355	50	215	—	138	758
Consumer & other, net	2	5	20	8	25	30	90

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Total	2	3,744	70	223	25	168	4,232
Total non-performing loans and leases	917	35,341	4,024	5,724	17,611	7,351	70,968
Other real estate owned:							
Commercial real estate							
Non-owner occupied term	$—	$4,092	$—	$366	$—	$—	$4,458
Owner occupied term	—	1,730	—	381	—	—	2,111
Multifamily	—	—	—	—	—	—	—
Construction & development	—	—	—	—	984	1,440	2,424
Residential development	1,693	312	655	—	886	—	3,546
Commercial							
Term	—	1,656	—	—	—	—	1,656
LOC & other, net	907	63	—	—	—	—	970
Leases and equipment finance	—	—	—	—	—	—	—
Residential							
Mortgage	—	964	—	—	—	—	964
Home equity loans & lines	—	656	—	—	191	162	1,009
Consumer & other	—	—	—	—	—	—	—
Total	2,600	9,473	655	747	2,061	1,602	17,138
Total non-performing assets	$3,517	$44,814	$4,679	$6,471	$19,672	$8,953	$88,106

As of December 31, 2013, the non-covered non-performing assets of $57.2 million have been written down by 29%, or $22.9 million, from their original balance of $80.1 million.

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

The following table summarizes our non-covered loans and leases past due 30-89 days by loan type and by region as of December 31, 2013 and December 31, 2012. Loans and leases past due 30-89 days have decreased 36% between the two periods.

Non-Covered Loans and Leases Past Due 30-89 Days by Type and Region
(in thousands)

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	December 31, 2013						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Commercial real estate							
Non-owner occupied term, net	$—	$400	$287	$—	$2,554	$729	$3,970
Owner occupied term, net	—	502	340	—	67	751	1,660
Multifamily, net	—	—	—	—	—	—	—
Construction & development, net	—	—	—	—	—	—	—
Residential development, net	—	—	—	—	—	—	—
Commercial							
Term, net	6	15	—	5	218	599	843
LOC & other, net	—	63	111	1,800	281	83	2,338
Leases and equipment finance, net	3,896	12	—	—	—	—	3,908
Residential							
Mortgage, net	—	225	346	113	10	341	1,035
Home equity loans & lines, net	—	1,392	—	—	—	—	1,392
Consumer & other, net	20	52	29	4	7	32	144
Total, net of deferred fees and costs	$3,922	$2,661	$1,113	$1,922	$3,137	$2,535	$15,290

(in thousands)

	December 31, 2012						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Commercial real estate							
Non-owner occupied term, net	$317	$899	$138	$—	$3,462	$1,413	$6,229
Owner occupied term, net	—	511	645	1,799	—	1,347	4,302
Multifamily, net	—	—	—	—	—	—	—
Construction & development, net	—	283	—	—	—	—	283
Residential development, net	—	—	—	—	479	—	479
Commercial							
Term, net	—	413	164	1,214	22	1,878	3,691
LOC & other, net	24	1,446	74	104	1,383	183	3,214
Leases and equipment finance, net	—	—	—	—	—	—	—
Residential							
Mortgage, net	—	3,508	—	—	—	—	3,508
Home equity loans & lines, net	—	250	221	266	161	714	1,612
Consumer & other, net	—	329	20	61	63	—	473
Total, net of deferred fees and costs	$341	$7,639	$1,262	$3,444	$5,570	$5,535	$23,791

Non-Covered Restructured Loans

At December 31, 2013 and December 31, 2012, non-covered impaired loans of $68.8 million and $70.6 million were classified as non-covered performing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, by providing modification of loan repayment terms. The non-covered performing restructured loans on accrual status represent principally the only impaired loans accruing interest at December 31, 2013. In order for a restructured loan to be considered performing and on accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan must be current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Company had no obligation to lend additional funds on the restructured loans as of December 31, 2013.

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Residential Modification Program

The Bank's modification program is designed to enable the Bank to work with its customers experiencing financial difficulty to maximize repayment. While the Bank has designed guidelines similar to the government sponsored Home Affordable Refinance Program and Home Affordable Modification Program, the Bank participates in the programs only in the capacity as servicer on behalf of investor loans that have been sold.

A and B Note Workout Structures

The Bank performs A note/B note workout structures as a subset of the Bank's troubled debt restructuring strategy. The amount of loans restructured using this structure was $3.8 million and $12.6 million as of December 31, 2013 and December 31, 2012, respectively.

Under an A note/B note workout structure, a new A note is underwritten in accordance with customary troubled debt restructuring underwriting standards and is reasonably assured of full repayment while the corresponding B note is not. The B note is immediately charged-off upon restructuring.

If the loan was on accrual prior to the troubled debt restructuring being documented with the loan legally bifurcated into an A note fully supporting accrual status and a B note or amount fully contractually forgiven and charged-off, the A note may remain on accrual status. If the loan was on nonaccrual at the time the troubled debt restructuring was documented with the loan legally bifurcated into an A note fully supporting accrual status and a B note or amount contractually forgiven and fully charged-off, the A note may be returned to accrual status, and risk rated accordingly, after a reasonable period of performance under the troubled debt restructuring terms. Six months of payment performance is generally required to return these loans to accrual status.

The A note will continue to be classified as a troubled debt restructuring and only may be removed from impaired status in years after the restructuring if (a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk and (b) the loan is not impaired based on the terms specified by the restructuring agreement.

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

Non-Covered Restructured Loans by Type and Region
(in thousands)

	December 31, 2013						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Commercial real estate							
Non-owner occupied term, net	$13,188	$13,492	$3,865	$—	$6,821	$—	$37,366
Owner occupied term, net	—	650	—	608	3,944	—	5,202
Multifamily, net	—	—	—	—	—	—	—
Construction & development, net	—	8,498	—	—	1,092	—	9,590
Residential development, net	—	6,987	—	—	7,915	—	14,902
Commercial							
Term, net	—	—	—	—	1,258	—	1,258
LOC & other, net	—	—	—	—	—	—	—
Leases and equipment finance, net	—	—	—	—	—	—	—
Residential							

Mortgage, net	—	473	—	—	—	—	473
Home equity loans & lines, net	—	—	—	—	—	—	—
Consumer & other, net	—	—	—	—	—	—	—
Total, net of deferred fees and costs	$13,188	$30,100	$3,865	$608	$21,030	$—	$68,791

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(in thousands)

	December 31, 2012						
	Washington	Northwest Oregon	Southern Oregon	Northern California	Central California	Greater Bay California	Total
Commercial real estate							
Non-owner occupied term, net	$13,482	$10,055	$3,870	$—	$6,922	$—	$34,329
Owner occupied term, net	—	670	—	654	3,960	—	5,284
Multifamily, net	—	—	—	—	—	—	—
Construction & development, net	—	8,739	—	—	3,813	—	12,552
Residential development, net	—	8,455	—	—	8,686	—	17,141
Commercial							
Term, net	—	—	—	350	—	—	350
LOC & other, net	—	—	—	—	820	—	820
Leases and equipment finance, net	—	—	—	—	—	—	—
Residential							
Mortgage, net	—	—	—	—	—	—	—
Home equity loans & lines, net	—	—	—	—	—	126	126
Consumer & other, net	—	—	—	—	—	—	—
Total, net of deferred fees and costs	$13,482	$27,919	$3,870	$1,004	$24,201	$126	$70,602

The following table presents a distribution of our performing non-covered restructured loans by year of maturity, according to the restructured terms, as of December 31, 2013:

(in thousands)

Year	Amount
2014	$43,710
2015	9,691
2016	8,498
2017	2,475
2018	3,944
Thereafter	473
Total	$68,791

The Bank has had varying degrees of success with different types of concessions. The following table presents the percentage of troubled debt restructurings, by type of concession, at December 31, 2013 that have performed and are expected to perform according to the troubled debt restructuring agreement:

	December 31, 2013
Rate	99%
Interest Only	100%
Payment	100%
Combination	90%

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

Consolidated Financial Statements.

Covered Non-Performing Assets

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Covered non-performing assets totaled $2.1 million, or 0.02% of total assets at December 31, 2013 as compared to $10.4 million, or 0.09% of total assets at December 31, 2012. These covered nonperforming assets are subject to shared-loss agreements with the FDIC. The following tables summarize our covered non-performing assets by loan type as of December 31, 2013 and December 31, 2012:

(in thousands)

	December 31, 2013			
	Evergreen	Rainier	Nevada Security	Total
Covered other real estate owned:				
Commercial real estate				
Non-owner occupied term	$234	$55	$72	$361
Owner occupied term	—	—	—	—
Multifamily	—	—	—	—
Construction & development	417	—	1,048	1,465
Residential development	—	—	97	97
Commercial				
Term	—	—	179	179
LOC & other	—	—	—	—
Residential				
Mortgage	—	—	—	—
Home equity loans & lines	—	—	—	—
Consumer & other	—	—	—	—
Total	$651	$55	$1,396	$2,102

(in thousands)

	December 31, 2012			
	Evergreen	Rainier	Nevada Security	Total
Covered other real estate owned:				
Commercial real estate				
Non-owner occupied term	$958	$1,415	$2,015	$4,388
Owner occupied term	—	125	356	481
Multifamily	—	—	—	—
Construction & development	319	482	3,286	4,087
Residential development	347	—	243	590
Commercial				
Term	—	332	—	332
LOC & other	—	—	—	—
Residential				
Mortgage	421	75	—	496
Home equity loans & lines	—	—	—	—
Consumer & other	—	—	—	—
Total	$2,045	$2,429	$5,900	$10,374

Total Non-Performing Assets

The following tables summarize our total (including covered and non-covered) nonperforming assets at December 31:

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(dollars in thousands)

	2013	2012	2011	2010	2009
Loans and leases on non-accrual status	$31,891	$66,736	$80,562	$138,177	$193,118
Loans and leases past due 90 days or more and accruing	3,430	4,232	10,821	7,071	5,909
Total non-performing loans and leases	35,321	70,968	91,383	145,248	199,027
Other real estate owned	23,935	27,512	53,666	62,654	24,566
Total non-performing assets	$59,256	$98,480	$145,049	$207,902	$223,593
Asset quality ratios:					
Total non-performing assets to total assets	0.51 %	0.83 %	1.25 %	1.78 %	2.38 %
Total non-performing loans and leases to total loans and leases	0.46 %	0.99 %	1.40 %	2.25 %	3.32 %

ALLOWANCE FOR NON-COVERED LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED COMMITMENTS

The allowance for non-covered loan and lease losses (“ALLL”) totaled $85.3 million at December 31, 2013, a decrease of $77,000 from the $85.4 million at December 31, 2012. The decrease in the ALLL from the prior year-end is a result of improving credit quality characteristics of the non-covered lease and loan portfolio, partially offset by non-covered loan and lease growth. Additional discussion on the change in provision for loan and lease losses is provided under the heading Provision for Loan and Lease Losses above.

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

Allowance for Non-Covered Loan and Lease Losses

(in thousands)

	2013	2012	2011	2010	2009
Balance, beginning of period	$85,391	$92,968	$101,921	$107,657	$95,865
Loans charged-off:					
Commercial real estate, net	(7,445)	(22,349)	(36,011)	(71,030)	(136,382)
Commercial, net	(19,266)	(12,209)	(21,071)	(50,242)	(57,932)
Residential, net	(3,458)	(5,282)	(6,333)	(5,168)	(4,331)
Consumer & other, net	(826)	(1,499)	(1,636)	(2,061)	(2,222)
Total loans charged-off	(30,995)	(41,339)	(65,051)	(128,501)	(200,867)
Recoveries:					
Commercial real estate, net	3,322	5,409	5,906	6,980	1,334
Commercial, net	9,914	5,356	3,348	1,318	1,549
Residential, net	351	762	239	334	126
Consumer & other, net	502	439	385	465	526
Total recoveries	14,089	11,966	9,878	9,097	3,535
Net charge-offs	(16,906)	(29,373)	(55,173)	(119,404)	(197,332)
Provision charged to operations	16,829	21,796	46,220	113,668	209,124
Balance, end of period	$85,314	$85,391	$92,968	$101,921	$107,657
As a percentage of average non-covered loans and leases:					
Net charge-offs	0.24 %	0.48 %	0.96 %	2.06 %	3.23 %
	0.24 %	0.35 %	0.81 %	1.97 %	3.43 %

Provision for non-covered loan and lease losses					
Recoveries as a percentage of charge-offs	45.46 %	28.95 %	15.19 %	7.08 %	1.76 %

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The unallocated portion of ALLL provides for coverage of credit losses inherent in the loan portfolio but not captured in the credit loss factors that are utilized in the risk rating-based component, or in the specific impairment reserve component of the allowance for loan and lease losses, and acknowledges the inherent imprecision of all loss prediction models. At both December 31, 2013 and December 31, 2012, there was no unallocated allowance for loan and lease losses. The level in unallocated ALLL reflects management’s evaluation of the existing general business and economic conditions, and improving credit quality and collateral values of real estate in our markets. The ALLL composition should not be interpreted as an indication of specific amounts or loan categories in which future charge-offs may occur.

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

Allowance for Non-covered Loan and Lease Losses Composition
As of December 31,
(dollars in thousands)

	2013		2012		2011		2010		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate, net	$53,433	58.8 %	$54,909	62.7 %	$59,574	64.6 %	$64,405	68.3 %	$67,281	68.4 %
Commercial, net	24,191	28.8 %	22,925	25.7 %	20,485	24.8 %	22,146	22.2 %	24,583	23.2 %
Residential, net	6,827	11.7 %	6,925	11.0 %	7,625	10.0 %	5,926	8.9 %	5,811	7.8 %
Consumer & other, net	863	0.7 %	632	0.6 %	867	0.6 %	803	0.6 %	455	0.6 %
Unallocated	—		—		4,417		8,641		9,527	
Allowance for non-covered loan and lease losses	$85,314		$85,391		$92,968		$101,921		$107,657	

All impaired loans are individually evaluated for impairment. If the measurement of each impaired loans' value is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. This can be accomplished by charging-off the impaired portion of the loan or establishing a specific component within the allowance for loan and lease losses. If in management’s assessment the sources of repayment will not result in a reasonable probability that the carrying value of a loan can be recovered, the amount of a loan’s specific impairment is charged-off against the allowance for loan and lease losses. The Company recognizes the charge-off of impairment reserves on impaired loans in the period they arise for collateral dependent loans. 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.

At December 31, 2013, the recorded investment in non-covered loans classified as impaired totaled $100.8 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $1.8 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former non-covered restructured loans and nonaccrual loans. At December 31, 2012, the total recorded investment in non-covered impaired loans was $142.4 million, with a corresponding valuation allowance (included in the allowance for loan and lease losses) of $1.4 million. The valuation allowance on impaired loans represents the impairment reserves on performing current and former non-covered restructured loans and nonaccrual loans at December 31, 2012.

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

Summary of Reserve for Unfunded Commitments Activity
Years Ended December 31,

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(in thousands)

	2013	2012	2011
Balance, beginning of period	$1,223	$940	$818
Net change to other expense:			
Commercial real estate, net	48	113	26
Commercial, net	93	174	58
Residential, net	59	(12)	27
Consumer & other, net	13	8	11
Total change to other expense	213	283	122
Balance, end of period	$1,436	$1,223	$940

We believe that the ALLL and RUC at December 31, 2013 are sufficient to absorb losses inherent in the loan and lease portfolio and credit commitments outstanding as of that date based on the best information available. This assessment, based in part on historical levels of net charge-offs, loan and lease growth, and a detailed review of the quality of the loan and lease portfolio, involves uncertainty and judgment. Therefore, the adequacy of the ALLL and RUC cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require additional charges to the provision for loan and lease losses in future periods if warranted as a result of their review.

ALLOWANCE FOR COVERED LOAN LOSSES

The allowance for covered loan and lease losses (“ALLL”) totaled $9.8 million at December 31, 2013, a decrease of $8.5 million from the $18.3 million at December 31, 2012. The decrease in the covered ALLL from the prior year end 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.

The following table summarizes activity related to the allowance for covered loan losses by covered loan portfolio segment for each of the four years ended December 31:

Allowance for Covered Loan Losses

(in thousands)

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	2013	2012	2011	2010
Balance, beginning of period	$18,275	$14,320	$2,721	$—
Loans charged-off:				
Commercial real estate, net	(2,303)	(2,921)	(3,177)	(2,439)
Commercial, net	(1,544)	(1,613)	(660)	(266)
Residential, net	(197)	(596)	(1,657)	—
Consumer & other, net	(459)	(659)	(1,192)	—
Total loans charged-off	(4,503)	(5,789)	(6,686)	(2,705)
Recoveries:				
Commercial real estate, net	1,114	1,264	1,348	11
Commercial, net	531	733	512	263
Residential, net	218	237	142	—
Consumer & other, net	249	105	142	1
Total recoveries	2,112	2,339	2,144	275
Net charge-offs	(2,391)	(3,450)	(4,542)	(2,430)
Covered (recapture of) provision charged to operations	(6,113)	7,405	16,141	5,151
Balance, end of period	$9,771	$18,275	$14,320	$2,721
As a percentage of average covered loans:				
Net charge-offs	0.57%	0.62%	0.64%	0.36%
(Recapture of) provision for covered loan losses	(1.47)%	1.34%	2.28%	0.76%

The following table sets forth the allocation of the allowance for covered loan losses and percent of covered loans in each category to total loans, net of deferred fees as of December 31:

Allowance for Covered Loan Losses Composition
As of December 31,
(dollars in thousands)

	2013		2012		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial real estate, net	$6,105	81.6%	$12,129	80.7%	$8,939	79.4%	$2,465	78.5%
Commercial, net	2,837	6.0%	4,980	7.8%	3,964	9.1%	176	9.9%
Residential, net	660	11.3%	804	10.3%	991	10.2%	56	10.2%
Consumer & other, net	169	1.1%	362	1.2%	426	1.3%	24	1.4%
Allowance for covered loan losses	$9,771		$18,275		$14,320		$2,721	

MORTGAGE SERVICING RIGHTS

The following table presents the key elements of our mortgage servicing rights asset as of December 31, 2013, 2012, and 2011:

Summary of Mortgage Servicing Rights

Years Ended December 31,

(in thousands)

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	2013	2012	2011
Balance, beginning of period	$27,428	$18,184	$14,454
Additions for new mortgage servicing rights capitalized	17,963	17,710	6,720
Changes in fair value:			
Due to changes in model inputs or assumptions(1)	5,688	(4,651)	(858)
Other(2)	(3,314)	(3,815)	(2,132)
Balance, end of period	$47,765	$27,428	$18,184

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

Information related to our serviced loan portfolio as of December 31, 2013, 2012, and 2011 was as follows:

(dollars in thousands)

	December 31, 2013	December 31, 2012	December 31, 2011
Balance of loans serviced for others	$4,362,499	$3,162,080	$2,009,849
MSR as a percentage of serviced loans	1.09 %	0.87 %	0.90 %

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

Additional information about the Company's mortgage servicing rights is provided in Note 10 of the Notes to Consolidated Financial Statements in Item 8 below.

GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2013, we had goodwill and other intangible assets of $776.7 million, as compared to $685.3 million at December 31, 2012. Goodwill is recorded in connection with business combinations and represents the excess of the purchase price over the estimated fair value of the net assets acquired. Goodwill increased in 2013 over 2012 as a result of the FinPac acquisition.

At December 31, 2013, we had recorded goodwill of $764.3 million, as compared to $668.2 million at December 31, 2012. Goodwill and other intangible assets with indefinite lives are not amortized but instead are periodically tested for impairment. Management evaluates intangible assets with indefinite lives on an annual basis as of December 31. Additionally, we perform impairment evaluations on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition. The Company has the option to perform a qualitative assessment before completing the goodwill impairment test two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step the Company calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the

Company is allocated to all of the Company’s assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment. No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit’s net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess. The Company performs the first step on an annual basis and in between if certain events or circumstances indicate goodwill may be impaired.

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The Company conducted its annual evaluation of goodwill for impairment as of December 31, 2013 for both the Community Banking and Wealth Management segments. In the first step of the goodwill impairment test, the Company determined for both segments that the fair value of the reporting unit exceeded its carrying value. No goodwill impairment losses have been recognized in the periods presented.

At December 31, 2013, we had other intangible assets of $12.4 million, as compared to $17.1 million at December 31, 2012. As part of a business acquisition, a portion of the purchase price is allocated to the other value of intangible assets such as core deposits, which includes all deposits except certificates of deposit. The value of these other intangible assets was determined with the assistance of a third party based on an analysis of the cost differential between the core deposits and alternative funding sources for the core deposit intangible. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. Other intangible assets decreased in 2013 over 2012 as a result of intangible asset amortization. No impairment losses separate from the scheduled amortization have been recognized in the periods presented.

Additional information regarding our accounting for goodwill and other intangible assets is included in Notes 1, 2 and 9 of the Notes to Consolidated Financial Statements in Item 8 below.

DEPOSITS

Total deposits were $9.1 billion at December 31, 2013, a decrease of $261.6 million, or 2.8%, as compared to year-end 2012 due to the transfer of balances to securities sold under agreements to repurchase and from anticipated run-off of higher priced money market, time and public deposits. Additional information regarding interest bearing deposits is included in Note 14 of the Notes to Consolidated Financial Statements in Item 8 below.

The following table presents the deposit balances by major category as of December 31, 2013 and December 31, 2012:

Deposits
As of December 31,
(dollars in thousands)

	December 31, 2013		December 31, 2012	
	Amount	Percentage	Amount	Percentage
Non-interest bearing	$2,436,477	26 %	$2,278,914	24 %
Interest bearing demand	1,233,070	14 %	1,215,002	13 %
Money market	3,349,946	37 %	3,407,047	37 %
Savings	560,699	6 %	475,325	5 %
Time, $100,000 or greater	1,065,380	12 %	1,429,153	15 %
Time, less than $100,000	472,088	5 %	573,834	6 %
Total	$9,117,660	100 %	$9,379,275	100 %

The following table presents the average amount of and average rate paid by major category as of December 31:

(dollars in thousands)

	2013		2012		2011	
	Average Deposits	Average Rate	Average Deposits	Average Rate	Average Deposits	Average Rate
Non-interest bearing	$2,284,996	—	$2,034,035	—	$1,782,354	—
Interest bearing demand	1,176,841	0.08%	1,112,394	0.18%	903,721	0.34%

Money market	3,276,179	0.11%	3,447,806	0.21%	3,487,624	0.49%
Savings	521,387	0.06%	427,673	0.07%	373,746	0.10%
Time	1,796,669	0.89%	2,102,711	1.03%	2,754,533	1.27%
Total	$9,056,072		$9,124,619		$9,301,978	

The following table presents the scheduled maturities of time deposits of $100,000 and greater as of December 31, 2013:

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Maturities of Time Deposits of $100,000 and Greater

(in thousands)

	Amount
Three months or less	$226,849
Over three months through six months	211,268
Over six months through twelve months	253,595
Over twelve months	373,668
Time, $100,000 and over	$1,065,380

The Company has an agreement with Promontory Interfinancial Network LLC ("Promontory") that makes it possible to provide FDIC deposit insurance to balances in excess of current deposit insurance limits. Promontory's Certificate of Deposit Account Registry Service ("CDARS") uses a deposit-matching program to exchange Bank deposits in excess of the current deposit insurance limits for excess balances at other participating banks, on a dollar-for-dollar basis, that would be fully insured at the Bank. This product is designed to enhance our ability to attract and retain customers and increase deposits, by providing additional FDIC coverage to customers. CDARS deposits can be reciprocal or one-way. All of the Bank's CDARS deposits are reciprocal and are considered brokered deposits under regulatory guidelines. At December 31, 2013 and December 31, 2012, the Company's CDARS balances totaled $66.9 million and $154.1 million, respectively. Of these totals, at December 31, 2013 and December 31, 2012, $62.2 million and $146.1 million, respectively, represented time deposits equal to or greater than $100,000 but were fully insured under current deposit insurance limits.

The Dodd-Frank Act provided for unlimited deposit insurance for non-interest bearing transactions accounts, excluding NOW (interest bearing deposit accounts) and including all IOLTAs (lawyers' trust accounts), beginning December 31, 2010 for a period of two years. The program expired December 31, 2012. The Dodd-Frank Act permanently raised the current standard maximum federal deposit insurance amount from $100,000 to $250,000 per qualified account.

BORROWINGS

At December 31, 2013, the Bank had outstanding $224.9 million of securities sold under agreements to repurchase and no outstanding federal funds purchased balances. Additional information regarding securities sold under agreements to repurchase and federal funds purchased is provided in Notes 15 and 16 of Notes to Consolidated Financial Statements in Item 8 below.

The Bank had outstanding term debt of $251.5 million at December 31, 2013, primarily with the Federal Home Loan Bank ("FHLB"). Term debt outstanding as of December 31, 2013 decreased $2.1 million since December 31, 2012 as a result of accretion of purchase accounting adjustments. Term debt assumed in the FinPac acquisition of $211.2 million was paid upon acquisition. Advances from the FHLB amounted to $245.0 million of the total term debt and are secured by investment securities and loans secured by real estate. The FHLB advances have fixed interest rates ranging from 4.46% to 4.72% and mature in 2016 and 2017. Additional information regarding term debt is provided in Note 17 of Notes to Consolidated Financial Statements in Item 8 below.

JUNIOR SUBORDINATED DEBENTURES

We had junior subordinated debentures with carrying values of $189.2 million and $196.1 million at December 31, 2013 and December 31, 2012, respectively. The decrease is primarily due to the redemption of $8.8 million in junior subordinated debentures during the first quarter of 2013 which were assumed in the Circle acquisition in November 2012.

At December 31, 2013, approximately $219.6 million, or 95% of the total issued amount, had interest rates that are adjustable on a quarterly basis based on a spread over three month LIBOR. Interest expense for junior subordinated debentures decreased in 2013 as compared to 2012 and 2011, primarily resulting from decreases in three month LIBOR. Although increases in three month LIBOR will increase the interest expense for junior subordinated debentures, we believe that other attributes of our balance sheet will serve to mitigate the impact to net interest income on a consolidated basis.

On January 1, 2007, the Company elected the fair value measurement option for certain pre-existing junior subordinated debentures of $97.9 million (the Umpqua Statutory Trusts). The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition. In 2007, the Company issued two series of trust preferred securities and elected to measure each instrument at fair value. Accounting for junior subordinated debentures originally issued by the Company at fair value enables us to more closely align our financial performance with the economic value of

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

The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Consolidated Balance Sheets. In July 2010, the Dodd-Frank Act was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and effectively closed the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future.

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

The Company’s specific credit risk is implicit in the credit risk adjusted spread used to determine the fair value of our junior subordinated debentures. As our Company is not specifically rated by any credit agency, it is difficult to specifically attribute changes in our estimate of the applicable credit risk adjusted spread to specific changes in our own creditworthiness versus changes in the market’s required return from similar companies. As a result, these considerations must be largely based off of qualitative considerations as we do not have a credit rating and we do not regularly issue senior or subordinated debt that would provide us an independent measure of the changes in how the market quantifies our perceived default risk.

On a quarterly basis we assess entity-specific qualitative considerations that if not mitigated or represents a material change from the prior reporting period may result in a change to the perceived creditworthiness and ultimately the estimated credit risk adjusted spread utilized to value these liabilities. Entity-specific considerations that positively impact our creditworthiness include: our strong capital position resulting from our successful public stock offerings in 2009 and 2010, that offers us flexibility to pursue business opportunities such as mergers and acquisitions, or expand our footprint and product offerings; having significant levels of on and off-balance sheet liquidity; being profitable; and, having an experienced management team. However, these positive considerations are mitigated by significant risks and uncertainties that impact our creditworthiness and ability to maintain capital adequacy in the future. Specific risks and concerns include: given our concentration of loans secured by real estate in our loan portfolio, a continued and sustained deterioration of the real estate market may result in declines in the value of the underlying collateral and increased delinquencies that could result in an increased of charge-offs; despite recent improvement, our credit quality metrics remain negatively elevated since 2007 relative to historical standards; the continuation of current economic downturn that has been particularly severe in our primary markets could adversely affect our business; recent increased regulation facing our industry, such as the Dodd-Frank Act, will increase the cost of compliance and restrict our ability to conduct business consistent with historical practices, and could negatively impact profitability; we have a significant amount of goodwill and other intangible assets that dilute our available tangible common equity; and the carrying value of certain material, recently recorded assets on our balance sheet, such as the FDIC loss-sharing indemnification asset, are highly reliant on management estimates, such as the timing or amount of losses that are estimated to be covered, and the assumed continued compliance with the provisions of the loss-share agreement. To the extent assumptions

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ultimately prove incorrect or should we consciously forego or unknowingly violate the guidelines of the agreement, an impairment of the asset may result which would reduce capital.

Additionally, the Company periodically utilizes an external valuation firm to determine or validate the reasonableness of the assessments of inputs and factors that ultimately determines the estimate fair value of these liabilities. The extent we involve or engage these external third parties correlates to management's assessment of the current subordinate debt market, how the current environment and market compares to the preceding quarter, and perceived changes in the Company's own creditworthiness during the quarter. In periods of potential significant valuation changes and at year-end reporting periods we typically engage third parties to perform a full independent valuation of these liabilities. For periods where management has assessed the market and other factors impacting the underlying valuation assumptions of these liabilities, and has determined significant changes to the valuation of these liabilities in the current period are remote, the scope of the valuation specialist's review is limited to a review the reasonableness of management's assessment of inputs. In the fourth quarter of 2013, the Company engaged an external valuation firm to prepare an independent valuation of our junior subordinated debentures measured at fair value and the results were consistent with the Company's valuation.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner similar to the effective yield method as if these instruments were accounted for under the amortized cost method. For the years ended December 31, 2013, 2012, and 2011, we recorded losses of $2.2 million, respectively, resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

On July 2, 2013, the federal banking regulators approved the final proposed rules that revise the regulatory capital rules to incorporate certain revisions by the Basel Committee on Banking Supervision to the Basel capital framework ("Basel III"). Under the original proposed rule, trust preferred security debt issuances would have been phased out of Tier 1 capital into Tier 2 capital over a 10 year period. Under the final rule, consistent with Section 171 of the Dodd-Frank Act, bank holding companies with less than $15 billion assets as of December 31, 2009 will be grandfathered and may continue to include these instruments in Tier 1 capital, subject to certain restrictions. However, if an institution grows above $15 billion as a result of an acquisition, 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). If the Company exceeds $15 billion in consolidated assets other than in an organic manner and these instruments no longer qualify as Tier 1 capital, 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. At December 31, 2013, the Company's restricted core capital elements were 18.6% of total core capital, net of goodwill and any associated deferred tax liability.

The contractual interest expense on junior subordinated debentures continues to be recorded on an accrual basis and is reported in interest expense. The junior subordinated debentures recorded at fair value of $87.3 million had contractual unpaid principal amounts of $134.0 million outstanding as of December 31, 2013. The junior subordinated debentures recorded at fair value of $85.1 million had contractual unpaid principal amounts of $134.0 million outstanding as of December 31, 2012.

Additional information regarding junior subordinated debentures measured at fair value is included in Note 18 of the Notes to Consolidated Financial Statements.

All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2013, under guidance issued by the Board of Governors of the Federal Reserve System. Additional information regarding the terms of the junior subordinated debentures, including maturity/redemption dates, interest rates and the fair value election, is included in Note 18 of the Notes to Consolidated Financial Statements.

LIQUIDITY AND CASH FLOW

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

We monitor the sources and uses of funds on a daily basis to maintain an acceptable liquidity position. One source of funds includes public deposits. Individual state laws require banks to collateralize public deposits, typically as a percentage of their public deposit

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balance in excess of FDIC insurance. Public deposits represent 11.0% and 10.6% of total deposits at December 31, 2013 and at December 31, 2012, respectively. The amount of collateral required varies by state and may also vary by institution within each state, depending on the individual state's risk assessment of depository institutions. Changes in the pledging requirements for uninsured public deposits may require pledging additional collateral to secure these deposits, drawing on other sources of funds to finance the purchase of assets that would be available to be pledged to satisfy a pledging requirement, or could lead to the withdrawal of certain public deposits from the Bank. In addition to liquidity from core deposits and the repayments and maturities of loans and investment securities, the Bank can utilize established uncommitted federal funds lines of credit, sell securities under agreements to repurchase, borrow on a secured basis from the FHLB or issue brokered certificates of deposit.

The Bank had available lines of credit with the FHLB totaling $2.2 billion at December 31, 2013 subject to certain collateral requirements, namely the amount of pledged loans and investment securities. The Bank had available lines of credit with the Federal Reserve totaling $391.7 million subject to certain collateral requirements, namely the amount of certain pledged loans. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $185.0 million at December 31, 2013. Availability of lines is subject to federal funds balances available for loan and continued borrower eligibility. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

The Company is a separate entity from the Bank and must provide for its own liquidity. Substantially all of the Company's revenues are obtained from dividends declared and paid by the Bank. There were $62.0 million of dividends paid by the Bank to the Company in 2013. There are statutory and regulatory provisions that could limit the ability of the Bank to pay dividends to the Company. We believe that such restrictions will not have an adverse impact on the ability of the Company to fund its quarterly cash dividend distributions to common shareholders and meet its ongoing cash obligations, which consist principally of debt service on the $230.1 million (issued amount) of outstanding junior subordinated debentures. As of December 31, 2013, the Company did not have any borrowing arrangements of its own.

As disclosed in the Consolidated Statements of Cash Flows, net cash provided by operating activities was $413.1 million during 2013, with the difference between cash provided by operating activities and net income largely consisting of proceeds from the sale of loans held for sale of $1.9 billion, offset by originations of loans held for sale of $1.6 billion. This compares to net cash provided by operating activities of $26.5 million during 2012, with the difference between cash provided by operating activities and net income largely consisting of originations of loans held for sale of $2.0 billion, offset by proceeds from the sale of loans held for sale of $1.9 billion.

Net cash of $281.1 million provided by investing activities during the 2013 consisted principally of proceeds from investment securities available for sale of $803.9 million, net covered loan paydowns of $101.9 million, and proceeds from sale of non-covered loans and leases of $60.3 million, partially offset by $484.9 million of net non-covered loan originations, net cash paid in acquisition of $149.7 million, $51.2 million of purchases of investment securities available for sale, and purchases of premises and equipment of $34.0 million. This compares to net cash of $121.5 million used by investing activities during 2012, which consisted principally of proceeds from investment securities available for sale of $1.5 billion, net covered loan paydowns of $114.8 million, net cash acquired in acquisition of $39.3 million, net proceeds from the FDIC indemnification asset of $29.5 million, and proceeds from the sale of non-covered other real estate owned of $27.1 million, partially offset by purchases of investment securities available for sale of $994.6 million, net non-covered loan originations of $587.4 million and purchases of premises and equipment of $22.8 million,

Net cash of $447.5 million used by financing activities during 2013 primarily consisted of $261.2 million decrease in net deposits, repayment of FinPac term debt of $211.7 million, dividends paid on common stock of $50.8 million, $9.4 million of common stock repurchased, and $8.8 million of repayment of junior subordinated debentures, partially offset by $87.8 million increase in securities sold under agreements to repurchase. This compares to net cash of $203.0 million used by financing activities during 2012, which consisted primarily of $107.4 million decrease in net deposits, repayment of term debt of $55.4 million, $46.2 million of dividends paid on common stock, and $7.4 million of common stock repurchased, partially offset by $12.5 million increase in net securities sold under agreements to repurchase.

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

OFF-BALANCE-SHEET-ARRANGEMENTS

Information regarding Off-Balance-Sheet Arrangements is included in Note 20 and 21 of the Notes to Consolidated Financial Statements in Item 8 below.
The following table presents a summary of significant contractual obligations extending beyond one year as of December 31, 2013 and maturing as indicated:

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Future Contractual Obligations
As of December 31, 2013:
(in thousands)

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Deposits (1)	$8,589,729	$422,107	$103,729	$2,555	$9,118,120
Term debt	—	—	245,016	495	245,511
Junior subordinated debentures (2)	—	—	—	230,061	230,061
Operating leases	17,757	29,711	17,396	22,938	87,802
Other long-term liabilities (3)	1,740	3,880	4,503	30,991	41,114
Total contractual obligations	$8,609,226	$455,698	$370,644	$287,040	$9,722,608

(1) Deposits with indeterminate maturities, such as demand, savings and money market accounts, are reflected as obligations due in less than one year.
(2) Represents the issued amount of all junior subordinated debentures.
(3) Includes maximum payments related to employee benefit plans, assuming all future vesting conditions are met. Additional information about employee benefit plans is provided in Note 19 of the Notes to Consolidated Financial Statements in Item 8 below.

The table above does not include interest payments or purchase accounting adjustments related to deposits, term debt or junior subordinated debentures.
As of December 31, 2013, the Company has a liability for unrecognized tax benefits relating to California tax incentives and temporary differences in the amount of $795,000, which includes accrued interest of $193,000. As the Company is not able to estimate the period in which this liability will be paid in the future, this amount is not included in the future contractual obligations table above.

CONCENTRATIONS OF CREDIT RISK

Information regarding Concentrations of Credit Risk is included in Note 3, 5, and 20 of the Notes to Consolidated Financial Statements in Item 8 below.

CAPITAL RESOURCES

Shareholders' equity at December 31, 2013 was $1.7 billion, an increase of $3.4 million from December 31, 2012. The increase in shareholders' equity during the year ended was principally due to net income of $98.4 million, offset by other comprehensive loss, net of tax, of $29.3 million and common stock dividends declared of $67.7 million.

The Federal Reserve Board has in place guidelines for risk-based capital requirements applicable to U.S. banks and bank/financial holding companies. These risk-based capital guidelines take into consideration risk factors, as defined by regulation, associated with various categories of assets, both on and off-balance sheet. Under the guidelines, capital strength is measured in two tiers, which are used in conjunction with risk-adjusted assets to determine the risk-based capital ratios. The guidelines require an 8% total risk-based capital ratio, of which 4% must be Tier 1 capital. Our consolidated Tier 1 capital, which consists of shareholders' equity and qualifying trust-preferred securities, less other comprehensive income, goodwill, other intangible assets, disallowed servicing assets and disallowed deferred tax assets, totaled $1.2 billion at December 31, 2013. Tier 2 capital components include all, or a portion of, the allowance for loan and lease losses and the portion of trust preferred securities in excess of Tier 1 statutory limits. The total of Tier 1 capital plus Tier 2 capital components is referred to as Total Risk-Based Capital, and was $1.3 billion at December 31, 2013. The percentage ratios, as calculated under the guidelines, were 13.56% and 14.66% for Tier 1 and Total Risk-Based Capital, respectively, at December 31, 2013. The Tier 1 and Total Risk-Based Capital ratios at December 31, 2012 were 15.27% and 16.52%, respectively.

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A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as period-end shareholders' equity and qualifying trust preferred securities, less other comprehensive income, goodwill and deposit-based intangibles, divided by average assets as adjusted for goodwill and other intangible assets. Although a minimum leverage ratio of 4% is required for the highest-rated financial holding companies that are not undertaking significant expansion programs, the Federal Reserve Board may require a financial holding company to maintain a leverage ratio greater than 4% if it is experiencing or anticipating significant growth or is operating with less than well-diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and financial holding companies. Our consolidated leverage ratios at December 31, 2013 and 2012 were 10.90% and 11.44%, respectively. As of December 31, 2013, the most recent notification from the FDIC categorized the Bank as “well-capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's regulatory capital category.

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

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

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

During the year ended December 31, 2013, the Company made no contributions to the Bank. At December 31, 2013, all three of the capital ratios of the Bank exceeded the minimum ratios required by federal regulation. Management monitors these ratios on a regular basis to ensure that the Bank remains within regulatory guidelines. Further information regarding the actual and required capital ratios is provided in Note 23 of the Notes to Consolidated Financial Statements in Item 8 below.

During 2013, Umpqua's Board of Directors approved a cash dividend of $0.10 for the first quarter, $0.20 for the second quarter, and $0.15 for the third and fourth quarter, respectively. 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. The payment of cash dividends is subject to regulatory limitations as described under the Supervision and Regulation section of Part I of this report.
There is no assurance that future cash dividends on common shares will be declared or increased. The following table presents cash dividends declared and dividend payout ratios (dividends declared per common share divided by basic earnings per common share) for the years ended December 31, 2013, 2012 and 2011:

Cash Dividends and Payout Ratios per Common Share

	2013	2012	2011
Dividend declared per common share	$0.60	$0.34	$0.24
Dividend payout ratio	69 %	38 %	37 %

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The Company's share repurchase plan, which was first approved by the Board and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. In April 2013, the repurchase program was extended to run through June 2015. As of December 31, 2013, a total of 12.0 million shares remained available for repurchase. The Company repurchased 98,027 shares under the repurchase plan in 2013. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan. In addition, our stock plans provide that option and award holders may pay for the exercise price and tax withholdings in part or whole by tendering previously held shares.

ITEM 7A. QUANTITATIVE AND QUALITIATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

Gap Analysis

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

different intervals as of December 31, 2013.
Interest Sensitivity Gap
(in thousands)

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	By Estimated Cash Flow or Repricing Interval					
	0-3 Months	4-12 Months	1-5 Years	Over 5 Years	Non-Rate-Sensitive	Total
ASSETS						
Interest bearing deposits	$611,224	$—	$—	$—	$—	$611,224
Temporary investments	514	—	—	—	—	514
Trading account assets	5,958	—	—	—	—	5,958
Securities held to maturity	2,679	228	335	5,964	(3,643)	5,563
Securities available for sale	111,647	270,462	830,048	524,012	54,809	1,790,978
Loans held for sale	101,795	—	—	—	2,869	104,664
Non-covered loans and leases	2,921,007	1,318,340	2,676,756	402,282	36,018	7,354,403
Covered loans and leases	109,697	128,982	130,095	10,233	(15,015)	363,992
Non-interest earning assets	—	—	—	—	1,398,816	1,398,816
Total assets	3,864,521	1,718,012	3,637,234	942,491	1,473,854	$11,636,112
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest bearing demand deposits	$1,233,070	$—	$—	$—	$—	$1,233,070
Money market deposits	3,349,946	—	—	—	—	3,349,946
Savings deposits	560,699	—	—	—	—	560,699
Time deposits	337,104	675,008	522,875	2,481	—	1,537,468
Securities sold under agreements to repurchase	224,882	—	—	—	—	224,882
Term debt	8	25	245,148	330	5,983	251,494
Junior subordinated debentures, at fair value	134,024				(46,750)	87,274
Junior subordinated debentures, at amortized cost	85,572	—	—	10,465	5,862	101,899
Non-interest bearing liabilities and shareholders' equity	—	—	—	—	4,289,380	4,289,380
Total liabilities and shareholders' equity	5,925,305	675,033	768,023	13,276	4,254,475	$11,636,112
Interest rate sensitivity gap	(2,060,784)	1,042,979	2,869,211	929,215	(2,780,621)	
Cumulative interest rate sensitivity gap	$(2,060,784)	$(1,017,805)	$1,851,406	$2,780,621	$—	
Cumulative gap as a % of earning assets	(20)%	(10)%	18%	27%		

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

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

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

Net Interest Income Simulation

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

Management utilizes an interest rate simulation model to estimate the sensitivity of net interest income to changes in market interest rates. This model is an interest rate risk management tool and the results are not necessarily an indication of our future net interest income. This model has inherent limitations and these results are based on a given set of rate changes and assumptions at one point in time. These estimates are based upon a number of assumptions for each scenario, including changes in the size or mix of the balance sheet, new volume rates for new balances, the rate of prepayments, and the correlation of pricing to changes in the interest rate environment. For example, for interest bearing deposit balances we may choose to reprice these balances more slowly and incorporate only a portion of the movement in market rates based on market conditions at that time. Additionally, our primary analysis assumes a static balance sheet, both in terms of the total size and mix of our balance sheet, meaning cash flows from the maturity or repricing of assets and liabilities are redeployed in the same instrument at modeled rates.

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

The estimated impact on our net interest income over a time horizon of one year as of December 31, 2013, 2012, and 2011 are indicated in the table below. For the scenarios shown, the interest rate simulation assumes a parallel and sustained shift in market interest rates ratably over a twelve-month period and no change in the composition or size of the balance sheet. For example, the “up 200 basis points” scenario is based on a theoretical increase in market rates of 16.7 basis points per month for twelve months applied to the balance sheet of December 31 for each respective year.

Interest Rate Simulation Impact on Net Interest Income
As of December 31, 2013
(dollars in thousands)

	2013 Increase (Decrease) in Net Interest Income from Base Scenario	Percentage Change	2012 Increase (Decrease) in Net Interest Income from Base Scenario	Percentage Change	2011 Increase (Decrease) in Net Interest Income from Base Scenario	Percentage Change
Up 300 basis points	$3,248	0.8 %	$10,665	3.0 %	$6,383	1.6 %
Up 200 basis points	$3,186	0.8 %	$11,116	3.1 %	$5,031	1.3 %
Up 100 basis points	$2,370	0.6 %	$7,545	2.1 %	$2,021	0.5 %
Down 100 basis points	$(12,052)	(2.9)%	$(11,500)	(3.2)%	$(6,153)	(1.5)%
	$(28,023)	(6.8)%	$(20,273)	(5.6)%	$(15,460)	(3.9)%

Down 200 basis points						
Down 300 basis points	$(41,488)	(10.1)%	$(28,521)	(7.9)%	$(24,236)	(6.1)%

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Asset sensitivity indicates that in a rising interest rate environment the Company's net interest margin would increase and in decreasing interest rate environment a Company's net interest margin would decrease. Liability sensitivity indicates that in a rising interest rate environment a Company's net interest margin would decrease and in a decreasing interest rate environment a Company's net interest margin would increase. For all years presented, we were "asset-sensitive" in both increased and decreased market interest rate scenarios. The relative level of asset sensitivity as of December 31, 2013 has decreased in increasing interest rate environments compared to December 31, 2012 and December 31, 2011. The relative level of asset sensitivity in decreasing interest rate environments as of December 31, 2013 is slightly less sensitive as compared to 2012 and more sensitive as compared to 2011. It should be noted that although net interest income simulation results are presented through the down 300 basis points interest rate environments, we do not believe the down 200 and 300 basis point scenarios are plausible given the current level of interest rates.

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

Economic Value of Equity

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

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

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

As of December 31, 2013

(dollars in thousands)

	2013 Increase in Estimated Fair Value of Equity	Percentage Change		2012 Increase in Estimated Fair Value of Equity	Percentage Change	
Up 300 basis points	$24,660	1.3	%	$30,222	1.7	%
Up 200 basis points	$20,446	1.1	%	$67,259	3.7	%
Up 100 basis points	$11,123	0.6	%	$66,930	3.7	%
Down 100 basis points	$8,311	0.4	%	$13,471	0.7	%
Down 200 basis points	$32,714	1.8	%	$64,763	3.6	%
Down 300 basis points	$64,519	3.5	%	$101,963	5.6	%

As of December 31, 2013, our economic value of equity model indicates an asset sensitive profile in increasing interest rate environments and a liability sensitive profile, in decreasing interest rate environments. This suggests a sudden or sustained increase in increasing or decreasing interest rate scenarios would result in an increase in our estimated economic value of equity. Our overall sensitivity to market interest rate changes as of December 31, 2013 has decreased as compared to December 31, 2012. As of December 31, 2013, our estimated economic value of equity (fair value of financial assets and liabilities) exceeded our book value of equity. This result is primarily based on the value placed on the Company's significant amount of noninterest bearing and low cost interest bearing deposits and fixed rates or floors characteristics included in the Company's loan portfolio. While noninterest bearing deposits do not impact the net interest income simulation, the value of these deposits has a significant impact on the economic value of equity model, particularly when market rates are assumed to rise.

IMPACT OF INFLATION AND CHANGING PRICES

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Umpqua Holdings Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Umpqua Holdings Corporation and Subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. We also have audited the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Umpqua Holdings Corporation and subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with generally accepted accounting principles in the United States of America.

Also in our opinion, Umpqua Holdings Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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/s/ Moss Adams LLP
Portland, Oregon
February 14, 2014

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012
(in thousands, except shares)

	December 31, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$178,685	$223,532
Interest bearing deposits	611,224	315,053
Temporary investments	514	5,202
Total cash and cash equivalents	790,423	543,787
Investment securities		
Trading, at fair value	5,958	3,747
Available for sale, at fair value	1,790,978	2,625,229
Held to maturity, at amortized cost	5,563	4,541
Loans held for sale, at fair value	104,664	320,132
Non-covered loans and leases	7,354,403	6,681,080
Allowance for non-covered loan and lease losses	(85,314)	(85,391)
Net non-covered loans and leases	7,269,089	6,595,689
Covered loans, net of allowance of $9,771 and $18,275	363,992	477,078
Restricted equity securities	30,685	33,443
Premises and equipment, net	177,680	162,667
Goodwill and other intangible assets, net	776,683	685,331
Mortgage servicing rights, at fair value	47,765	27,428
Non-covered other real estate owned	21,833	17,138
Covered other real estate owned	2,102	10,374
FDIC indemnification asset	23,174	52,798
Bank owned life insurance	96,938	93,831
Deferred tax asset, net	16,627	3,528
Other assets	111,958	138,702
Total assets	$11,636,112	$11,795,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$2,436,477	$2,278,914
Interest bearing	6,681,183	7,100,361
Total deposits	9,117,660	9,379,275
Securities sold under agreements to repurchase	224,882	137,075
Term debt	251,494	253,605
Junior subordinated debentures, at fair value	87,274	85,081
Junior subordinated debentures, at amortized cost	101,899	110,985
Other liabilities	125,477	105,383
Total liabilities	9,908,686	10,071,404
COMMITMENTS AND CONTINGENCIES (NOTE 20)		
SHAREHOLDERS' EQUITY		
Common stock, no par value, 200,000,000 shares authorized; issued and outstanding: 111,973,203 in 2013 and 111,889,959 in 2012	1,514,485	1,512,400
Retained earnings	217,917	187,293

Accumulated other comprehensive (loss) income	(4,976)	24,346
Total shareholders' equity	1,727,426	1,724,039
Total liabilities and shareholders' equity	$11,636,112	$11,795,443

See notes to consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands, except per share amounts)

	2013	2012	2011
INTEREST INCOME			
Interest and fees on non-covered loans and leases	$343,717	$313,294	$319,702
Interest and fees on covered loans and leases	54,497	73,518	86,011
Interest and dividends on investment securities:			
Taxable	34,146	59,078	85,785
Exempt from federal income tax	8,898	9,184	8,653
Dividends	252	83	12
Interest on temporary investments and interest bearing deposits	1,336	928	1,590
Total interest income	442,846	456,085	501,753
INTEREST EXPENSE			
Interest on deposits	20,755	31,133	55,743
Interest on securities sold under agreement to repurchase and federal funds purchased	141	288	539
Interest on term debt	9,248	9,279	9,255
Interest on junior subordinated debentures	7,737	8,149	7,764
Total interest expense	37,881	48,849	73,301
Net interest income	404,965	407,236	428,452
PROVISION FOR NON-COVERED LOAN AND LEASE LOSSES	16,829	21,796	46,220
(RECAPTURE OF) PROVISION FOR COVERED LOAN LOSSES	(6,113)	7,405	16,141
Net interest income after provision for (recapture of) loan and lease losses	394,249	378,035	366,091
NON-INTEREST INCOME			
Service charges on deposit accounts	30,952	28,299	33,096
Brokerage commissions and fees	14,736	12,967	12,787
Mortgage banking revenue, net	78,885	84,216	26,550
Gain on investment securities, net	209	3,868	7,376
Loss on junior subordinated debentures carried at fair value	(2,197)	(2,203)	(2,197)
Change in FDIC indemnification asset	(25,549)	(15,234)	(6,168)
Other income	24,405	24,916	12,674
Total non-interest income	121,441	136,829	84,118
NON-INTEREST EXPENSE			
Salaries and employee benefits	209,991	200,946	179,480
Net occupancy and equipment	62,067	55,081	51,284
Communications	11,974	11,573	11,214
Marketing	6,062	5,064	6,138
Services	25,483	25,823	24,170
Supplies	2,843	2,506	2,824
FDIC assessments	6,954	7,308	10,768
Net loss on non-covered other real estate owned	1,113	9,245	10,690
Net loss on covered other real estate owned	135	3,410	7,481
Intangible amortization	4,781	4,816	4,948
Merger related expenses	8,836	2,338	360
Other expenses	24,422	31,542	29,614

Total non-interest expense	364,661	359,652	338,971
Income before provision for income taxes	151,029	155,212	111,238
Provision for income taxes	52,668	53,321	36,742
Net income	$98,361	$101,891	$74,496

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands, except per share amounts)

	2013	2012	2011
Net income	$98,361	$101,891	$74,496
Dividends and undistributed earnings allocated to participating securities	788	682	356
Net earnings available to common shareholders	$97,573	$101,209	$74,140
Earnings per common share:			
Basic	$0.87	$0.90	$0.65
Diluted	$0.87	$0.90	$0.65
Weighted average number of common shares outstanding:			
Basic	111,938	111,935	114,220
Diluted	112,176	112,151	114,409

See notes to consolidated financial statements

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
Net income	$98,361	$101,891	$74,496
Available for sale securities:			
Unrealized (losses) gains arising during the period	(48,755)	(12,004)	22,101
Reclassification adjustment for net gains realized in earnings (net of tax expense $84, $1,609, and $3,094 in 2013, 2012, and 2011, respectively)	(125)	(2,414)	(4,641)
Income tax benefit (expense) related to unrealized (losses) gains	19,502	4,802	(8,840)
Net change in unrealized (losses) gains	(29,378)	(9,616)	8,620
Held to maturity securities:			
Unrealized losses related to factors other than credit (net of tax benefit of $34 in 2011)	—	—	(52)
Reclassification adjustment for impairments realized in net income (net of tax benefit of $42 and $108 in 2012 and 2011, respectively)	—	62	161
Accretion of unrealized losses related to factors other than credit to investment securities held to maturity (net of tax benefit of $37, $84, and $66 in 2013, 2012, and 2011, respectively)	56	126	100
Net change in unrealized losses related to factors other than credit	56	188	209
Other comprehensive (loss) income, net of tax	(29,322)	(9,428)	8,829
Comprehensive income	$69,039	$92,463	$83,325

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands, except shares)

	Common Stock Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT JANUARY 1, 2011	114,536,814	$1,540,928	$76,701	$ 24,945	$1,642,574
Net income			74,496		74,496
Other comprehensive income, net of tax				8,829	8,829
Comprehensive income					$83,325
Stock-based compensation		3,785			3,785
Stock repurchased and retired	(2,557,056)	(29,754)			(29,754)
Issuances of common stock under stock plans and related net tax deficiencies	185,133	(46)			(46)
Cash dividends on common stock ($0.24 per share)			(27,471)		(27,471)
Balance at December 31, 2011	112,164,891	$1,514,913	$123,726	$ 33,774	$1,672,413
BALANCE AT JANUARY 1, 2012	112,164,891	$1,514,913	$123,726	$ 33,774	$1,672,413
Net income			101,891		101,891
Other comprehensive loss, net of tax				(9,428)	(9,428)
Comprehensive income					$92,463
Stock-based compensation		4,041			4,041
Stock repurchased and retired	(596,000)	(7,436)			(7,436)
Issuances of common stock under stock plans and related net tax benefit	321,068	882			882
Cash dividends on common stock ($0.34 per share)			(38,324)		(38,324)
Balance at December 31, 2012	111,889,959	$1,512,400	$187,293	$ 24,346	$1,724,039
BALANCE AT JANUARY 1, 2013	111,889,959	$1,512,400	$187,293	$ 24,346	$1,724,039
Net income			98,361		98,361
Other comprehensive loss, net of tax				(29,322)	(29,322)
Comprehensive income					$69,039
Stock-based compensation		5,017			5,017
Stock repurchased and retired	(584,677)	(9,360)			(9,360)
Issuances of common stock under stock plans and related net tax benefit	667,921	6,428			6,428
Cash dividends on common stock ($0.60 per share)			(67,737)		(67,737)
Balance at December 31, 2013	111,973,203	$1,514,485	$217,917	$ (4,976)	$1,727,426

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$98,361	$101,891	$74,496
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense	7,748	6,421	2,000
Amortization of investment premiums, net	32,663	45,082	36,086
Gain on sale of investment securities, net	(209)	(4,023)	(7,735)
Other-than-temporary impairment on investment securities held to maturity	—	155	359
(Gain) loss on sale of non-covered other real estate owned	(335)	2,349	1,743
Gain on sale of covered other real estate owned	(577)	(1,236)	(1,228)
Valuation adjustment on non-covered other real estate owned	1,448	6,896	8,947
Valuation adjustment on covered other real estate owned	712	4,646	8,709
Provision for non-covered loan and lease losses	16,829	21,796	46,220
(Recapture of) provision for covered loan losses	(6,113)	7,405	16,141
Proceeds from bank owned life insurance	1,173	1,870	818
Change in cash surrender value of bank owned life insurance	(4,280)	(3,145)	(3,212)
Change in FDIC indemnification asset	25,549	15,234	6,168
Depreciation, amortization and accretion	18,267	16,040	13,151
Increase in mortgage servicing rights	(17,963)	(17,710)	(6,720)
Change in mortgage servicing rights carried at fair value	(2,374)	8,466	2,990
Change in junior subordinated debentures carried at fair value	2,193	2,175	2,217
Stock-based compensation	5,017	4,041	3,785
Net (increase) decrease in trading account assets	(2,211)	(1,438)	715
Gain on sale of loans	(65,644)	(91,945)	(26,838)
Change in loans held for sale carried at fair value	14,503	(13,965)	(3,435)
Origination of loans held for sale	(1,649,911)	(2,022,195)	(821,744)
Proceeds from sales of loans held for sale	1,913,776	1,910,071	828,952
Excess tax benefits from the exercise of stock options	(65)	(52)	(6)
Change in other assets and liabilities:			
Net decrease (increase) in other assets	32,129	5,401	(15,404)
Net (decrease) increase in other liabilities	(7,589)	22,255	15,177
Net cash provided by operating activities	413,097	26,485	182,352
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities available for sale	(51,191)	(994,574)	(1,190,686)
Purchases of investment securities held to maturity	(2,126)	(931)	(1,573)
Proceeds from investment securities available for sale	803,866	1,481,600	927,276
Proceeds from investment securities held to maturity	1,353	1,304	1,637
Redemption of restricted equity securities	2,758	1,629	1,894
Net non-covered loan and lease originations	(484,933)	(587,396)	(327,032)
Net covered loan paydowns	101,861	114,815	119,772
Proceeds from sales of non-covered loans	60,298	14,242	11,185
Proceeds from insurance settlement on loss of property	575	1,425	—
Proceeds from fee on termination of merger transaction	—	1,600	—

Proceeds from disposals of furniture and equipment	410	2,029	921
Purchases of premises and equipment	(33,995)	(22,817)	(33,974)
Net proceeds from FDIC indemnification asset	5,332	29,478	54,881
Proceeds from sales of non-covered other real estate owned	15,830	27,093	35,340
Proceeds from sales of covered other real estate owned	10,692	12,694	17,615
Net cash (paid) acquired in acquisition	(149,658)	39,328	—
Net cash provided (used) by investing activities	281,072	121,519	(382,744)

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UMPQUA HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW (Continued)
For the Years Ended December 31, 2013, 2012 and 2011
(in thousands)

	2013	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net decrease in deposit liabilities	(261,184)	(107,445)	(196,063)
Net increase in securities sold under agreements to repurchase	87,807	12,470	50,846
Repayment of term debt	(211,727)	(55,404)	(4,993)
Repayment of junior subordinated debentures	(8,764)	—	—
Dividends paid on common stock	(50,768)	(46,201)	(25,317)
Excess tax benefits from stock based compensation	65	52	6
Proceeds from stock options exercised	6,398	981	308
Repurchases and retirement of common stock	(9,360)	(7,436)	(29,754)
Net cash used by financing activities	(447,533)	(202,983)	(204,967)
Net increase (decrease) in cash and cash equivalents	246,636	(54,979)	(405,359)
Cash and cash equivalents, beginning of period	543,787	598,766	1,004,125
Cash and cash equivalents, end of period	$790,423	$543,787	$598,766
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$40,826	$52,198	$78,690
Income taxes	$41,993	$44,350	$47,608
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Change in unrealized losses on investment securities available for sale, net of taxes	$(29,378)	$(9,616)	$8,620
Change in unrealized losses on investment securities held to maturity related to factors other than credit, net of taxes	$56	$188	$209
Cash dividend declared on common stock and payable after period-end	$16,936	$—	$7,890
Transfer of non-covered loans to non-covered other real estate owned	$21,638	$17,699	$47,414
Transfer of covered loans to covered other real estate owned	$2,555	$6,987	$15,271
Transfer of covered loans to non-covered loans	$14,783	$16,166	$12,263
Transfer from FDIC indemnification asset to due from FDIC and other	$4,075	$23,057	$49,156
Receivable from sales of noncovered other real estate owned and loans	$—	$—	$1,100
Receivable from sales of covered other real estate owned	$—	$—	$547
Acquisitions:			
Assets acquired	$376,071	$317,751	$—
Liabilities assumed	$219,961	$317,751	$—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Significant Accounting Policies

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

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

Consolidation-The accompanying consolidated financial statements include the accounts of the Company, the Bank and Umpqua Investments. All significant intercompany balances and transactions have been eliminated in consolidation. As of December 31, 2013, the Company had 15 wholly-owned trusts ("Trusts") that were formed to issue trust preferred securities and related common securities of the Trusts. The Company has not consolidated the accounts of the Trusts in its consolidated financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB") ASC 810, Consolidation ("ASC 810"). As a result, the junior subordinated debentures issued by the Company to the Trusts are reflected on the Company's consolidated balance sheet as junior subordinated debentures.

Subsequent events-The Company has evaluated events and transactions subsequent to December 31, 2013 for potential recognition or disclosure.

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

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

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

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

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

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Loans Held for Sale-The Company has elected to account for loans held for sale, which includes mortgage loans, at fair value in accordance with FASB ASC 825 Financial Instruments. Fair value is determined based on quoted secondary market prices for similar loans, including the implicit fair value of embedded servicing rights. The change in fair value of loans held for sale is primarily driven by changes in interest rates subsequent to loan funding and changes in the fair value of related servicing asset, resulting in revaluation adjustments to the recorded fair value. The inputs used in the fair value measurements are considered Level 2 inputs. The use of the fair value option allows the change in the fair value of loans to more effectively offset the change in the fair value of derivative instruments that are used as economic hedges to loans held for sale. Loan origination fees and direct origination costs are recognized immediately in net income in accordance with the fair value option accounting requirements. Interest income on loans held for sale is included in interest income in the Consolidated Statements of Income and recognized when earned. Loans are placed on nonaccrual in a manner consistent with non-covered loans.

Acquired Loans and Leases-Purchased loans and leases are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan and lease losses is not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased impaired or purchased non-impaired. Purchased impaired loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments.

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

The cash flows expected to be received over the life of the pool were estimated by management. These cash flows were input into a FASB ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310-30”) compliant loan accounting system which calculates the carrying values of the pools and underlying loans, book yields, effective interest income and impairment, if any, based on actual and projected events. Default rates, loss severity, and prepayment speeds assumptions will be periodically reassessed and updated within the accounting system to update our expectation of future cash flows. The excess of the cash flows expected to be collected over a pool’s carrying value is considered to be the accretable yield and is recognized as interest income over the estimated life of the 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 excess of the undiscounted contractual balances due over the cash flows expected to be collected is considered to be the nonaccretable difference. The nonaccretable difference represents our estimate of the credit losses expected to occur and was considered in determining the fair value of the loans as of the acquisition date. Subsequent to the acquisition date, any increases in expected cash flows over those expected at purchase date in excess of fair value are adjusted through an increase to the accretable yield on a prospective basis. Any subsequent decreases in expected cash flows attributable to credit deterioration are recognized by recording a provision for loan losses.

The purchased impaired loans acquired are and will continue to be subject to the Company’s internal and external credit review and monitoring. If credit deterioration is experienced subsequent to the initial acquisition fair value amount, such deterioration will be measured, and a provision for credit losses will be charged to earnings.

The purchased impaired loan portfolio also includes revolving lines of credit with funded and unfunded commitments. Balances outstanding at the time of acquisition are accounted for under ASC 310-30. Any additional advances on these loans subsequent to the acquisition date are not accounted for under ASC 310-30.

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

Based on the characteristics of loans acquired in a Federal Deposit Insurance Corporation ("FDIC") assisted transaction and the impact of associated loss-sharing arrangements, the Company determined that it was appropriate to apply the expected cash flows approach described above to all loans acquired in such transactions. 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 consolidated balance sheets. Covered loans are reported exclusive of the expected cash flow reimbursements expected from the FDIC.

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For purchased leases and equipment finance loans, the difference in the cash flows expected to be collected over the initial allocation of fair value to the acquired leases and loans is accreted into interest income over their related term based on the effective interest method.

Originated Loans and Leases-Loans are stated at the amount of unpaid principal, net of unearned income and any deferred fees or costs. All discounts and premiums are recognized over the estimated life of the loan as yield adjustments. Leases are recorded at the amount of minimum future lease payments receivable and estimated residual value of the leased equipment, net of unearned income and any deferred fees. Initial direct costs related to lease originations are deferred as part of the investment in direct financing leases and amortized over their term using the effective interest method. Unearned lease income is amortized over their term using the effective interest method. Loans are classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement. The carrying value of impaired loans is based on the present value of expected future cash flows (discounted at each loan's effective interest rate) or, for collateral dependent loans, at fair value of the collateral, less selling costs. If the measurement of each impaired loans' value is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. This can be accomplished by charging-off the impaired portion of the loan or establishing a specific component to be provided for in the allowance for loan and lease losses.

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

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered portfolio. These adjustments are measured on the same basis as the related covered loans, at a pool level, and covered other real estate owned. Generally, any increases in cash flow of the covered assets over those previously expected will result in prospective increases in the loan pool yield and amortization of the FDIC indemnification asset. Any decreases in cash flow of the covered assets under those previously expected will trigger impairments on the underlying loan pools and will result in a corresponding gain of the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to non-interest income. The resulting carrying value of the indemnification asset represents the present value of amounts recoverable from the FDIC for future expected losses and the amounts due from the FDIC for claims related to covered losses.

Income Recognition on Non-Covered, Non-Accrual and Impaired Loans-Non-covered loans, including impaired non-covered loans, are classified as non-accrual if the collection of principal and interest is doubtful. Generally, this occurs when a non-covered loan is past due as to maturity or payment of principal or interest by 90 days or more, unless such non-covered loans are well-secured and in the process of collection. Generally, if a non-covered loan or portion thereof is partially charged-off, the non-covered loan is considered impaired and classified as non-accrual. Non-covered loans that are less than 90 days past due may also be classified as non-accrual if repayment in full of principal and/or interest is in doubt.

When a non-covered loan is classified as non-accrual, all uncollected accrued interest is reversed to interest income and the accrual of interest income is terminated. Generally, any cash payments are applied as a reduction of principal outstanding. In cases where the future collectability of the principal balance in full is expected, interest income may be recognized on a cash basis. A non-covered loan may be restored to accrual status when the borrower's financial condition improves so that full collection of future contractual payments is considered likely. For those non-covered loans placed on non-accrual status due to payment delinquency, return to accrual status will generally not occur until the borrower demonstrates repayment ability over a period of not less than six months.

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 forgiveness of principal or accrued interest, extending the maturity date 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.

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The decision to classify a non-covered loan as impaired is made by the Bank's Allowance for Loan and Lease Losses ("ALLL") Committee. The ALLL Committee meets regularly to review the status of all problem and potential problem loans. If the ALLL Committee concludes a loan is impaired but recovery of principal and interest is expected, an impaired loan may remain on accrual status.

Allowance for Loan and Lease Losses- The Bank performs regular credit reviews of the loan and lease portfolio to determine the credit quality of the portfolio and the 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 this 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 adjustments become necessary, they are reported in earnings in the periods in which they become known as a change in the provision for loan and lease losses and a corresponding charge to the allowance. Loans, or portions thereof, deemed uncollectible are charged to the allowance. Provisions for losses, and recoveries on loans previously charged-off, are added to the allowance.

The adequacy of the ALLL is monitored on a regular basis and is 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 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. The U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our loan portfolio, and led in recent past years to an increase in non-performing loans, charge-offs, and the allowance for loan and lease losses. A renewed deterioration or prolonged delay in economic recovery in our markets may adversely affect our loan portfolio and may lead to additional charges to the provision for loan and lease losses.

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Reserve for Unfunded Commitments-A reserve for unfunded commitments is maintained at a level that, in the opinion of management, is adequate to absorb probable losses associated with the Bank's commitment to lend funds under existing agreements such as letters or lines of credit. Management determines the adequacy of the reserve for unfunded commitments based upon reviews of individual credit facilities, current economic conditions, the risk characteristics of the various categories of commitments and other relevant factors. The reserve is based on estimates, and ultimate losses may vary from the current estimates. These estimates are evaluated on a regular basis and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Draws on unfunded commitments that are considered uncollectible at the time funds are advanced are charged to the allowance for loan and lease losses. Provisions for unfunded commitment losses are added to the reserve for unfunded commitments, which is included in the Other Liabilities section of the consolidated balance sheets.

Loan Fees and Direct Loan Origination Costs-Loans held for investment origination and commitment fees and direct loan origination costs are deferred and recognized as an adjustment to the yield over the life of the portfolio loans.

Restricted Equity Securities-Restricted equity securities were $30.7 million and $33.4 million at December 31, 2013 and 2012, respectively. Federal Home Loan Bank stock amounted to $29.4 million and $32.2 million of the total restricted securities as of December 31, 2013 and 2012, respectively. Federal Home Loan Bank stock represents the Bank's investment in the Federal Home Loan Banks of Seattle and San Francisco (“FHLB”) stock and is carried at par value, which reasonably approximates its fair value. Management periodically evaluates FHLB stock for other-than-temporary or permanent impairment. Management’s determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

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.

As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. At December 31, 2013, the Bank's minimum required investment in FHLB stock was $13.5 million. The Bank may request redemption at par value of any stock in excess of the minimum required investment. Stock redemptions are at the discretion of the FHLB. The remaining restricted equity securities balance primarily represents an investment in Pacific Coast Bankers’ Bancshares stock.

Premises and Equipment-Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided over the estimated useful life of equipment, generally three to ten years, on a straight-line or accelerated basis. Depreciation is provided over the estimated useful life of premises, up to 39 years, on a straight-line or accelerated basis. Generally, leasehold improvements are amortized over the life of the related lease, or the life of the related asset, whichever is shorter. Expenditures for major renovations and betterments of the Company's premises and equipment are capitalized.

Management reviews long-lived and intangible assets any time that a change in circumstance indicates that the carrying amount of these assets may not be recoverable. Recoverability of these assets is determined by comparing the carrying value of the asset to the forecasted undiscounted cash flows of the operation associated with the asset. If the evaluation of the forecasted cash flows indicates that the carrying value of the asset is not recoverable, the asset is written down to fair value.

Goodwill and Other Intangibles-Intangible assets are comprised of goodwill and other intangibles acquired in business combinations. Goodwill and intangible assets with indefinite useful lives are not amortized. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and also reviewed for impairment. Amortization of intangible assets is included in other non-interest expense in the Consolidated Statements of Income.

The Company performs a goodwill impairment analysis on an annual basis as of December 31. Additionally, the Company performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition.

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On at least an annual basis, we assess the qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The quantitative impairment test involves a two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step the Company calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment. No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess.

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 that encompass market-driven valuation changes and the runoff in value that occurs from the passage of time, are each 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 value as of the date of sale. 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 net expected future cash flows is estimated. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income net of servicing costs. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Key assumptions used in measuring the fair value of MSR as of December 31 were as follows:

	2013		2012		2011	
Constant prepayment rate	12.74	%	21.39	%	20.39	%
Discount rate	8.69	%	8.65	%	8.60	%
Weighted average life (years)	6.0		4.7		4.5	

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.

SBA/USDA Loans Sales and Servicing-The Bank, on a limited basis, sells or transfers loans, including the guaranteed portion of Small Business Administration ("SBA") and Department of Agriculture ("USDA") loans (with servicing retained) for cash proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records a servicing asset when it sells a loan and retains the servicing rights. The servicing asset is recorded at fair value upon sale, and the fair value is estimated by discounting estimated net future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates. Subsequent to initial recognition, the servicing rights are carried at the lower of amortized cost or fair market value, and are amortized in proportion to, and over the period of, the estimated net servicing income.

For purposes of evaluating and measuring impairment, the fair value of servicing rights are measured using a discounted estimated net future cash flow model as described above. Any impairment is measured as the amount by which the carrying value of servicing rights for an interest rate-stratum exceeds its fair value. The carrying value of SBA/USDA servicing rights at December 31, 2013 and 2012 were $610,000 and $498,000, respectively. No impairment charges were recorded for the years ended December 31, 2013, 2012 and 2011, related to SBA/USDA servicing assets.

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A premium over the adjusted carrying value is received upon the sale of the guaranteed portion of an SBA or USDA loan. The Bank's investment in an SBA or USDA loan is allocated among the sold and retained portions of the loan based on the relative fair value of each portion at the time of loan origination, adjusted for payments and other activities. Because the portion retained does not carry an SBA or USDA guarantee, part of the gain recognized on the sold portion of the loan is deferred and amortized as a yield enhancement on the retained portion in order to obtain a market equivalent yield.

Non-Covered Other Real Estate Owned-Non-covered other real estate owned (“non-covered OREO”) represents real estate which the Bank has taken control of in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at fair value less costs to sell the property, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Subsequent valuation adjustments are recognized within net loss on non-covered OREO. Revenue and expenses from operations and subsequent adjustments to the carrying amount of the property are included in other non-interest expense in the Consolidated Statements of Income. In some instances, the Bank may make loans to facilitate the sales of other real estate owned. Management reviews all sales for which it is the lending institution for compliance with sales treatment under provisions established within FASB ASC 360-20, Real Estate Sales. Any gains related to sales of other real estate owned may be deferred until the buyer has a sufficient initial and continuing investment in the property.

Covered Other Real Estate Owned - All OREO acquired in FDIC-assisted acquisitions that are subject to a FDIC loss-share agreement are referred to as “covered OREO” and reported separately in our Consolidated Statements of Financial Position. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the collateral’s net realizable value, less selling costs.

Covered OREO was initially recorded at its estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs. Any subsequent valuation adjustments due to declines in fair value will be charged to non-interest expense, and will be mostly offset by non-interest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation adjustments will be credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

Income Taxes-Income taxes are accounted for using the asset and liability method. Under this method a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce the net carrying amount of deferred tax assets if it is determined to be more likely than not, that all or some portion of the potential deferred tax asset will not be realized.

Derivatives-The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. The commitments to originate mortgage loans held for sale and the related forward delivery contracts are considered derivatives. The Bank also executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. The Company recognizes all derivatives as either assets or liabilities in the balance sheet and requires measurement of those instruments at fair value through adjustments to current earnings. None of the Company’s derivatives are designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, and the Company reports changes in fair values of its derivatives in current period net income.

The fair value of the derivative loan commitments is estimated using the net present value of expected future cash flows. Assumptions used include pull-through rate assumption based on historical information, current mortgage interest rates, the stage of completion of the underlying application and underwriting process, the time remaining until the expiration of the derivative loan commitment, and the expected net future cash flows related to the associated servicing of the loan.

Operating Segments- Public enterprises are required to report certain information about their operating segments in a complete set of financial statements to shareholders. They are also required to report certain enterprise-wide information about the Company's products and services, its activities in different geographic areas, and its reliance on major customers. The basis for determining the Company's operating segments is the manner in which management operates the business. Management has identified three primary business segments, Community Banking, Home Lending, and Wealth Management.

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Share-Based Payment-In accordance with FASB ASC 718, Stock Compensation, we recognize in the income statement 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.
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 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, the exercise price of each option equals the market price of the Company's common stock on the date of the grant, and the maximum term is ten years.

The fair value of each grant is estimated as of the grant date using the Black-Scholes option-pricing model using assumptions noted in the following table or a Monte Carlo simulation pricing model. Expected volatility is based on the historical volatility of the price of the Company's common stock. The Company uses historical data to estimate option exercise and stock option forfeiture rates within the valuation model. The expected term of options granted is determined based on historical experience with similar options, giving consideration to the contractual terms and vesting schedules, and represents the period of time that options granted are expected to be outstanding. The expected dividend yield is based on dividend trends and the market value of the Company's common stock at the time of grant. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant corresponding to the estimated expected term of the options granted. There were no stock options granted in 2013. The following weighted average assumptions were used to determine the fair value of stock option grants as of the grant date to determine compensation cost for the years ended December 31, 2012 and 2011:

	2012		2011	
Dividend yield	3.90	%	2.79	%
Expected life (years)	7.4		7.1	
Expected volatility	53	%	52	%
Risk-free rate	1.27	%	2.71	%
Weighted average fair value of options on date of grant	$4.39		$4.65	

Restricted stock unit grants and certain restricted stock awards are subject to performance-based and market-based vesting as well as other approved vesting conditions and cliff vest based on those conditions. Compensation expense is recognized over the service period to the extent restricted stock units are expected to vest.
Earnings per Share-According to the provisions of FASB ASC 260, Earnings Per Share, nonvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested restricted stock awards qualify as participating securities.
Net income is allocated between the common stock and participating securities pursuant to the two-class method, based on their rights to receive dividends, participate in earnings or absorb losses. Basic earnings per common share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested restricted shares.
Diluted earnings per common share is computed in a similar manner, except that first the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares, excluding the participating securities, were issued using the treasury stock method. For all periods presented, stock options, certain restricted stock awards and restricted stock units are the only potentially dilutive non-participating instruments issued by the Company. Next, we determine and include in diluted earnings per

common share calculation the more dilutive effect of the participating securities using the treasury stock method or the two-class method. Undistributed losses are not allocated to the nonvested share-based payment awards (the participating securities) under the two-class method as the holders are not contractually obligated to share in the losses of the Company.

Advertising expenses-Advertising costs are generally expensed as incurred.

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Fair Value Measurements- FASB ASC 820, Fair Value Measurements and Disclosure, ("ASC 820"), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. In general, fair values determined by Level 1 inputs utilize quoted prices for identical assets or liabilities traded in active markets that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Recently Issued 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. 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.

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. 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. 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 redesiginated 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.

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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.

Reclassifications- Certain amounts reported in prior years' financial statements have been reclassified to conform to the current presentation. The results of the reclassifications are not considered material and have no effect on previously reported net earnings available to common shareholders and earnings per common share.

Note 2 – Business Combinations

Sterling Financial Corporation

On September 11, 2013, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sterling Financial Corporation, a Washington corporation ("Sterling"). The Merger Agreement provides that Sterling will merge with and into the Company (the "Merger"), with the Company as the surviving corporation in the Merger. Immediately following the Merger, Sterling's wholly owned subsidiary, Sterling Savings Bank, will merge with and into the Bank (the "Bank Merger"), with the Bank as the surviving bank in the Bank Merger. Holders of shares of common stock of Sterling will have the right to receive 1.671 shares of the Company's common stock and $2.18 in cash for each share of Sterling common stock.

The completion of the Merger is subject to customary conditions, including (1) adoption of the Merger Agreement by Sterling's shareholders and by the Company's shareholders, (2) approval of an amendment to the Company's articles of incorporation to increase the number of authorized shares of the Company's common stock, (3) authorization for listing on the NASDAQ of the shares of the Company's common stock to be issued in the Merger, (4) the receipt of required regulatory approvals for the Merger and the Bank Merger from the Federal Reserve Board, Federal Deposit Insurance Corporation and Oregon and Washington state bank regulators, in each case without the imposition of any materially burdensome regulatory condition, (5) effectiveness of the registration statement on Form S-4 for the Company's common stock to be issued in the Merger, and (6) the absence of any order, injunction or other legal restraint preventing the completion of the Merger or making the completion of the Merger illegal. Each party's obligation to complete the Merger is also subject to certain additional customary conditions. The Merger Agreement provides certain termination rights for both the Company and Sterling and further provides that, upon termination of the Merger Agreement under certain circumstances, the Company or Sterling, as applicable, will be obligated to pay the other party a termination fee of $75 million. The Merger is expected to be completed in the second quarter of 2014.

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

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

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

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

The operations of FinPac are included in our operating results from July 1, 2013, and added revenue of $29.9 million, non-interest expense of $8.8 million, and net income of $9.5 million net of tax, for the year ended December 31, 2013. FinPac's results of operations prior to the acquisition are not included in our operating results. Merger related expenses of $1.6 million for the year ended December 31, 2013 have been incurred in connection with the acquisition of FinPac and are recognized within the merger related expenses line item on the Consolidated Statements of Income.

A summary of the net assets acquired and the estimated fair value adjustments of FinPac are presented below:
(in thousands)

	FinPac July 1, 2013	
Cost basis net assets	$61,446	
Cash payment paid	(156,110	)
Fair value adjustments:		
Non-covered loans and leases, net	6,881	
Other intangible assets	(8,516	)
Other assets	(1,650	)

Term debt	(400)
Other liabilities	1,572
Goodwill	$(96,777)

The statement of assets acquired and liabilities assumed at their fair values of FinPac are presented below. Additional adjustments to the purchase price allocation may be required, specifically to leases, other assets, other liabilities and taxes.
(in thousands)

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	FinPac July 1, 2013
Assets Acquired:	
Cash and equivalents	$6,452
Non-covered loans and leases, net	264,336
Premises and equipment	491
Goodwill	96,777
Other assets	8,015
Total assets acquired	$376,071
Liabilities Assumed:	
Term debt	211,204
Other liabilities	8,757
Total liabilities assumed	219,961
Net Assets Acquired	$156,110

No accrued restructuring charges were recorded with the FinPac acquisition.

Non-covered leases acquired from FinPac that are not subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30") are presented below at acquisition:
(in thousands)

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

The following tables present unaudited pro forma results of operations for the years ended December 31, 2013 and 2012 as if the acquisition of FinPac had occurred on January 1, 2012. The proforma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisitions actually occurred on January 1, 2012.

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(in thousands, except per share data)

	December 31, 2013				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$404,965	$25,526	$(6,891)	(b)	$423,600
Provision for non-covered loan and lease losses	16,829	3,272	—	(c)	20,101
Recapture of provision for covered loan losses	(6,113)	—	—		(6,113)
Non-interest income	121,441	1,312	—		122,753
Non-interest expense	364,661	8,596	(76)	(d)	373,181
Income before provision for income taxes	151,029	14,970	(6,815)		159,184
Provision for income taxes	52,668	5,835	(2,835)	(e)	55,668
Net income	98,361	9,135	(3,980)		103,516
Dividends and undistributed earnings allocated to participating securities	788	—	41		829
Net earnings available to common shareholders	$97,573	$9,135	$(4,021)		$102,687
Earnings per share:					
Basic	$0.87				$0.92
Diluted	$0.87				$0.92
Average shares outstanding:					
Basic	111,938				111,938
Diluted	112,176				112,176

(a) FinPac amounts represent results from January 1, 2013 to June 30, 2013.
(b) Adjustment of interest income from leases due to the estimated loss of income from the write-off of FinPac's loan mark (related to a prior acquisition) and the amortization of the new interest rate mark and the accretion of the acquisition accounting adjustment relating to the credit mark. The amortization period will be the contractual lives of the leases, which is approximately four years, and will be amortized into income using the effective yield method.
(c) As acquired leases are recorded at fair value, Umpqua would expect a reduction in the historical provision for loan and leases losses from FinPac; however, no adjustment to the historical amount of FinPac provision for loan and lease losses is reflected.
(d) Adjustment to reflect additional compensation expense related to restricted stock granted to FinPac management and the removal of FinPac director compensation and travel fees, and FinPac management fees of the Financial Pacific Holdings, LLC entity which was not acquired.
(e) Income tax effect of pro forma adjustments at the Company's statutory tax rate of 35%.

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(in thousands, except per share data)

	December 31, 2012				
	Company	FinPac (a)	Pro Forma Adjustments		Pro Forma Combined
Net interest income	$407,236	$50,809	$(5,332)	(b)	$452,713
Provision for non-covered loan and lease losses	21,796	7,291	—	(c)	29,087
Provision for covered loan losses	7,405	—	—		7,405
Non-interest income	136,829	4,132	—		140,961
Non-interest expense	359,652	16,101	(1,236)	(d)	374,517
Income before provision for income taxes	155,212	31,549	(4,096)		182,665
Provision for income taxes	53,321	12,192	(1,434)	(e)	64,079
Net income	101,891	19,357	(2,662)		118,586
Dividends and undistributed earnings allocated to participating securities	682	—	112		794
Net earnings available to common shareholders	$101,209	$19,357	$(2,774)		$117,792
Earnings per share:					
Basic	$0.90				$1.05
Diluted	$0.90				$1.05
Average shares outstanding:					
Basic	111,935				111,935
Diluted	112,151				112,151

(a) FinPac amounts represent results from January 1, 2012 to December 31, 2012.
(b) Adjustment of interest income from leases due to the estimated loss of income from the write-off of FinPac's loan mark (related to a prior acquisition) and the amortization of the new interest rate mark and the accretion of the acquisition accounting adjustment relating to the credit mark. The amortization period will be the contractual lives of the leases, which is approximately four years, and will be amortized into income using the effective yield method.
(c) As acquired leases are recorded at fair value, Umpqua would expect a reduction in the historical provision for loan and leases losses from FinPac; however, no adjustment to the historical amount of FinPac provision for loan and lease losses is reflected.
(d) Adjustment to reflect additional compensation expense related to restricted stock granted to FinPac management and the removal of FinPac director compensation and travel fees, FinPac management fees, and other expenses of Financial Pacific Holdings, LLC entity which was not acquired.
(e) Income tax effect of pro forma adjustments at the Company's statutory tax rate of 35%.

Circle Bancorp

On November 14, 2012, the Company acquired all of the assets and liabilities of Circle Bancorp (“Circle”), which has been accounted for under the acquisition method of accounting for cash consideration of $24.9 million, including the redemption of all common and preferred shares and outstanding warrants and options. The assets and liabilities, both tangible and intangible, were recorded at their estimated fair values as of the acquisition dates, and were subject to change for up to one year after the closing date of the acquisition. This acquisition was consistent with the Company's overall banking expansion strategy and provided further opportunity to enter growth markets in the San Francisco Bay Area of California. Upon completion of the acquisition, all Circle Bank branches operated under the Umpqua Bank name. The acquisition added Circle Bank's network of six branches in Corte Madera, Novato, Petaluma, San Francisco, San Rafael and Santa Rosa, California to Umpqua Bank's network of locations in California, Oregon, Washington and Nevada. The application of the acquisition method of accounting resulted in the recognition of $11.9 million of goodwill. There is no tax deductible goodwill or other intangibles.

The operations of Circle are included in our operating results from November 15, 2012, and added revenue of $17.0 million and $2.3 million, non-interest expense of $6.6 million and $2.8 million, and net income of $5.8 million and net loss of $306,000, net of tax, for the years ended December 31, 2013 and 2012, respectively. Circle's results of operations prior to the acquisition are not included in our operating results. Merger-related expenses of $996,000 and $1.9 million for the years ended December 31, 2013 and 2012, respectively, have been incurred in connection with the acquisition of Circle and recognized within the merger related expenses line item on the Consolidated Statements of Income.

A summary of the net assets acquired and the estimated fair value adjustments of Circle are presented below:

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(in thousands)

	Circle Bank November 14, 2012
Cost basis net assets	$17,127
Cash payment paid	(24,860)
Fair value adjustments:	
Non-covered loans and leases, net	(2,622)
Other intangible assets	830
Non-covered other real estate owned	(487)
Deposits	(904)
Term debt	(2,404)
Other	1,407
Goodwill	$(11,913)

The statement of assets acquired and liabilities assumed at their fair values of Circle are presented below:

(in thousands)

	Circle Bank November 14, 2012
Assets Acquired:	
Cash and equivalents	$39,328
Investment securities	793
Non-covered loans and leases, net	246,665
Premises and equipment	7,695
Restricted equity securities	2,491
Goodwill	11,913
Other intangible assets	830
Non-covered other real estate owned	1,602
Other assets	6,478
Total assets acquired	$317,795
Liabilities Assumed:	
Deposits	$250,408
Junior subordinated debentures	8,764
Term debt	55,404
Other liabilities	3,219
Total liabilities assumed	$317,795

Accrued restructuring charges relating to the Circle acquisition are recorded in other liabilities and were none and $631,000 at December 31, 2013 and 2012, respectively.

Non-covered loans acquired from Circle that are not subject to the requirements of FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30") are presented below at acquisition:

(in thousands)

	Circle Bank November 14, 2012
Contractually required principal payments	$242,999

Purchase adjustment for credit	(5,760)
Balance of performing non-covered loans	$240,850

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Non-covered loans acquired from Circle that are subject to the requirements of ASC 310-30 are presented below at acquisition and as of December 31, 2013 and December 31, 2012:

(in thousands)

	December 31, 2013	December 31, 2012	November 14, 2012
Contractually required principal payments	$ 5,523	$ 12,231	$ 12,252
Carrying balance of acquired purchase credit impaired non-covered loans	$ 2,268	$ 5,809	$ 5,815

The acquisition of Circle is not considered significant to the Company's financial statements and therefore pro forma financial information is not included.

The following table presents the key components of merger-related expense for years ended December 31, 2013, 2012 and 2011. Substantially all of the merger-related expenses incurred during 2013 were in connection with the acquisition of FinPac and the proposed merger of Sterling. Substantially all of the merger-related expenses incurred during 2012 were in connection with the acquisition of Circle Bancorp and substantially all of the merger-related expenses incurred during 2011 were in connection with the FDIC-assisted purchase and assumption of Evergreen Bank, Rainier Pacific Bank, and Nevada Security Bank.

Merger-Related Expense

	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

No additional merger-related expenses are expected in connection with the Circle acquisition or the FDIC-assisted purchase and assumption of Evergreen, Rainier, and Nevada Security.

Note 3 – Cash and Due From Banks

The Bank is required to maintain an average reserve balance with the Federal Reserve Bank or maintain such reserve balance in the form of cash. The amount of required reserve balance at December 31, 2013 and 2012 was approximately $27.2 million and $29.8 million, respectively, and was met by holding cash and maintaining an average balance with the Federal Reserve Bank.

Note 4 – Investment Securities

The following table presents the amortized costs, unrealized gains, unrealized losses and approximate fair values of investment securities at December 31, 2013 and 2012:

December 31, 2013

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

December 31, 2012 (in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
AVAILABLE FOR SALE:				
U.S. Treasury and agencies	$45,503	$318	$(1)	$45,820
Obligations of states and political subdivisions	245,606	18,119	—	263,725
Residential mortgage-backed securities and collateralized mortgage obligations	2,291,253	28,747	(6,624)	2,313,376
Other debt securities	143	79	—	222
Investments in mutual funds and other equity securities	1,959	127	—	2,086
	$2,584,464	$47,390	$(6,625)	$2,625,229
HELD TO MATURITY:				
Obligations of states and political subdivisions	$595	$1	$—	$596
Residential mortgage-backed securities and collateralized mortgage obligations	3,946	197	(7)	4,136
	$4,541	$198	$(7)	$4,732

Investment securities that were in an unrealized loss position as of December 31, 2013 and December 31, 2012 are presented in the following tables, based on the length of time individual securities have been in an unrealized loss position. In the opinion of management, these securities are considered only temporarily impaired due to changes in market interest rates or the widening of market spreads subsequent to the initial purchase of the securities, and not due to concerns regarding the underlying credit of the issuers or the underlying collateral.

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December 31, 2013
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$—	$—	$32	$1	$32	$1
Obligations of states and political subdivisions	48,342	2,575	—	—	48,342	2,575
Residential mortgage-backed securities and collateralized mortgage obligations	475,982	15,951	249,695	12,868	725,677	28,819
Total temporarily impaired securities	$524,324	$18,526	$249,727	$12,869	$774,051	$31,395
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$156	$19	$—	$—	$156	$19
Total temporarily impaired securities	$156	$19	$—	$—	$156	$19

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

December 31, 2012
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AVAILABLE FOR SALE:						
U.S. Treasury and agencies	$—	$—	$59	$1	$59	$1
Residential mortgage-backed securities and collateralized mortgage obligations	780,234	5,548	106,096	1,076	886,330	6,624
Total temporarily impaired securities	$780,234	$5,548	$106,155	$1,077	$886,389	$6,625
HELD TO MATURITY:						
Residential mortgage-backed securities and collateralized mortgage obligations	$—	$—	$48	$7	$48	$7
Total temporarily impaired securities	$—	$—	$48	$7	$48	$7

The unrealized losses on investments in U.S. Treasury and agency securities were caused by interest rate increases subsequent to the purchase of these securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

The unrealized losses on obligations of political subdivisions were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position as of December 31, 2013. Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

All of the available for sale residential mortgage-backed securities and collateralized mortgage obligations portfolio in an unrealized loss position at December 31, 2013 are issued or guaranteed by governmental agencies. The unrealized losses on residential mortgage-backed securities and collateralized mortgage obligations were caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities, and not concerns regarding the underlying credit of the issuers or the underlying collateral. It is expected that these securities will not be settled at a price less than the amortized cost of each investment.

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Because the decline in fair value is attributable to changes in interest rates or widening market spreads and not credit quality, and because the Bank does not intend to sell the securities in this class and it is not likely that the Bank will be required to sell these securities before recovery of their amortized cost basis, which may include holding each security until contractual maturity, the unrealized losses on these investments are not considered other-than-temporarily impaired.

We review investment securities on an ongoing basis for the presence of other-than-temporary impairment (“OTTI”) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost, extent and nature of the change in fair value, issuer rating changes and trends, whether we intend to sell a security or if it is likely that we will be required to sell the security before recovery of our amortized cost basis of the investment, which may be maturity, and other factors. For debt securities, if we intend to sell the security or it is likely that we will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If we do not intend to sell the security and it is not likely that we will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (“OCI”). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the OTTI amount recorded in OCI will increase the carrying value of the investment, and would not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above. For the years ended December 31, 2013, 2012, and 2011, we recognized net impairment losses in earnings of none, $155,000, and $359,000, respectively.

The following table presents the maturities of investment securities at December 31, 2013:

(in thousands)

	Available For Sale		Held To Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AMOUNTS MATURING IN:				
Three months or less	$15,169	$15,204	$—	$—
Over three months through twelve months	100,712	102,426	357	407
After one year through five years	1,055,812	1,067,340	728	983
After five years through ten years	554,722	534,083	44	49
After ten years	70,804	69,961	4,434	4,435
Other investment securities	1,959	1,964	—	—
	$1,799,178	$1,790,978	$5,563	$5,874

The amortized cost and fair value of collateralized mortgage obligations and mortgage-backed securities are presented by expected average life, rather than contractual maturity, in the preceding table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay underlying loans without prepayment penalties.

The following table presents the gross realized gains and gross realized losses on the sale of securities available for sale for the years ended December 31, 2013, 2012 and 2011:

(in thousands)

	2013		2012		2011	
	Gains	Losses	Gains	Losses	Gains	Losses
U.S. Treasury and agencies	$—	$—	$371	$—	$—	$—
Obligations of states and political subdivisions	10	1	10	1	8	—
Residential mortgage-backed securities and collateralized mortgage obligations	—	—	4,578	953	8,544	817
Other debt securities	200	—	18	—	—	—
	$210	$1	$4,977	$954	$8,552	$817

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The following table presents, as of December 31, 2013, investment securities which were pledged to secure borrowings, public deposits, and repurchase agreements as permitted or required by law:

(in thousands)

	Amortized Cost	Fair Value
To Federal Home Loan Bank to secure borrowings	$11,303	$11,689
To state and local governments to secure public deposits	833,068	824,737
Other securities pledged principally to secure repurchase agreements	324,253	318,708
Total pledged securities	$1,168,624	$1,155,134

Note 5 – Non-Covered Loans and Leases

The following table presents the major types of non-covered loans and leases, net of deferred fees and costs of $495,000 and $12.1 million, recorded in the balance sheets as of December 31, 2013 and 2012:

(in thousands)

	December 31, 2013	December 31, 2012
Commercial real estate		
Non-owner occupied term, net	$2,328,260	$2,316,909
Owner occupied term, net	1,259,583	1,276,840
Multifamily, net	403,537	331,735
Construction & development, net	245,231	200,631
Residential development, net	88,413	57,139
Commercial		
Term, net	770,845	797,061
LOC & other, net	987,360	890,808
Leases and equipment finance, net	361,591	31,270
Residential		
Mortgage, net	597,201	478,463
Home equity loans & lines, net	264,269	262,637
Consumer & other, net	48,113	37,587
Total loans and leases, net of deferred fees and costs	$7,354,403	$6,681,080

As of December 31, 2013, loans totaling $5.3 billion were pledged to secure borrowings and available lines of credit.

At December 31, 2013, non-covered loans accounted for under ASC 310-30 were $21.9 million. At December 31, 2012, non-covered loans accounted for under ASC 310-30 were $19.3 million.

The following table presents the net investment in direct financing leases and loans, net as of December 31, 2013 and 2012:

(in thousands)

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	December 31, 2013	December 31, 2012
Minimum lease payments receivable	$242,220	$26,265
Estimated guaranteed and unguaranteed residual value	8,455	3,163
Initial direct costs - net of accumulated amortization	3,824	—
Unearned income	(55,110)	(3,238)
Equipment finance loans, including unamortized deferred fees and costs	151,721	—
Interim lease receivables	6,752	5,080
Accretable yield/purchase accounting adjustments	3,729	—
Net investment in direct financing leases and loans	$361,591	$31,270
Allowance for credit losses	(3,775)	(225)
Net investment in direct financing leases and loans - net	$357,816	$31,045

The following table presents the scheduled minimum lease payments receivable, excluding equipment finance loans, as of December 31, 2013:

(in thousands)	
2014	$96,275
2015	68,310
2016	42,366
2017	23,790
2018	9,333
Thereafter	2,146
	$242,220

Note 6 – Allowance for Non-Covered Loan and Lease Loss and Credit Quality

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 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.

Our methodology for assessing the appropriateness of the ALLL consists of three key elements, which include 1) the formula allowance; 2) the specific allowance; and 3) the unallocated allowance. By incorporating these factors into a single allowance requirement analysis, all risk-based activities within the loan portfolio are simultaneously considered.

Formula Allowance

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 or lease through the credit review process. The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories are a primary factor in determining an appropriate amount for the formula allowance.

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

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

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

Changes to risk factors – Risk factors are assigned at origination and may be changed periodically based on management's evaluation of the following factors: loss experience; changes in the level of non-performing loans and leases; regulatory exam results; changes in the level of adversely classified loans and leases (positive or negative); improvement or deterioration in local economic conditions; and any other factors deemed relevant.

Specific Allowance

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 allowance to be provided for in the allowance for loan and lease losses or charge-off the impaired balance on collateral dependent loans if it is determined that such amount represents a confirmed loss. Loans determined to be impaired with a specific allowance are excluded from the formula allowance so as not to double-count the loss exposure. The non-accrual impaired loans as of period end have already been partially charged-off to their estimated net realizable value, and are expected to be resolved over the coming quarters with no additional material loss, absent further decline in market prices.

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

Unallocated Allowance

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

• Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
• Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
• Changes in the nature and volume of the portfolio and in the terms of loans and leases;
• Changes in the experience and ability of lending management and other relevant staff;
• Changes in the volume and severity of past due loans, the volume of nonaccrual loans and leases, and the volume and severity of adversely classified or graded loans;
• Changes in the quality of the institution's loan and lease review system;
• Changes in the value of underlying collateral for collateral-depending loans;
• The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and
• The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institutions' existing portfolio.

These factors are evaluated through a management survey of the Chief Credit Officer, Chief Lending Officer, Senior Credit Officers, Special Assets Manager, and Credit Review Manager. The survey requests responses to evaluate current changes in the nine qualitative factors. This information is then incorporated into our understanding of the reasonableness of the formula factors and our evaluation of the unallocated portion of the ALLL.

Management believes that the ALLL was adequate as of December 31, 2013. There is, however, no assurance that future loan and lease losses will not exceed the levels provided for in the ALLL and could possibly result in additional charges to the provision for loan and lease losses. 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 loan and lease 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. The recent U.S. recession, the housing market downturn, and declining real estate values in our markets have negatively impacted aspects of our loan and lease portfolio. A continued deterioration in our markets may adversely affect our loan and lease portfolio and may lead to additional charges to the provision for loan and lease losses.

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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. For each portfolio segment, these factors include:

- The quality of the current loan and lease portfolio;
- The trend in the loan portfolio's risk ratings;
- Current economic conditions;
- Loan and lease concentrations;
- Loan and lease growth rates;
- Past-due and non-performing trends;
- Evaluation of specific loss estimates for all significant problem loans;
- Historical short (one year), medium (three year), and long-term charge-off rates;
- Recovery experience; and
- Peer comparison loss rates.

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

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

The following table summarizes activity related to the allowance for non-covered loan and lease losses by non-covered loan and lease portfolio segment for the years ended December 31, 2013 and 2012, respectively:

(in thousands)

	December 31, 2013					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$54,909	$22,925	$6,925	$632	$—	$85,391
Charge-offs	(7,445)	(19,266)	(3,458)	(826)	—	(30,995)
Recoveries	3,322	9,914	351	502	—	14,089
Provision	2,647	10,618	3,009	555	—	16,829
Balance, end of period	$53,433	$24,191	$6,827	$863	$—	$85,314

	December 31, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Balance, beginning of period	$59,574	$20,485	$7,625	$867	$4,417	$92,968
Charge-offs	(22,349)	(12,209)	(5,282)	(1,499)	—	(41,339)
Recoveries	5,409	5,356	762	439	—	11,966
Provision	12,275	9,293	3,820	825	(4,417)	21,796
Balance, end of period	$54,909	$22,925	$6,925	$632	$—	$85,391

The following table presents the allowance and recorded investment in non-covered loans and leases by portfolio segment and balances individually or collectively evaluated for impairment as of December 31, 2013 and 2012, respectively:

(in thousands)

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	December 31, 2013					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$51,648	$24,179	$6,827	$863	$—	$83,517
Individually evaluated for impairment	1,785	12	—	—	—	1,797
Total	$53,433	$24,191	$6,827	$863	$—	$85,314
Non-covered loans and leases:						
Collectively evaluated for impairment	$4,235,744	$2,108,293	$861,470	$48,113		$7,253,620
Individually evaluated for impairment	89,280	11,503	—	—		100,783
Total	$4,325,024	$2,119,796	$861,470	$48,113		$7,354,403

(in thousands)

	December 31, 2012					
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Unallocated	Total
Allowance for non-covered loans and leases:						
Collectively evaluated for impairment	$53,513	$22,925	$6,920	$632	$—	$83,990
Individually evaluated for impairment	1,396	—	5	—	—	1,401
Total	$54,909	$22,925	$6,925	$632	$—	$85,391
Non-covered loans and leases:						
Collectively evaluated for impairment	$4,059,419	$1,700,761	$740,925	$37,566		$6,538,671
Individually evaluated for impairment	123,835	18,378	175	21		142,409
Total	$4,183,254	$1,719,139	$741,100	$37,587		$6,681,080

The non-covered loan and lease balance are net of deferred loans fees of $495,000 at December 31, 2013 and $12.1 million at December 31, 2012.

Summary of Reserve for Unfunded Commitments Activity

The following table presents a summary of activity in the reserve for unfunded commitments (“RUC”) and unfunded commitments for the years ended December 31, 2013 and 2012, respectively:

(in thousands)

	December 31, 2013				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$172	$807	$173	$71	$1,223
Net change to other expense	48	93	59	13	213
Balance, end of period	$220	$900	$232	$84	$1,436

	December 31, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$59	$633	$185	$63	$940
Net change to other expense	113	174	(12)	8	283
Balance, end of period	$172	$807	$173	$71	$1,223

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(in thousands)

	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Unfunded loan and lease commitments:					
December 31, 2013	$237,042	$1,012,257	$336,559	$52,588	$1,638,446
December 31, 2012	$196,292	$925,642	$257,508	$52,170	$1,431,612

Non-covered loans and leases sold

In the course of managing the loan and lease portfolio, at certain times, management may decide to sell loans and leases. The following table summarizes loans and leases sold by loan portfolio during the years ended December 31, 2013 and 2012, respectively:

(In thousands)

	2013	2012
Commercial real estate		
Non-owner occupied term	$4,039	$10,623
Owner occupied term	3,738	1,473
Multifamily	—	—
Construction & development	3,515	—
Residential development	363	12
Commercial		
Term	47,635	—
LOC & other	—	1,942
Leases and equipment finance	—	—
Residential		
Mortgage	1,008	192
Home equity loans & lines	—	—
Consumer & other	—	—
Total	$60,298	$14,242

Asset Quality and Non-Performing Loans and Leases

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

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 the Special Assets Division. When we identify a loan as impaired, we measure the loan for potential 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 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

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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.

Loans and leases are classified as non-accrual when collection of principal or interest is doubtful—generally if they are past due as to maturity or payment of principal or interest by 90 days or more—unless such loans are well-secured and in the process of collection. Additionally, all loans that are impaired are considered for non-accrual status. Loans 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 agreement appear relatively certain.

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 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.

Loans and leases are reported as past due when installment payments, interest payments, or maturity payments are past due based on contractual terms. All loans determined to be impaired are individually assessed for impairment except for impaired homogeneous loans which are collectively evaluated for impairment in accordance with FASB ASC 450, Contingencies (“ASC 450”). The specific factors considered in determining that a loan is impaired include borrower financial capacity, current economic, business and market conditions, collection efforts, collateral position and other factors deemed relevant. Generally, impaired loans are placed on non-accrual status and all cash receipts are applied to the principal balance. Continuation of accrual status and recognition of interest income is generally limited to performing restructured loans.

The Bank has written down impaired, 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.

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

The following table summarizes our non-covered non-accrual loans and leases and loans and leases past due by loan and lease class as of December 31, 2013 and December 31, 2012:

(in thousands)

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

(1) Other includes non-covered loans accounted for under ASC 310-30.

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(in thousands)

	December 31, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Non-accrual	Current & Other (1)	Total Non-covered Loans and Leases
Commercial real estate							
Non-owner occupied term, net	$5,132	$1,097	$—	$6,229	$33,797	$2,276,883	$2,316,909
Owner occupied term, net	2,615	1,687	—	4,302	8,448	1,264,090	1,276,840
Multifamily, net	—	—	—	—	1,045	330,690	331,735
Construction & development, net	283	—	—	283	4,177	196,171	200,631
Residential development, net	479	—	—	479	5,132	51,528	57,139
Commercial							
Term, net	3,009	746	81	3,836	7,040	786,185	797,061
LOC & other, net	1,647	1,503	—	3,150	7,027	880,631	890,808
Leases and equipment finance, net	—	—	—	—	—	31,270	31,270
Residential							
Mortgage, net	2,906	602	3,303	6,811	—	471,652	478,463
Home equity loans & lines, net	1,398	214	758	2,370	49	260,218	262,637
Consumer & other, net	282	191	90	563	21	37,003	37,587
Total, net of deferred fees and costs	$17,751	$6,040	$4,232	$28,023	$66,736	$6,586,321	$6,681,080

(1) Other includes non-covered loans accounted for under ASC 310-30.

Non-Covered Impaired Loans

Loans with no related allowance reported generally represent non-accrual loans. The Bank recognizes the charge-off of impairment reserves on impaired loans in the period it arises for collateral dependent loans. Therefore, the non-accrual loans as of December 31, 2013 have already been written-down to their estimated net realizable value, based on net realizable value, and are expected to be resolved with no additional material loss, absent further decline in market prices. The valuation allowance on impaired loans primarily represents the impairment reserves on performing restructured loans, and is measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value.

At December 31, 2013 and December 31, 2012, impaired loans of $68.8 million and $70.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, by providing for modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest at each respective date. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. The Bank had no obligation to lend additional funds on the restructured loans as of December 31, 2013.

The following table summarizes our non-covered impaired loans, including average recorded investment and interest income recognized on impaired non-covered loans, by loan class for the years ended December 31, 2013 and 2012:

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(in thousands)

	December 31, 2013				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate					
Non-owner occupied term, net	$19,350	$18,285	$—	$31,024	$—
Owner occupied term, net	6,674	6,204	—	3,014	—
Multifamily, net	1,416	935	—	765	—
Construction & development, net	9,518	8,498	—	12,021	—
Residential development, net	12,347	5,776	—	7,592	—
Commercial					
Term, net	22,750	8,723	—	10,981	—
LOC & other, net	5,886	1,222	—	2,836	—
Residential					
Mortgage, net	—	—	—	—	—
Home equity loans & lines, net	—	—	—	70	—
Consumer & other, net	—	—	—	1	—
With an allowance recorded:					
Commercial real estate					
Non-owner occupied term, net	31,252	31,362	928	32,250	1,512
Owner occupied term, net	5,202	5,202	198	4,448	205
Multifamily, net	—	—	—	—	—
Construction & development, net	1,091	1,091	11	1,898	484
Residential development, net	10,166	11,927	648	14,759	644
Commercial					
Term, net	—	300	8	974	17
LOC & other, net	1,258	1,258	4	1,172	51
Residential					
Mortgage, net	—	—	—	153	—
Home equity loans & lines, net	—	—	—	25	—
Consumer & other, net	—	—	—	—	—
Total:					
Commercial real estate, net	97,016	89,280	1,785	107,771	2,845
Commercial, net	29,894	11,503	12	15,963	68
Residential, net	—	—	—	248	—
Consumer & other, net	—	—	—	1	—
Total, net of deferred fees and costs	$126,910	$100,783	$1,797	$123,983	$2,913

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(in thousands)

	December 31, 2012				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate					
Non-owner occupied term, net	$38,654	$33,912	$—	$36,167	$—
Owner occupied term, net	10,085	8,449	—	7,998	
Multifamily, net	1,214	1,045	—	886	
Construction & development, net	18,526	15,638	—	17,899	—
Residential development, net	9,293	6,091	—	15,518	—
Commercial					
Term, net	13,729	10,532	—	11,966	—
LOC & other, net	10,778	7,846	—	7,949	—
Residential					
Mortgage, net	—	—	—	—	—
Home equity loans & lines, net	50	49	—	301	—
Consumer & other, net	21	21	—	4	—
With an allowance recorded:					
Commercial real estate					
Non-owner occupied term, net	35,732	35,732	762	25,608	1,076
Owner occupied term, net	5,284	5,284	436	3,328	37
Multifamily, net	—	—	—	—	—
Construction & development, net	1,091	1,091	14	2,400	672
Residential development, net	16,593	16,593	184	18,417	747
Commercial					
Term, net	—	—	—	443	182
LOC & other, net	—	—	—	795	9
Residential					
Mortgage, net	—	—	—	—	—
Home equity loans & lines, net	126	126	5	127	6
Consumer & other, net	—	—	—	—	—
Total:					
Commercial real estate, net	136,472	123,835	1,396	128,221	2,532
Commercial, net	24,507	18,378	—	21,153	191
Residential, net	176	175	5	428	6
Consumer & other, net	21	21	—	4	—
Total, net of deferred fees and costs	$161,176	$142,409	$1,401	$149,806	$2,729

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

Non-Covered Credit Quality Indicators

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

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

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

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

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

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

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

- Borrower may be experiencing declining operating trends, strained cash flows or less-than anticipated performance. Cash flow should still be adequate to cover debt service, and the negative trends should be identified as being of a short-term or temporary nature.
- The borrower may have experienced a minor, unexpected covenant violation.
- Companies who may be experiencing tight working capital or have a cash cushion deficiency.
- A loan or lease may also be a watch if financial information is late, there is a documentation deficiency, the borrower has experienced unexpected management turnover, or if they face industry issues that, when combined with performance factors create uncertainty in their future ability to perform.
- Delinquent payments, increasing and material overdraft activity, request for bulge and/or out-of-formula advances may be an indicator of inadequate working capital and may suggest a lower rating.
- Failure of the intended repayment source to materialize as expected, or renewal of a loan (other than cash/marketable security secured or lines of credit) without reduction are possible indicators of a watch or worse risk rating.

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

- Performance is poor or significantly less than expected. There may be a temporary debt-servicing deficiency or inadequate working capital as evidenced by a cash cushion deficiency, but not to the extent that repayment is compromised. Material violation of financial covenants is common.

- Loans or leases with unresolved material issues that significantly cloud the debt service outlook, even though a debt servicing deficiency does not currently exist.
- Modest underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt as structured. Depth of support for interest carry provided by owner/guarantors may mitigate and provide for improved rating.
- This rating may be assigned when a loan officer is unable to supervise the credit properly, an inadequate loan agreement, an inability to control collateral, failure to obtain proper documentation, or any other deviation from prudent lending practices.
- Unlike a substandard credit, there should be a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than liquidation of assets, and in a reasonable period of time.

Substandard—A substandard asset, risk rated 8, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not

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corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. Loans and leases are classified as substandard when they have unsatisfactory characteristics causing unacceptable levels of risk. A substandard loan or lease normally has one or more well-defined weaknesses that could jeopardize repayment of the debt. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations is the key distinction between special mention and substandard. The following are examples of well-defined weaknesses:

- Cash flow deficiencies or trends are of a magnitude to jeopardize current and future payments with no immediate relief. A loss is not presently expected, however the outlook is sufficiently uncertain to preclude ruling out the possibility.
- The borrower has been unable to adjust to prolonged and unfavorable industry or economic trends.
- Material underperformance or deviation from plan for real estate loans where absorption of rental/sales units is necessary to properly service the debt and risk is not mitigated by willingness and capacity of owner/guarantor to support interest payments.
- Management character or honesty has become suspect. This includes instances where the borrower has become uncooperative.
- Due to unprofitable or unsuccessful business operations, some form of restructuring of the business, including liquidation of assets, has become the primary source of loan repayment. Cash flow has deteriorated, or been diverted, to the point that sale of collateral is now the Bank's primary source of repayment (unless this was the original source of repayment). If the collateral is under the Bank's control and is cash or other liquid, highly marketable securities and properly margined, then a more appropriate rating might be special mention or watch.
- The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.
- There is material, uncorrectable faulty documentation or materially suspect financial information.

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

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

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

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

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

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

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

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

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

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

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

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

The following table summarizes our internal risk rating by loan and lease class for the non-covered loan and lease portfolio as of December 31, 2013 and December 31, 2012:

(in thousands)

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

(in thousands)

	December 31, 2012						
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Impaired	Total
Commercial real estate							
Non-owner occupied term, net	$1,993,369	$174,892	$79,004	$—	$—	$69,644	$2,316,909
Owner occupied term, net	1,185,721	26,475	50,911	—	—	13,733	1,276,840
Multifamily, net	324,315	1,950	4,425	—	—	1,045	331,735
Construction & development, net	165,185	12,654	6,063	—	—	16,729	200,631
Residential development, net	25,018	4,373	5,064	—	—	22,684	57,139
Commercial							
Term, net	717,546	22,256	46,727	—	—	10,532	797,061
LOC & other, net	847,883	19,510	15,569	—	—	7,846	890,808

Leases and equipment finance, net	31,270	—	—	—	—	—	31,270
Residential							
Mortgage, net	471,206	3,510	1,120	—	2,627	—	478,463
Home equity loans & lines, net	260,086	1,616	—	—	760	175	262,637
Consumer & other, net	37,056	419	57	—	34	21	37,587
Total, net of deferred fees and costs	$6,058,655	$267,655	$208,940	$—	$3,421	$142,409	$6,681,080

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The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 6.4%, 3.7%, and 89.9%, respectively, as of December 31, 2013. The percentage of non-covered impaired loans classified as watch, special mention, and substandard was 9.0%, 1.7%, and 89.3%, respectively, as of December 31, 2012.

Troubled Debt Restructurings

At December 31, 2013 and December 31, 2012, impaired loans of $68.8 million and $70.6 million were classified as accruing restructured loans, respectively. The restructurings were granted in response to borrower financial difficulty, and generally provide for a temporary modification of loan repayment terms. The restructured loans on accrual status represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow. Impaired restructured loans carry a specific allowance and the allowance on impaired restructured loans is calculated consistently across the portfolios.

There were no available commitments for troubled debt restructurings outstanding as of December 31, 2013 and none as of December 31, 2012.

The following tables present troubled debt restructurings by accrual versus non-accrual status and by loan class as of December 31, 2013 and December 31, 2012:

(in thousands)

	December 31, 2013		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Non-owner occupied term, net	$37,366	$—	$37,366
Owner occupied term, net	5,202	—	5,202
Multifamily, net	—	—	—
Construction & development, net	9,590	—	9,590
Residential development, net	14,902	2,196	17,098
Commercial			
Term, net	—	2,603	2,603
LOC & other, net	1,258	—	1,258
Leases and equipment finance, net	—	—	—
Residential			
Mortgage, net	473	—	473
Home equity loans & lines, net	—	—	—
Consumer & other, net	—	—	—
Total, net of deferred fees and costs	$68,791	$4,799	$73,590

(in thousands)

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	December 31, 2012		
	Accrual Status	Non-Accrual Status	Total Modifications
Commercial real estate			
Non-owner occupied term, net	$34,329	$16,200	$50,529
Owner occupied term, net	5,284	405	5,689
Multifamily, net	—	—	—
Construction & development, net	12,552	3,516	16,068
Residential development, net	17,141	4,921	22,062
Commercial			
Term, net	350	4,641	4,991
LOC & other, net	820	1,493	2,313
Leases and equipment finance, net	—	—	—
Residential			
Mortgage, net	—	—	—
Home equity loans & lines, net	126	—	126
Consumer & other, net	—	—	—
Total, net of deferred fees and costs	$70,602	$31,176	$101,778

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

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

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

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

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

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

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

The following tables present newly non-covered restructured loans that occurred during the years ended December 31, 2013 and 2012, respectively:

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(in thousands)

	December 31, 2013					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total
Commercial real estate						
Non-owner occupied term, net	$—	$—	$ 4,291	$—	$—	$4,291
Owner occupied term, net	—	—	—	—	—	—
Multifamily, net	—	—	—	—	—	—
Construction & development, net	—	—	—	—	—	—
Residential development, net	—	—	—	—	—	—
Commercial						
Term, net	—	—	—	—	3,588	3,588
LOC & other, net	—	—	—	—	452	452
Leases and equipment finance, net	—	—	—	—	—	—
Residential						
Mortgage, net	—	—	—	—	478	478
Home equity loans & lines, net	—	—	—	—	—	—
Consumer & other, net	—	—	—	—	—	—
Total, net of deferred fees and costs	$—	$—	$ 4,291	$—	$ 4,518	$8,809

	December 31, 2012					
	Rate Modifications	Term Modifications	Interest Only Modifications	Payment Modifications	Combination Modifications	Total
Commercial real estate						
Non-owner occupied term, net	$14,333	$—	$—	$—	$ 2,595	$16,928
Owner occupied term, net	587	—	—	—	4,722	5,309
Multifamily, net	—	—	—	—	—	—
Construction & development, net	—	—	—	—	—	—
Residential development, net	—	—	—	—	—	—
Commercial						
Term, net	—	—	—	—	—	—
LOC & other, net	—	—	—	820	—	820
Leases and equipment finance, net	—	—	—	—	—	—
Residential						
Mortgage, net	—	—	—	—	—	—
Home equity loans & lines, net	—	—	—	—	—	—
Consumer & other, net	—	—	—	—	—	—
Total, net of deferred fees and costs	$14,920	$—	$—	$ 820	$ 7,317	$23,057

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

The following tables represent financing receivables modified as troubled debt restructurings within the previous 12 months for which there was a payment default during the years ended December 31, 2013 and 2012, respectively:

(in thousands)

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	2013	2012
Commercial real estate		
Non-owner occupied term, net	$—	$—
Owner occupied term, net	—	217
Multifamily, net	—	—
Construction & development, net	—	—
Residential development, net	—	633
Commercial		
Term, net	1,786	—
LOC & other, net	—	26
Leases and equipment finance, net	—	—
Residential		
Mortgage, net	—	—
Home equity loans & lines, net	—	—
Consumer & other, net	—	—
Total, net of deferred fees and costs	$1,786	$876

Note 7 – Covered Assets and Indemnification Asset

Covered Loans, Net
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. Covered loans are reported exclusive of the cash flow reimbursements expected from the FDIC.

The following table presents the major types of covered loans as of December 31, 2013 and December 31, 2012:

(in thousands)

	December 31, 2013			
	Evergreen	Rainier	Nevada Security	Total
Commercial real estate				
Non-owner occupied term, net	$29,019	$117,076	$60,807	$206,902
Owner occupied term, net	18,582	14,711	16,524	49,817
Multifamily, net	7,626	22,210	7,835	37,671
Construction & development, net	1,506	—	1,949	3,455
Residential development, net	1,861	—	5,425	7,286
Commercial				
Term, net	5,651	768	9,300	15,719
LOC & other, net	2,664	1,934	2,100	6,698
Residential				
Mortgage, net	3,075	17,468	1,773	22,316
Home equity loans & lines, net	2,820	14,782	2,035	19,637
Consumer & other, net	954	3,308	—	4,262
Total, net of deferred fees and costs	$73,758	$192,257	$107,748	$373,763
Allowance for covered loans				(9,771)
Total				$363,992

December 31, 2012

	Evergreen	Rainier	Nevada Security	Total
Commercial real estate				
Non-owner occupied term, net	$36,074	$157,055	$71,352	$264,481
Owner occupied term, net	26,682	18,853	23,115	68,650
Multifamily, net	10,132	23,777	10,969	44,878
Construction & development, net	4,941	637	6,133	11,711
Residential development, net	3,840	—	5,954	9,794
Commercial				
Term, net	9,961	2,230	11,333	23,524
LOC & other, net	4,984	7,081	2,932	14,997
Residential				
Mortgage, net	3,948	22,059	1,818	27,825
Home equity loans & lines, net	3,478	17,178	2,786	23,442
Consumer & other, net	1,855	4,143	53	6,051
Total, net of deferred fees and costs	$105,895	$253,013	$136,445	$495,353
Allowance for covered loans				(18,275)
Total				$477,078

The outstanding contractual unpaid principal balance, excluding purchase accounting adjustments, at December 31, 2013 was $93.8 million, $224.1 million and $144.5 million, for Evergreen, Rainier, and Nevada Security, respectively, as compared to $137.7 million, $297.0 million and $198.4 million, for Evergreen, Rainier, and Nevada Security, respectively, at December 31, 2012.

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

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

The following table presents the changes in the accretable yield for the years ended December 31, 2013 and 2012 for each respective acquired loan portfolio:

(in thousands)

	December 31, 2013			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$34,567	$102,468	$46,353	$183,388
Accretion to interest income	(12,695)	(23,511)	(15,292)	(51,498)
Disposals	(3,221)	(12,362)	(3,703)	(19,286)
Reclassifications from nonaccretable difference	1,412	5,194	7,274	13,880
Balance, end of period	20,063	$71,789	$34,632	$126,484

	December 31, 2012			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$56,479	$120,333	$61,021	$237,833

Accretion to interest income	(21,237)	(30,325)	(19,969)	(71,531)
Disposals	(9,688)	(19,705)	(5,214)	(34,607)
Reclassifications from nonaccretable difference	9,013	32,165	10,515	51,693
Balance, end of period	$34,567	$102,468	$46,353	$183,388

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Allowance for Covered Loan Losses

The following table summarizes activity related to the allowance for covered loan losses by covered loan portfolio segment for the years ended December 31, 2013 and 2012, respectively:

(in thousands)

	December 31, 2013				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$12,129	$4,980	$804	$362	$18,275
Charge-offs	(2,303)	(1,544)	(197)	(459)	(4,503)
Recoveries	1,114	531	218	249	2,112
(Recapture) provision	(4,835)	(1,130)	(165)	17	(6,113)
Balance, end of period	$6,105	$2,837	$660	$169	$9,771

	December 31, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Balance, beginning of period	$8,939	$3,964	$991	$426	$14,320
Charge-offs	(2,921)	(1,613)	(596)	(659)	(5,789)
Recoveries	1,264	733	237	105	2,339
Provision	4,847	1,896	172	490	7,405
Balance, end of period	$12,129	$4,980	$804	$362	$18,275

The following table presents the allowance and recorded investment in covered loans by portfolio segment as of December 31, 2013 and 2012:

(in thousands)

	December 31, 2013				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for covered loans:					
Loans acquired with deteriorated credit quality (1)	$5,995	$2,713	$609	$118	$9,435
Collectively evaluated for impairment (2)	110	124	51	51	336
Total	$6,105	$2,837	$660	$169	$9,771
Covered loans:					
Loans acquired with deteriorated credit quality (1)	$304,232	$15,781	$36,960	$1,739	$358,712
Collectively evaluated for impairment (2)	899	6,636	4,993	2,523	15,051
Total	$305,131	$22,417	$41,953	$4,262	$373,763

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	December 31, 2012				
	Commercial Real Estate	Commercial	Residential	Consumer & Other	Total
Allowance for covered loans:					
Loans acquired with deteriorated credit quality (1)	$11,756	$4,559	$755	$315	$17,385
Collectively evaluated for impairment (2)	373	421	49	47	890
Total	$12,129	$4,980	$804	$362	$18,275
Covered loans:					
Loans acquired with deteriorated credit quality (1)	$393,464	$25,402	$46,382	$3,360	$468,608
Collectively evaluated for impairment (2)	6,050	13,119	4,885	2,691	26,745
Total	$399,514	$38,521	$51,267	$6,051	$495,353

(1) In accordance with ASC 310-30, the valuation allowance is netted against the carrying value of the covered loan balance.

(2) The allowance on covered loan losses includes an allowance on covered loan advances on acquired loans subsequent to acquisition.

The valuation allowance on covered loans was reduced by recaptured provision of $8.8 million, $3.8 million, and $3.5 million for the years ended December 31, 2013, 2012 and 2011.

Covered Credit Quality Indicators

Covered loans are risk rated in a manner consistent with non-covered loans. As previously noted, the Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating groupings are described fully in Note 6. The following table includes loans acquired with deteriorated credit quality accounted for under ASC 310-30, and advances made subsequent to acquisition on covered loans.

The following table summarizes our internal risk rating grouping by covered loans, net as of December 31, 2013 and December 31, 2012:

(in thousands)

	December 31, 2013					
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate						
Non-owner occupied term, net	$133,452	$26,321	$44,279	$—	$—	$204,052
Owner occupied term, net	30,119	3,370	14,971	213	—	48,673
Multifamily, net	24,213	2,563	10,409	—	—	37,185
Construction & development, net	1,117	—	1,686	—	—	2,803
Residential development, net	492	224	5,541	54	—	6,311
Commercial						
Term, net	3,753	3,141	6,128	258	—	13,280
LOC & other, net	4,630	991	681	—	—	6,302
Residential						
Mortgage, net	22,175	—	—	—	—	22,175

Home equity loans & lines, net	19,043	—	76	—	—	19,119
Consumer & other, net	4,092	—	—	—	—	4,092
Total, net of deferred fees and costs	$243,086	$36,610	$83,771	$525	$—	$363,992

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	December 31, 2012					
	Pass/Watch	Special Mention	Substandard	Doubtful	Loss	Total
Construction & development						
Non-owner occupied term, net	$177,791	$30,253	$42,590	$8,471	$—	$259,105
Owner occupied term, net	43,698	7,803	10,417	4,673	—	66,591
Multifamily, net	22,234	9,824	9,804	1,781	—	43,643
Construction & development, net	1,792	195	4,315	3,386	—	9,688
Residential development, net	—	391	6,658	1,309	—	8,358
Commercial						
Term, net	9,020	3,401	4,986	2,021	—	19,428
LOC & other, net	11,498	354	1,080	1,181	—	14,113
Residential						
Mortgage, net	27,596	—	—	—	—	27,596
Home equity loans & lines, net	22,790	—	77	—	—	22,867
Consumer & other, net	5,689	—	—	—	—	5,689
Total, net of deferred fees and costs	$322,108	$52,221	$79,927	$22,822	$—	$477,078

Covered Other Real Estate Owned

All other real estate owned (“OREO”) acquired in FDIC-assisted acquisitions that are subject to a FDIC loss-share agreement are referred to as “covered OREO” and reported separately in our statements of financial position. Covered OREO is reported exclusive of expected reimbursement cash flows from the FDIC. Foreclosed covered loan collateral is transferred into covered OREO at the collateral’s net realizable value, less selling costs.

Covered OREO was initially recorded at its estimated fair value on the acquisition date based on similar market comparable valuations less estimated selling costs. Subsequent to acquisition, loan collateral transferred to OREO is at its net realizable value. Any subsequent valuation adjustments due to declines in fair value will be charged to non-interest expense, and will be mostly offset by non-interest income representing the corresponding increase to the FDIC indemnification asset for the offsetting loss reimbursement amount. Any recoveries of previous valuation adjustments will be credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

The following table summarizes the activity related to the covered OREO for the years ended December 31, 2013, 2012 and 2011:

(in thousands)

	2013	2012	2011
Balance, beginning of period	$10,374	$19,491	$29,863
Additions to covered OREO	2,555	6,987	15,271
Dispositions of covered OREO	(10,115)	(11,458)	(16,934)
Valuation adjustments in the period	(712)	(4,646)	(8,709)
Balance, end of period	$2,102	$10,374	$19,491

FDIC Indemnification Asset

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. The FDIC indemnification asset is initially recorded at fair value, based on the discounted value of expected future cash flows under the loss-share agreement.

The difference between the present value and the undiscounted cash flows the Company expects to collect from the FDIC will be accreted into non-interest income over the life of the FDIC indemnification asset.

Subsequent to initial recognition, the FDIC indemnification asset is reviewed quarterly and adjusted for any changes in expected cash flows based on recent performance and expectations for future performance of the covered assets. These adjustments are measured on the same basis as the related covered loans and covered other real estate owned. Any increases in cash flow of the covered assets over

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those expected will reduce the FDIC indemnification asset and any decreases in cash flow of the covered assets under those expected will increase the FDIC indemnification asset. Increases and decreases to the FDIC indemnification asset are recorded as adjustments to non-interest income. The resulting carrying value of the indemnification asset represents the amounts recoverable from the FDIC for future expected losses, and the amounts due from the FDIC for claims related to covered losses the Company have incurred less amounts due back to the FDIC relating to shared recoveries.

The following table summarizes the activity related to the FDIC indemnification asset for each respective acquired portfolio for the years ended December 31, 2013 and 2012:

(in thousands)

	December 31, 2013			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$14,876	$15,110	$22,812	$52,798
Change in FDIC indemnification asset	(8,556)	(6,280)	(10,713)	(25,549)
Transfers to due from FDIC and other	(1,111)	(814)	(2,150)	(4,075)
Balance, end of period	$5,209	$8,016	$9,949	$23,174

	December 31, 2012			
	Evergreen	Rainier	Nevada Security	Total
Balance, beginning of period	$28,547	$28,272	$34,270	$91,089
Change in FDIC indemnification asset	(9,611)	(6,355)	732	(15,234)
Transfers to due from FDIC and other	(4,060)	(6,807)	(12,190)	(23,057)
Balance, end of period	$14,876	$15,110	$22,812	$52,798

Note 8–Premises and Equipment

The following table presents the major components of premises and equipment at December 31, 2013 and 2012:

(in thousands)

	2013	2012
Land	$26,438	$26,438
Buildings and improvements	153,771	134,464
Furniture, fixtures and equipment	131,691	121,086
Construction in progress	13,172	10,488
Total premises and equipment	325,072	292,476
Less: Accumulated depreciation and amortization	(147,392)	(129,809)
Premises and equipment, net	$177,680	$162,667

Depreciation expense totaled $20.5 million, $17.6 million and $16.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Umpqua’s subsidiaries have entered into a number of non-cancelable lease agreements with respect to premises and equipment. See Note 20 for more information regarding rental expense, net of rent income, and minimum annual rental commitments under non-cancelable lease agreements.

Note 9–Goodwill and Other Intangible Assets

The following table summarizes the changes in the Company's goodwill and other intangible assets for the years ended December 31, 2010, 2011, 2012, and 2013. Goodwill is reflected by operating segment; all other intangible assets are related to the Community Banking segment.

(in thousands)

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	Goodwill					
	Community Banking			Wealth Management		
	Gross	Accumulated Impairment	Total	Gross	Accumulated Impairment	Total
Balance, December 31, 2010	$765,113	$(111,952)	$653,161	$3,697	$(982)	$2,715
Net additions	247	—	247	—	—	—
Reductions	(44)	—	(44)	—	—	—
Balance, December 31, 2011	765,316	(111,952)	653,364	3,697	(982)	2,715
Net additions	12,545	—	12,545	—	—	—
Reductions	(452)	—	(452)	—	—	—
Balance, December 31, 2012	777,409	(111,952)	665,457	3,697	(982)	2,715
Net additions	96,777	—	96,777	—	—	—
Reductions	(644)	—	(644)	—	—	—
Balance, December 31, 2013	$873,542	$(111,952)	$761,590	$3,697	$(982)	$2,715

	Other Intangible Assets		
	Gross	Accumulated Amortization	Net
Balance, December 31, 2010	$58,079	$(31,986)	$26,093
Net additions	—	—	—
Amortization	—	(4,948)	(4,948)
Balance, December 31, 2011	58,079	(36,934)	21,145
Net additions	830	—	830
Amortization	—	(4,816)	(4,816)
Balance, December 31, 2012	58,909	(41,750)	17,159
Net additions	—	—	—
Amortization	—	(4,781)	(4,781)
Balance, December 31, 2013	$58,909	$(46,531)	$12,378

Goodwill additions in 2013 relate to the FinPac acquisition and represent the excess of the total purchase price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. Additional information on the acquisition and purchase price allocation is provided in Note 2. Goodwill additions in 2012 relate to the Circle acquisition and represent the excess of the total purchase price paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. Additional information on the acquisition and purchase price allocation is provided in Note 2. Goodwill additions in 2011 relate to purchase accounting adjustments finalized relating to the Rainier acquisition. The reduction to goodwill in 2013 of $644,000 relates to purchase accounting adjustments. The reduction to goodwill in 2012 and 2011 of $452,000, and $44,000 are due to the recognition of tax benefits upon exercise of fully vested acquired stock options.

Intangible additions in 2012 relate to the Circle acquisition and represent core deposits, which includes all deposits except certificates of deposit. The values of the core deposit intangible assets were determined by an analysis of the cost differential between the core deposits and alternative funding sources. Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and are also reviewed for impairment. We amortize other intangible assets on an accelerated or straight-line basis over an estimated ten to fifteen year life. No impairment losses separate from the scheduled amortization have been recognized in the periods presented.

The Company conducted its annual evaluation of goodwill for impairment at both December 31, 2013 and 2012 , respectively. At both dates, in the first step of the goodwill impairment test, the Company determined that the fair value of the Community Banking and Wealth Management reporting units exceeded its carrying amount. The significant assumptions and methodology utilized to test for goodwill impairment as of December 31, 2013 were consistent with those used at December 31, 2012.

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A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition.

The Company has the option to perform a qualitative assessment before completing the goodwill impairment test two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to proceed to the second step. In the second step the Company calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment. No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess. The Company performs the first step on an annual basis and in between if certain events or circumstances indicate goodwill may be impaired.

The table below presents the forecasted amortization expense for intangible assets acquired in all mergers:

(in thousands)

Year	Expected Amortization
2014	$4,528
2015	4,286
2016	2,520
2017	549
2018	190
Thereafter	305
	$12,378

Note 10 – Mortgage Servicing Rights

The following table presents the changes in the Company's mortgage servicing rights ("MSR") for the years ended December 31, 2013, 2012 and 2011:

(in thousands)

	2013	2012	2011
Balance, beginning of period	$27,428	$18,184	$14,454
Additions for new mortgage servicing rights capitalized	17,963	17,710	6,720
Changes in fair value:			
Due to changes in model inputs or assumptions(1)	5,688	(4,651)	(858)
Other(2)	(3,314)	(3,815)	(2,132)
Balance, end of period	$47,765	$27,428	$18,184

(1) Principally reflects changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates.

(2) Represents changes due to collection/realization of expected cash flows over time.

Information related to our serviced loan portfolio as of December 31, 2013, 2012 and 2011 is as follows:

(dollars in thousands)

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	December 31, 2013	December 31, 2012	December 31, 2011
Balance of loans serviced for others	$4,362,499	$3,162,080	$2,009,849
MSR as a percentage of serviced loans	1.09 %	0.87 %	0.90 %

The amount of contractually specified servicing fees, late fees and ancillary fees earned, recorded in mortgage banking revenue on the Consolidated Statements of Income, was $10.4 million, $6.6 million, and $4.7 million for the years ended December 31, 2013, 2012 and 2011.

A sensitivity analysis of the current fair value to changes in discount and prepayment speed assumptions as of December 31, 2013 and December 31, 2012 is as follows:

	December 31, 2013	December 31, 2012
Constant prepayment rate		
Effect on fair value of a 10% adverse change	$(2,255)	$(1,445)
Effect on fair value of a 20% adverse change	$(4,323)	$(2,754)
Discount rate		
Effect on fair value of a 100 basis point adverse change	$(1,832)	$(889)
Effect on fair value of a 200 basis point adverse change	$(3,534)	$(1,720)

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

Note 11 – Non-covered Other Real Estate Owned, Net

The following table presents the changes in non-covered other real estate owned ("OREO") for the years ended December 31, 2013, 2012 and 2011:

(in thousands)

	2013	2012	2011
Balance, beginning of period	$17,138	$34,175	$32,791
Additions to OREO due to acquisition	—	1,602	—
Additions to OREO	21,638	17,699	47,414
Dispositions of OREO	(15,495)	(29,442)	(37,083)
Valuation adjustments in the period	(1,448)	(6,896)	(8,947)
Balance, end of period	$21,833	$17,138	$34,175

OREO properties 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. The Company recognized valuation allowances of $1.0 million, $1.8 million, and $5.1 million on its non-covered OREO balances as of December 31, 2013, 2012 and 2011, respectively. Valuation allowances on non-covered OREO balances are based on updated appraisals of the underlying properties as received during a period or management's authorization to reduce the selling price of a property during the period.

NOTE 12. OTHER ASSETS

Other assets consisted of the following at December 31, 2013 and 2012:

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(in thousands)

	2013	2012
Accrued interest receivable	$23,720	$26,998
Derivative assets	17,921	23,942
Income taxes receivable	15,665	12,859
Equity method investments	9,641	11,031
Investment in unconsolidated Trusts	6,933	6,933
Due from FDIC	3,322	12,606
Prepaid FDIC deposit assessment	—	12,307
Other	34,756	32,026
Total	$111,958	$138,702

The amount due from the FDIC relates to the FDIC-assisted acquisitions of Evergreen, Rainier, and Nevada Security. See further discussion at Note 7.

The Company invests in limited partnerships that operate qualified affordable housing projects to receive tax benefits in the form of tax deductions from operating losses and tax credits. The Company accounts for the investments under the equity method. The Company’s remaining capital commitments to these partnerships at December 31, 2013 and 2012 were approximately $1.4 million and $4.1 million, respectively. Such amounts are included in other liabilities on the consolidated balance sheets.

Also see Note 18 for information on the Company’s investment in Trusts and Note 21 for information on the Company’s derivatives.

Note 13 – Income Taxes

The following table presents the components of income tax expense (benefit) included in the Consolidated Statements of Income for the years ended December 31:

(in thousands)

	Current	Deferred	Total
YEAR ENDED DECEMBER 31, 2013:			
Federal	$36,733	$7,459	$44,192
State	8,187	289	8,476
	$44,920	$7,748	$52,668
YEAR ENDED DECEMBER 31, 2012:			
Federal	$44,268	$(426)	$43,842
State	2,632	6,847	9,479
	$46,900	$6,421	$53,321
YEAR ENDED DECEMBER 31, 2011:			
Federal	$29,932	$(40)	$29,892
State	4,810	2,040	6,850
	$34,742	$2,000	$36,742

The following table presents a reconciliation of income taxes computed at the Federal statutory rate to the actual effective rate for the years ended December 31:

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	2013	2012	2011
Statutory Federal income tax rate	35.0 %	35.0 %	35.0 %
State tax, net of Federal income tax	4.4 %	4.4 %	3.8 %
Tax-exempt income	(3.2)%	(3.0)%	(3.7)%
Tax credits	(1.8)%	(1.1)%	(1.5)%
Nondeductible merger expenses	1.0 %	0.1 %	— %
Other	(0.5)%	(1.0)%	(0.6)%
Effective income tax rate	34.9 %	34.4 %	33.0 %

The following table reflects the effects of temporary differences that give rise to the components of the net deferred tax assets recorded on the consolidated balance sheets as of December 31:
(in thousands)

	2013	2012
DEFERRED TAX ASSETS:		
Allowance for loan and lease losses	$33,652	$33,782
Covered loans	16,788	28,610
Accrued severance and deferred compensation	13,080	13,376
Non-accrual loans	5,760	4,759
Tax credits	5,716	3,655
Unrealized loss on investment securities	3,318	—
Non-covered other real estate owned	3,023	1,974
Covered other real estate owned	831	5,120
Other	16,230	14,702
Total gross deferred tax assets	98,398	105,978
DEFERRED TAX LIABILITIES:		
Mortgage servicing rights	18,855	10,847
Fair market value adjustment on preferred securities	18,649	19,567
FDIC indemnification asset	10,471	25,913
Leased assets	9,719	3,930
Deferred loan fees	7,525	5,706
Premises and equipment depreciation	7,356	8,834
Intangibles	5,633	5,161
Unrealized gain on investment securities	—	16,306
Other	3,512	6,186
Total gross deferred tax liabilities	81,720	102,450
Valuation allowance	(51)	—
Net deferred tax assets	$16,627	$3,528

The Company has determined that it is required to establish a valuation allowance for a portion of the deferred tax assets as management believes it is more likely than not that a deferred tax asset of $51,000 as December 31, 2013, relating to Canadian net operating losses, may not be able to be utilized in the future. The Company has determined that no other valuation allowance for the remaining deferred tax assets is required as management believes it is more likely than not that the remaining deferred tax assets of $98.3 million and $106.0 million at December 31, 2013 and 2012, respectively, will be realized principally through future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

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The tax credits consist entirely of state tax credits at December 31, 2013 and 2012. The state tax credits, comprised primarily of State of Oregon Business Energy Tax Credits ("BETC"), will be utilized to offset future state income taxes. Most of the state tax credits benefit a five-year period, with an eight-year carry-forward allowed. Management believes, based upon the Company's historical performance that the deferred tax assets relating to these tax credits will be realized in the normal course of operations, and, accordingly, management has not reduced these deferred tax assets by a valuation allowance.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, as well as the Oregon and California state jurisdictions. Additionally, as a result of the FinPac acquisition, the Company will now be subject to filings in the majority of states and in Canada. The Company is no longer subject to U.S. federal and other state tax authorities examinations for years before 2009, except in California for years before 2005 and for Canadian tax authority examinations for years before 2012.

In accordance with the provisions of FASB 740, Income Taxes, ("ASC 740"), relating to the accounting for uncertainty in income taxes, the Company periodically reviews its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This review takes into consideration the status of current taxing authorities' examinations of the Company's tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment.

The Company recorded an increase in its liability for unrecognized tax benefits relating to California tax incentives and temporary differences in the amount of $4,000 during 2013 and an increase of $47,000 during 2012. The Company had gross unrecognized tax benefits recorded as of December 31, 2013 and 2012 in the amounts of $602,000 and $598,000, respectively. If recognized the unrecognized tax benefit would reduce the 2013 annual effective tax rate by 0.3%. The Company accrued $24,000 of interest related to unrecognized tax benefits and recognized a benefit of $6,000 in interest reversed primarily due to the reductions of its liability for unrecognized tax benefits during 2013 and 2012 , respectively. Interest on unrecognized tax benefits is reported by the Company as a component as of tax expense. As of December 31, 2013 and 2012, the accrued interest related to unrecognized tax benefits is $193,000 and $168,000, respectively.

Detailed below is a reconciliation of the Company's unrecognized tax benefits, gross of any related tax benefits, for the years ended December 31, 2013 and 2012, respectively:

(in thousands)

	2013	2012	
Balance, beginning of period	$598	$550	
Effectively settled positions	4	(39	)
Changes for tax positions of prior years	—	87	
Balance, end of period	$602	$598	

Note 14 – Interest Bearing Deposits

The following table presents the major types of interest bearing deposits at December 31, 2013 and 2012:
(in thousands)

	2013	2012
Interest bearing demand	$1,233,070	$1,215,002
Money market	3,349,946	3,407,047
Savings	560,699	475,325
Time, $100,000 and over	1,065,380	1,429,153

Time less than $100,000	472,088	573,834
Total interest bearing deposits	$6,681,183	$7,100,361

The following table presents interest expense for each deposit type for the years ended December 31, 2013, 2012 and 2011:

(in thousands)

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	2013	2012	2011
Interest bearing demand	$978	$1,980	$3,056
Money market	3,485	7,193	17,236
Savings	321	291	356
Time, $100,000 and over	11,911	16,067	25,771
Other time less than $100,000	4,060	5,602	9,324
Total interest on deposits	$20,755	$31,133	$55,743

The following table presents the scheduled maturities of time deposits as of December 31, 2013:
(in thousands)

Year	Amount
2014	$1,009,077
2015	204,701
2016	217,406
2017	78,728
2018	25,001
Thereafter	2,555
Total time deposits	$1,537,468

The following table presents the remaining maturities of time deposits of $100,000 or more as of December 31, 2013:
(in thousands)

	Amount
Three months or less	$226,849
Over three months through six months	211,268
Over six months through twelve months	253,595
Over twelve months	373,668
Time, $100,000 and over	$1,065,380

Note 15 – Securities Sold Under Agreements To Repurchase

The following table presents information regarding securities sold under agreements to repurchase at December 31, 2013 and 2012:
(dollars in thousands)

	Repurchase Amount	Weighted Average Interest Rate	Carrying Value of Underlying Assets	Market Value of Underlying Assets
December 31, 2013	$224,882	0.07 %	$229,439	$229,439
December 31, 2012	$137,075	0.14 %	$139,373	$139,373

The securities underlying agreements to repurchase entered into by the Bank are for the same securities originally sold, with a one-day maturity. In all cases, the Bank maintains control over the securities. Securities sold under agreements to repurchase averaged approximately $177.9 million, $142.4 million, and $113.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. The maximum amount outstanding at any month end for the years ended December 31, 2013, 2012 and 2011, was $233.8 million, $166.3 million, and $148.2 million, respectively. Investment securities are pledged as collateral in an amount equal to or greater than the repurchase agreements.

Note 16 – Federal Funds Purchased

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At December 31, 2013 and 2012, the Company had no outstanding federal funds purchased balances. The Bank had available lines of credit with the FHLB totaling $2.2 billion at December 31, 2013. The Bank had available lines of credit with the Federal Reserve totaling $391.7 million subject to certain collateral requirements, namely the amount of certain pledged loans at December 31, 2013. The Bank had uncommitted federal funds line of credit agreements with additional financial institutions totaling $185.0 million at December 31, 2013. At December 31, 2013, the lines of credit had interest rates ranging from 0.3% to 0.8%. Availability of the lines is subject to federal funds balances available for loan and continued borrower eligibility and are reviewed and renewed periodically throughout the year. These lines are intended to support short-term liquidity needs, and the agreements may restrict consecutive day usage.

Note 17 – Term Debt

The Bank had outstanding secured advances from the FHLB and other creditors at December 31, 2013 and 2012 with carrying values of $251.5 million and $253.6 million, respectively.
The following table summarizes the future contractual maturities of borrowed funds (excluding the remaining unamortized purchase accounting adjustments relating to the Rainier acquisition of $6.0 million) as of December 31, 2013:
(in thousands)

Year	Amount
2014	$—
2015	—
2016	190,016
2017	55,000
2018	—
Thereafter	495
Total borrowed funds	$245,511

The maximum amount outstanding from the FHLB under term advances at month end and the average balance outstanding during both 2013 and 2012 was $245.0 million. The average interest rate on the borrowings (excluding the accretion of purchase accounting adjustments) was 4.6% in 2013 and 2012. The FHLB requires the Bank to maintain a required level of investment in FHLB and sufficient collateral to qualify for notes. The Bank has pledged as collateral for these notes all FHLB stock, all funds on deposit with the FHLB, and its investments and commercial real estate portfolios, accounts, general intangibles, equipment and other property in which a security interest can be granted by the Bank to the FHLB.

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Note 18 – Junior Subordinated Debentures

Following is information about the Company's wholly-owned trusts ("Trusts") as of December 31, 2013:

(dollars in thousands)

Trust Name	Issue Date	Issued Amount	Carrying Value (1)	Rate (2)	Effective Rate (3)	Maturity Date	Redemption Date
AT FAIR VALUE:							
Umpqua Statutory Trust II	October 2002	$20,619	$14,791	Floating (4)	5.00%	October 2032	October 2007
Umpqua Statutory Trust III	October 2002	30,928	22,392	Floating (5)	5.10%	November 2032	November 2007
Umpqua Statutory Trust IV	December 2003	10,310	6,978	Floating (6)	4.57%	January 2034	January 2009
Umpqua Statutory Trust V	December 2003	10,310	6,957	Floating (6)	4.58%	March 2034	March 2009
Umpqua Master Trust I	August 2007	41,238	22,696	Floating (7)	2.89%	September 2037	September 2012
Umpqua Master Trust IB	September 2007	20,619	13,460	Floating (8)	4.58%	December 2037	December 2012
		134,024	87,274				
AT AMORTIZED COST:							
HB Capital Trust I	March 2000	5,310	6,218	10.875%	8.39%	March 2030	March 2010
Humboldt Bancorp Statutory Trust I	February 2001	5,155	5,819	10.200%	8.37%	February 2031	February 2011
Humboldt Bancorp Statutory Trust II	December 2001	10,310	11,271	Floating (9)	3.04%	December 2031	December 2006
Humboldt Bancorp Statutory Trust III	September 2003	27,836	30,344	Floating (10)	2.50%	September 2033	September 2008
CIB Capital Trust	November 2002	10,310	11,131	Floating (5)	3.02%	November 2032	November 2007
Western Sierra Statutory Trust I	July 2001	6,186	6,186	Floating (11)	3.82%	July 2031	July 2006
Western Sierra Statutory Trust II	December 2001	10,310	10,310	Floating (9)	3.84%	December 2031	December 2006
Western Sierra Statutory Trust III	September 2003	10,310	10,310	Floating (12)	3.14%	September 2033	September 2008
Western Sierra Statutory Trust IV	September 2003	10,310	10,310	Floating (12)	3.14%	September 2033	September 2008
		96,037	101,899				
	Total	$230,061	$189,173				

(1) Includes purchase accounting adjustments, net of accumulated amortization, for junior subordinated debentures assumed in connection with previous mergers as well as fair value adjustments related to trusts recorded at fair value.
(2) Contractual interest rate of junior subordinated debentures.
(3) Effective interest rate based upon the carrying value as of December 31, 2013.

(4) Rate based on LIBOR plus 3.35%, adjusted quarterly.
(5) Rate based on LIBOR plus 3.45%, adjusted quarterly.
(6) Rate based on LIBOR plus 2.85%, adjusted quarterly.
(7) Rate based on LIBOR plus 1.35%, adjusted quarterly.
(8) Rate based on LIBOR plus 2.75%, adjusted quarterly.
(9) Rate based on LIBOR plus 3.60%, adjusted quarterly.
(10) Rate based on LIBOR plus 2.95%, adjusted quarterly.
(11) Rate based on LIBOR plus 3.58%, adjusted quarterly.
(12) Rate based on LIBOR plus 2.90%, adjusted quarterly.

The Trusts are reflected as junior subordinated debentures in the Consolidated Balance Sheets. The common stock issued by the Trusts is recorded in other assets in the Consolidated Balance Sheets, and totaled $6.9 million at December 31, 2013 and $7.2 million at December 31, 2012.

On January 1, 2007, the Company selected the fair value measurement option for certain pre-existing junior subordinated debentures (the Umpqua Statutory Trusts). The remaining junior subordinated debentures as of the adoption date were acquired through business combinations and were measured at fair value at the time of acquisition. In 2007, the Company issued two series of trust preferred securities and elected to measure each instrument at fair value. Accounting for the junior subordinated debentures originally issued by the Company at fair value enables us to more closely align our financial performance with the economic value of those liabilities. Additionally, we believe it improves our ability to manage the market and interest rate risks associated with the junior subordinated debentures. The junior subordinated debentures measured at fair value and amortized cost are presented as separate line items on the balance sheet. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants under current market conditions as of the measurement date.

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The significant inputs utilized in the estimation of fair value of these instruments are the credit risk adjusted spread and three month LIBOR. The credit risk adjusted spread represents the nonperformance risk of the liability, contemplating the inherent risk of the obligation. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR will result in positive fair value adjustments. Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR will result in negative fair value adjustments.

Through the first quarter of 2010 we obtained valuations from a third-party pricing service to assist with the estimation and determination of fair value of these liabilities. In these valuations, the credit risk adjusted interest spread for potential new issuances through the primary market and implied spreads of these instruments when traded as assets on the secondary market, were estimated to be significantly higher than the contractual spread of our junior subordinated debentures measured at fair value. The difference between these spreads has resulted in the cumulative gain in fair value, reducing the carrying value of these instruments as reported on our Consolidated Balance Sheets. In July 2010, the Dodd-Frank Wall Street Reform and consumer Protection Act (the "Dodd-Frank Act") was signed into law which, among other things, limits the ability of certain bank holding companies to treat trust preferred security debt issuances as Tier 1 capital. This law may require many banks to raise new Tier 1 capital and has effectively closed the trust-preferred securities markets from offering new issuances in the future. As a result of this legislation, our third-party pricing service noted that they were no longer able to provide reliable fair value estimates related to these liabilities given the absence of observable or comparable transactions in the market place in recent history or as anticipated into the future.

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

The Company’s specific credit risk is implicit in the credit risk adjusted spread used to determine the fair value of our junior subordinated debentures. As our Company is not specifically rated by any credit agency, it is difficult to specifically attribute changes in our estimate of the applicable credit risk adjusted spread to specific changes in our own creditworthiness versus changes in the market’s required return from similar companies. As a result, these considerations must be largely based off of qualitative considerations as we do not have a credit rating and we do not regularly issue senior or subordinated debt that would provide us an independent measure of the changes in how the market quantifies our perceived default risk.

On a quarterly basis we assess entity-specific qualitative considerations that if not mitigated or represents a material change from the prior reporting period may result in a change to the perceived creditworthiness and ultimately the estimated credit risk adjusted spread utilized to value these liabilities. Entity-specific considerations that positively impact our creditworthiness include: our strong capital position resulting from our successful public stock offerings in 2009 and 2010 that offers us flexibility to pursue business opportunities such as mergers and acquisitions, or expand our footprint and product offerings; having significant levels of on and off-balance sheet liquidity; being profitable (after excluding the one-time goodwill impairment charge recognized in 2009); and, having an experienced management team. However, these positive considerations are mitigated by significant risks and uncertainties that impact our creditworthiness and ability to maintain capital adequacy in the future. Specific risks and concerns include:

given our concentration of loans secured by real estate in our loan portfolio, a continued and sustained deterioration of the real estate market may result in declines in the value of the underlying collateral and increased delinquencies that could result in an increase of charge-offs; despite recent improvement, our credit quality metrics remain negatively elevated since 2007 relative to historical standards; the continuation of current economic downturn that has been particularly severe in our primary markets could adversely affect our business; recent increased regulation facing our industry, such as the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009 and the Dodd-Frank Act, will increase the cost of compliance and restrict our ability to conduct business consistent with historical practices, require that we hold additional capital and could negatively impact profitability; we have a significant amount of goodwill and other intangible assets that dilute our available tangible common equity; and the carrying value of certain material, recently recorded assets on our balance sheet, such as the FDIC loss-sharing indemnification asset, are highly reliant on management estimates, such as the timing or amount of losses that are estimated to be covered, and the assumed continued compliance with the provisions of the applicable loss-share agreement. To the extent assumptions ultimately prove incorrect or should we consciously forego or unknowingly violate the guidelines of the agreement, an impairment of the asset may result which would reduce capital.

Additionally, the Company periodically utilizes an external valuation firm to determine or validate the reasonableness of the assessments of inputs and factors that ultimately determines the estimated fair value of these liabilities. The extent we involve or

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engage these external third parties correlates to management's assessment of the current subordinated debt market, how the current environment and market compares to the preceding quarter, and perceived changes in the Company's own creditworthiness during the quarter. In periods of potential significant valuation changes and at year-end reporting periods we typically engage third parties to perform a full independent valuation of these liabilities. For periods where management has assessed the market and other factors impacting the underlying valuation assumptions of these liabilities, and has determined significant changes to the valuation of these liabilities in the current period are remote, the scope of the valuation specialist's review is limited to a review the reasonableness of management's assessment of inputs. In the fourth quarter of 2013, the Company engaged an external valuation firm to prepare an independent valuation of our junior subordinated debentures measured at fair value and the results were consistent with the Company's valuation.

Absent changes to the significant inputs utilized in the discounted cash flow model used to measure the fair value of these instruments at each reporting period, the cumulative discount for each junior subordinated debenture will reverse over time, ultimately returning the carrying values of these instruments to their notional values at their expected redemption dates, in a manner similar to the effective yield method as if these instruments were accounted for under the amortized cost method. This will result in recognizing losses on junior subordinated debentures carried at fair value on a quarterly basis within non-interest income. For the years ended December 31, 2013, 2012 and 2011, we recorded loss of $2.2 million resulting from the change in fair value of the junior subordinated debentures recorded at fair value. Observable activity in the junior subordinated debenture and related markets in future periods may change the effective rate used to discount these liabilities, and could result in additional fair value adjustments (gains or losses on junior subordinated debentures measured at fair value) outside the expected periodic change in fair value had the fair value assumptions remained unchanged.

On July 2, 2013, the federal banking regulators approved the 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"). Under the final rule, consistent with Section 171 of the Dodd-Frank Act, bank holding companies with less than $15 billion assets as of December 31, 2009 will be grandfathered and may continue to include these instruments in Tier 1 capital, subject to certain restrictions. However, if an institution grows above $15 billion as a result of an acquisition, 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 and later). If the Company exceeds $15 billion in consolidated assets other than in an organic manner and these instruments no longer qualify as Tier 1 capital, 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. At December 31, 2013, the Company's restricted core capital elements were 18.6% of total core capital, net of goodwill and any associated deferred tax liability.

Note 19 – Employee Benefit Plans

Employee Savings Plan-Substantially all of the Bank's and Umpqua Investments' employees are eligible to participate in the Umpqua Bank 401(k) and Profit Sharing Plan (the "Umpqua 401(k) Plan"), a defined contribution and profit sharing plan sponsored by the Company. Employees may elect to have a portion of their salary contributed to the plan in conformity with Section 401(k) of the Internal Revenue Code. At the discretion of the Company's Board of Directors, the Company may elect to make matching and/or profit sharing contributions to the Umpqua 401(k) Plan based on profits of the Bank. FinPac employees are also eligible to participate in a 401(k) Savings Plan (the "FinPac 401(k) Plan"). Under the provisions of the FinPac 401(k) Plan, employees may elect to have a portion of their salary contributed to the plan and FinPac elects to make a matching contribution. The FinPac 401(k) Plan also permits FinPac to make a discretionary profit-sharing match. The Company's contributions under both plans charged to expense amounted to $3.8 million, $3.0 million, and $2.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Supplemental Retirement Plan-The Company has established the Umpqua Holdings Corporation Deferred Compensation & Supplemental Retirement Plan (the “DC/SRP”), a nonqualified deferred compensation plan to help supplement the retirement income of certain highly compensated executives selected by resolution of the Company's Board of Directors. The DC/SRP has two components, a supplemental retirement plan (“SRP”) and a deferred compensation plan (“DCP”). The Company may make discretionary contributions to the SRP. For the years ended December 31, 2013, 2012 and 2011, the Company's matching contribution charged to expense for these supplemental plans totaled $123,000, $116,000, and $96,000, respectively. The SRP plan balances at December 31, 2013 and 2012 were $678,000 and $566,000, respectively, and are recorded in other liabilities. Under the DCP, eligible officers may elect to defer up to 50% of their salary into a plan account. The DCP plan balance was $2.1 million and $1.1 million at December 31, 2013 and 2012, respectively.

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Salary Continuation Plans-The Bank sponsors various salary continuation plans for the CEO and certain retired employees. These plans are unfunded, and provide for the payment of a specified amount on a monthly basis for a specified period (generally 10 to 20 years) after retirement. In the event of a participant employee's death prior to or during retirement, the Bank is obligated to pay to the designated beneficiary the benefits set forth under the plan. At December 31, 2013 and 2012, liabilities recorded for the estimated present value of future salary continuation plan benefits totaled $19.0 million and $19.5 million, respectively, and are recorded in other liabilities. For the years ended December 31, 2013, 2012 and 2011, expense recorded for the salary continuation plan benefits totaled $849,000, $2.5 million, and $1.8 million, respectively.

Deferred Compensation Plans and Rabbi Trusts-The Bank from time to time adopts deferred compensation plans that provide certain key executives with the option to defer a portion of their compensation. In connection with prior acquisitions, the Bank assumed liability for certain deferred compensation plans for key employees, retired employees and directors. Subsequent to the effective date of the acquisitions, no additional contributions were made to these plans. At December 31, 2013 and 2012, liabilities recorded in connection with deferred compensation plan benefits totaled $1.9 million and $2.3 million, respectively, and are recorded in other liabilities.

The Bank has established and sponsors, for some deferred compensation plans assumed in connection with prior mergers, irrevocable trusts commonly referred to as “Rabbi Trusts.” The trust assets (generally cash and trading assets) are consolidated in the Company’s balance sheets and the associated liability (which equals the related asset balances) is included in other liabilities. The asset and liability balances related to these trusts as of December 31, 2013 and 2012 were $3.9 million and $2.9 million, respectively.

The Bank has purchased, or acquired through mergers, life insurance policies in connection with the implementation of certain executive supplemental income, salary continuation and deferred compensation retirement plans. These policies provide protection against the adverse financial effects that could result from the death of a key employee and provide tax-exempt income to offset expenses associated with the plans. It is the Bank’s intent to hold these policies as a long-term investment. However, there will be an income tax impact if the Bank chooses to surrender certain policies. Although the lives of individual current or former management-level employees are insured, the Bank is the owner and sole or partial beneficiary. At December 31, 2013 and 2012, the cash surrender value of these policies was $96.9 million and $93.8 million, respectively. At December 31, 2013 and 2012, the Bank also had liabilities for post-retirement benefits payable to other partial beneficiaries under some of these life insurance policies of $1.8 million and $1.9 million, respectively. The Bank is exposed to credit risk to the extent an insurance company is unable to fulfill its financial obligations under a policy. In order to mitigate this risk, the Bank uses a variety of insurance companies and regularly monitors their financial condition.

Note 20 – Commitments and Contingencies

Lease Commitments — The Bank leases 155 sites under non-cancelable operating leases. The leases contain various provisions for increases in rental rates, based either on changes in the published Consumer Price Index or a predetermined escalation schedule. Substantially all of the leases provide the Company with the option to extend the lease term one or more times following expiration of the initial term.

Rent expense for the years ended December 31, 2013, 2012 and 2011 was $19.1 million, $17.3 million, and $16.6 million. Rent expense was offset by rent income for the years ended December 31, 2013, 2012 and 2011 of $785,000, $1.0 million and $1.0 million.

The following table sets forth, as of December 31, 2013, the future minimum lease payments under non-cancelable operating leases and future minimum income receivable under non-cancelable operating subleases:
(in thousands)

	Lease Payments	Sublease Income

2014	$17,757	$578
2015	15,937	477
2016	13,774	311
2017	9,826	142
2018	7,570	46
Thereafter	22,938	—
Total	$87,802	$1,554

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

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

(in thousands)

	As of December 31, 2013
Commitments to extend credit	$1,606,910
Commitments to extend overdrafts	$207,389
Forward sales commitments	$152,500
Commitments to originate loans held for sale	$77,314
Standby letters of credit	$58,830

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

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

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including international trade finance, commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary. The Bank was not required to perform on any financial guarantees and had $116,000 in recoveries and incurred $78,000 in losses in connection with standby letters of credit during the year ended December 31, 2013. The Bank was not required to perform on any financial guarantees and incurred $2.2 million losses in connection with standby letters of credit during the year ended December 31, 2012. The Bank was not required to perform on any financial guarantees but did incur losses of $110,000 in connection with standby letters of credit during the year ended December 31, 2011. At December 31, 2013, approximately $40.8 million of standby letters of credit expire within one year, and $18.0 million expire thereafter. Upon issuance, the

Bank recognizes a liability equivalent to the amount of fees received from the customer for these standby letter of credit commitments. Fees are recognized ratably over the term of the standby letter of credit. The estimated fair value of guarantees associated with standby letters of credit was $183,000 as of December 31, 2013.

Mortgage loans sold to investors may be sold with servicing rights retained, for which the Bank makes only standard legal representations and warranties as to meeting certain underwriting and collateral documentation standards. In the past two years, the Bank has had to repurchase fewer than 20 loans due to deficiencies in underwriting or loan documentation and has not realized significant losses related to these repurchases. Management believes that any liabilities that may result from such recourse provisions are not significant.

Legal Proceedings—The Bank owns 468,659 shares of Class B common stock of Visa Inc. which are convertible into Class A common stock at a conversion ratio of 0.4206 per Class A share. As of December 31, 2013, the value of the Class A shares was $222.68 per share. Utilizing the conversion ratio, the value of unredeemed Class A equivalent shares owned by the Bank was $43.9

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million as of December 31, 2013, and has not been reflected in the accompanying financial statements. The shares of Visa Inc. Class B common stock are restricted and may not be transferred. Visa member banks are required to fund an escrow account to cover settlements, resolution of pending litigation and related claims. If the funds in the escrow account are insufficient to settle all the covered litigation, Visa Inc. may sell additional Class A shares and use the proceeds to settle litigation, thereby reducing the conversion ratio. If funds remain in the escrow account after all litigation is settled, the Class B conversion ratio will be increased to reflect that surplus.

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

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

Concentrations of Credit Risk— The Bank grants real estate mortgage, real estate construction, commercial, agricultural and installment loans and leases to customers throughout Oregon, Washington, California, and Nevada. In management's judgment, a concentration exists in real estate-related loans, which represented approximately 74% and 79% of the Bank's non-covered loan and lease portfolio at December 31, 2013 and December 31, 2012. Commercial real estate concentrations are managed to assure wide geographic and business diversity. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, material increases in interest rates, changes in tax policies, tightening credit or refinancing markets, or a decline in real estate values in the Bank's primary market areas in particular, could have an adverse impact on the repayment of these loans. Personal and business incomes, proceeds from the sale of real property, or proceeds from refinancing, represent the primary sources of repayment for a majority of these loans.

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

Note 21 – Derivatives

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

The Bank enters into forward delivery contracts to sell residential mortgage loans or mortgage-backed securities to broker/dealers at specific prices and dates in order to hedge the interest rate risk in its portfolio of mortgage loans held for sale and its residential mortgage loan commitments. Credit risk associated with forward contracts is limited to the replacement cost of those forward contracts in a gain position. There were no counterparty default losses on forward contracts in 2013, 2012, and 2011. Market risk with respect to forward contracts arises principally from changes in the value of contractual positions due to changes in interest rates. The Bank limits its exposure to market risk by monitoring differences between commitments to customers and forward contracts with broker/dealers. In the event the Company has forward delivery contract commitments in excess of available mortgage loans, the Company completes the transaction by either paying or receiving a fee to or from the broker/dealer equal to the increase or decrease in the market value of the forward contract. At December 31, 2013, the Bank had commitments to originate mortgage loans held for sale totaling $77.3 million and forward sales commitments of $152.5 million.

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

The Bank executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting the interest rate swaps that the Bank executes with a third party, such that the Bank minimizes its net risk exposure. As of December 31, 2013, the Bank had 254 interest rate swaps with an aggregate

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notional amount of $1.3 billion related to this program. As of December 31, 2012, the Bank had 164 interest rate swaps with an aggregate notional amount of $912.0 million related to this program.

In connection with the interest rate swap program with commercial customers, the Bank has agreements with its derivative counterparties that contain a provision where if the Bank defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Bank could also be declared in default on its derivative obligations. The Bank also has agreements with its derivative counterparties that contain a provision where if the Bank fails to maintain its status as a well/adequately capitalized institution, then the counterparty could terminate the derivative positions and the Bank would be required to settle its obligations under the agreements. Similarly, the Bank could be required to settle its obligations under certain of its agreements if specific regulatory events occur, such as if the Bank were issued a prompt corrective action directive or a cease and desist order, or if certain regulatory ratios fall below specified levels. If the Bank had breached any of these provisions at December 31, 2013, it could have been required to settle its obligations under the agreements at the termination value.

As of December 31, 2013 and 2012, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $12.1 million and $21.8 million, respectively. The Bank has collateral posting requirements for initial or variation margins with its clearing members and clearing houses and has been required to post collateral against its obligations under these agreements of $13.0 million and none as of December 31, 2013 and 2012, respectively. The Bank also has minimum collateral posting thresholds with certain of its derivative counterparties, and has been required to post collateral against its obligations under these agreements of none and $22.5 million as of December 31, 2013 and 2012, respectively.

The fair value of the interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, to comply with the provisions of ASC 820, the Bank incorporates credit valuation adjustments ("CVA") to appropriately reflect nonperformance risk in the fair value measurements of its derivatives. The CVA is calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying the counterparties' credit spreads to the exposure. For derivatives with two-way exposure, specifically, the Bank's interest rate swaps, the counterparty's credit spread is applied to the Bank's exposure to the counterparty, and the Bank's own credit spread is applied to the counterparty's exposure to the Bank, and the net CVA is reflected in the Bank's derivative valuations. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. For the Bank's own credit spread and for counterparties having publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. For counterparties without publicly available credit information, which are primarily commercial banking customers, the credit spreads over LIBOR used in the calculations are estimated by the Bank based on current market conditions, including consideration of current borrowing spreads for similar customers and transactions, review of existing collateralization or other credit enhancements, and changes in credit sector and entity-specific credit information. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Bank has considered the impact of netting and any applicable credit enhancements. Effective January 1, 2012, the Company made an accounting policy election to use the exception commonly referred to as the "portfolio exception" with respect to measuring counterparty credit risk for its interest rate swap derivative instruments that are subject to master netting agreements with commercial banking customers that are hedged with offsetting interest rate swaps with third parties.

As of January 1, 2013, the Bank changed its valuation methodology for interest rate swap derivatives to discount cash flows based on Overnight Index Swap ("OIS") rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially-collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (e.g., a LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk. The Company is making the changes to better align its inputs, assumptions, and pricing methodologies with those used in its principal market by most dealers and major market participants. The changes in valuation methodology are applied prospectively as a change in accounting estimate and are immaterial to the Company's financial statements.

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The following tables summarize the types of derivatives, separately by assets and liabilities, their locations on the Consolidated Balance Sheets, and the fair values of such derivatives as of December 31, 2013 and December 31, 2012:

(in thousands)

		Asset Derivatives		Liability Derivatives	
Derivatives not designated as hedging instrument	Balance Sheet Location	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Interest rate lock commitments	Other assets/Other liabilities	$706	$1,496	$—	$18
Interest rate forward sales commitments	Other assets/Other liabilities	1,250	133	6	905
Interest rate swaps	Other assets/Other liabilities	15,965	22,213	14,556	22,048
Total		$17,921	$23,842	$14,562	$22,971

The following table summarizes the types of derivatives, their locations within the Consolidated Statements of Income, and the gains (losses) recorded during the 2013, 2012, and 2011:

(in thousands)

Derivatives not designated as hedging instrument	Income Statement Location	December 31, 2013	2012	2011
Interest rate lock commitments	Mortgage banking revenue	$(772)	$(271)	$1,613
Interest rate forward sales commitments	Mortgage banking revenue	13,225	(21,281)	(10,579)
Interest rate swaps	Other income	1,243	336	(187)
Total		$13,696	$(21,216)	$(9,153)

As of December 31, 2013 and 2012, the net CVA increased the settlement values of the Bank's net derivative assets by $1.4 million and decreased the settlement values of the Bank's net derivative assets by $45,000, respectively. The gains (losses) above on the interest rate swaps relate to CVAs. Various factors impact changes in the CVA over time, including changes in the credit spreads of the parties to the contracts, as well as changes in market rates and volatilities, which affect the total expected exposure of the derivative instruments.

The following table summarizes the offsetting derivatives assets that have a right of offset as of December 31, 2013 and December 31, 2012:

(in thousands)

				Gross Amounts Not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Assets/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets/Liabilities presented in the Statement of Financial Position	Financial Instruments	Collateral Posted	Net Amount
December 31, 2013						
Derivative Assets						

Interest rate swaps	$ 15,965	$—	$ 15,965	$(4,852)	$(2,207)	$8,906
Derivative Liabilities						
Interest rate swaps	$ 14,556	$—	$ 14,556	$(4,852)	$(9,704)	$—
December 31, 2012						
Derivative Assets						
Interest rate swaps	$ 22,213	$—	$ 22,213	$(16)	$—	$22,197
Derivative Liabilities						
Interest rate swaps	$ 22,048	$—	$ 22,048	$(16)	$(22,032)	$—

Note 22 – Stock Compensation and Share Repurchase Plan

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

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Company's common stock for issuance under the plan.

On June 17, 2011, the Company’s Compensation Committee modified restricted stock awards and option grants that were originally issued to fourteen executive officers on January 31, 2011, as follows:

- Added performance vesting conditions linking total shareholder return, compared to the return of a regional bank stock total return index;
- Awards will cliff vest after three years instead of time vest over a four year period, but only to the extent that the performance conditions are met; and
- The modified grants will vest in whole or in part only if total shareholder return achieves specified targets, subject to prorated vesting upon death, disability, qualifying retirement, termination for good reason or a change of control.

As a result of the modification, there was no incremental compensation cost.

Stock Options

The following table summarizes information about stock option activity for the years ended December 31, 2013, 2012 and 2011:

(shares in thousands)

	2013		2012		2011	
	Options Outstanding	Weighted-Avg Exercise Price	Options Outstanding	Weighted-Avg Exercise Price	Options Outstanding	Weighted-Avg Exercise Price
Balance, beginning of period	1,850	$ 15.37	2,151	$ 14.48	2,067	$ 14.82
Granted	—	$ —	20	$ 11.98	237	$ 11.01
Exercised	(515)	$ 12.42	(174)	$ 5.63	(40)	$ 7.67
Forfeited/expired	(354)	$ 17.46	(147)	$ 13.45	(113)	$ 15.72
Balance, end of period	981	$ 16.17	1,850	$ 15.37	2,151	$ 14.48
Options exercisable, end of period	627	$ 18.86	1,263	$ 17.11	1,334	$ 16.13

The following table summarizes information about outstanding stock options issued under all plans as of December 31, 2013:

(shares in thousands)

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Avg. Remaining Contractual Life (Years)	Weighted Avg. Exercise Price	Options Exercisable	Weighted Avg. Exercise Price
$4.58 to $10.97	277	6.4	$10.38	64	$8.96
$11.53 to $12.87	252	6.2	$12.05	121	$11.93
$13.45 to $23.49	299	2.3	$20.09	289	$20.32
$24.25 to $28.425	153	1.9	$25.77	153	$25.77
	981	4.4	$16.17	627	$18.86

The compensation cost related to stock options, including costs related to unvested options assumed in connection with acquisitions, that has been charged against income (included in salaries and employee benefits) was $778,000,

$1.1 million, and $1.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The total income tax benefit recognized in the income statement related to stock options was $311,000, $448,000, and $463,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

The total intrinsic value (which is the amount by which the stock price exceeds the exercise price) of both options outstanding and options exercisable as of December 31, 2013, was $4.7 million and $1.9 million, respectively.

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The weighted average remaining contractual term of options exercisable was 3.0 years as of December 31, 2013.
The total intrinsic value of options exercised was $2.3 million, $1.2 million, and $147,000, in the years ended December 31, 2013, 2012 and 2011, respectively.
During the years ended December 31, 2013, 2012 and 2011, the amount of cash received from the exercise of stock options was $159,000, $831,000, and $230,000 and total consideration was $6.4 million, $981,000, and $309,000, respectively.
As of December 31, 2013, there was $640,000 of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 0.6 years.
Restricted Shares
The Company grants restricted stock periodically for the benefit of employees and directors. Restricted shares issued prior to 2011 generally vest on an annual basis over five years. Restricted shares issued since 2011 generally vest over a three years period, subject to time or time plus performance vesting conditions. The following table summarizes information about nonvested restricted share activity at December 31, 2013:

(shares in thousands)

	2013		2012		2011	
	Restricted Shares Outstanding	Weighted Average Grant Date Fair Value	Restricted Shares Outstanding	Weighted Average Grant Date Fair Value	Restricted Shares Outstanding	Weighted Average Grant Date Fair Value
Balance, beginning of period	763	$12.39	585	$12.98	401	$15.29
Granted	467	$13.04	369	$11.80	282	$11.02
Released	(153)	$12.17	(147)	$13.50	(82)	$17.58
Forfeited/expired	(85)	$11.74	(44)	$11.52	(16)	$12.91
Balance, end of period	992	$12.79	763	$12.39	585	$12.98

The compensation cost related to restricted stock awards that has been charged against income (included in salaries and employee benefits) was $3.7 million, $2.7 million, and $2.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The total income tax benefit recognized in the income statement related to restricted stock awards was $1.5 million, $1.1 million, and $899,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

The total fair value of restricted shares vested was $2.0 million, $1.9 million, and $919,000, for the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, there was $6.4 million of total unrecognized compensation cost related to nonvested restricted stock awards which is expected to be recognized over a weighted-average period of 1.4 years.

Restricted Stock Units
The Company granted restricted stock units as a part of the 2007 Long Term Incentive Plan for the benefit of certain executive officers. Restricted stock unit grants are subject to performance-based vesting as well as other approved vesting conditions. The total number of restricted stock units granted represents the maximum number of restricted stock units eligible to vest based upon the performance and service conditions set forth in the grant agreements.

The following table summarizes information about nonvested restricted shares outstanding at December 31:

(shares in thousands)

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	2013		2012		2011	
	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Balance, beginning of period	130	$10.41	219	$9.17	225	$11.13
Granted	—	$—	25	$10.39	105	$10.42
Released	—	$—	—	$—	(63)	$14.33
Forfeited/expired	(35)	$10.42	(114)	$8.01	(48)	$14.33
Balance, end of period	95	$10.41	130	$10.41	219	$9.17

The compensation cost related to restricted stock units that has been charged against income (included in salaries and employee benefits) was $144,000, $237,000, and $391,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

The total income tax benefit recognized in the income statement related to restricted stock units was $58,000, $95,000 and $156,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

The total fair value of restricted stock units vested and released was none for the years ended December 31, 2013 and 2012 and $677,000 for the year ended December 31, 2011.

As of December 31, 2013, there was $105,000 of total unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 0.4 years, assuming the current expectation of performance conditions are met.

For the years ended December 31, 2013, 2012 and 2011, the Company received income tax benefits of $1.7 million, $1.2 million, and $694,000, respectively, related to the exercise of non-qualified employee stock options, disqualifying dispositions in the exercise of incentive stock options, the vesting of restricted shares and the vesting of restricted stock units.

For the years ended December 31, 2013, 2012 and 2011, the Company had a net tax benefit of $148,000 and net tax deficiencies (tax deficiency resulting from tax deductions less than the compensation cost recognized) of $59,000 and $261,000, respectively. Only cash flows from gross excess tax benefits are classified as financing cash flows.

Share Repurchase Plan- The Company’s share repurchase plan, which was first approved by the Board and announced in August 2003, was amended on September 29, 2011 to increase the number of common shares available for repurchase under the plan to 15 million shares. In April 2013, the repurchase program was extended to run through June 2015. As of December 31, 2013, a total of 12.0 million shares remained available for repurchase. The Company repurchased 98,027 shares under the repurchase plan in 2013, 512,280 shares under the repurchase plan in 2012 and 2.5 million shares 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.

We also have certain stock option and restricted stock plans which provide for the payment of the option exercise price or withholding taxes by tendering previously owned or recently vested shares. During the years ended December 31, 2013 and 2012, there were 438,000 and 38,000 shares tendered in connection with option exercises, respectively. Restricted shares cancelled to pay withholding taxes totaled 49,000 and 46,000 shares during the years ended December 31, 2013 and 2012, respectively. There were no restricted stock units cancelled to pay withholding taxes for the years ended December 31, 2013 and 2012.

Note 23 – Regulatory Capital

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about risk components, asset risk weighting, and other factors.

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Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets (as defined in the regulations), and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of December 31, 2013, that the Company meets all capital adequacy requirements to which it is subject. The Company's capital amounts and ratios as of December 31, 2013 and December 31, 2012 are presented in the following table:
(dollars in thousands)

	Actual			For Capital Adequacy purposes			To be Well Capitalized		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2013									
Total Capital (to Risk Weighted Assets)									
Consolidated	$1,279,586	14.66	%	$698,273	8.00	%	$872,842	10.00	%
Umpqua Bank	$1,177,782	13.51	%	$697,428	8.00	%	$871,785	10.00	%
Tier 1 Capital (to Risk Weighted Assets)									
Consolidated	$1,183,061	13.56	%	$348,986	4.00	%	$523,478	6.00	%
Umpqua Bank	$1,081,282	12.40	%	$348,801	4.00	%	$523,201	6.00	%
Tier 1 Capital (to Average Assets)									
Consolidated	$1,183,061	10.90	%	$434,151	4.00	%	$542,689	5.00	%
Umpqua Bank	$1,081,282	9.97	%	$433,814	4.00	%	$542,268	5.00	%
As of December 31, 2012									
Total Capital (to Risk Weighted Assets)									
Consolidated	$1,357,206	16.52	%	$657,243	8.00	%	$821,553	10.00	%
Umpqua Bank	$1,234,010	15.03	%	$656,825	8.00	%	$821,031	10.00	%
Tier 1 Capital (to Risk Weighted Assets)									
Consolidated	$1,254,514	15.27	%	$328,622	4.00	%	$492,933	6.00	%
Umpqua Bank	$1,131,373	13.78	%	$328,410	4.00	%	$492,615	6.00	%
Tier 1 Capital (to Average Assets)									
Consolidated	$1,254,514	11.44	%	$438,641	4.00	%	$548,302	5.00	%
Umpqua Bank	$1,131,373	10.32	%	$438,517	4.00	%	$548,146	5.00	%

The Company is a registered financial holding company under the Gramm-Leach-Bliley Act of 1999 (the “GLB Act”), and is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Bank is an Oregon state chartered bank with deposits insured by the Federal Deposit Insurance Corporation (“FDIC”), and is subject to the supervision and regulation of the Director of the Oregon Department of Consumer and Business Services, administered through the Division of Finance and Corporate Securities, and to the supervision and regulation of the California Department of Financial Institutions, the Washington Department of Financial Institutions and the FDIC. As of December 31, 2013 , the most recent notification from the FDIC categorized the Bank as “well-capitalized” under the regulatory framework for prompt corrective action. The Company is not subject to the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's regulatory capital category.

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

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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, 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. The Company and the Bank are currently evaluating the provisions of the final rules and expected impact.

Note 24 – Fair Value Measurement

The following table presents estimated fair values of the Company's financial instruments as of December 31, 2013 and December 31, 2012, whether or not recognized or recorded at fair value in the Consolidated Balance Sheets:

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(in thousands)

	December 31, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS:				
Cash and cash equivalents	$790,423	$790,423	$543,787	$543,787
Trading securities	5,958	5,958	3,747	3,747
Securities available for sale	1,790,978	1,790,978	2,625,229	2,625,229
Securities held to maturity	5,563	5,874	4,541	4,732
Loans held for sale, at fair value	104,664	104,664	320,132	320,132
Non-covered loans and leases, net	7,269,089	7,250,596	6,595,689	6,652,179
Covered loans, net	363,992	409,555	477,078	543,628
Restricted equity securities	30,685	30,685	33,443	33,443
Mortgage servicing rights	47,765	47,765	27,428	27,428
Bank owned life insurance assets	96,938	96,938	93,831	93,831
FDIC indemnification asset	23,174	6,001	52,798	18,714
Derivatives	17,921	17,921	23,842	23,842
Visa Class B common stock	—	41,700	—	28,385
FINANCIAL LIABILITIES:				
Deposits	$9,117,660	$9,125,832	$9,379,275	$9,396,646
Securities sold under agreements to repurchase	224,882	224,882	137,075	137,075
Term debt	251,494	270,004	253,605	289,404
Junior subordinated debentures, at fair value	87,274	87,274	85,081	85,081
Junior subordinated debentures, at amortized cost	101,899	72,009	110,985	78,529
Derivatives	14,562	14,562	22,971	22,971

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Fair Value of Assets and Liabilities Not Measured at Fair Value

The following table presents information about the level in the fair value hierarchy for the Company's assets and liabilities that are not measured at fair value as of December 31, 2013 and December 31, 2012:

(in thousands)

	December 31, 2013			
Description	Total	Level 1	Level 2	Level 3
ASSETS				
Cash and cash equivalents	$790,423	$790,423	$—	$—
Securities held to maturity	5,958	—	—	5,958
Non-covered loans and leases, net	7,250,596	—	—	7,250,596
Covered loans, net	409,555	—	—	409,555
Restricted equity securities	30,685	30,685	—	—
Bank owned life insurance assets	96,938	96,938	—	—
FDIC indemnification asset	6,001	—	—	6,001
Visa Class B common stock	41,700	—	—	41,700
LIABILITIES				
Deposits				
Non-maturity deposits	$7,580,192	$7,580,192	$—	$—
Deposits with stated maturities	1,545,640	—	1,545,640	—
Securities sold under agreements to repurchase	224,882	—	224,882	—
Term debt	270,004	—	270,004	—
Junior subordinated debentures, at amortized cost	72,009	—	—	72,009

(in thousands)

	December 31, 2012			
Description	Total	Level 1	Level 2	Level 3
ASSETS				
Cash and cash equivalents	$543,787	$543,787	$—	$—
Securities held to maturity	4,732	—	—	4,732
Non-covered loans and leases, net	6,652,179	—	—	6,652,179
Covered loans, net	543,628	—	—	543,628
Restricted equity securities	33,443	33,443	—	—
Bank owned life insurance assets	93,831	93,831	—	—
FDIC indemnification asset	18,714	—	—	18,714
Visa Class B common stock	28,385	—	—	28,385
LIABILITIES				
Deposits				
Non-maturity deposits	$7,376,288	$7,376,288	$—	$—
Deposits with stated maturities	2,020,358	—	2,020,358	—
Securities sold under agreements to repurchase	137,075	—	137,075	—
Term debt	289,404	—	289,404	—
Junior subordinated debentures, at amortized cost	78,529	—	—	78,529

Fair Value of Assets and Liabilities Measured on a Recurring Basis

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The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and December 31, 2012:

(in thousands)

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

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(in thousands)

Description	December 31, 2012 Total	Level 1	Level 2	Level 3
Trading securities				
Obligations of states and political subdivisions	$1,216	$—	$1,216	$—
Equity securities	2,408	2,408	—	—
Other investments securities(1)	123	—	123	—
Available for sale securities				
U.S. Treasury and agencies	45,820	—	45,820	—
Obligations of states and political subdivisions	263,725	—	263,725	—
Residential mortgage-backed securities and collateralized mortgage obligations	2,313,376	—	2,313,376	—
Other debt securities	222	—	222	—
Investments in mutual funds and other equity securities	2,086	—	2,086	—
Loans held for sale, at fair value	320,132		320,132	
Mortgage servicing rights, at fair value	27,428	—	—	27,428
Derivatives				
Interest rate lock commitments	1,496	—	—	1,496
Interest rate forward sales commitments	133	—	133	—
Interest rate swaps	22,213	—	22,213	—
Total assets measured at fair value	$3,000,378	$2,408	$2,969,046	$28,924
Junior subordinated debentures, at fair value	$85,081	$—	$—	$85,081
Derivatives				
Interest rate lock commitments	18	—	—	18
Interest rate forward sales commitments	905	—	905	—
Interest rate swaps	22,048	—	22,048	—
Total liabilities measured at fair value	$108,052	$—	$22,953	$85,099

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

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

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

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

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

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

Covered Loans – Covered loans are initially measured at their estimated fair value on their date of acquisition as described in Note 7. Subsequent to acquisition, the fair value of covered loans is measured using the same methodology as that of non-covered loans.

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

Mortgage Servicing Rights - The fair value of mortgage servicing rights is estimated using a discounted cash flow model. Assumptions used include market discount rates, anticipated prepayment speeds, delinquency and foreclosure rates, and ancillary fee income net of servicing costs. This model is periodically validated by an independent external model validation group. The model assumptions and the MSR fair value estimates are also compared to observable trades of similar portfolios as well as to MSR broker valuations and industry surveys, as available. Due to the limited observability of all significant inputs utilized in the valuation model, particularly the discount rate and projected constant prepayment rate, and how changes in these assumptions could potentially impact the ending valuation of this asset, as well as the lack of readily available quotes or observable trades of similar assets in the current period, we classify this as a Level 3 fair value measure. Management believes the significant inputs utilized are indicative of those that would be used by market participants.

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

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

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

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

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

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

Junior Subordinated Debentures - The fair value of junior subordinated debentures is estimated using an income approach valuation technique. The ending carrying (fair) value of the junior subordinated debentures measured at fair value represents the estimated amount that would be paid to transfer these liabilities in an orderly transaction amongst market participants. Due to credit concerns in the capital markets and inactivity in the trust preferred markets that have limited the observability of market spreads, we have classified this as a Level 3 fair value measure. For further discussion of the valuation technique and inputs, see Note 18.

Derivative Instruments - The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate. The pull-through rate assumptions are considered Level 3 valuation inputs and are significant to the interest rate lock commitment valuation; as such, the interest rate lock commitment derivatives are classified as Level 3. The fair value of the interest rate swaps is determined using a discounted cash flow technique incorporating credit valuation adjustments to reflect nonperformance risk in the measurement of fair value. Although the Bank has determined that the majority of the inputs used to value its interest rate swap derivatives fall within Level 2 of the fair value hierarchy, the CVA associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2013, the Bank has assessed the significance of the impact of the CVA on the overall valuation of its interest rate swap positions and has determined that the CVA are not significant to the overall valuation of its interest rate swap derivatives. As a result, the Bank has classified its interest rate swap derivative valuations in Level 2 of the fair value hierarchy.

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

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The following table provides a description of the valuation technique, significant unobservable input, and qualitative information about the unobservable inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a recurring basis at December 31, 2013:

(in thousands)

Financial Instrument	Valuation Technique	Unobservable Input	Weighted Average (Range)
Mortgage servicing rights	Discounted cash flow		
		Constant Prepayment Rate	12.74%
		Discount Rate	8.69%
Interest rate lock commitment	Internal Pricing Model		
		Pull-through rate	80.9%
Junior subordinated debentures	Discounted cash flow		
		Credit Spread	6.53%

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

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

Management believes that the credit risk adjusted spread utilized in the fair value measurement of the junior subordinated debentures carried at fair value is indicative of the nonperformance risk premium a willing market participant would require under current market conditions, that is, the inactive market. Management attributes the change in fair value of the junior subordinated debentures during the period to market changes in the nonperformance expectations and pricing of this type of debt, and not as a result of changes to our entity-specific credit risk. The widening of the credit risk adjusted spread above the Company's contractual spreads has primarily contributed to the positive fair value adjustments. Future contractions in the credit risk adjusted spread relative to the spread currently utilized to measure the Company's junior subordinated debentures at fair value as of December 31, 2013, or the passage of time, will result in negative fair value adjustments. Generally, an increase in the credit risk adjusted spread and/or a decrease in the three month LIBOR swap curve will result in positive fair value adjustments (and decrease the fair value measurement). Conversely, a decrease in the credit risk adjusted spread and/or an increase in the three month LIBOR swap curve will result in negative fair value adjustments (and increase the fair value measurement).

The following table provides a reconciliation of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the years ended December 31, 2013 and 2012.

(in thousands)

	Beginning Balance	Change included in earnings	Purchases and issuances	Sales and settlements	Ending Balance	Net change in unrealized gains or (losses) relating to items held at

						end of period
2013						
Mortgage servicing rights, at fair value	$27,428	$2,374	$17,963	$—	$47,765	$2,376
Interest rate lock commitment	1,478	(1,478)	62,560	(61,854)	706	706
Junior subordinated debentures, at fair value	85,081	6,090	—	(3,897)	87,274	6,090
2012						
Mortgage servicing rights, at fair value	$18,184	$(8,466)	$17,710	$—	$27,428	$(3,778)
Interest rate lock commitment	1,749	(1,749)	111,473	(109,995)	1,478	1,478
Junior subordinated debentures, at fair value	82,905	6,350	—	(4,174)	85,081	6,350

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

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

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

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

(in thousands)

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

(in thousands)

	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Investment securities, held to maturity				
Residential mortgage-backed securities				
and collateralized mortgage obligations	$432	$—	$—	$432
Non-covered loans and leases	34,007	—	—	34,007
Non-covered other real estate owned	4,671	—	—	4,671
Covered other real estate owned	8,957	—	—	8,957
	$48,067	$—	$—	$48,067

The following table presents the losses resulting from nonrecurring fair value adjustments for the years ended December 31, 2013, 2012 and 2011:

(in thousands)

	2013	2012	2011
Investment securities, held to maturity			
Residential mortgage-backed securities			
and collateralized mortgage obligations	$—	$155	$359
Non-covered loans and leases	27,171	37,897	51,883
Non-covered other real estate owned	1,448	6,896	8,947
Covered other real estate owned	712	4,646	8,709

Total loss from nonrecurring measurements	$29,331	$49,594	$69,898

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The following provides a description of the valuation technique and inputs for the Company's assets and liabilities classified as Level 3 and measured at fair value on a nonrecurring basis at December 31, 2013. Unobservable inputs and qualitative information about the unobservable inputs, as required by ASC 820-10-50-2-bbb, are not presented as the fair value is determined by third-party information.

The investment securities held to maturity above relate to non-agency collateralized mortgage obligations where OTTI has been identified and the investments have been adjusted to fair value. The fair value of these investments securities were obtained from third-party pricing services using matrix or model pricing methodologies and were corroborated by broker indicative bids. While we do not expect to recover the entire amortized cost basis of these securities, as we do not intend to sell these securities and it is not likely that we will be required to sell these securities before maturity, only the credit loss component of the impairment is 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. The remaining impairment loss 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 a separate component of OCI. We estimate the cash flows of the underlying collateral within each security considering credit, interest and prepayment risk models that incorporate management's estimate of projected key assumptions including prepayment rates, collateral default rates and loss severity. Assumptions utilized vary from security to security, and are influenced by factors such as loan interest rates, geographic location, borrower characteristics and vintage, and historical experience. We then use a third party to obtain information about the structure of each security, including subordination and other credit enhancements, in order to determine how the underlying collateral cash flows will be distributed to each security issued in the structure. These cash flows are then discounted at the interest rate used to recognize interest income on each security.

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

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

Fair Value Option

The following table presents the difference between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale accounted for under the fair value option as of December 31, 2013 and December 31, 2012:

(in thousands)

	December 31, 2013			December 31, 2012		
	Fair Value	Aggregate Unpaid Principal Balance	Fair Value Less Aggregate Unpaid Principal Balance	Fair Value	Aggregate Unpaid Principal Balance	Fair Value Less Aggregate Unpaid Principal Balance
Loans held for sale	$104,664	$101,795	$2,869	$320,132	$302,760	$17,372

Loans held for sale accounted for under the fair value option are measured initially at fair value with subsequent changes in fair value recognized in earnings. Gains and losses from such changes in fair value are reported as a component of mortgage banking revenue, net in the Consolidated Statements of Income. For the years ended December 31, 2013, 2012 and 2011 the Company recorded a net decrease of $14.5 million, a net increase of $14.0 million, and a net increase of $3.4 million, respectively, representing the change in fair value reflected in earnings.

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There were no nonaccrual mortgage loans held for sale or mortgage loans held for sale 90 days or more past due and still accruing interest as of December 31, 2013 and December 31, 2012, respectively.

Note 25 – Earnings Per Common Share

The following is a computation of basic and diluted earnings per common share for the years ended December 31, 2013, 2012 and 2011:

(in thousands, except per share data)

	2013	2012	2011
NUMERATORS:			
Net income	$98,361	$101,891	$74,496
Less:			
Dividends and undistributed earnings allocated to participating securities (1)	788	682	356
Net earnings available to common shareholders	$97,573	$101,209	$74,140
DENOMINATORS:			
Weighted average number of common shares outstanding - basic	111,938	111,935	114,220
Effect of potentially dilutive common shares (2)	238	216	189
Weighted average number of common shares outstanding - diluted	112,176	112,151	114,409
EARNINGS PER COMMON SHARE:			
Basic	$0.87	$0.90	$0.65
Diluted	$0.87	$0.90	$0.65

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

(2) Represents the effect of the assumed exercise of stock options, vesting of non-participating restricted shares, and vesting of restricted stock units, based on the treasury stock method.

The following table presents the weighted average outstanding securities that were not included in the computation of diluted earnings per common share because their effect would be anti-dilutive for the years ended December 31, 2013, 2012 and 2011.

(in thousands)

	2013	2012	2011
Stock options	669	1,306	1,815

Note 26 – Segment Information

The Company operates three primary segments: Community Banking, Home Lending and Wealth Management. The Community Banking segment's principal business focus is the offering of loan and deposit products to business and retail customers in its primary market areas. As of December 31, 2013, the Community Banking segment operated 206 locations throughout Oregon, California, Washington, and Nevada.

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

The Wealth Management segment consists of the operations of Umpqua Investments, which offers a full range of retail brokerage and investment advisory services and products to its clients who consist primarily of individual investors, and Umpqua Private Bank, which serves high net worth individuals with liquid investable assets and provides customized financial solutions and offerings. The Company accounts for intercompany fees and services between Umpqua Investments and the Bank at estimated fair value according to regulatory requirements for services provided. Intercompany items relate primarily to management services, referral fees and deposit rebates.

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

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Year Ended December 31, 2013
(in thousands)

	Community Banking	Wealth Management	Home Lending	Consolidated
Interest income	$406,099	$14,755	$21,992	$442,846
Interest expense	34,636	731	2,514	37,881
Net interest income	371,463	14,024	19,478	404,965
Provision for non-covered loan and lease losses	16,829	—	—	16,829
Recapture of provision for covered loan losses	(6,113)	—	—	(6,113)
Non-interest income	26,440	15,662	79,339	121,441
Non-interest expense	308,894	16,849	38,918	364,661
Income before income taxes	78,293	12,837	59,899	151,029
Provision for income taxes	23,544	5,164	23,960	52,668
Net income	54,749	7,673	35,939	98,361
Dividends and undistributed earnings allocated to participating securities	788	—	—	788
Net earnings available to common shareholders	$53,961	$7,673	$35,939	$97,573
Total assets	$10,822,990	$126,060	$687,062	$11,636,112
Total loans and leases (covered and non-covered)	$7,076,279	$110,087	$532,029	$7,718,395
Total deposits	$8,734,175	$356,784	$26,701	$9,117,660

Year Ended December 31, 2012
(in thousands)

	Community Banking	Wealth Management	Home Lending	Consolidated
Interest income	$420,622	$15,192	$20,271	$456,085
Interest expense	45,240	865	2,744	48,849
Net interest income	375,382	14,327	17,527	407,236
Provision for non-covered loan and lease losses	21,796	—	—	21,796
Provision for covered loan losses	7,405	—	—	7,405
Non-interest income	38,272	13,759	84,798	136,829
Non-interest expense	307,089	15,108	37,455	359,652
Income before income taxes	77,364	12,978	64,870	155,212
Provision for income taxes	22,202	5,171	25,948	53,321
Net income	55,162	7,807	38,922	101,891
Dividends and undistributed earnings allocated to participating securities	682	—	—	682
Net earnings available to common shareholders	$54,480	$7,807	$38,922	$101,209
Total assets	$10,984,996	$90,370	$720,077	$11,795,443
Total loans and leases (covered and non-covered)	$6,713,792	$74,132	$370,234	$7,158,158
Total deposits	$8,968,867	$382,033	$28,375	$9,379,275

Year Ended December 31, 2011
(in thousands)

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	Community Banking	Wealth Management	Home Lending	Consolidated
Interest income	$474,167	$13,362	$14,224	$501,753
Interest expense	68,751	2,067	2,483	73,301
Net interest income	405,416	11,295	11,741	428,452
Provision for non-covered loan and lease losses	46,220	—	—	46,220
Provision for covered loan losses	16,141	—	—	16,141
Non-interest income	43,282	13,963	26,873	84,118
Non-interest expense	302,883	15,630	20,458	338,971
Income before income taxes	83,454	9,628	18,156	111,238
Provision for income taxes	26,023	3,457	7,262	36,742
Net income	57,431	6,171	10,894	74,496
Dividends and undistributed earnings allocated to participating securities	356	—	—	356
Net earnings available to common shareholders	$57,075	$6,171	$10,894	$74,140
Total assets	$11,086,493	$53,044	$423,321	$11,562,858
Total loans and leases (covered and non-covered)	$6,171,368	$38,810	$300,371	$6,510,549
Total deposits	$8,830,353	$390,992	$15,345	$9,236,690

Note 27 – Related Party Transactions

In the ordinary course of business, the Bank has made loans to its directors and executive officers (and their associated and affiliated companies). All such loans have been made on the same terms as those prevailing at the time of origination to other borrowers.
The following table presents a summary of aggregate activity involving related party borrowers for the years ended December 31, 2013, 2012 and 2011:
(in thousands)

	2013	2012	2011
Loans outstanding at beginning of year	$12,272	$12,245	$9,264
New loans and advances	3,584	2,697	10,041
Less loan repayments	(2,213)	(2,113)	(7,060)
Reclassification [1]	(336)	(557)	—
Loans outstanding at end of year	$13,307	$12,272	$12,245

(1) Represents loans that were once considered related party but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

At December 31, 2013 and 2012 deposits of related parties amounted to $15.3 million and $16.3 million, respectively.
Note 28 – Parent Company Financial Statements

Condensed Balance Sheets
December 31,
(in thousands)

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	2013	2012
ASSETS		
Non-interest bearing deposits with subsidiary banks	$72,679	$82,383
Investments in:		
Bank subsidiary	1,847,168	1,829,305
Nonbank subsidiaries	29,193	25,308
Other assets	1,590	1,498
Total assets	$1,950,630	$1,938,494
LIABILITIES AND SHAREHOLDERS' EQUITY		
Payable to bank subsidiary	$93	$49
Other liabilities	33,938	18,340
Junior subordinated debentures, at fair value	87,274	85,081
Junior subordinated debentures, at amortized cost	101,899	110,985
Total liabilities	223,204	214,455
Shareholders' equity	1,727,426	1,724,039
Total liabilities and shareholders' equity	$1,950,630	$1,938,494

Condensed Statements of Income
Year Ended December 31,
(in thousands)

	2013	2012	2011
INCOME			
Dividends from subsidiaries	$62,241	$78,755	$17,743
Other income	(2,321)	(2,174)	(2,127)
Total income	59,920	76,581	15,616
EXPENSES			
Management fees paid to subsidiaries	501	459	469
Other expenses	8,885	9,189	9,072
Total expenses	9,386	9,648	9,541
Income before income tax benefit and equity in undistributed earnings of subsidiaries	50,534	66,933	6,075
Income tax benefit	(4,446)	(4,904)	(4,325)
Net income before equity in undistributed earnings of subsidiaries	54,980	71,837	10,400
Equity in undistributed earnings of subsidiaries	43,381	30,054	64,096
Net income	98,361	101,891	74,496
Dividends and undistributed earnings allocated to participating securities	788	682	356
Net earnings available to common shareholders	$97,573	$101,209	$74,140

Condensed Statements of Cash Flows
Year Ended December 31,
(in thousands)

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	2013	2012	2011
OPERATING ACTIVITIES:			
Net income	$98,361	$101,891	$74,496
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(43,381)	(30,054)	(64,096)
Depreciation, amortization and accretion	(322)	(322)	(322)
Change in fair value of junior subordinated debentures	2,193	2,182	2,217
Net (increase) decrease in other assets	(92)	4,925	(3,933)
Net (decrease) increase in other liabilities	(1,361)	(1,184)	3,736
Net cash provided by operating activities	55,398	77,438	12,098
INVESTING ACTIVITIES:			
Investment in subsidiaries	(2,928)	(24,970)	(3,668)
Acquisitions	—	419	—
Net decrease in receivables from nonbank subsidiaries	—	—	8
Net cash used by investing activities	(2,928)	(24,551)	(3,660)
FINANCING ACTIVITIES:			
Net (decrease) increase in payables to subsidiaries	(8,448)	17	7
Dividends paid on common stock	(50,767)	(46,201)	(25,317)
Stock repurchased	(9,356)	(7,433)	(29,754)
Proceeds from exercise of stock options	6,397	980	309
Net cash used by financing activities	(62,174)	(52,637)	(54,755)
Change in cash and cash equivalents	(9,704)	250	(46,317)
Cash and cash equivalents, beginning of year	82,383	82,133	128,450
Cash and cash equivalents, end of year	$72,679	$82,383	$82,133

Note 29 – Quarterly Financial Information (Unaudited)

The following tables present the summary results for the eight quarters ending December 31, 2013:
(in thousands, except per share information)

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	2013				
	December 31	September 30	June 30	March 31	Four Quarters
Interest income	$118,538	$115,960	$104,015	$104,333	$442,846
Interest expense	8,464	9,151	10,122	10,144	37,881
Net interest income	110,074	106,809	93,893	94,189	404,965
Provision for non-covered loan and lease losses	3,840	3,008	2,993	6,988	16,829
(Recapture of) provision for covered loan and lease losses	(1,369)	(1,904)	(3,072)	232	(6,113)
Non-interest income	26,785	26,144	34,497	34,015	121,441
Non-interest expense	95,364	95,604	87,931	85,762	364,661
Income before provision for income taxes	39,024	36,245	40,538	35,222	151,029
Provision for income taxes	13,754	12,768	14,285	11,861	52,668
Net income	25,270	23,477	26,253	23,361	98,361
Dividends and undistributed earnings allocated to participating securities	212	196	197	183	788
Net earnings available to common shareholders	$25,058	$23,281	$26,056	$23,178	$97,573
Basic earnings per common share	$0.22	$0.21	$0.23	$0.21	
Diluted earnings per common share	$0.22	$0.21	$0.23	$0.21	
Cash dividends declared per common share	$0.15	$0.15	$0.20	$0.10	

(in thousands, except per share information)

	2012				
	December 31	September 30	June 30	March 31	Four Quarters
Interest income	$112,741	$114,108	$113,594	$115,642	$456,085
Interest expense	10,912	12,068	12,582	13,287	48,849
Net interest income	101,829	102,040	101,012	102,355	407,236
Provision for non-covered loan and lease losses	4,913	7,078	6,638	3,167	21,796
Provision for (recapture of) covered loan and lease losses	3,103	2,927	1,406	(31)	7,405
Non-interest income	46,987	33,679	28,926	27,237	136,829
Non-interest expense	98,046	86,974	86,936	87,696	359,652
Income before provision for income taxes	42,754	38,740	34,958	38,760	155,212
Provision for income taxes	14,796	13,587	11,681	13,257	53,321
Net income	27,958	25,153	23,277	25,503	101,891
Dividends and undistributed earnings allocated to participating securities	183	170	162	167	682
Net earnings available to common shareholders	$27,775	$24,983	$23,115	$25,336	$101,209
Basic earnings per common share	$0.25	$0.22	$0.21	$0.23	
Diluted earnings per common share	$0.25	$0.22	$0.21	$0.23	
Cash dividends declared per common share	$0.09	$0.09	$0.09	$0.07	

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

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ITEM 9A. CONTROLS AND PROCEDURES.

On a quarterly basis, we carry out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Principal Financial Officer and Principal Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934. As of December 31, 2013, our management, including our Chief Executive Officer, Principal Financial Officer, and Principal Accounting Officer, concluded that our disclosure controls and procedures were effective in timely alerting them to material information relating to us that is required to be included in our periodic SEC filings.

Although we change and improve our internal controls over financial reporting on an ongoing basis, we do not believe that any such changes occurred in the fourth quarter 2013 that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Umpqua Holdings Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with the authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on our assessment and those criteria, we believe that, as of December 31, 2013, the Company maintained effective internal control over financial reporting.

The Company's registered public accounting firm has audited the Company’s consolidated financial statements and the effectiveness of our internal control over financial reporting as of and for the year ended December 31, 2013 that are included in this annual report and issued their Report of Independent Registered Public Accounting Firm, appearing under Item 8. The attestation report expresses an unqualified opinion on the effectiveness of the Company's internal controls over financial reporting as of December 31, 2013.

February 14, 2014

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ITEM 9B. OTHER INFORMATION.
None.
PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
The response to this item is incorporated by reference to Umpqua's Proxy Statement for the 2014 annual meeting of shareholders under the captions "Annual Meeting Business"- "Item 1, Election of Directors", "Information About Executive Officers", "Corporate Governance Overview" and "Section 16(a) Beneficial Ownership Reporting Compliance."
ITEM 11. EXECUTIVE COMPENSATION.
The response to this item is incorporated by reference to the Proxy Statement, under the caption "Compensation Discussion and Analysis."
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
The response to this item is set forth in Part II, Item 5, "Equity Compensation Plan Information" and is incorporated by reference to the Proxy Statement, under the caption "Security Ownership of Management and Others."
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE
The response to this item is incorporated by reference to the Proxy Statement, under the captions "Annual Meeting Business- Item 1, Election of Directors" and "Related Party Transactions."
ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.
The response to this item is incorporated by reference to the Proxy Statement, Item 2-Ratification of Auditor Appointment under the caption "Independent Registered Public Accounting Firm."
PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.
(1) Financial Statements:

The consolidated financial statements are included as Item 8 of this Form 10-K.
(2) Financial Statement Schedules:

All schedules have been omitted because the information is not required, not applicable, not present in amounts sufficient to require submission of the schedule, or is included in the financial statements or notes thereto.
(3) The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are listed on the Index of Exhibits to this annual report on Form 10-K on sequential page 166.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Umpqua Holdings Corporation has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on February 14, 2014.

UMPQUA HOLDINGS CORPORATION (Registrant)

/s/ Raymond P. Davis	February 14, 2014
Raymond P. Davis, President and Chief Executive Officer	

Signature	Title	Date
/s/ Raymond P. Davis Raymond P. Davis	President, Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2014
/s/ Ronald L. Farnsworth Ronald L. Farnsworth	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	February 14, 2014
/s/ Neal T. McLaughlin Neal T. McLaughlin	Executive Vice President, Treasurer (Principal Accounting Officer)	February 14, 2014
/s/ Peggy Y. Fowler Peggy Y. Fowler	Director	February 14, 2014
/s/ Stephen M. Gambee Stephen M. Gambee	Director	February 14, 2014
/s/ James S. Greene James S. Greene	Director	February 14, 2014
/s/ Luis F. Machuca Luis F. Machuca	Director	February 14, 2014
/s/ Laureen E. Seeger Laureen E. Seeger	Director	February 14, 2014
/s/ Dudley R. Slater Dudley R. Slater	Director	February 14, 2014
/s/ Susan F. Stevens Susan F. Stevens	Director	February 14, 2014
/s/ Hilliard C. Terry, III Hilliard C. Terry, III	Director	February 14, 2014
/s/ Bryan L. Timm Bryan L. Timm	Director	February 14, 2014
/s/ Frank R. J. Whittaker Frank R. J. Whittaker	Director	February 14, 2014

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EXHIBIT INDEX

Exhibit	
2.1	Agreement and Plan of Merger, dated as of September 11, 2013, by and between Sterling Financial Corporation and Umpqua Holdings Corporation (incorporated by reference to Annex A to the joint proxy statement/prospectus contained the Registration Statement on Form S-4 (Registration No. 333-192346) filed November 15, 2013)
3.1	(a) Restated Articles of Incorporation with designation of Fixed Rate Cumulative Perpetual Preferred Stock, Series A and designation of Series B Common Stock Equivalent preferred stock
3.2	(b) Bylaws, as amended
4.1	(c) Specimen Common Stock Certificate
4.2	(d) Amended and Restated Declaration of Trust for Umpqua Master Trust I, dated August 9, 2007
4.3	(e) Indenture, dated August 9, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
4.4	(f) Series A Guarantee Agreement, dated August 9, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
4.5	(g) Series B Guarantee Agreement, dated September 6, 2007, by and between Umpqua Holdings Corporation and LaSalle Bank National Association
4.6	(h) Series B Supplement pursuant to Amended and Restated Declaration of Trust dated August 9, 2007
10.1**	(i) Third Restated Supplemental Executive Retirement Plan effective April 16, 2008 between the Company and Raymond P. Davis
10.2**	(j) Employment Agreement dated July 1, 2003, between the Company and Raymond P. Davis
10.3**	(k) Umpqua Holdings Corporation 2005 Performance-Based Executive Incentive Plan
10.4**	(l) 2003 Stock Incentive Plan, as amended, effective March 5, 2007
10.5**	(m) 2007 Long Term Incentive Plan effective March 5, 2007
10.6**	(n) Employment Agreement with Kelly J. Johnson dated January 15, 2009
10.7**	(o) Form of Employment Agreement with Ronald L. Farnsworth, Steven L. Philpott and Neal T. McLaughlin, each dated March 5, 2008
10.8**	(p) Form of Long Term Incentive Restricted Stock Unit Agreement
10.9**	(q) Split-Dollar Insurance Agreement dated April 16, 2008 between the Company and Raymond P. Davis
10.10**	

	(r) Form of First Amendment to Employment Agreement effective September 16, 2008 between the Company and Barbara Baker
10.11**	(s) Employment Agreement dated effective March 21, 2010 between the Company and Cort O'Haver
10.12**	(t) Employment Agreement dated effective June 1, 2010 between the Company and Mark Wardlow
10.13**	(u) Form of Amendment No. 1 to Nonqualified Stock Option Agreements between Company and Executive Officers that were originally issued January 31, 2011
10.14**	(v) Form of Amendment No. 1 to Restricted Stock Agreements between the Company and Executive Officers that were originally issued January 31, 2011
10.15**	(w) Form of Amendment to Employment Agreement effective January 9, 2013, between the Company and Ronald L. Farnsworth, Steven L. Philpott and Neal T. McLaughlin
10.16**	(x) Umpqua Holdings Corporation 2013 Incentive Plan, effective December 14, 2012
10.17**	(y) Form of Restricted Stock Award Agreement under 2013 Incentive Plan (Service Vesting)
10.18**	(z) Form of Restricted Stock Award Agreement under 2013 Incentive Plan (Performance Vesting)
10.19**	(aa) Form of Restricted Stock Award Agreement under 2013 Incentive Plan (162(m) Performance Vesting)
10.20	Investor Letter Agreement, dated September 11, 2013, between Umpqua Holdings Corporation, Sterling Financial Corporation, Warburg Pincus Private Equity X, L.P. and Warburg Pincus X Partners, L.P. (incorporated by reference to Annex B to the joint proxy statement/prospectus contained in the Registration Statement on Form S-4 (Registration No. 333-192346) filed November 15, 2013)

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10.21	Investor Letter Agreement, dated September 11, 2013, between Umpqua Holdings Corporation, Sterling Financial Corporation, Thomas H. Lee Equity Fund VI, L.P., Thomas H. Lee Parallel Fund VI, L.P. and Thomas H. Lee Parallel (DT) Fund VI, L.P. (attached as Annex C to the joint proxy statement/prospectus contained in the Registration Statement on Form S-4 (Registration No. 333-192346) filed November 15, 2013)
10.22**	(bb) Employment Agreement, dated September 11, 2013, by and between Umpqua Holdings Corporation and J. Gregory Seibly
12	Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of the Registrants
23.1	Consent of Independent Registered Public Accounting Firm - Moss Adams LLP
31.1	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Principal Accounting Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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